

Interim Condensed Consolidated Financial Statements

Pivot Technology Solutions, Inc.

For the Three and Six Months Ended
June 30, 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	June 30, 2019	December 31, 2018
	<i>[unaudited]</i>	
ASSETS		
Current		
Cash and cash equivalents	15,080	15,312
Accounts receivable	267,849	229,916
Income taxes recoverable	2,698	2,877
Inventories	47,945	53,800
Deferred contract costs	20,288	18,840
Other current assets	4,950	3,940
Total current assets	358,810	324,685
Property, plant and equipment, net	5,722	6,334
Right-of-use assets, net (note 4)	14,451	-
Goodwill	45,289	45,177
Intangible assets	21,981	24,680
Deferred income taxes (note 10)	10,293	10,306
Deferred contract costs	14,758	9,617
Other non-current assets	890	520
Total assets	472,194	421,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	21,093	18,171
Accounts payable and accrued liabilities (note 5)	287,352	254,430
Income taxes payable	20	634
Deferred revenue and customer deposits	6,306	6,859
Deferred contract revenue	23,211	20,962
Lease liability	3,681	-
Other financial liabilities (note 6)	98,345	100,184
Total current liabilities	440,008	401,240
Other financial liabilities (note 6)	1,366	1,178
Deferred tax liabilities	385	385
Deferred contract revenue	15,679	10,317
Lease liability	12,646	-
Other non-current liabilities	-	951
Total liabilities	470,084	414,071
Equity		
Share capital (note 7)	82,705	82,705
Contributed surplus	4,884	4,631
Foreign exchange translation reserve	18	53
Accumulated deficit	(87,453)	(83,106)
Equity attributable to shareholders	154	4,283
Non-controlling interest	1,956	2,965
Total equity	2,110	7,248
Total liabilities and equity	472,194	421,319

See accompanying notes

On behalf of the Board:

"Lazane Smith"

Lazane Smith

Director

"Kevin Shank"

Kevin Shank

President, CEO and Director

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue (note 11)	345,688	381,343	641,286	750,609
Cost of sales	300,731	340,738	559,705	670,705
Gross profit	44,957	40,605	81,581	79,904
Employee compensation and benefits	29,648	28,422	57,093	58,017
Other selling, general and administrative expenses	5,617	7,079	11,456	15,285
Income before the following:	9,692	5,104	13,032	6,602
Depreciation and amortization	3,721	2,861	7,478	5,710
Finance expense	1,508	1,773	3,175	3,086
Change in fair value of liabilities (note 13)	208	157	440	197
Other expense (income) (note 12)	833	(408)	3,951	(507)
Income (loss) before income taxes	3,422	721	(2,012)	(1,884)
Provision for income taxes (note 10)	2,403	456	969	115
Income (loss) for the period	1,019	265	(2,981)	(1,999)
Income (loss) for the period attributable to non-controlling interests	(592)	51	(1,009)	256
Income (loss) for the period attributable to shareholders	1,611	214	(1,972)	(2,255)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to income (loss) for the period:				
Exchange (loss) gain on translation of foreign operations	10	(24)	(35)	(3)
	10	(24)	(35)	(3)
Total comprehensive income (loss)	1,029	241	(3,016)	(2,002)
Total comprehensive income (loss) attributable to shareholders	1,621	190	(2,007)	(2,258)
Income (loss) per common share (note 7):				
Income (loss) attributable to common shareholders	1,611	214	(1,972)	(2,255)
Basic	\$0.04	\$0.01	\$ (0.05)	\$ (0.06)
Diluted	\$0.04	\$0.01	\$ (0.05)	\$ (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	-	239	-	-	-	239
Cash settlement of RSUs	-	(56)	-	-	-	(56)
Share repurchases	(963)	-	-	-	-	(963)
Options exercised	222	(65)	-	-	-	157
Common share dividends declared (note 7)	-	-	-	-	(2,490)	(2,490)
Loss on translation of foreign operations	-	-	-	(3)	-	(3)
Income (loss) for the period	-	-	256	-	(2,255)	(1,999)
Balance, June 30, 2018	83,670	3,965	3,100	34	(78,360)	12,409
Balance, December 31, 2018	82,705	4,631	2,965	53	(83,106)	7,248
Equity classified share-based compensation	-	253	-	-	-	253
Common share dividends declared (note 7)	-	-	-	-	(2,375)	(2,375)
Loss on translation of foreign operations	-	-	-	(35)	-	(35)
Loss for the period	-	-	(1,009)	-	(1,972)	(2,981)
Balance, June 30, 2019	82,705	4,884	1,956	18	(87,453)	2,110

