Pivot Technology Solutions, Inc.

Management's Discussion and Analysis

2020 Q2

Dated: August 11, 2020

TABLE OF CONTENTS

BASIS OF PRESENTATION

Pivot provides mission critical information technology ("IT") products and services to the world's leading companies. This Management's Discussion and Analysis (the "MD&A") provides information on the operating activities, performance and financial condition of Pivot Technology Solutions, Inc. and its subsidiaries ("Pivot", or the "Company") for the three and six months ended June 30, 2020 and 2019. Pivot 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.

This MD&A should be read in conjunction with Pivot's unaudited interim condensed consolidated financial statements and the related notes for the three and six months ended June 30, 2020, the annual MD&A and the audited consolidated financial statements and the related notes for the year ended December 31, 2019, and the Annual Information Form ("AIF") for the year ended December 31, 2019. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and can be found at sedar.com and pivotts.com. All currencies are expressed in Canadian dollars unless otherwise indicated. The audited consolidated financial statements and MD&A for the year ended December 31, 2019 were expressed in United States ("U.S.") dollars (see "Change in Accounting Policy" below, and "Change in Presentation Currency" under the heading "Change in Accounting Policy and New Accounting Policies Adopted"). Additional information about Pivot, including the latest AIF, can be found on sedar.com and pivotts.com.

The three-month period ended March 31 is referred herein as "Q1". The three-month period ended June 30 is referred herein as "Q2". The three-month period ended September 30 is referred herein as "Q3". The three-month period ended December 31 is referred herein as "Q4". The six-month period ended June 30 is referred herein as "H1". The six-month period ended December 31 is referred herein as "H2".

CHANGE IN ACCOUNTING POLICY

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 U.S. dollars. Effective January 1, 2020, the board of directors of Pivot (the "Board") elected to change the Company's presentation currency from U.S. dollars to Canadian dollars. The change in presentation currency is to improve the investors' ability to compare the Company's financial results with other Canadian publicly traded businesses.

Consequently, as a result of the change to its presentation currency, the Company has changed its accounting policy for foreign currency disclosed in its audited consolidated financial statements for the year ended December 31, 2019. The new accounting policy is as follows:

Foreign 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).

FORWARD-LOOKING STATEMENTS

Information in this MD&A contains forward-looking statements, including those concerning the Company's outlook for 2020, the impact of the COVID-19 pandemic, the impact of the cybersecurity incident, growth in IT spending in future periods, cost reductions in future periods, additional costs to be incurred in connection with Pivot's transformation plans, possible sources of funding for future growth, improvements in cost management and other operational efficiencies, implementation of various initiatives as part of the advancement of its strategy intended to create higher value revenue streams, interest rates applicable to the Company's borrowings, the declaration of a dividend in future periods, the availability to borrow under the Company's credit facilities.

Forward-looking statements are based on assumptions of future events that the Company believes are reasonable based upon information currently available. Actual results could vary significantly from these estimates. Readers are cautioned that assumptions used in the preparation of such information may prove to be incorrect. These assumptions include estimates of the profitability of its operations; growth in IT spending, particularly solutions and services, being in line with the overall market's expected growth rate in future periods; the duration and impact of the COVID-19 pandemic; the impact that the COVID-19 pandemic may have on the Company, its current and prospective customers, the IT market and the Company's ability to mitigate possible supply chain disruption and delays or interruptions in services provided to customers; availability of borrowings under the Company's credit facilities and access to other sources of capital; the improved operational results generated from operational efficiency initiatives; the successful implementation of the initiatives identified in this MD&A as part of the advancement of its strategy; that the Company will be in a financial position and that it will elect to declare and pay a dividend in subsequent periods.

Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. Some of those important risks, uncertainties, and other factors, but certainly not all, that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is based on estimated results; (ii) that the COVID-19 pandemic will result in a more significant deferral or cancellation of new orders for goods and services than anticipated; (iii) the possible unavailability of financing; (iv) that the cybersecurity incident having a material negative impact on certain customers and the Company, (v) the lack of resources to fund growth; (vi) cost reductions in future periods being less significant than the amount calculated based on prior periods; (vii) start-up risks associated with new lines of business and product lines; (viii) general operating risks; (ix) dependence on third parties; (x) changes in government regulation; (xi) the effects of competition; (xii) dependence on senior management, (xiii) the impact of Canadian and/or U.S. economic conditions, including the impact of international trade disputes; (xiv) disruptions to the business resulting from pandemics or epidemics (such as the COVID-19 pandemic); (xv) fluctuations in currency exchange rates and interest rates; (xvi) uncertainty with respect to the Company's election and ability to pay a quarterly dividend in subsequent periods; and (xvii) the other risks described in the Company's AIF for the year ended December 31, 2019 under the heading "Risk Factors", available at sedar.com and pivotts.com. Readers are cautioned not to place undue reliance on any forward-looking statements. The Company expressly disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required in accordance with applicable securities laws.

NON-GAAP MEASURES

The Company evaluates and measures its performance, defined below. These measures do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. Such non-GAAP measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP such as net income (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

Adjusted EBITDA

"Adjusted EBITDA" is defined as gross profit less selling, general and administrative expenses ("SG&A"), and corresponds to income (loss) before income taxes, depreciation and amortization, finance expense, change in fair value of liabilities, and other expenses (income).

Management believes Adjusted EBITDA is an important indicator of the Company's operating performance as it excludes certain items that are either non-cash expenses, items that cannot be influenced by management in the short term, and items that do not impact core operating performance, demonstrating the Company's ability to generate liquidity through operating cash flow to fund working capital needs, service outstanding debt and fund future capital expenditures. Adjusted EBITDA is used by some investors and analysts for the purposes of valuing an issuer. The intent of Adjusted EBITDA is to provide additional useful information to investors and analysts and is also used by management as an internal performance measurement.

Reconciliations of "income (loss) before income taxes" to "Adjusted EBITDA" are provided under the headings "Selected Quarterly Information" and "2020 Q2 and Six Months Financial and Operating Results".

Adjusted Debt

"Adjusted Debt" is defined as current liabilities, plus long-term other financial liabilities, less lease obligations and current assets.

The Company's working capital is financed by an asset-based revolving credit facility. The amount drawn on the facility generally fluctuates inversely with changes in other working capital. The Adjusted Debt normalizes the impact of the changes in working capital and therefore, management believes that it is a more relevant indicator of the Company's net debt position.

Adjusted Debt to Adjusted EBITDA

"Adjusted Debt to Adjusted EBITDA" is defined as Adjusted Debt divided by the trailing twelve-month Adjusted EBITDA. The Company uses this measure as an indication of its liquidity position and its ability to generate income to service the debt excluding the impacts of working capital fluctuations.

Net Interest Coverage

"Net Interest Coverage" is defined as Adjusted EBITDA divided by finance expense on a trailing twelve-month basis.

BUSINESS PROFILE

Pivot is an industry-leading IT services and solutions provider to many of the world's most successful companies, including members of the Fortune 1000, as well as governments and educational institutions. By leveraging its extensive original equipment manufacturer ("OEM") partnerships and its own fulfillment, professional, deployment, workforce and managed services, Pivot supports the IT infrastructure needs of its customers.

The Company has offices across North America, as well as in Europe and Asia. Pivot's business model emphasizes offering technology, multi-vendor sourcing and implementation solutions to support, plan and provide for the IT needs of customers through a consultative approach with innovative solutions. Pivot's approach helps customers improve their business performance, reduce capital and operating expenses and accelerate the delivery of new products and services. Pivot provides its customers with IT solutions for their application infrastructure and networking needs from the workplace to the edge to the cloud. Pivot also provides a broad range of services, including professional advisory services, deployment services, integration services, workforce services and managed services (“Pivot Provided Services”).

Traditional IT resellers provide OEM solutions and are often characterized as vendor-centric institutions. Resellers evolve to IT multi-vendor solutions providers by creating reference architectures for multi-vendor solutions, and implementing these solutions on their behalf. As a result of Pivot’s relationships with many industry-leading technology OEMs, its sales professionals and engineers are able to recommend a wide range of solutions to its customers.

