Pivot Technology Solutions, Inc.

Interim Condensed

Consolidated Financial Statements

(unaudited)

2020 Q2

Dated: August 11, 2020

Pivot Technology Solutions, Inc.

Interim Condensed Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars, except otherwise noted)	***notes***	**June 30, 2020**	December 31, 2019 *(re-presented, note 5)*	January 1, 2019 *(re-presented, note 5)*
ASSETS				
Current				
Cash and cash equivalents		**12,362**	35,430	20,881
Accounts receivable		**290,617**	295,389	313,536
Income taxes recoverable		**5,265**	4,087	3,923
Inventories		**72,306**	51,329	73,367
Deferred contract costs		**28,257**	25,494	25,692
Other current assets		**6,834**	3,897	5,373
Total current assets		**415,641**	415,626	442,772
Property, plant and equipment	*7*	**22,096**	22,460	8,638
Goodwill	*8*	**61,349**	58,865	61,608
Other intangible assets	*9*	**16,916**	21,684	33,656
Deferred tax assets		**11,225**	10,639	14,054
Deferred contract costs		**13,446**	17,413	13,115
Other non-current assets		**301**	709	709
Total assets		**540,974**	547,396	574,552
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Bank indebtedness		**19,368**	19,682	24,780
Accounts payable and accrued liabilities	*10*	**280,712**	289,234	346,966
Income taxes payable		**1,341**	187	865
Deferred revenue and customer deposits		**15,502**	9,048	9,354
Deferred contract revenue		**31,811**	29,669	28,586
Other financial liabilities	*11*	**145,326**	144,510	136,621
Total current liabilities		**494,060**	492,330	547,172
Deferred tax liabilities		**620**	500	525
Deferred contract revenue		**14,467**	18,525	14,069
Other financial liabilities	*11*	**14,207**	14,999	1,606
Other non-current liabilities		**–**	–	1,297
Total liabilities		**523,354**	526,354	564,669
Shareholders' equity				
Share capital	*13*	**79,682**	83,176	83,550
Contributed surplus		**8,422**	6,562	6,062
Foreign exchange translation reserve		**9,080**	8,212	9,052
Accumulated deficit		**(82,971)**	(80,229)	(92,432)
Equity attributable to shareholders		**14,213**	17,721	6,232
Non-controlling interest		**3,407**	3,321	3,651
Total shareholders' equity		**17,620**	21,042	9,883
Total liabilities and shareholders' equity		**540,974**	547,396	574,552

See accompanying notes to interim condensed consolidated financial statements.

Contingencies (note 11).

Pivot Technology Solutions, Inc.

Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(unaudited)

(in thousands of Canadian dollars, except per share amounts)	*notes*	Three months ended June 30, **2020**	Three months ended June 30, 2019	Six months ended June 30, **2020**	Six months ended June 30, 2019
			(re-presented, note 5)		*(re-presented, note 5)*
Revenue	*14*	**332,136**	459,902	**708,943**	849,763
Cost of sales	*15*	**281,947**	399,797	**606,664**	740,967
Gross profit		**50,189**	60,105	**102,279**	108,796
Selling, general and administrative expenses	*15*	**42,787**	47,166	**89,486**	91,417
Income before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses		**7,402**	12,939	**12,793**	17,379
Depreciation		**1,679**	2,042	**3,690**	4,115
Amortization		**2,839**	2,935	**5,519**	5,857
Finance expense	*16*	**1,497**	2,018	**3,241**	4,234
Change in fair value of liabilities	*17*	**671**	279	**680**	587
Other expenses	*18*	**1,747**	1,124	**2,194**	5,269
Earnings (loss) before income taxes		**(1,031)**	4,541	**(2,531)**	(2,683)
Income tax expense (recovery)	*19*	**(476)**	3,199	**(2,960)**	1,292
Net income (loss) for the period		**(555)**	1,342	**429**	(3,975)
Other comprehensive income (loss)					
Items that may be reclassified subsequently to income (loss):					
Exchange gain (loss) on translation of foreign operations		**(299)**	(11)	**868**	(324)
Total comprehensive income (loss)		**(854)**	1,331	**1,297**	(4,299)
Attributable to:					
Shareholders		**(753)**	2,123	**1,211**	(2,953)
Non-controlling interest		**(101)**	(792)	**86**	(1,346)
Total comprehensive income (loss)		**(854)**	1,331	**1,297**	(4,299)
Attributable to shareholders:					
Earnings (loss) attributable to shareholders	*13*	**(454)**	2,134	**343**	(2,629)
Earnings (loss) per common share					
Basic	*13*	**($0.01)**	$0.05	**$0.01**	($0.07)
Diluted	*13*	**($0.01)**	$0.05	**$0.01**	($0.07)

See accompanying notes to interim condensed consolidated financial statements.

Certain comparative information has been reclassified to conform to current year presentation.

Pivot Technology Solutions, Inc.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars)	**Share capital**	**Contributed surplus**	**Non-controlling interest**	**Foreign currency translation reserve**	**Accumulated deficit**	**Total**
	(all amounts in 2019 and January 1, 2020 are re-presented, note 5)					
Balance, January 1, 2019	83,550	6,062	3,651	9,052	(92,432)	9,883
Shared-based compensation *(note 12)*	–	337	–	–	–	337
Dividends declared *(note 13)*	–	–	–	–	(3,158)	(3,158)
Loss on translation of foreign operations	–	–	–	(324)	–	(324)
Net loss for the period	–	–	(1,346)	–	(2,629)	(3,975)
Balance, June 30, 2019	83,550	6,399	2,305	8,728	(98,219)	2,763
Balance, January 1, 2020	83,176	6,562	3,321	8,212	(80,229)	21,042
Shared-based compensation *(note 12)*	**–**	**282**	**–**	**–**	**–**	**282**
Purchase of shares for cancellation	**(3,770)**	**1,659**	**–**	**–**	**–**	**(2,111)**
Stock options exercised	**276**	**(81)**	**–**	**–**	**–**	**195**
Dividends declared *(note 13)*	**–**	**–**	**–**	**–**	**(3,085)**	**(3,085)**
Gain on translation of foreign operations	**–**	**–**	**–**	**868**	**–**	**868**
Net income for the period	**–**	**–**	**86**	**–**	**343**	**429**
Balance, June 30, 2020	**79,682**	**8,422**	**3,407**	**9,080**	**(82,971)**	**17,620**

See accompanying notes to interim condensed consolidated financial statements.

