Interim Condensed Consolidated Financial Statements

Pivot Technology Solutions, Inc.

For the Three Months Ended
March 31, 2019 and 2018

[Unaudited]

(Expressed in Thousands of U.S. Dollars)

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in thousands of U.S. dollars]

As at	March 31, 2019	December 31, 2018
	[unaudited]	
ASSETS		
Current		
Cash and cash equivalents	**4,582**	15,312
Accounts receivable	**259,089**	229,916
Income taxes recoverable	**5,041**	2,877
Inventories	**46,648**	53,800
Deferred contract costs	**18,895**	18,840
Other current assets	**5,160**	3,940
Total current assets	**339,415**	324,685
Property, plant and equipment, net	**5,999**	6,334
Right-of-use assets, net (note 4)	**15,444**	-
Goodwill	**45,237**	45,177
Intangible assets	**23,228**	24,680
Deferred income taxes (note 12)	**10,297**	10,306
Deferred contract costs	**12,166**	9,617
Other non-current assets	**923**	520
Total assets	**452,709**	421,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	**15,631**	18,171
Accounts payable and accrued liabilities (note 5)	**244,370**	254,430
Income taxes payable	**815**	634
Deferred revenue and customer deposits	**7,301**	6,859
Deferred contract revenue	**21,806**	20,962
Lease liability (note 6)	**3,687**	-
Other financial liabilities (note 8)	**128,626**	100,184
Total current liabilities	**422,236**	401,240
Other financial liabilities (note 8)	**1,377**	1,178
Deferred tax liabilities	**392**	385
Deferred contract revenue	**12,960**	10,317
Lease liability (note 6)	**13,615**	-
Other non-current liabilities	**-**	951
Total liabilities	**450,580**	414,071
(Deficit) equity		
Share capital (note 9)	**82,705**	82,705
Contributed surplus	**4,756**	4,631
Foreign exchange translation reserve	**8**	53
Accumulated deficit	**(87,888)**	(83,106)
(Deficit) equity attributable to shareholders	**(419)**	4,283
Non-controlling interest	**2,548**	2,965
Total equity	**2,129**	7,248
Total liabilities and equity	**452,709**	421,319

See accompanying notes

On behalf of the Board:

"Lazane Smith"	*"Kevin Shank"*
Lazane Smith	**Kevin Shank**
Director	President, CEO and Director

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[Expressed in thousands of U.S. dollars, except per share amounts]

For the three months ended March 31,	**2019**	2018
Revenue (note 13)	**295,598**	369,266
Cost of sales	**258,974**	329,967
Gross profit	**36,624**	39,299
Employee compensation and benefits	**27,445**	29,595
Other selling, general and administrative expenses	**5,839**	8,206
Income before the following:	**3,340**	1,498
Depreciation and amortization	**3,757**	2,849
Finance expense	**1,667**	1,313
Change in fair value of liabilities (note 15)	**232**	40
Other expense (income) (note 14)	**3,118**	(99)
Loss before income taxes	**(5,434)**	(2,605)
Recovery of income taxes (note 12)	**(1,434)**	(341)
Loss for the period	**(4,000)**	(2,264)
Income (loss) for the period attributable to non-controlling interests	**(417)**	205
Loss for the period attributable to shareholders	**(3,583)**	(2,469)
Other comprehensive (loss) income		
Items that may be reclassified subsequently to loss for the period:		
Exchange (loss) gain on translation of foreign operations	**(45)**	21
	(45)	21
Total comprehensive loss	**(4,045)**	(2,243)
Total comprehensive loss attributable to shareholders	**(3,628)**	(2,448)
Loss per common share (note 9):		
Loss attributable to common shareholders	**(3,583)**	(2,469)
Basic	**$ (0.09)**	$ (0.06)
Diluted	**$ (0.09)**	$ (0.06)

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[Expressed in thousands of U.S. dollars]

	Common Stock	Contributed Surplus	Non-Controlling Interest	Foreign Exchange Translation Reserve	Accumulated Deficit	Total
Balance, December 31, 2017	84,411	3,847	2,844	37	(73,615)	**17,524**
Equity classified share-based compensation	-	120	-	-	-	**120**
Cash settlement of RSUs	-	(56)	-	-	-	**(56)**
Share repurchases	-	-	-	-	-	**-**
Options exercised	119	(35)	-	-	-	**84**
Common share dividends declared (note 9)	-	-	-	-	(1,259)	**(1,259)**
Gain on translation of foreign operations	-	-	-	21	-	**21**
Income (loss) for the period	-	-	205	-	(2,469)	**(2,264)**
Balance, March 31, 2018	**84,530**	**3,876**	**3,049**	**58**	**(77,343)**	**14,170**
Balance, December 31, 2018	**82,705**	**4,631**	**2,965**	**53**	**(83,106)**	**7,248**
Equity classified share-based compensation	-	125	-	-	-	**125**
Common share dividends declared (note 9)	-	-	-	-	(1,199)	**(1,199)**
Loss on translation of foreign operations	-	-	-	(45)	-	**(45)**
Loss for the period	-	-	(417)	-	(3,583)	**(4,000)**
Balance, March 31, 2019	**82,705**	**4,756**	**2,548**	**8**	**(87,888)**	**2,129**