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands of U.S. dollars]

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
OPERATING ACTIVITIES				
Income (loss) for the period	1,019	265	(2,981)	(1,999)
Add (deduct) items not involving cash				
Depreciation and amortization	3,721	2,861	7,478	5,710
Share-based compensation (note 8)	128	119	612	239
Loss on disposal of property, plant and equipment	1	12	3	26
Provision for (recovery of) receivables	(113)	(24)	(113)	14
Deferred income taxes (note 10)	(6)	(133)	(10)	(115)
Amortization of loan fees (note 6)	76	81	157	162
Change in fair value of liabilities (note 13)	208	157	440	197
Changes in non-cash working capital balances (note 14)	34,974	(33,700)	338	(18,353)
Cash provided by (used in) operating activities	40,008	(30,362)	5,924	(14,119)
INVESTING ACTIVITIES				
Payments made on contingent consideration	(100)	(100)	(350)	(200)
Capital expenditures	(230)	(1,654)	(396)	(2,024)
Other intangible assets	(902)	-	(1,593)	(1)
Lease payments received from finance leases	32	-	65	-
Cash used in investing activities	(1,200)	(1,754)	(2,274)	(2,225)
FINANCING ACTIVITIES				
Net change in debt facilities	(29,937)	31,736	(1,766)	23,848
Debt issuance costs	(588)	-	(588)	-
Net change in flooring arrangements	(1,088)	(248)	(17)	(364)
Net change in bank overdraft	5,462	3,074	2,922	(4,740)
Payment of lease liabilities	(990)	-	(2,067)	-
Stock options exercised	-	73	-	157
Cash settlement of RSUs	-	-	-	(56)
Common share dividends paid	(1,176)	(1,231)	(2,375)	(2,490)
Common share repurchases	-	(963)	-	(963)
Cash provided by (used in) financing activities	(28,317)	32,441	(3,891)	15,392
Net increase (decrease) in cash during the period	10,491	325	(241)	(952)
Cash, beginning of period	4,582	3,983	15,312	5,248
Effect of foreign exchange fluctuations on cash held	7	(24)	9	(12)
Cash, end of period	15,080	4,284	15,080	4,284

See accompanying notes

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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

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”); Pivot Technology Services Corporation, fka 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 and six months ended June 30, 2019 and 2018 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on August 13, 2019.

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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

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 income (loss) and comprehensive

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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income (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 income (loss) and comprehensive income (loss).

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

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

(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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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

Pivot Technology Solutions, Inc.

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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.

4. RIGHT-OF-USE ASSETS, LEASE OBLIGATIONS AND NET INVESTMENT IN LEASES

The following table presents the ROU assets, net, for the Company:

As at January 1, 2019	16,468
Depreciation	(2,036)
Foreign exchange fluctuation	19
As at June 30, 2019	14,451

The following table presents the contractual undiscounted cash flows for lease obligations as at June 30:

Less than one year	4,903
One to two years	4,177
Two to five years	6,697
Over five years	3,200
Total undiscounted lease obligations	18,977

Interest expense on lease obligations for the three and six-months ended June 30, 2019 was \$318 and \$667, respectively. Total cash outflow for leases for the three months ended June 30, 2019 was \$1,336, including \$28 for short-term leases. Total cash outflow for leases for the six months ended June 30, 2019 was \$2,795, including \$61 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.

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.

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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

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

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. \$628 and \$645 were outstanding under the IBM secured flooring agreement as at June 30, 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. OTHER FINANCIAL LIABILITIES

	June 30, 2019	December 31, 2018
Current		
Secured borrowings, net of deferred loan costs	96,294	98,491
Contingent consideration	2,051	1,693
	98,345	100,184
Non-current		
Contingent consideration	1,007	1,178
Cash-settled share-based payment	359	-
	1,366	1,178
	99,711	101,362

Secured borrowings

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMorgan Chase Bank, N.A. (“JPMC”). On May 14, 2019, the agreement was extended and amended with improvements in certain terms. As amended, the facility provides the Company a \$225,000 senior secured asset based revolving credit facility (“JPMC Credit Facility”). The JPMC Credit