Pivot Technology Solutions, Inc.

Interim Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	***notes***	**Three months ended June 30, 2020**	Three months ended June 30, 2019 *(re-presented, note 5)*	**Six months ended June 30, 2020**	Six months ended June 30, 2019 *(re-presented, note 5)*
OPERATING ACTIVITIES					
Net income (loss) for the period		**(555)**	1,342	**429**	(3,975)
Add (deduct) items not involving cash					
Depreciation and amortization		**4,518**	4,978	**9,209**	9,972
Share-based compensation	*12*	**139**	171	**282**	337
Change in provision for accounts receivable		**590**	(151)	**607**	(151)
Deferred income taxes		**7**	(4)	**(8)**	17
Amortization of loan fees	*11*	**138**	101	**57**	209
Change in fair value of liabilities	*17*	**1**	279	**10**	587
Changes in non-cash working capital	*20*	**30,361**	46,469	**(19,956)**	(791)
Cash provided by (used in) operating activities		**35,198**	53,185	**(9,371)**	6,205
INVESTING ACTIVITIES					
Payments made on contingent consideration		**(2,245)**	(135)	**(2,379)**	(467)
Capital expenditures		**(1,490)**	(307)	**(2,624)**	(528)
Other intangible assets		**(138)**	(1,205)	**(143)**	(2,124)
Other investing activities		**50**	43	**98**	87
Cash used in investing activities		**(3,823)**	(1,604)	**(5,048)**	(3,032)
FINANCING ACTIVITIES					
Net change in debt facilities		**(39,152)**	(39,444)	**(2,068)**	540
Net change in flooring arrangements		**(99)**	(1,447)	**(119)**	(23)
Net change in bank indebtedness		**8,327**	7,274	**(1,209)**	3,897
Payment of lease liabilities		**(1,069)**	(1,325)	**(2,266)**	(2,757)
Dividends paid		**(1,529)**	(1,579)	**(3,085)**	(3,158)
Purchase of shares for cancellation		**(738)**	–	**(2,111)**	–
Stock options exercised		**137**	–	**195**	–
Other financing activities		**85**	(1,283)	**180**	(2,590)
Cash used in financing activities		**(34,038)**	(37,805)	**(10,483)**	(4,092)
Net increase (decrease) in cash during the period		**(2,663)**	13,776	**(24,902)**	(919)
Cash and cash equivalents, beginning of period		**15,641**	6,117	**35,430**	20,881
Foreign exchange gain (loss) on cash held in foreign currency		**(616)**	(146)	**1,834**	(215)
Cash and cash equivalents, end of period		**12,362**	19,747	**12,362**	19,747

See accompanying notes to interim condensed consolidated financial statements.

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Pivot Technology Solutions, Inc. is a Canadian public company that provides mission critical information technology ("IT") products and services to the world's leading companies. Pivot Technology Solutions, Inc. is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol "PTG". Its registered office is located at 55 Renfrew Drive, Suite 200, Markham, Ontario, Canada, L3R 8H3. Pivot Technologies Solutions, Inc. and its subsidiaries are together referred to in these interim condensed consolidated financial statements as the "Company" or "Pivot".

2. BASIS OF PREPARATION

a) Statement of Compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), and were approved by the board of directors of Pivot (the "Board") on August 11, 2020.

The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Pivot's 2019 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain comparative information has been reclassified to conform to the current year presentation.

b) Basis of Presentation

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities classified at fair value through profit or loss.

Prior to 2020, Pivot's consolidated financial statements were expressed in United States ("U.S.") dollars ("USD"). Commencing 2020, the consolidated financial statements are expressed in Canadian dollars ("CAD"), as further described in *note 5*. The USD remains as the parent company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in these interim condensed consolidated financial statements are consistent with those applied in the Company's audited consolidated financial statements as at and for the year ended December 31, 2019, except as described below, and the impact of this change is identified in *note 5*.

New Accounting Policy – Presentation Currency

The functional currency of each entity in the consolidated group is U.S. dollars, with the exception of TeraMach, one of the Company's subsidiaries in Canada. The functional currency of TeraMach is Canadian dollars.

Functional and presentation currency

Items included in the financial statements of each entity within the Company are measured using the functional currency, which is the currency of the primary economic environment in which the entity operates. Functional currency is the currency in which revenue and expenses from operating activities are incurred, and financing activities are generated.

The financial statements are presented in Canadian dollars, unless otherwise noted.

The financial statements of the entities that have a functional currency different from the presentation currency of the Company ("foreign operations") are translated into Canadian dollars as follows:

- assets and liabilities of foreign operations are translated at exchange rates at the reporting date;
- revenue and expenses of foreign operations are translated at average rates for the period;
- shareholders' equity is translated at the exchange rate at the date of the transaction using historical foreign exchange rates in effect on the date the transactions occurred; and
- the resulting foreign exchange differences are recognized in foreign currency translation adjustment as part of the other comprehensive income (loss).

When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net income (loss) as part of the gain or loss on disposal.

Transactions

Foreign currency transactions are translated into an entity's functional currency at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in net income (loss), reflected as part of other expenses (income).

4. CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Company's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts and disclosures made in the interim condensed consolidated financial statements and accompanying notes. Due to the inherent uncertainty in making these critical judgments and estimates, actual outcomes could be different.

Estimates and assumptions are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management evaluates the judgments and estimates it uses on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas that require significant judgments and estimates include the following:

- ***Assessment of impact from global pandemic***

  On March 11, 2020, the World Health Organization declared a global pandemic related to coronavirus ("COVID-19"). The COVID-19 pandemic continues to cause significant volatility around the world, resulting in uncertain economic and business impact on a global scale. As a result, the Company has reviewed its estimates, judgments and assumptions used in the preparation of its interim condensed consolidated financial statements, including assumptions with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill and the credit risk of its counterparties.

  Based on this analysis, the Company has determined that no significant revisions to estimates, judgments or assumptions were required as at June 30, 2020; however, the continuing uncertainty associated with the COVID-19 pandemic may require changes to estimates, judgements or assumptions in future periods. Any such changes could have a material impact on the Company's financial position and results of operations.