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands of U.S. dollars]

For the three months ended March 31,	**2019**	2018
OPERATING ACTIVITIES		
Loss for the period	**(4,000)**	(2,264)
Add (deduct) items not involving cash		
Depreciation and amortization	**3,757**	2,849
Share-based compensation (note 10)	**484**	120
Loss on disposal of property, plant and equipment	**2**	14
Provision for receivables	**-**	38
Deferred income taxes (note 12)	**(4)**	18
Amortization of loan fees (note 8)	**81**	81
Change in fair value of liabilities (note 15)	**232**	40
Changes in non-cash working capital balances (note 16)	**(34,636)**	15,347
Cash (used in) provided by operating activities	**(34,084)**	16,243
INVESTING ACTIVITIES		
Payments made on contingent consideration	**(250)**	(100)
Capital expenditures	**(166)**	(370)
Other intangible assets	**(691)**	(1)
Lease payments received from finance leases	**33**	-
Cash used in investing activities	**(1,074)**	(471)
FINANCING ACTIVITIES		
Net change in debt facilities	**28,171**	(7,888)
Net change in flooring arrangements	**1,071**	(116)
Net change in bank overdraft	**(2,540)**	(7,814)
Payment of lease liabilities	**(1,077)**	-
Stock options exercised	**-**	84
Cash settlement of RSUs	-	(56)
Common share dividends paid	**(1,199)**	(1,259)
Cash provided by (used in) financing activities	**24,426**	(17,049)
Net decrease in cash during the period	**(10,732)**	(1,277)
Cash, beginning of period	**15,312**	5,248
Effect of foreign exchange fluctuations on cash held	**2**	12
Cash, end of period	**4,582**	3,983

See accompanying notes

1. CORPORATE INFORMATION

Pivot Technology Solutions, Inc. ("Pivot" or the "Company") is located in Ontario, Canada, and is publicly listed on the Toronto Stock Exchange ("TSX") and trades under the symbol "PTG".

The Company has the following wholly-owned subsidiaries: Pivot Acquisition Corporation; ACS Holdings (Canada) Inc.; Pivot Technology Solutions, Ltd.; Pivot Research Ltd.; Pivot Shared Services Ltd.; Pivot of the Americas S.A. de C.V.; ACS (US) Inc. ("ACS"); New ProSys Corp. ("ProSys"), Sigma Technology Solutions, Inc. ("Sigma"), ARC Acquisition (US), Inc. ("ARC"), Smart-Edge.com, Inc. ("Smart Edge"), TeraMach Technologies Inc. and its parents, 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Systems Inc. (collectively, "TeraMach"), and Pivot Solutions International (UK) Ltd.

The Company also has the following partially owned subsidiaries: ACS Holdings Corporation, Pivot Services International Singapore Pte Ltd. and Pivot Services Limited. The Company has a 94% ownership in each of these subsidiaries.

In addition, the Company has a 46.4% owned consolidated affiliate, ProSys Information Systems, Inc. ("Old ProSys") and a 40% owned consolidated affiliate, Applied Computer Solutions, Inc. ("Applied").

The Company seeks to create shareholder value by providing mission critical IT products and services to the world's leading companies. The Company's operating strategy is designed to help clients contain IT operations and maintenance costs, while maximizing the value of their IT assets. To achieve this strategy, the Company maintains multi-vendor hardware, software and cloud solutions that it resells, and then leverages its own resources and expertise to offer end-to-end services. By employing this strategy, the Company can provide a single point of contact and accountability, and a consistent delivery of customized and specialized IT services and lifecycle product support across any platform.

2. BASIS OF PREPARATION

Statement of compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

The unaudited interim condensed consolidated financial statements of the Company for the three months ended March 31, 2019 and 2018 were authorized for issue in accordance with a resolution of the Company's Board of Directors on May 14, 2019.