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018**

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

Facility may be used for revolving loans, letters of credit, protective advances, over advances, and swing line loans. Advances under the JPMC Credit Facility accrue interest at rates that are equal to, based on certain conditions, at the Company's election either (a) JPMC's "prime rate" as announced from time to time plus 0.0% to 0.25%, or (b) LIBOR, or a comparable or successor rate that is approved by JPMC, for an interest period of one month plus 1.25% to 1.50%. The Company may also, upon the agreement of either the then existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$75,000. The lenders under the JPMC Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on May 14, 2024.

Under the terms of the JPMC Credit Facility, the covenants require that the Company maintain a Fixed Charge Coverage Ratio of at least 1.0 to 1.0 on a trailing twelve month basis, triggered in the event that availability is less than 12.5% of the revolving commitment until such time that availability has been greater than 12.5% of the revolving commitment for sixty consecutive days.

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 \$97,303 and \$99,069 as at June 30, 2019 and December 31, 2018, respectively. The outstanding balance is shown net of deferred loan costs of \$1,009 and \$578, as at June 30, 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 \$58,272 for the six months ended June 30, 2019 and \$73,759 for the year ended December 31, 2018.

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 income (loss) and comprehensive income (loss). The Swap expired on November 13, 2018. Interest incurred under the Swap totaled nil and \$122 for the three months ended June 30, 2019 and 2018, respectively. Interest incurred under the Swap totaled nil and \$281 for the six months ended June 30, 2019 and 2018, respectively. As at June 30, 2019 and 2018, the fair value of the Swap was determined to be nil and \$138, 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

Pivot Technology Solutions, Inc.

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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 six months ended June 30, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	2,235	3,326
Change in fair value	364	516
Exchange rate differences	97	(156)
Balance as at June 30	2,696	3,686

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 \$400.

The changes in the Cloudscapes contingent liability balance for the six months ended June 30, 2019 and 2018 were as follows:

	2019	2018
Balance as at January 1	636	930
Change in fair value	76	48
Payments	(350)	(200)
Balance as at June 30	362	778

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

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7. SHARE CAPITAL

The issued share capital amounted to \$82,705 and \$83,670 as at June 30, 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 six months ended June 30, 2019 and 2018 were as follows:

# Common Shares	2019	2018
As at January 1	39,473,032	40,229,930
Share repurchases	-	(638,100)
Options exercised	-	123,959
As at June 30	39,473,032	39,715,789

Note: Number of shares are not rounded

No preferred shares were issued or outstanding as at June 30, 2019 or December 31, 2018.

Normal course issuer bid

On May 12, 2017, the Company entered into an Automatic Share Purchase Plan (“ASPP”) with Echelon Wealth Partners, Inc. (“Echelon”) for the purpose of permitting the purchase of common shares under normal course issuer bid (“NCIB”) at times when the Company would not be permitted to purchase shares, including regularly scheduled quarterly blackout periods. The ASPP was renewed on June 28, 2018, and again in June 24, 2019. Such purchases were and will be determined by Echelon in its sole discretion based on parameters established prior to any blackout period, in accordance with the rules of the TSX and applicable securities laws.

The Company obtained regulatory approval to proceed with several NCIB’s to repurchase up to 10% of the Company’s issued and outstanding common shares (excluding shares held by principal shareholders, directors and senior officers) at prevailing market prices during the NCIB period. Some of these purchases were made pursuant to an automatic share purchase plan with Echelon. No purchases were made under the NCIB during the six months ended June 30, 2019.

Income (loss) per share

Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company’s basic income per share. Common share equivalents represent potentially dilutive stock options and restricted stock units (“RSU” or “unit”). Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect.

The following table summarizes the basic and diluted income (loss) per share and the basic and diluted weighted average number of common shares outstanding:

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018**

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Income (loss) for the period	1,611	214	(1,972)	(2,255)
Weighted average number of				
common shares outstanding – basic	39,473,940	40,071,494	39,473,488	40,182,543
Effect of dilutive potential common shares	54,166	1,203,548	-	-
Weighted average number of common				
common shares outstanding – diluted	39,528,106	41,275,042	39,473,488	40,182,543
Income (loss) per share				
Basic	\$0.04	\$0.01	\$(0.05)	\$(0.06)
Diluted	\$0.04	\$0.01	\$(0.05)	\$(0.06)

Note: Share and per share amounts are not rounded

For the six-month periods ended June 30, 2019 and 2018, 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 amount available to common shareholders was a net loss.