  In light of the uncertainty surrounding the duration and severity of the pandemic, the length and severity of COVID-19 related impacts on the Company's results of operations and financial condition cannot be reasonably estimated, and the pace of recovery following the pandemic cannot be accurately predicted. Management continues to monitor and evaluate the situation and its impact on the Company's business.

- ***Determination of whether a promise to deliver goods and services is considered distinct***

  Individual products and services are accounted for separately if they are distinct (i.e. if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it). The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices.

- ***Determination of costs to obtain or fulfill a contract***

  Judgment is required to determine the timing and amount of costs that the Company will incur to obtain or fulfill a contract that meets the deferral criteria within IFRS 15, *Revenue from Contracts with Customers*.

- ***Determination of the transaction price***

  The transaction price is the amount of consideration that is enforceable and to which the Company expects to be entitled in exchange for the goods and services it has promised to its customer. The Company determines the transaction price by considering the terms of the contract and business practices that are customary within that particular line of business. Discounts, rebates and other incentives are reflected in the transaction price at contract inception.

- ***Determination of the stand-alone selling price and the allocation of the transaction price***

  The transaction price is allocated to performance obligations based on the relative stand-alone selling prices of the distinct goods or services in the contract. The Company estimates the stand-alone selling price based on the price of a good or service when it sells that good or service separately in similar circumstances and to similar customers.

- ***Determination of the recoverable amount of CGUs subject to an impairment test***

  Impairment exists when the carrying amount of a cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. Significant judgment is required for the key assumptions utilized to determine the recoverable amounts for the different CGUs.

- ***Valuation of deferred tax assets***

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future tax rates and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

5. CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICIES ADOPTED

Change in presentation currency

Prior to January 1, 2020, the Company reported its annual and quarterly consolidated statements of financial position and the related consolidated statements of income (loss) and cash flows in USD. Effective January 1, 2020, the Board elected to change the Company's presentation currency from USD to CAD. The change in presentation currency is to improve investors' ability to compare the Company's financial results with other Canadian publicly traded businesses.

The Company has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. The consolidated financial results for all periods presented in the interim condensed financial statements are in CAD. USD continues to be the parent company's functional currency. The financial statements of entities with CAD as their functional currency have been carried forward into the consolidated results. The financial statements of the parent company and the entities with a functional currency other than CAD have been translated into CAD as follows:

- assets and liabilities presented and previously reported in USD have been translated into CAD using period end exchange rates of 1.3576 (June 30, 2020), 1.2990 (December 31, 2019) and 1.3637 (January 1, 2019);
- consolidated statements of income and other comprehensive income have been translated using the average foreign exchange rates of 1.3853 and 1.3377 (three months ended June 30, 2020 and 2019, respectively), and 1.3651 and 1.3336 (six months ended June 30, 2020 and 2019, respectively);

- shareholders' equity has been translated using historical foreign exchange rates in effect on the date the transactions occurred; and
- resulting exchange differences have been recorded within the foreign currency translation reserve.

Impacts on financial statements

The impacts of the changes in presentation currency on the consolidated financial statements are indicated below.

Interim condensed consolidated statements of financial position:

	As at December 31, 2019		As at January 1, 2019	
	Reported	Re-presented	Reported	Re-presented
(in thousands)	USD	CAD	USD	CAD
ASSETS				
Current	319,958	415,626	324,685	442,772
Non-current	101,440	131,770	96,634	131,780
Total assets	421,398	547,396	421,319	574,552
LIABILITIES AND SHARHOLDERS' EQUITY				
Current	379,007	492,330	401,240	547,172
Non-current	26,193	34,024	12,831	17,497
Total liabilities	405,200	526,354	414,071	564,669
Shareholders' equity				
Share capital	82,414	83,176	82,705	83,550
Contributed surplus	5,010	6,562	4,631	6,062
Foreign exchange translation reserve	(27)	8,212	53	9,052
Accumulated deficit	(73,915)	(80,229)	(83,106)	(92,432)
Equity attributable to shareholders	13,482	17,721	4,283	6,232
Non-controlling interest	2,716	3,321	2,965	3,651
Total shareholders' equity	16,198	21,042	7,248	9,883
Total liabilities and shareholders' equity	421,398	547,396	421,319	574,552

Interim condensed consolidated statements of loss and comprehensive loss:

	Three months ended June 30, 2019		Six months ended June 30, 2019	
	Reported	Re-presented	Reported	Re-presented
(in thousands except per share amounts)	USD	CAD	USD	CAD
Revenue	343,956	459,902	637,195	849,763
Cost of sales	298,999	399,797	555,614	740,967
Gross profit	44,957	60,105	81,581	108,796
Selling, general and administrative expenses	35,265	47,166	68,549	91,417
Income before depreciation and amortization, finance expense, change in fair value of liabilities and other expense	9,692	12,939	13,032	17,379
Depreciation and amortization, finance expense, and change in fair value of liabilities	5,437	7,274	11,093	14,793
Other expenses	833	1,124	3,951	5,269
Income tax expense	2,403	3,199	969	1,292
Net income (loss)	1,019	1,342	(2,981)	(3,975)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to income (loss):				
Exchange gain (loss) on translation of foreign operations	10	(11)	(35)	(324)
Total comprehensive income (loss)	1,029	1,331	(3,016)	(4,299)
Attributable to:				
Shareholder	1,621	2,123	(2,007)	(2,953)
Non-controlling interest	(592)	(792)	(1,009)	(1,346)
Total comprehensive income (loss)	1,029	1,331	(3,016)	(4,299)
Attributable to shareholders:				
Earnings (loss) attributable to shareholders	1,611	2,134	(1,972)	(2,629)
Earnings (loss) per common share				
Basic	$0.04	$0.05	($0.05)	($0.07)
Diluted	$0.04	$0.05	($0.05)	($0.07)

Certain comparative information has been reclassified to conform to current year presentation.