Basis of presentation and consolidation

The unaudited interim condensed consolidated financial statements are presented in U.S. dollars and all dollar values are rounded to the nearest thousand ($000), except where otherwise noted.

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amended accounting pronouncements adopted in 2019

The Company adopted new amendments to the following accounting standards effective for the Company's interim and annual consolidated financial statements commencing January 1, 2019. These changes did not have a material impact on the Company's financial results.

• IAS 12, *Income Tax Consequences of Payments on Instruments Classified as Equity (Amendments to IAS 12)*

• IFRIC 23, *Uncertainty over Income Tax Treatments*

New accounting standards

Pivot applied, for the first time, IFRS 16, *Leases* ("IFRS 16"), which requires assessment and potential restatement of previous financial statements, where transition adjustments exist.

As required by IAS 34, the nature and effect of these changes are disclosed below.

Impact of application of IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17, *Leases* ("IAS 17") and related interpretations.

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of twelve months or less) and leases of low value assets. In applying IFRS 16, the Company recognizes the ROU asset and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; recognizes the depreciation of ROU assets and interest on lease liabilities in the consolidated statements of loss and comprehensive loss; and separates the total amount of cash paid into a principal portion (presented in financing activities) and interest (presented within operating activities) in the consolidated statements of cash flows. For short-term leases and leases of low value assets, the Company has opted to recognize a lease expense on a straight-line basis, and this expense is presented within other selling, general and administrative expenses in the unaudited interim condensed consolidated statement of loss and comprehensive loss.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019. The weighted-average rate applied is 9%. Generally, ROU assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease, with no net impact on retained earnings.

The Company has made use of the following practical expedients available on transition to IFRS 16:

• Applied a single discount rate to a portfolio of leases with similar characteristics;

• Applied the recognition exemptions for low value leases and leases that end within twelve months of the date of initial application, and account for them as low value and short-term leases, respectively;

• Relied upon the Company's assessment of whether leases are onerous under the requirements of IAS 37, *Provisions*, *contingent liabilities and contingent assets* as at December 31, 2018 as an alternative to reviewing the Company's ROU assets for impairment;

• Accounted for non-lease components and lease components as a single lease component.

The cumulative effect of the changes made to the January 1, 2019 consolidated statement of financial position for the adoption of IFRS 16 is as follows:

	Balance as at December 31, 2018 (as reported)	**IFRS 16 adjustments**	**Balance as at January 1, 2019**
Assets			
Right-of-use assets, net	-	16,468	**16,468**
Other assets	4,460	531	**4,991**
Liabilities			
Lease liabilities	-	18,379	**18,379**

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

	January 1, 2019
Operating lease obligation as at December 31, 2018	21,015
Current leases with a lease term of twelve months or less (short-term leases)	(142)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(2,494)
Lease liabilities due to initial application of IFRS 16 as at January 1, 2019	**18,379**

New accounting policy for leases under IFRS 16

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease. The payments for such leases are recognized in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term. The Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to twelve months, or for leases of low value.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments. Variable lease payments that do not depend on an index or rate are not included in the measurement of the ROU asset and lease liability. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the consolidated statements of loss and comprehensive loss.

When the Company acts as an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the ROU asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the ROU asset.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

4. RIGHT-OF-USE ASSETS

The following table presents the ROU assets for the Company:

As at January 1	16,468
Depreciation	(1,024)
As at March 31	**15,444**

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance ("IBM") on August 10, 2011, which provides short-term financing. The agreement currently allows for up to $2,500 in advances on purchases from approved vendors, which maximum advance amount may be changed by IBM in its discretion. Approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. Currently, the Company incurs interest on the outstanding balance at LIBOR plus 4.5% after a free financing period of 60 days, but the interest rate and free financing period may be changed in IBM's discretion. $1,718 and $645 were outstanding under the IBM secured flooring agreement as at March 31, 2019 and December 31, 2018, respectively. The agreement does not impose any financial covenants on the Company. This amount is included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position.