There were a total of 2,080,417 and 425,000 stock options that were out of the money and excluded from the calculations of diluted income per share for the three-months ended June 30, 2019 and 2018, respectively.

For the three and six months ended June 30, 2019, basic and diluted weighted average shares includes 82,697 common shares that will be released in August 2019 for RSUs, settled net of tax, that vested on June 30, 2019 (note 8).

Dividends declared and paid

Common share dividends declared and paid during the six months ended June 30, 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\$0.04	C\$1,579
May 14, 2019	May 24, 2019	May 29, 2019	C\$0.04	C\$1,579

Note: Per share amounts are not rounded

Pivot Technology Solutions, Inc.

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For the three and six months ended June 30, 2019 and 2018

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

Common share dividends declared and paid during the six months ended June 30, 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\$0.04	C\$1,612
May 14, 2018	May 31, 2018	June 15, 2018	C\$0.04	C\$1,596

Note: Per share amounts are not rounded

8. 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 June 30, 2019 and 2018 and during the six 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	(38,333)	C\$1.85	(29,166)	C\$1.60
Options exercised	-	-	(123,959)	C\$1.60
Options outstanding as at June 30	2,080,417	C\$1.79	1,793,750	C\$1.81
Options exercisable as at June 30	1,467,084	C\$1.76	1,507,082	C\$1.68

Note: Share and per share amounts are not rounded

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018**

(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:

June 30, 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	6.97	1.60	1,168,750	6.97	
1.68	480,000	4.13	1.68	-	4.13	
1.73	25,000	7.48	1.73	25,000	7.48	
2.47	396,667	3.00	2.47	270,001	3.00	
2.61	10,000	3.17	2.61	3,333	3.17	

Note: Share and per share amounts are not rounded

June 30, 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	1,343,750	7.97	1.60	1,343,750	7.97	
1.73	25,000	8.48	1.73	25,000	8.48	
2.47	415,000	4.00	2.47	138,332	4.00	
2.61	10,000	4.17	2.61	-	-	

Note: Share and per share amounts are not rounded

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.

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018***(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 June 30, 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)	47,769	C\$1.13		
Units vested	(110,000)	C\$2.47	(116,667)	C\$2.47
Units released	-	-	-	-
Units forfeited	-	-	-	-
Units unvested as at June 30	635,307	C\$1.76	238,333	C\$2.47
Units outstanding as at June 30	745,307	C\$1.87	355,000	C\$2.47

Note: Share and per share amounts are not rounded

The 110,000 RSUs that vested on June 30, 2019 will be settled in shares, net of applicable taxes. 82,697 net shares will be released to participants in August 2019. The 116,667 RSUs vested on June 30, 2018 were settled in shares, net of applicable taxes, and 78,354 shares were released to participants in July 2018. As at June 30, 2019 and 2018, there was \$538 and \$409, respectively, of total unrecognized compensation cost related to unvested RSU arrangements. This expense is expected to be recognized over a weighted average period of 1.72 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 income (loss) and comprehensive income (loss). A reconciliation of the share-based compensation expense is provided below:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Share-based compensation on options	33	64	66	129
Share-based compensation on RSUs	95	55	187	110
Total share-based compensation expense	128	119	253	239

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018**

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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 June 30, 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 six months ended June 30, 2019 are included in other expense (income).

9. FINANCIAL INSTRUMENTS

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

As at June 30, 2019	Fair value through profit or loss	Amortized cost	Non- financial	Total carrying amount
Cash and cash equivalents	15,080	-	-	15,080
Accounts receivable	-	267,849	-	267,849
Inventories	-	-	47,945	47,945
Intangible assets	-	-	21,981	21,981
Goodwill	-	-	45,289	45,289
Deferred contract costs	-	-	35,046	35,046
Other non-financial assets	-	-	39,004	39,004
Total assets	15,080	267,849	189,265	472,194
Bank overdraft	21,093	-	-	21,093
Accounts payable and accrued liabilities	-	287,352	-	287,352
Deferred contract revenue	-	-	38,890	38,890
Other financial liabilities	3,058	112,980	-	116,038
Other non-financial liabilities	-	-	6,711	6,711
Total liabilities	24,151	400,332	45,601	470,084