Interim condensed consolidated statements of cash flow:

	Three months ended June 30, 2019		Six months ended June 30, 2019	
	Reported	Re-presented	Reported	Re-presented
(in thousands)	USD	CAD	USD	CAD
Cash provided by operating activities	39,989	53,185	4,653	6,205
Cash used in investing activities	(1,200)	(1,604)	(2,274)	(3,032)
Cash used in financing activities	(28,301)	(37,805)	(2,620)	(4,092)
Net increase (decrease) in cash during the period	10,488	13,776	(241)	(919)
Cash and cash equivalents, beginning of period	4,582	6,117	15,312	20,881
Foreign exchange gain (loss) on cash held in foreign currency	10	(146)	9	(215)
Cash and cash equivalents, end of period	15,080	19,747	15,080	19,747

Amendments to IFRS 3, Business Combinations ("IFRS 3") – Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"); and IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Effective January 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its interim condensed consolidated financial statements.

Amendment to IFRS 16, Leases – COVID-19-related rent concessions

On May 28, 2020, the IASB issued an amendment to IFRS 16 in connection with COVID-19-related rent concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The amendment is effective for annual periods beginning on or after June 1, 2020; early adoption is permitted. The Company early adopted this amendment with no impact on its interim condensed consolidated financial statements as there were no rent concessions granted from landlords during Q2 2020.

6. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Presentation of financial statements: classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments, and is currently assessing the impact of these amendment on its consolidated financial statements.

Annual Improvements to IFRS (2018-2020) Cycle

On May 14, 2020, the IASB issued narrow-scope amendments to four standards as part of its annual improvement process. Two of those are applicable to the Company; these include “Amendments to IFRS 9 Financial Instruments” to clarify the type of fees to include when applying the ‘10 percent test’ for derecognition of financial liabilities; and “Amendment to IFRS 16 Leases” to clarify the guidance on lease incentives. The amendments are effective January 1, 2022, and these are to be applied prospectively. The Company does not intend to early adopt these amendments, and is currently assessing the impact of these amendment on its consolidated financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2020	December 31, 2019
Cost		
Balance, beginning of period	**36,862**	39,378
Additions	**2,624**	1,279
Disposals	**–**	(435)
Write-off of fully depreciated assets	**(8,679)**	–
Reclassifications	**–**	(3,653)
Foreign currency translation	**1,440**	293
Balance, beginning of period	**32,247**	36,862
Accumulated depreciation		
Balance, beginning of period	**14,402**	9,758
Depreciation	**3,690**	7,890
Disposals	**–**	(3,147)
Write-off of fully depreciated assets	**(8,679)**	–
Reclassifications	**243**	(161)
Foreign currency translation	**495**	62
Balance, end of period	**10,151**	14,402
Carrying amount, end of period	**22,096**	22,460

Property, plant and equipment includes right-of-use ("ROU") assets, which represent office and warehouse space. In the six months ended June 30, 2020, the Company renewed certain office leases totalling $1.5 million.

8. GOODWILL

	June 30, 2020	December 31, 2019
Balance, beginning of period	**58,865**	58,685
Foreign currency translation	**2,484**	180
Balance, end of period	**61,349**	58,865

9. OTHER INTANGIBLE ASSETS

	June 30, 2020	December 31, 2019
Cost		
Balance, beginning of period	**120,843**	120,165
Additions	**143**	4,427
Disposals	**–**	(3,973)
Foreign currency translation	**5,232**	224
Balance, beginning of period	**126,218**	120,843
Accumulated amortization		
Balance, beginning of period	**99,159**	88,106
Amortization	**5,519**	11,521
Disposals	**–**	(310)
Reclassifications	**266**	–
Foreign currency translation	**4,358**	(158)
Balance, end of period	**109,302**	99,159
Carrying amount, end of period	**16,916**	21,684

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Accounts payable	**235,515**	243,092
Accrued liabilities	**45,197**	46,142
	280,712	289,234

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance ("IBM"), whereby approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. The agreement allows for up to US$2.5 million in advances on purchases from approved vendors, and the maximum advance amount may be changed by IBM in its discretion. The

Company incurs interest on the outstanding balance at London Inter-Bank Offered Rate ("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. Included within accounts payable, amounts outstanding related to the IBM secured flooring agreement were $0.8 million (US$0.6 million) and $0.9 million (US$0.7 million) as at June 30, 2020 and December 31, 2019, respectively.

11. OTHER FINANCIAL LIABILITIES

	June 30, 2020	December 31, 2019
Current		
Secured borrowings	**140,848**	138,651
Contingent consideration	**–**	2,250
Cash-settled share-based compensation	**–**	761
Interest rate swap	**667**	–
Lease obligations	**4,681**	4,283
Other loans	**508**	–
	146,704	145,945
Deferred loan costs	**(1,378)**	(1,435)
	145,326	144,510
Non-current		
Deferred payment	**558**	513
Lease obligations	**13,649**	14,486
	14,207	14,999
	159,533	159,509

Secured Borrowings

The Company has a credit facility from a lending group represented by JPMorgan Chase Bank, N.A. ("JPMC"), which provides the Company a US$225.0 million senior secured asset based revolving credit facility ("JPMC Credit Facility"). The JPMC Credit 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 the existing lenders, increase the commitments under the credit facility by up to an additional US$75.0 million. 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 12-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 60 consecutive days, in which case, the Company would no longer be subject to such fixed charge coverage ratio unless the availability were to again become less than 12.5% of the revolving commitment. The Company was in compliance with all applicable covenants at June 30, 2020 and December 31, 2019.

Amounts owing under the JPMC Credit Facility were $140.8 million (US$103.7 million) and $138.7 million (US$106.7 million) as at June 30, 2020 and December 31, 2019, respectively; and average undrawn availability was $64.9 million (US$47.8 million) and $84.8 million (US$65.3 million) for the periods ended June 30, 2020 and December 31, 2019, respectively.

Contingent Consideration

			June 30, 2020			December 31, 2019
	TeraMach	**Cloudscapes**	**Total**	TeraMach	Cloudscapes	Total
Balance, beginning of period	**1,999**	**251**	**2,250**	2,896	824	3,720
Change in fair value *(note 17)*	**–**	**10**	**10**	1,464	142	1,606
Payments	**(1,933)**	**(273)**	**(2,206)**	(2,499)	(730)	(3,229)
Foreign currency translation	**(66)**	**12**	**(54)**	138	15	153
Balance, end of period	**–**	**–**	**–**	1,999	251	2,250

The contingent consideration was related to the obligations for contingent consideration in connection with the acquisitions of TeraMach in 2016 and Cloudscapes in 2017.