6. LEASE OBLIGATIONS

The following table presents the contractual undiscounted cash flows for lease obligations as at March 31:

Less than one year	4,932
One to two years	4,354
Two to five years	7,351
One to five years	3,200
Total undiscounted lease obligations	**19,837**

Interest expense on lease obligations for the three months ended March 31, 2019 was $349. Total cash outflow for leases was $1,459, including $33 for short-term leases. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

7. NET INVESTMENT IN LEASE

The Company also sub-leases an office building that it leased in 2017. The Company has classified the sub-lease as a finance lease, because the sub-lease is for the whole of the remaining term of the head lease. The net investment in lease is included in other current assets and other non-current assets in the unaudited interim condensed consolidated statement of financial position.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Less than one year	174
One to two years	174
Two to five years	218
Total undiscounted lease payments receivable	**566**

8. OTHER FINANCIAL LIABILITIES

	March 31, 2019	December 31, 2018
Current		
Secured borrowings, net of deferred loan costs	**126,743**	98,491
Contingent consideration	**1,883**	1,693
	128,626	100,184
Non-current		
Contingent consideration	**1,018**	1,178
Cash-settled share-based payment	**359**	-
	1,377	1,178
	130,003	101,362

Secured borrowings

In connection with the Company's $225,000 senior secured credit facility with JPMorgan Chase Bank, N.A., the Company incurred finance costs which have been capitalized and are being amortized over the life of the credit agreement. Amounts owing under the Company's revolving credit facility were $127,240 and $99,069 as at March 31, 2019 and December 31, 2018, respectively. The outstanding balance is shown net of deferred loan costs of $497 and $578, as at March 31, 2019 and December 31, 2018, respectively, in current other financial liabilities in the unaudited interim condensed consolidated statements of financial position. Average undrawn availability on the existing, secured credit facility was $60,429 for the three months ended March 31, 2019 and $73,759 for the year ended December 31, 2018.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

The JPMC Credit Facility was amended and restated on May 14, 2019. (See note 20).

Interest rate swap

The changes in the fair value of the interest rate swap were recorded as a change in fair value of liabilities in the unaudited interim condensed consolidated statements (the "Swap") of loss and comprehensive loss. The Swap expired on November 13, 2018. Interest incurred under the Swap totaled nil and $159 for the three months ended March 31, 2019 and 2018, respectively. As at March 31, 2019 and 2018, the fair value of the Swap was determined to be nil and $271, respectively, which represented the cost that would have been incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

Contingent consideration

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach. As part of the asset purchase agreement with TeraMach, contingent consideration had been agreed. The payments are dependent on the business achieving certain performance targets during the four consecutive twelve month periods ending September 30, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be $3,324.

The changes in the TeraMach contingent liability balance for the three months ended March 31, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	**2,235**	3,326
Change in fair value	**176**	252
Exchange rate differences	**48**	(88)
Balance as at March 31	**2,459**	3,490

The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C$4,500. Payments of the remaining consideration are required to be made within five business days of Board approval of the Company's Q3 financial statements.

On July 1, 2017, the Company acquired certain customer accounts, contracts, agreements and other arrangements from Cloudscapes Consulting, Inc. ("Cloudscapes"). As part of the purchase agreement with Cloudscapes, the Company is obligated to pay up to $100 per quarter for 11 quarters and a bonus of $150, commencing on October 1, 2017 and ending on April 30, 2020. All payments are based on the achievement of certain gross margin targets. At the date of acquisition, the fair value of the contingent liability was determined to be $1,003. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is $500.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

The changes in the Cloudscapes contingent liability balance for the three months ended March 31, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	**636**	930
Change in fair value	**56**	22
Payments	**(250)**	(100)
Balance as at March 31	**442**	852

9. SHARE CAPITAL

The issued share capital amounted to $82,705 and $84,530 as at March 31, 2019 and 2018, respectively. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the three months ended March 31, 2019 and 2018 were as follows:

	# Common Shares	
	2019	2018
As at January 1	**39,472,032**	40,229,930
Options exercised	**-**	65,625
As at March 31	**39,472,032**	40,295,555

Note: Number of shares are not rounded

No preferred shares were issued or outstanding as at March 31, 2019 or December 31, 2018.

Loss per share

Basic net loss per share is based on the weighted average number of common shares outstanding during the period. Diluted loss per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company's basic loss per share. Common share equivalents represent potentially dilutive stock options and Restricted Stock Units ("RSUs"). Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect. The basic loss per share calculated amount is the same as the fully diluted loss per share amount as the effect of any outstanding options or RSUs would be anti-dilutive, as the Company was in a loss position. The weighted average number of common shares issued and outstanding for the periods ended March 31, 2019 and 2018 were 39,473,032 and 40,294,825, respectively. The computation of diluted loss per share for the periods ended March 31, 2019 and 2018 did not include options to purchase 2,118,750 and 1,852,084 shares, respectively, as the result would have been anti-dilutive. There were a total of 2,118,750 and 425,000 stock options that were out of the money for the three months ended March 31, 2019 and 2018, respectively.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Dividends declared and paid

Common share dividends declared and paid during the three months ended March 31, 2019 were as follows:

Declaration Date	**Record Date**	**Distribution Date**	**Per share amount**	**Total dividend**
February 12, 2019	February 22, 2019	March 1, 2019	C$0.0400	C$1,579

Note: Per share amounts are not rounded

Common share dividends declared and paid during the three months ended March 31, 2018 were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
February 20, 2018	February 28, 2018	March 15, 2018	C$0.0400	C$1,612

Note: Per share amounts are not rounded

10. SHARE-BASED PAYMENTS

The Company has adopted an incentive share option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by shareholders on June 21, 2016. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not exceed 10% of the issued common shares of the Company, at the time the options were granted. Employee options granted under the plan generally have a term of five or ten years and vest either immediately or in specified increments, which is typically two to three years. The exercise price of each option is subject to Board approval but shall not be less than the market price at the time of grant.

A summary of the status of the Company's stock option plan as at March 31, 2019 and 2018 and during the three months then ended is as follows:

	2019		2018	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Options outstanding as at January 1	**2,118,750**	**C$1.79**	1,946,875	C$1.79
Options granted	**-**	**-**	-	-
Options forfeited	**-**	**-**	(29,166)	C$1.60
Options exercised	**-**	**-**	(65,625)	C$1.60
Options outstanding as at March 31	**2,118,750**	**C$1.79**	1,852,084	C$1.80
Options exercisable as at March 31	**1,332,082**	**C$1.69**	1,014,594	C$1.60

Note: Share and per share amounts are not rounded

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

The range of exercise prices, the weighted average exercise prices and the weighted average remaining contractual life of the Company's options are as follows:

March 31, 2019

	Options Outstanding			Options Exercisable	
Exercisable Price C$	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price C$**	**Number Exercisable**	**Weighted Average Remaining Contractual Life (Years)**
1.60	**1,168,750**	**7.22**	**1.60**	**1,168,750**	**7.22**
1.68	**510,000**	**3.25**	**1.68**	**-**	**3.25**
1.73	**25,000**	**7.73**	**1.73**	**25,000**	**7.73**
2.47	**405,000**	**3.25**	**2.47**	**134,999**	**4.25**
2.61	**10,000**	**3.45**	**2.61**	**3,333**	**3.45**

March 31, 2018

	Options Outstanding			Options Exercisable	
Exercisable Price C$	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price C$	Number Exercisable	Weighted Average Remaining Contractual Life (Years)
1.60	1,402,084	8.22	1.60	989,594	8.22
1.73	25,000	8.73	1.73	25,000	8.73
2.47	415,000	4.25	2.47	-	4.25
2.61	10,000	4.42	2.61	-	4.42

Restricted stock units

The Company has adopted a restricted share plan that allows the Company to award RSUs to directors, officers, employees and consultants upon such conditions as the Board may establish. The effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by shareholders on June 21, 2016. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, restrictions, time periods or other conditions established by the Board. The maximum aggregate number of shares that may be issued under the restated plan pursuant to the exercise of RSUs shall not exceed 1,250,000 shares. The maximum number of common shares which may be reserved and set aside for issuance upon the grant or exercise of RSU or stock option awards under the plan is 10% of the Company's common shares issued and outstanding from time to time on a non-diluted basis. The fair value of RSUs is measured on the grant date based on the closing fair market value of the Company's common stock. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period which is generally one to three years for RSUs.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

A summary of the status of the Company's RSU plan as at March 31, 2019 and 2018 and during the periods then ended follows:

	2019		2018	
	Number	**Weighted average grant date fair value**	Number	Weighted average grant date fair value
Units outstanding as at January 1	**697,538**	**C$1.91**	355,000	C$2.47
Units granted	**-**	**-**	-	-
Units reinvested (dividends)	**24,674**	**C$1.13**	-	-
Units released	**-**	**-**	-	-
Units forfeited	**-**	**-**	-	-
Units outstanding as at March 31	**722,212**	**C$1.89**	355,000	C$2.47

Note: Share and per share amounts are not rounded

As at March 31, 2019 and 2018, there was $613 and $467, respectively, of total unrecognized compensation cost related to unvested RSU arrangements. This expense is expected to be recognized over a weighted average period of 1.94 years.