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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	-	-	8,829	8,829
Total liabilities	21,042	352,921	40,108	414,071

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 June 30, 2019 and December 31, 2018:

Fair value as at June 30, 2019

	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	3,058	3,058
	-	-	3,058	3,058

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

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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 \$208 and \$290 related to the change in fair value of the contingent consideration for the three months ended June 30, 2019 and 2018, respectively. The Company recorded a charge of \$440 and \$564 related to the change in fair value of the contingent consideration for the six months ended June 30, 2019 and 2018, respectively.

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

10. INCOME TAXES

The Company's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Company operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and six-month periods ended June 30, 2019 was 75.92% and (42.67)%, respectively. The effective tax rate for the three and six-month periods ended June 30, 2018 was 63.25% and (6.1)%, respectively. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Company operates and unrecognized temporary differences.

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

11. REVENUE

Disaggregation of revenue

Types of goods and services:

Three months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	110,433	1,902	117,908	36,404	5,357	(1)	272,003
Other sales	11,232	-	20,860	380	1,149	1	33,622
Product revenue	121,665	1,902	138,768	36,784	6,506	-	305,625
Pivot provided services	2,633	-	11,721	4,912	2,752	-	22,018
Third-party maintenance contracts	6,308	-	9,979	1,350	409	(1)	18,045
Service revenue	8,941	-	21,700	6,262	3,161	(1)	40,063
Total revenue	130,606	1,902	160,468	43,046	9,667	(1)	345,688

Three months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	102,297	1,847	163,684	26,436	5,707	(3)	299,968
Other sales	11,893	-	19,182	5,904	1,836	(1)	38,814
Product revenue	114,190	1,847	182,866	32,340	7,543	(4)	338,782
Pivot provided services	4,572	-	15,108	5,739	2,715	3	28,137
Third-party maintenance contracts	3,032	-	9,475	1,670	247	-	14,424
Service revenue	7,604	-	24,583	7,409	2,962	3	42,561
Total revenue	121,794	1,847	207,449	39,749	10,505	(1)	381,343

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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

Six months ended June 30, 2019	ACS	ARC	Prosys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	167,333	5,439	224,194	63,772	44,683	1	505,422
Other sales	16,488	-	30,715	6,176	8,200	1	61,580
Product revenue	183,821	5,439	254,909	69,948	52,883	2	567,002
Pivot provided services	5,956	-	20,157	11,324	5,259	2	42,698
Third-party maintenance contracts	8,339	-	18,759	2,688	1,801	(1)	31,586
Service revenue	14,295	-	38,916	14,012	7,060	1	74,284
Total revenue	198,116	5,439	293,825	83,960	59,943	3	641,286

Six months ended June 30, 2018	ACS	ARC	Prosys	Sigma	Tera Mach	Shared Services	Total
Hardware sales	208,902	3,633	297,277	53,359	38,064	-	601,235
Other sales	19,981	-	32,669	10,157	6,290	(1)	69,096
Product revenue	228,883	3,633	329,946	63,516	44,354	(1)	670,331
Pivot provided services	8,830	-	25,843	12,527	5,171	3	52,374
Third-party maintenance contracts	4,449	-	19,325	2,757	1,373	-	27,904
Service revenue	13,279	-	45,168	15,284	6,544	3	80,278
Total revenue	242,162	3,633	375,114	78,800	50,898	2	750,609

Geographical markets:

Three months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	127,866	1,902	158,581	41,439	-	-	329,788
Canada	204	-	25	23	9,496	-	9,748
International	2,536	-	1,862	1,584	171	(1)	6,152
Total revenue	130,606	1,902	160,468	43,046	9,667	(1)	345,688

Three months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	119,831	1,847	206,176	36,704	-	-	364,558
Canada	290	-	2	27	10,488	(2)	10,805
International	1,673	-	1,271	3,018	17	1	5,980
Total revenue	121,794	1,847	207,449	39,749	10,505	(1)	381,343

Pivot Technology Solutions, Inc.