The payments of the TeraMach contingent consideration were dependent on the business achieving certain performance targets during the four consecutive 12-month periods ending September 30, 2020. TeraMach had achieved all of the performance targets at September 30, 2019. As a result, the Company reached an agreement, in December 2019, to prepay the remaining consideration in full. The undiscounted value of $2.0 million was fully paid as at June 30, 2020.

The payments of the Cloudscapes contingent consideration were based on the achievement of certain gross margin targets. The Company was obligated to pay up to US$0.1 million per quarter for 11 quarters and a bonus of US$0.2 million, which commenced on October 1, 2017 and ended on April 30, 2020. All payments were fully made as at June 30, 2020.

Interest Rate Swap

In June 2020, the Company entered into an interest rate swap contract, with notional amount of US$50.0 million, to lock in the LIBOR between 0.34% and 0.7%, resulting in a range of interest rates between 1.59% and 2.2%, covering the full term of the JPMC Credit Facility, scheduled to expire May 14, 2024.

The interest rate swap contract is measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings *(note 17)*. As at June 30, 2020, the interest rate swap was valued at a liability of $0.7 million (US$0.5 million).

Lease Obligations

The following table presents the contractual undiscounted cash flows for lease obligations as at June 30, 2020:

One year	5,827
One to two years	5,335
Two to five years	7,459
Over five years	2,252
Total undiscounted lease obligations	**20,873**

Lease obligations outstanding as at June 30, 2020 include liabilities related to office and warehouse leases, discounted at a weighted average rate of 7.7%, with remaining lease terms ranging up to eight years.

Total cash outflow for leases was $3.4 million and $6.7 million for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively. Variable lease payments were $0.7 million and $1.1 million for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively. Expenses for short-term leases and leases of low-dollar value items are not material. All extension options have been considered in the measurement of lease obligations.

Deferred Payment

In October 2019, the Company completed the sale of assets in Smart Edge, one of Pivot's subsidiaries, for gross consideration of US$27.0 million, representing proceeds of US$25.0 million cash on closing, and US$2.0 million to be paid 18 months after closing, subject to customary holdback terms and conditions. The Company has accrued a deferred payment of up to $0.6 million as at June 30, 2020, in connection with the holdback condition aforementioned, and is reflected as part of other financial liabilities.

12. SHARE-BASED COMPENSATION

The Company's share-based compensation expense includes stock option and restricted stock unit ("RSU") plans. The expense was recognized in the consolidated statements of income (loss) as part of selling, general and administrative expense as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2020	2019	**2020**	2019
Share-based compensation on options	**35**	44	**54**	88
Share-based compensation on RSUs	**104**	127	**228**	249
Total share-based compensation expense	**139**	171	**282**	337

The carrying amounts of the Company's share-based compensation arrangements were recorded on the consolidated statements of financial position as follows:

	June 30, 2020	December 31, 2019
Other financial liabilities (current) – stock options	**–**	761
Other financial liabilities (non-current) – stock options	**558**	513
Contributed surplus – stock options	**1,521**	1,548
Contributed surplus – RSUs	**458**	230

Stock Options

The Company has 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 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 10 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 Company's stock option plan activity is as follows:

	Six months ended June 30, 2020		Year ended December 31, 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**2,121,250**	**$1.77**	2,118,750	$1.79
Options granted	**–**	–	195,000	$1.54
Options forfeited	**(86,667)**	**$1.82**	(130,000)	$1.79
Options expired	**–**	–	(62,500)	$1.65
Options exercised	**(122,083)**	**$1.60**	–	–
Options outstanding, end of period	**1,912,500**	**$1.78**	2,121,250	$1.77
Options exercisable, end of period	**1,407,499**	**$1.84**	1,476,249	$1.76

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows. There were no options granted during the six months ended June 30, 2020.

	June 30, 2020	December 31, 2019
Expected volatility	**–**	47.60%
Rick-free interest rate	**–**	1.51%
Dividend yield	**–**	10.39%
Forfeiture rate	**–**	5.50%
Expected life	**–**	3.4 years

The summary of the Company's options are as follows:

			June 30, 2020
	Number of	**Weighted average**	**Number of**
Exercisable price	**options outstanding**	**remaining contractual life**	**options exercisable**
1.54	**195,000**	**4.4 years**	**–**
1.60	**887,500**	**6.0 years**	**887,500**
1.68	**460,000**	**3.2 years**	**153,332**
2.47	**360,000**	**2.0 years**	**360,000**
2.61	**10,000**	**2.2 years**	**6,667**
	1,912,500		**1,407,499**

			December 31, 2019
	Number of	Weighted average	Number of
Exercisable price	options outstanding	remaining contractual life	options exercisable
1.54	195,000	4.9 years	–
1.60	1,056,250	6.5 years	1,056,250
1.68	480,000	3.7 years	159,998
2.47	380,000	2.5 years	253,334
2.61	10,000	2.7 years	6,667
	2,121,250		1,476,249

Restricted Stock Units

The Company has 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. 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.

A summary of the Company's RSU plan activity is as follows:

	Six months ended June 30, 2020		Year ended December 31, 2019	
	Number of units	**Weighted average grant date fair value**	Number of units	Weighted average grant date fair value
Units outstanding, beginning of period	**558,847**	**$1.88**	697,538	$1.91
Units granted	**30,000**	**$1.76**	75,000	$1.54
Units reinvested – dividends	**24,920**	**$1.87**	73,843	$1.94
Units released	**–**	**–**	(248,334)	$2.02
Units forfeited	**(42,400)**	**$1.99**	(39,200)	$1.99
Units outstanding, end of period	**571,367**	**$1.86**	558,847	$1.88

As at June 30, 2020 and December 31, 2019, there was $1.0 million and $0.9 million, respectively, of total unrecognized compensation cost related to unvested RSU arrangements. This expense is expected to be recognized over a weighted average period of 1.6 years.

Smart Edge Phantom Stock

In February 2019, Smart Edge issued 536,000 shares of phantom stock to its former executive. As of the grant date and December 31, 2019, the award was valued at $0.6 million (US$0.5 million), reflected as part of other financial liabilities. As a result of the sale of assets in Smart Edge in October 2019, $0.5 million (US$0.4 million) vested immediately and was settled in cash during the first quarter of 2020, with the remainder $0.1 million (US$0.1 million) to be paid out by April 2021.