Share-based compensation expense

Total share-based compensation expense is recognized in employee compensation and benefits in the unaudited interim condensed consolidated statements of loss and comprehensive loss. A reconciliation of the share-based compensation expense is provided below:

Three months ended March 31,	**2019**	2018
Share-based compensation on options	**33**	65
Share-based compensation on RSUs	**92**	55
Total share-based compensation expense	**125**	120

Smart Edge Phantom Stock

In February 2019, Smart Edge issued 536,000 shares of phantom stock to a former executive of Smart Edge. As of the grant date and March 31, 2019, the award was valued at $359. The shares vested immediately and will be settled in cash only in the event of a change-in-control of Smart Edge before March 31, 2027. This award is accounted for as a liability award with compensation cost to be measured as of the end of each reporting period based on the market value of Smart Edge's stock. Compensation costs related to the phantom stock award of $359 for the three months ended March 31, 2019 are included in other expense, net.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

11. FINANCIAL INSTRUMENTS

The following tables set out the classification of financial and non-financial assets and liabilities:

As at March 31, 2019	**Fair value through profit or loss**	**Amortized cost**	**Non-financial**	**Total carrying amount**
Cash and cash equivalents	**4,582**	**-**	**-**	**4,582**
Accounts receivable	**-**	**259,089**	**-**	**259,089**
Inventories	**-**	**-**	**46,648**	**46,648**
Intangible assets	**-**	**-**	**23,228**	**23,228**
Goodwill	**-**	**-**	**45,237**	**45,237**
Deferred contract costs	**-**	**-**	**31,061**	**31,061**
Other non-financial assets	**-**	**-**	**42,864**	**42,864**
Total assets	**4,582**	**259,089**	**189,038**	**452,709**
Bank overdraft	**15,631**	**-**	**-**	**15,631**
Accounts payable and accrued liabilities	**-**	**244,370**	**-**	**244,370**
Deferred contract revenue	**-**	**-**	**34,766**	**34,766**
Other financial liabilities	**2,901**	**144,404**	**-**	**147,305**
Other non-financial liabilities	**-**	**-**	**8,508**	**8,508**
Total liabilities	**18,532**	**388,774**	**43,274**	**450,580**

As at December 31, 2018	Fair value through profit or loss	Amortized cost	Non-financial	Total carrying amount
Cash and cash equivalents	15,312	-	-	15,312
Accounts receivable	-	229,916	-	229,916
Inventories	-	-	53,800	53,800
Intangible assets	-	-	24,680	24,680
Goodwill	-	-	45,177	45,177
Deferred contract costs	-	-	28,457	28,457
Other non-financial assets	-	-	23,977	23,977
Total assets	15,312	229,916	176,091	421,319
Bank overdraft	18,171	-	-	18,171
Accounts payable and accrued liabilities	-	254,430	-	254,430
Deferred contract revenue	-	-	31,279	31,279
Other financial liabilities	2,871	98,491	-	101,362
Other non-financial liabilities	-	-	8,812	8,812
Total liabilities	21,042	352,921	40,091	414,054

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Fair values

The following tables present information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the guidance hierarchy in which the fair value measurements fall as at March 31, 2019 and December 31, 2018:

	Fair value as at March 31, 2019			
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	**2,901**	**2,901**
	-	-	**2,901**	**2,901**

	Fair value as at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	2,871	2,871
	-	-	2,871	2,871

The fair value of all other financial instruments carried within the Company's unaudited interim condensed consolidated financial statements is not materially different from their carrying amount.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. Derivative financial instruments are recorded in Level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. Contingent consideration payable was the only instrument recorded as Level 3 as the amount payable was not based on observable inputs. The fair value of the contingent consideration was calculated using forecasts based on financial plans prepared by management covering the periods under agreement, using a discount rate of 26.0% and 15.5%. The Company recorded a charge of $232 and $274 related to the change in fair value of the contingent consideration for the three months ended March 31, 2019 and 2018, respectively.

There have been no transfers among any levels during the period.

12. INCOME TAXES

Significant components of the recovery of income taxes are as follows:

Three months ended March 31,	**2019**	2018
Current tax benefit	**(1,430)**	(359)
Deferred tax (benefit) expense	**(4)**	18
	(1,434)	(341)

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

13. REVENUE

Disaggregation of revenue

Types of goods and services:

Three months ended March 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
Hardware sales	56,900	3,537	106,286	27,368	39,326	2	233,419
Other sales	5,256	-	9,855	5,796	7,051	-	27,958
Product revenue	**62,156**	**3,537**	**116,141**	**33,164**	**46,377**	**2**	**261,377**
Pivot provided services	3,323	-	8,436	6,412	2,507	2	20,680
Third-party maintenance contracts	2,031	-	8,780	1,338	1,392	-	13,541
Service revenue	**5,354**	**-**	**17,216**	**7,750**	**3,899**	**2**	**34,221**
Total revenue	**67,510**	**3,537**	**133,357**	**40,914**	**50,276**	**4**	**295,598**