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For the three and six months ended June 30, 2019 and 2018

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

Six months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	193,070	5,439	289,669	80,139	-	-	568,317
Canada	218	-	39	163	59,772	-	60,192
International	4,828	-	4,117	3,658	171	3	12,777
Total revenue	198,116	5,439	293,825	83,960	59,943	3	641,286

Six months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
United States	237,640	3,633	370,882	75,348	-	-	687,503
Canada	317	-	9	47	50,881	(1)	51,253
International	4,205	-	4,223	3,405	17	3	11,853
Total revenue	242,162	3,633	375,114	78,800	50,898	2	750,609

Timing of revenue recognition:

Three months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	121,665	1,902	138,768	36,784	6,506	-	305,625
Services transferred at a point in time	2,633	-	11,721	4,912	2,752	-	22,018
Services transferred over time	6,308	-	9,979	1,350	409	(1)	18,045
Total revenue	130,606	1,902	160,468	43,046	9,667	(1)	345,688

Three months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	114,190	1,847	182,866	32,340	7,543	(4)	338,782
Services transferred at a point in time	4,572	-	15,108	5,739	2,715	3	28,137
Services transferred over time	3,032	-	9,475	1,670	247	-	14,424
Total revenue	121,794	1,847	207,449	39,749	10,505	(1)	381,343

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

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

Six months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	183,821	5,439	254,909	69,948	52,883	2	567,002
Services transferred at a point in time	5,956	-	20,157	11,324	5,259	2	42,698
Services transferred over time	8,339	-	18,759	2,688	1,801	(1)	31,586
Total revenue	198,116	5,439	293,825	83,960	59,943	3	641,286

Six months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Tera Mach	Shared Services	Total
Goods transferred at a point in time	228,883	3,633	329,946	63,516	44,354	(1)	670,331
Services transferred at a point in time	8,828	-	25,843	12,527	5,171	3	52,372
Services transferred over time	4,451	-	19,325	2,757	1,373	-	27,906
Total revenue	242,162	3,633	375,114	78,800	50,898	2	750,609

12. OTHER EXPENSE (INCOME)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Restructuring	120	-	2,419	497
Transaction costs	80	(36)	274	67
Foreign exchange loss (gain)	642	(366)	1,286	(1,060)
Other income	(9)	(6)	(28)	(11)
	833	(408)	3,951	(507)

13. CHANGE IN FAIR VALUE OF LIABILITIES

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Contingent consideration	208	290	440	564
Interest rate swap	-	(133)	-	(367)
	208	157	440	197

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Notes to the unaudited interim condensed consolidated financial statements

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14. UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Accounts receivable	(8,745)	(18,919)	(37,744)	(1,745)
Income taxes recoverable/payable	1,557	(595)	(407)	(1,006)
Inventories	(1,272)	(15,875)	5,835	21,484
Other assets	(3,551)	(633)	(7,214)	(576)
Accounts payable and accrued liabilities	44,266	2,460	34,789	(36,363)
Other liabilities	2,719	(138)	5,079	(147)
	34,974	(33,700)	338	(18,353)

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest paid	1,077	1,219	2,356	2,514
Income taxes paid	650	673	1,140	732

15. 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.

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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.

Shared Services

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

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

Revenue and segment profit

Three months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	130,606	1,902	160,468	43,046	-	9,667	(1)	345,688
Cost of sales	114,647	1,624	139,742	36,590	-	7,605	523	300,731
Gross profit	15,959	278	20,726	6,456	-	2,062	(524)	44,957
Employee compensation and benefits	7,505	90	9,885	4,237	441	1,738	5,752	29,648
Other selling, general and administrative expenses	824	52	3,070	1,220	193	285	(27)	5,617
Income (loss) before the following:	7,630	136	7,771	999	(634)	39	(6,249)	9,692
Depreciation and amortization								3,721
Finance expense								1,508
Change in fair value of liabilities								208
Other expense								833
Earnings before income taxes								3,422

Three months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	121,794	1,847	207,449	39,749	-	10,505	(1)	381,343
Cost of sales	111,153	1,599	187,966	31,976	-	8,347	(303)	340,738
Gross profit	10,641	248	19,483	7,773	-	2,158	302	40,605
Employee compensation and benefits	6,028	99	10,188	4,486	1,033	1,468	5,120	28,422
Other selling, general and administrative expenses	1,295	(10)	3,589	2,181	284	516	(776)	7,079
Income (loss) before the following:	3,318	159	5,706	1,106	(1,317)	174	(4,042)	5,104
Depreciation and Amortization								2,861
Finance expense								1,773
Change in fair value of liabilities								157
Other income								(408)
Earnings before income taxes								721