13. SHARE CAPITAL

The issued share capital amounted to $79.7 million and $83.2 million (US$82.4 million) as at June 30, 2020 and December 31, 2019, 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, 2020 and the year ended December 31, 2019 were as follows:

(number of common shares)	**Six months ended June 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**39,414,066**	39,473,032
Stock options exercised	**122,083**	–
Share repurchases and subsequent cancellations	**(1,321,375)**	(237,310)
Shares issued in vesting RSUs	**9**	178,344
Balance, end of period	**38,214,783**	39,414,066

No preferred shares were issued or outstanding as at June 30, 2020 and December 31, 2019.

Normal Course Issuer Bid ("NCIB")

Under its NCIB, which was approval by the TSX to purchase up to 3,791,395 common shares, the Company purchased and cancelled 1,321,375 common shares at a cost of $2.1 million during 2020, and 237,310 common shares at a cost of $0.4 million during 2019, totalling 1,558,685 common shares for a cost of $2.5 million. The NCIB expired on June 23, 2020.

Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing the earnings (loss) attributable to shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the earnings (loss) attributable to shareholders and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include stock options and unvested RSUs, which are excluded from the computation in periods when they are anti-dilutive.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Earnings (loss) attributable to shareholders	**(454)**	2,134	**343**	(2,629)
Weighted average number shares outstanding *(number of shares)*				
Basic	**38,757,559**	39,473,488	**38,757,559**	39,473,488
Dilutive effect of stock options[1]	**–**	–	**12,040**	–
Dilutive effect of RSUs	**–**	635,307	**571,367**	–
Diluted	**38,757,559**	40,108,795	**39,340,966**	39,473,488
Earnings (loss) per share *(in dollars)*				
Basic	**($0.01)**	$0.05	**$0.01**	($0.07)
Diluted	**($0.01)**	$0.05	**$0.01**	($0.07)

[1]The calculation of diluted weighted average number of shares excludes 0.8 million and 2.1 million stock options for the six months ended June 30, 2020 and 2019, respectively, as the exercise price of these stock options was greater than the weighted average share prices.

Dividends

The declaration and payment of dividends on the Company's common shares are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flows, and other relevant factors. The Company has declared a dividend of $0.04 every quarter for the past few years, including each of the three months ended June 30, 2020 and 2019. Total dividends paid were $1.5 million and $3.1 million for the three and six months ended June 30, 2020, and $6.3 million for the year ended December 31, 2019.

Subsequent to June 30, 2020, the Board declared a quarterly dividend of $0.04 per common share, payable on September 15, 2020 to shareholders of record on August 31, 2020.

14. REVENUE

Types of goods and services:

Revenue from the U.S. and Canada presented below includes revenue from international locations.

	Three months ended June 30, 2020				Six months ended June 30, 2020			
	U.S.	**Canada**	**Shared Services**	**Total**	**U.S.**	**Canada**	**Shared Services**	**Total**
Product sales	**268,901**	**13,047**	**–**	**281,948**	**553,919**	**55,562**	**3**	**609,484**
Pivot provided services	**25,702**	**4,252**	**–**	**29,954**	**50,871**	**7,821**	**–**	**58,692**
Third-party services	**18,498**	**1,736**	**–**	**20,234**	**36,730**	**4,037**	**–**	**40,767**
Total revenue	**313,101**	**19,035**	**–**	**332,136**	**641,520**	**67,420**	**3**	**708,943**

Certain comparative information has been reclassified to conform to current year presentation.

	Three months ended June 30, 2019				Six months ended June 30, 2019			
	U.S.	Canada	Shared Services	Total	U.S.	Canada	Shared Services	Total
Product sales	399,786	8,867	–	408,653	685,626	70,525	3	756,154
Pivot provided services	23,185	3,533	–	26,718	44,339	6,352	3	50,694
Third-party services	23,952	578	1	24,531	40,439	2,475	1	42,915
Total revenue	446,923	12,978	1	459,902	770,404	79,352	7	849,763

Certain comparative information has been reclassified to conform to current year presentation.

Geographical markets:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
United States	**305,069**	438,584	**611,626**	753,040
Canada	**19,372**	13,087	**67,918**	79,684
International	**7,695**	8,231	**29,399**	17,039
Total revenue	**332,136**	459,902	**708,943**	849,763

Certain comparative information has been reclassified to conform to current year presentation.

Timing of revenue recognition:

	Three months ended June 30, 2020				Six months ended June 30, 2020			
	U.S.	**Canada**	**Shared Services**	**Total**	**U.S.**	**Canada**	**Shared Services**	**Total**
Goods transferred at a point in time	**268,900**	**13,048**	**–**	**281,948**	**553,919**	**55,562**	**3**	**609,484**
Services transferred at a point in time	**25,769**	**4,267**	**–**	**30,036**	**55,871**	**8,837**	**–**	**64,708**
Services transferred over time	**18,432**	**1,720**	**–**	**20,152**	**31,730**	**3,021**	**–**	**34,751**
Total revenue	**313,101**	**19,035**	**–**	**332,136**	**641,520**	**67,420**	**3**	**708,943**

Certain comparative information has been reclassified to conform to current year presentation.

	Three months ended June 30, 2019				Six months ended June 30, 2019			
	U.S.	Canada	Shared Services	Total	U.S.	Canada	Shared Services	Total
Goods transferred at a point in time	399,785	8,867	–	408,652	685,625	70,525	3	756,153
Services transferred at a point in time	23,568	3,560	–	27,128	45,058	6,425	3	51,486
Services transferred over time	23,570	551	1	24,122	39,721	2,402	1	42,124
Total revenue	446,923	12,978	1	459,902	770,404	79,352	7	849,763

Certain comparative information has been reclassified to conform to current year presentation.

15. EMPLOYEE COMPENSATION AND BENEFITS

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Employee compensation and benefits	**6,184**	8,568	**13,265**	17,820
Other cost of sales	**275,763**	391,229	**593,399**	723,147
Cost of sales	**281,947**	399,797	**606,664**	740,967

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Employee compensation and benefits	**37,741**	39,651	**75,718**	76,139
Other selling, general and administrative expenses	**5,046**	7,515	**13,768**	15,278
Selling, general and administrative expenses	**42,787**	47,166	**89,486**	91,417

16. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Interest expenses, net	**1,152**	**1,609**	**2,545**	3,370
Accretion expense	**345**	**409**	**696**	864
	1,497	2,018	**3,241**	4,234

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, and are subsequently increased by finance expense through accretion, and decreased by lease payments made.