Three months ended March 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Hardware sales	106,605	1,786	133,593	26,923	32,357	3	301,267
Other sales	8,088	-	13,487	4,253	4,454	-	30,282
Product revenue	114,693	1,786	147,080	31,176	36,811	3	331,549
Pivot provided services	4,256	-	11,150	6,729	2,473	-	24,608
Third-party maintenance contracts	1,419	-	9,435	1,146	1,109	-	13,109
Service revenue	5,675	-	20,585	7,875	3,582	-	37,717
Total revenue	120,368	1,786	167,665	39,051	40,393	3	369,266

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Geographical markets:

Three months ended March 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
United States	65,204	3,537	131,088	38,700	-	-	238,529
Canada	14	-	14	140	50,276	-	50,444
International	2,292	-	2,255	2,074	-	4	6,625
Total revenue	**67,510**	**3,537**	**133,357**	**40,914**	**50,276**	**4**	**295,598**

Three months ended March 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
United States	117,809	1,786	164,706	38,644	-	-	322,945
Canada	27	-	7	20	40,393	1	40,448
International	2,532	-	2,952	387	-	2	5,873
Total revenue	120,368	1,786	167,665	39,051	40,393	3	369,266

Timing of revenue recognition:

Three months ended March 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
Goods transferred at a point in time	62,156	3,537	116,141	33,164	46,377	2	261,377
Services transferred at a point in time	3,323	-	8,436	4,912	2,507	2	19,180
Services transferred over time	2,031	-	8,780	2,838	1,392	-	15,041
Total revenue	**67,510**	**3,537**	**133,357**	**40,914**	**50,276**	**4**	**295,598**

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Three months ended March 31, 2018	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Goods transferred at a point in time	114,693	1,786	147,080	31,176	36,811	3	331,549
Services transferred at a point in time	1,419	-	8,215	1,086	1,140	-	11,860
Services transferred over time	4,256	-	12,370	6,789	2,442	-	25,857
Total revenue	120,368	1,786	167,665	39,051	40,393	3	369,266

14. OTHER EXPENSE (INCOME)

Three months ended March 31,	**2019**	2018
Restructuring	**2,299**	497
Transaction costs	**194**	103
Foreign exchange loss (gain)	**644**	(694)
Other income	**(19)**	(5)
	3,118	(99)

15. CHANGE IN FAIR VALUE OF LIABILITIES

Three months ended March 31,	**2019**	2018
Contingent consideration	**232**	274
Interest rate swap	**-**	(234)
	232	40

16. UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital balances consist of the following:

Three months ended March 31,	**2019**	2018
Accounts receivable	**(28,999)**	17,174
Income taxes recoverable/payable	**(1,964)**	(411)
Inventories	**7,107**	37,359
Other assets	**(3,663)**	57
Accounts payable and accrued liabilities	**(9,477)**	(38,823)
Other liabilities	**2,360**	(9)
	(34,636)	15,347

Interest paid and income taxes paid and classified as operating activities are as follows:

Three months ended March 31,	**2019**	2018
Interest paid	**1,279**	999
Income taxes paid	**490**	-

17. BUSINESS SEGMENT INFORMATION

The Company's business activities are conducted through seven segments:

ACS

The ACS segment is located in the United States and designs, sells and supports integrated computer hardware, software and networking products for business database, network and network security systems. ACS also provides comprehensive training services and offers first call support.

ARC

The ARC segment is located in the United States. ARC is an authorized reseller of technology and provides several professional services, including enterprise services, manager services and staffing services.

ProSys

The ProSys segment is located in the United States and sells storage, server and IT infrastructure consulting solutions to enterprises. The Company also derives revenue from professional engineering and installation services, and services provided by third parties including maintenance, consulting, and training services.

Sigma

The Sigma segment is located in the United States and derives revenue from the sale of computer hardware and software, software licenses, professional services and maintenance and support contracts.

TeraMach

The TeraMach segment is located in Canada and offers data center, security, big data, mobility and application services. Revenue is also derived from consulting and implementation services, staffing and cloud computing services.

Smart Edge

The Smart Edge segment is located in the United States. Smart Edge is an advanced software platform designed to support enterprise Multi-Access Edge Computing solutions and built to operate on Intel technology.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Shared Services

The Shared Services segment consists of the Company's head office activities, including strategic leadership, finance and information systems.