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

Six months ended June 30, 2019	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	198,116	5,439	293,825	83,960	-	59,943	3	641,286
Cost of sales	174,500	4,768	258,089	70,789	-	50,579	980	559,705
Gross profit	23,616	671	35,736	13,171	-	9,364	(977)	81,581
Employee compensation and benefits	12,855	177	18,363	8,164	719	4,005	12,810	57,093
Other selling, general and administrative expenses	875	51	3,079	1,008	294	577	5,572	11,456
Income (loss) before the following:	9,886	443	14,294	3,999	(1,013)	4,782	(19,359)	13,032
Depreciation and amortization								7,478
Finance expense								3,175
Change in fair value of liabilities								440
Other expense								3,951
Loss before income taxes								(2,012)

Six months ended June 30, 2018	ACS	ARC	ProSys	Sigma	Smart Edge	Tera Mach	Shared Services	Total
Revenue	242,162	3,633	375,114	78,800	-	50,898	2	750,609
Cost of sales	220,911	3,202	339,620	65,282	-	41,990	(300)	670,705
Gross profit	21,251	431	35,494	13,518	-	8,908	302	79,904
Employee compensation and benefits	11,757	218	20,605	8,754	1,761	3,989	10,933	58,017
Other selling, general and administrative expenses	2,312	17	4,909	1,931	409	873	4,834	15,285
Income (loss) before the following:	7,182	196	9,980	2,833	(2,170)	4,046	(15,465)	6,602
Depreciation and Amortization								5,710
Finance expense								3,086
Change in fair value of liabilities								197
Other income								(507)
Loss before income taxes								(1,884)

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****For the three and six months ended June 30, 2019 and 2018**

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

Segment assets and liabilities

	June 30, 2019	December 31, 2018
Assets		
ACS	192,437	106,569
ARC	7,678	6,698
ProSys	198,739	203,186
Sigma	63,558	72,192
Smart Edge	17,018	2,937
TeraMach	16,517	21,704
Shared Services/Adjustments/Eliminations	(23,753)	8,033
	472,194	421,319
Liabilities		
ACS	131,307	58,383
ARC	12,069	11,293
ProSys	174,505	180,510
Sigma	67,615	74,932
Smart Edge	9,127	5,890
TeraMach	17,436	22,939
Shared Services/Adjustments/Eliminations	58,025	60,124
	470,084	414,071

16. 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 \$77,993 and \$142,121 for the three months ended June 30, 2019 and 2018, respectively. Total sales attributable to the activities of Old ProSys were approximately \$136,950 and \$233,319 for the six months ended June 30, 2019 and 2018, respectively. Amounts due from Old ProSys were \$50,328 and \$83,173 as at June 30, 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 \$100,547 and \$91,229 for the three months ended June 30, 2019 and 2018, respectively. Total sales attributable to the activities of Applied were \$150,664 and \$175,231 for the six months ended June 30, 2019 and 2018, respectively. Amounts due from Applied were \$16,253 and \$16,122 as at June 30, 2019 and December 31, 2018, respectively.

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

For the three and six months ended June 30, 2019 and 2018

(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 51.6% and 61.2% of the overall Pivot revenues for the three-month periods ended June 30, 2019 and 2018, respectively, and 44.8% and 54.4% of the overall Pivot revenues for the six-month periods ended June 30, 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-month periods ended June 30, 2019 and 2018, respectively, and nil and \$750 for the six-month periods ended June 30, 2019 and 2018, respectively for research and development provided by a related entity where certain officers of ACS and Smart Edge had significant influence. The Company terminated this agreement in August 2018. Nil and \$615 was payable as at June 30, 2019 and December 31, 2018, respectively.

17. KEY MANAGEMENT COMPENSATION

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Compensation	363	532	785	979
Annual incentive plans	188	65	312	357
Share-based compensation	-	53	-	53
Other compensation	24	208	48	417
	575	858	1,145	1,806

18. SUBSEQUENT EVENTS

On August 13, 2019, the BOD declared a common share dividend of C\$0.04 per common share, for a total of C\$1,579, payable on September 16, 2019 to common shareholders of record on August 31, 2019.