17. CHANGE IN FAIR VALUE OF LIABILITIES

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Contingent consideration	**1**	**279**	**10**	587
Interest rate swap	**670**	**–**	**670**	–
	671	279	**680**	587

Contingent Consideration

Changes in the fair value of contingent consideration were related to the TeraMach acquisition in 2016 and the Cloudscapes acquisition in 2017 *(note 11)*.

Interest Rate Swap

The change in fair value adjustment relates to the interest rate swap contract to lock in the LIBOR in connection with the JPMC Credit Facility *(note 11)*.

18. OTHER EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Restructuring costs	**479**	169	**4,658**	3,226
Transaction costs	**101**	107	**1,042**	365
Foreign exchange loss (gain)	**1,012**	859	**(3,769)**	1,715
Other	**155**	(11)	**263**	(37)
	1,747	1,124	**2,194**	5,269

Restructuring costs, mostly incurred in the three months ended March 31, 2020, relates to the merger of the wholly owned U.S. subsidiaries. The restructuring costs in the first half of 2019 were in connection with the commercial transformation and cost reduction initiatives.

The foreign exchange loss for three months ended June 30, 2020 resulted from the strengthening of the Canadian dollar since March 31, 2020, and the foreign exchange gain for six months ended June 30, 2020 resulted from the strengthening of the U.S. dollar in 2020.

19. INCOME TAXES

Significant components of the income tax expense (recovery) are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Current tax expense (recovery)	**(483)**	3,203	**(2,952)**	1,275
Deferred tax expense (recovery)	**7**	(4)	**(8)**	17
	(476)	3,199	**(2,960)**	1,292

20. CHANGES IN NON-CASH WORKING CAPITAL

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Accounts receivable	**75,746**	(11,650)	**17,590**	(50,436)
Income taxes recoverable	**2,937**	2,056	**153**	(580)
Inventories	**2,063**	(1,701)	**(18,765)**	7,808
Other assets	**2,051**	(5,050)	**725**	(10,714)
Accounts payable and accrued liabilities	**(53,162)**	58,727	**(21,570)**	43,928
Other liabilities	**726**	4,087	**1,911**	9,203
	30,361	46,469	**(19,956)**	(791)

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Interest paid	**930**	1,442	**2,323**	3,142
Income taxes paid	**235**	869	**329**	1,520

21. FINANCIAL INSTRUMENTS AND MANAGEMENT OF RISKS

a) Classification of Financial and Non-Financial Assets and Liabilities and Fair Values

As at June 30, 2020	FVTPL	Amortized cost	Non-financial	Total carrying amount	Fair value hierarchy
Cash and cash equivalents	–	12,362	–	12,362	
Accounts receivable	–	290,617	–	290,617	
Inventories	–	–	72,306	72,306	
Other intangible assets	–	–	16,916	16,916	
Goodwill	–	–	61,349	61,349	
Deferred contract costs	–	–	41,703	41,703	
Other non-financial assets	–	–	45,721	45,721	
Total assets	–	302,979	237,995	540,974	
Bank indebtedness	–	19,368	–	19,368	
Accounts payable and accrued liabilities	–	280,712	–	280,712	
Deferred contract revenue	–	–	46,278	46,278	
Deferred payment(1)	558	–	–	558	Level 3
Interest rate swap(1)	667	–	–	667	Level 3
Other financial liabilities(2)	–	158,308	–	158,308	
Other non-financial liabilities	–	–	17,463	17,463	
Total liabilities	1,225	438,388	63,741	523,354	

(1) Included in other financial liabilities

(2) Excluded deferred payment and interest rate swap presented separately above

As at December 31, 2019	FVTPL	Amortized cost	Non-financial	Total carrying amount	Fair value hierarchy
Cash and cash equivalents	–	35,430	–	35,430	
Accounts receivable	–	295,389	–	295,389	
Inventories	–	–	51,329	51,329	
Other intangible assets	–	–	21,684	21,684	
Goodwill	–	–	58,865	58,865	
Deferred contract costs	–	–	42,907	42,907	
Other non-financial assets	–	–	41,792	41,792	
Total assets	–	330,819	216,577	547,396	
Bank indebtedness	–	19,682	–	19,682	
Accounts payable and accrued liabilities	–	289,234	–	289,234	
Deferred contract revenue	–	–	48,194	48,194	
Contingent consideration(1)	2,250	–	–	2,250	Level 3
Cash-settled share-based compensation(1)	761	–	–	761	Level 3
Deferred payment(1)	513	–	–	513	Level 3
Other financial liabilities(2)	–	155,985	–	155,985	
Other non-financial liabilities	–	–	9,735	9,735	
Total liabilities	3,524	464,901	57,929	526,354	

(1) Included in other financial liabilities
(2) Excluded contingent consideration, cash-settled share-based compensation, and deferred payment presented separately above

The Company used a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived:

- Level 1 – use of quoted market prices;
- Level 2 – internal models using observable market information as inputs; and
- Level 3 – internal models without observable market information as inputs.

The amortized costs of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates fair value due to their short-term nature. The amortized cost of secured borrowings included in other financial liabilities also approximates fair value because it bears a variable interest rate.

Contingent consideration payable was recorded as Level 3 as the amounts payable were 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 agreements. Amounts as at December 31, 2019 were adjusted to reflect the payments to be paid during 2020. The Company recorded a nominal charge related to the change in fair value of the contingent consideration for the six months ended June 30, 2020, and a charge of $0.6 million for the same period in 2019.

Cash-settled share-based compensation, deferred payment, and interest rate swap were also recorded as Level 3 as the amounts payable were not based on observable inputs.