Revenue and segment profit

Three months ended March 31, 2019	**ACS**	**ARC**	**ProSys**	**Sigma**	**Smart Edge**	**TeraMach**	**Shared Services**	**Total**
Revenue	67,510	3,537	133,357	40,914	-	50,276	4	295,598
Cost of sales	59,853	3,144	118,347	34,199	-	42,974	457	258,974
Gross profit	7,657	393	15,010	6,715	-	7,302	(453)	36,624
Employee compensation and benefits	5,350	87	8,478	3,927	278	2,267	7,058	27,445
Other selling, general and administrative expenses	651	29	1,509	538	125	292	2,695	5,839
Income (loss) before the following:	1,656	277	5,023	2,250	(403)	4,743	(10,206)	3,340
Depreciation and amortization								3,757
Finance expense								1,667
Change in fair value of liabilities								232
Other expense								3,118
Loss before income taxes								**(5,434)**

Three months ended March 31, 2018	ACS	ARC	ProSys	Sigma	Smart Edge	TeraMach	Shared Services	Total
Revenue	120,368	1,786	167,665	39,051	-	40,393	3	369,266
Cost of sales	109,758	1,603	151,654	33,306	-	33,643	3	329,967
Gross profit	10,610	183	16,011	5,745	-	6,750	-	39,299
Employee compensation and benefits	5,729	119	10,417	4,268	728	2,521	5,813	29,595
Other selling, general and administrative expenses	1,499	30	2,845	1,035	124	357	2,316	8,206
Income (loss) before the following:	3,382	34	2,749	442	(852)	3,872	(8,129)	1,498
Depreciation and Amortization								2,849
Finance expense								1,313
Change in fair value of liabilities								40
Other income								(99)
Loss before income taxes								(2,605)

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

Segment assets and liabilities

	March 31, 2019	December 31, 2018
Assets		
ACS	**93,809**	106,569
ARC	**8,281**	6,698
ProSys	**208,250**	203,186
Sigma	**70,881**	72,192
Smart Edge	**3,408**	2,937
TeraMach	**65,507**	21,704
Shared Services	**2,573**	8,033
	452,709	421,319
Liabilities		
ACS	**47,315**	58,383
ARC	**12,738**	11,293
ProSys	**186,204**	180,510
Sigma	**74,106**	74,932
Smart Edge	**6,768**	5,890
TeraMach	**63,582**	22,939
Shared Services	**59,867**	60,124
	450,580	414,071

18. RELATED PARTY DISCLOSURES

The Company has certain contractual arrangements with Old ProSys, whose activities and results are consolidated with the Company. The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Old ProSys to its third-party customers. Total sales attributable to the activities of Old ProSys were approximately $58,957 and $91,198 for the three months ended March 31, 2019 and 2018, respectively. Amounts due from Old ProSys were $67,732 and $83,173 as at March 31, 2019 and December 31, 2018, respectively.

The Company has certain contractual arrangements with Applied, whose activities and results are consolidated with the Company. The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Applied to its third-party customers. Total sales attributable to the activities of Applied were $50,117 and $84,002 for the three months ended March 31, 2019 and 2018, respectively. Amounts due from Applied were $16,201 and $16,122 as at March 31, 2019 and December 31, 2018, respectively.

(Unless otherwise noted all amounts are in thousands of U.S. dollars, except share and per share amounts)

The contractual arrangements with Applied and Old ProSys as described above accounted in aggregate for 36.9% and 47.4% of the overall Pivot revenues for the three months ended March 31, 2019 and 2018, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

ACS incurred nil and $375 for the three months ended March 31, 2019 and 2018, respectively, for research and development provided by a related entity over which the subsidiary's president has significant influence. The Company terminated this agreement in August 2018. Nil and $615 was payable as at March 31, 2019 and December 31, 2018, respectively.

19. KEY MANAGEMENT COMPENSATION

The following table sets out the compensation of the key management of the Company:

Three months ended March 31,	**2019**	2018
Compensation	**442**	447
Annual incentive plans	**124**	292
Share-based compensation	**-**	45
Other compensation	**42**	209
	608	993

20. SUBSEQUENT EVENTS

The JPMC Credit Facility was amended and restated on May 14, 2019 ("Amended JPMC Credit Facility"). The key terms of the Amended JPMC Credit Facility include an extension of the facility and is now set to expire on May 14, 2024, a 0.25% reduction to the variable interest rate charged under the facility, the ability to increase the commitments under the credit facility by an additional $75,000, springing cash dominion, and relaxed conditions for certain restricted payments.

On May 14, 2019, the BOD declared a common share dividend of C$0.04 per common share, for a total of C$1,579, payable on May 29, 2019 to common shareholders of record on May 24, 2019.