There have been no transfers among any levels during the six months ended June 30, 2020 and the year ended December 31, 2019.

b) Management of Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The Company only extends credit to recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is usually not significant. The COVID-19 pandemic has caused the deterioration of the credit profiles of some of our customers. The Company will continue to monitor its risk and take credit risk mitigating actions as appropriate. Two customers represented 37% and 22% of the outstanding accounts receivable balance as at June 30, 2020 and December 31, 2019, respectively. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. The Company monitors its risk to a shortage of funds by monitoring its forecast, working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank indebtedness and secured borrowings.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at June 30, 2020	**On demand**	**Less than one year**	**Greater than one year**	**Total**
Bank indebtedness	**19,368**	**–**	**–**	**19,368**
Secured borrowings[1]	**140,848**	**–**	**–**	**140,848**
Interest rate swap	**667**	**–**	**–**	**667**
Accounts payable and accrued liabilities	**–**	**280,712**	**–**	**280,712**
	160,883	**280,712**	**–**	**441,595**

[1]Excluded interest on secured borrowings.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness and borrowings. The JPMC Credit Facility carries floating interest rates that are tied to LIBOR or the prime rate, and therefore, the Company's income and its cash flows will be exposed to changes in interest rates to the extent that effective hedging arrangements are not in place. To limit the potential fluctuations caused by interest rate movements, the Company entered into an interest rate swap contract in June 2020, to lock in the LIBOR within a range, covering the full term of the JPMC Credit Facility *(note 11)*.

Based upon a sensitivity analysis as at June 30, 2020, a 1.0% increase in interest rates (i.e. LIBOR) would have changed the Company's floating rate obligations under the JPMC Credit Facility by approximately $1.0 million on an annual basis. The Company does not use derivative financial instruments for speculative or trading purposes.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk is the Company's net assets denominated in currencies other than the Canadian dollar.

	June 30, 2020		**December 31, 2019**	
	US$	**C$**	**US$**	**C$**
Assets				
Current assets	**282,816**	**383,951**	**305,938**	**397,413**
Non-current assets	**85,462**	**116,023**	**94,331**	**122,536**
Liabilities				
Current liabilities	**341,052**	**463,012**	**364,294**	**473,218**
Non-current liabilities	**20,229**	**27,463**	**25,106**	**32,613**
Net asset exposure	**6,997**	**9,499**	**10,869**	**14,118**

22. RELATED PARTY TRANSACTIONS

The Company has certain contractual arrangements with ProSys Information Systems Inc. ("ProSys") and Applied Computer Solutions Inc. ("Applied"), whose activities and results are consolidated with the Company. Under IFRS guidelines, the Company is deemed to have primary exposure for the significant risks and rewards associated with sales by ProSys and Applied to its third-party customers.

These contractual arrangements accounted in aggregate for 35.1% and 45.1% of the Company's total revenue for the six months ended June 30, 2020 and 2019, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

23. SEGMENT INFORMATION

Segments

The Company's business activities are conducted through three reportable segments: U.S., Canada and Shared Services.

U.S.

Commencing 2020, with the integration efforts executed by the Company, the consolidation of operations has resulted in a single operating and reporting segment in connection with the U.S. business.

Operations in the U.S. provide IT solutions, IT infrastructure solutions and system integration services to enterprise, public sector and educational customers, and deploy customized leading-edge solutions from premier technology vendors. These solutions include hardware, software, and professional services.

Canada

Operations in Canada provide technical solutions, services, staffing and cloud expertise to the Canadian federal and provincial governments, the Canadian public sector and commercial enterprises, reflecting different economic market and characteristics, competitive pressures, regulatory environments and customer profiles compared with those factors in the U.S.

Shared Services

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

Revenue and profit by segment

Three months ended June 30, 2020	U.S.	Canada	Shared Services	Total
Revenue	313,101	19,035	–	332,136
Cost of sales	267,583	14,062	302	281,947
Gross profit	45,518	4,973	(302)	50,189
Selling, general and administrative expenses	37,826	2,563	2,398	42,787
Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses	7,692	2,410	(2,700)	7,402
Depreciation				1,679
Amortization				2,839
Finance expense				1,497
Change in fair value of liabilities				671
Other expenses				1,747
Loss before income taxes				(1,031)

Three months ended June 30, 2019	U.S.	Canada	Shared Services	Total
Revenue	446,923	12,978	1	459,902
Cost of sales	388,900	10,198	699	399,797
Gross profit	58,023	2,780	(698)	60,105
Selling, general and administrative expenses	31,559	2,709	12,898	47,166
Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses	26,464	71	(13,596)	12,939
Depreciation				2,042
Amortization				2,935
Finance expense				2,018
Change in fair value of liabilities				279
Other expenses				1,124
Earnings before income taxes				4,541

Certain comparative information has been reclassified to conform to current year presentation.

Six months ended June 30, 2020	**U.S.**	**Canada**	**Shared Services**	**Total**
Revenue	**641,520**	**67,420**	**3**	**708,943**
Cost of sales	**552,893**	**53,145**	**626**	**606,664**
Gross profit	**88,627**	**14,275**	**(623)**	**102,279**
Selling, general and administrative expenses	**78,250**	**5,960**	**5,276**	**89,486**
Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses	**10,377**	**8,315**	**(5,899)**	**12,793**
Depreciation				**3,690**
Amortization				**5,519**
Finance expense				**3,241**
Change in fair value of liabilities				**680**
Other expenses				**2,194**
Loss before income taxes				**(2,531)**

Six months ended June 30, 2019	U.S.	Canada	Shared Services	Total
Revenue	770,404	79,352	7	849,763
Cost of sales	672,796	66,864	1,307	740,967
Gross profit	97,608	12,488	(1,300)	108,796
Selling, general and administrative expenses	59,441	6,111	25,865	91,417
Income (loss) before depreciation and amortization, finance expense, change in fair value of liabilities and other expenses	38,167	6,377	(27,165)	17,379
Depreciation				4,115
Amortization				5,857
Finance expense				4,234
Change in fair value of liabilities				587
Other expenses				5,269
Loss before income taxes				(2,683)

Certain comparative information has been reclassified to conform to current year presentation.

Assets and liabilities by segment

	June 30, 2020	December 31, 2019
Assets		
U.S.	**496,413**	503,822
Canada	**38,795**	19,924
Shared Services	**5,766**	23,650
	540,974	547,396
Liabilities		
U.S.	**394,388**	401,944
Canada	**39,975**	24,928
Shared Services	**88,991**	99,482
	523,354	526,354