STRATEGY

The Company seeks to create shareholder value with an operating strategy designed to help customers contain their IT operations and maintenance costs, while maximizing the value of their IT assets. Securing multi-vendor relationships for hardware, software and cloud solutions that it resells, the Company effectively leverages its own resources and expertise to offer end-to-end services. This strategy enables the Company to provide to its customers a single point of contact and accountability, and a consistent delivery of customized and specialized IT services and lifestyle product support across any platform.

The Company operates with a continuous improvement approach to enhance operational efficiencies. This includes maximizing the utilization of its service delivery capabilities, as well as expanding its service portfolio.

The Company’s strategy comprises of several initiatives:

i. continue to build on Pivot’s core business of selling IT solutions, both products and services;
ii. enhance Pivot’s services portfolio and capabilities specifically related to services that Pivot delivers in order to increase service revenues, which generally have better gross profit margins than product sales;
iii. continue the Company’s commercial transformation to expand Pivot’s addressable opportunities with existing customers;
iv. support customers as they expand internationally;
v. improve cost management and gross margins, working with OEM partners;
vi. address legacy issues;
vii. commercialize edge technology and related services; and
viii. pursue strategic acquisitions to accelerate the Company’s solutions and services growth.

Management believes that the application of this strategy over time will deliver meaningful benefits for Pivot, its customers, shareholders and employees, including improved competitive differentiation in the marketplace and better financial performance.

SIGNIFICANT 2020 EVENTS

COVID-19 Update

On March 11, 2020, the World Health Organization declared a global pandemic related to coronavirus (“COVID-19”). The COVID-19 pandemic has caused a disruption to many businesses around the world. There has been a significant slowdown in certain portions of the global economies, leading to continued uncertainty in the market (see “Critical Judgments and Estimates”).

The Company has taken measures to prevent our employees’ exposure to the spread of COVID-19, and to ensure that it is well positioned to continue serving its clients, including, heightened safety policies and procedures in all its locations, as well as the transitioning of most of its employees to remote working arrangements and reducing travel. The actions taken to date have positioned the Company to successfully navigate the current environment and at the same time, allow the Company to provide its customers with the products and services they need.

The impact of COVID-19 on the Company has been mixed to date. The Company has experienced some delays in shipments to customers relating to supply chain challenges and delays in the delivery of certain services where onsite presence is required. There has been increased demand for solutions that enable customers to work remotely. Certain customers are in industries that have been harder hit than others by the pandemic and have delayed investing in infrastructure. While the Company’s revenue has been negatively impacted in Q2 due to the COVID-19 pandemic, a significant portion of the Company’s costs are variable, which partially offsets any negative impact to revenue. In addition, the Company has the flexibility to manage its cost structure to help mitigate the impact on its business.

In light of the uncertainty surrounding the pandemic, the potential long-term impacts on the Company’s results of operations and financial condition cannot be reasonably estimated. The impact thus far has been primarily around onsite services being delayed, and timing of product deliveries impacted due to supply chain delays. Some customers have slowed their spending, while others have accelerated theirs, partially offsetting the net impact on the Company’s results of operations. Management continues to monitor and evaluate the situation and its impact on the Company’s business, and will take action as appropriate.

Cybersecurity Incident

On July 10, 2020, the Company announced that it had experienced a cybersecurity incident (the "Incident") in which an unauthorized third-party attempted to encrypt Pivot's technology infrastructure and extract data. Upon detection of the Incident, the Company immediately implemented countermeasures to minimize the encryption of its systems. As a result, its business operations were not interrupted.

In response to this Incident, the Company engaged industry-leading cyber forensic experts who were assisting with remediation and investigating the extent of any data compromise. The Company has determined that some data on its systems was exposed and it has taken steps to mitigate the risk of unauthorized use of confidential information including promptly notifying the affected parties. Based on the results of its investigation, the Company believes that the Incident will have no material impact on its customers or suppliers, or otherwise on its operations.

The quick response by the Company's security team to the encryption attack allowed the Company to continue with normal business operations. Safeguarding data is one of our most important responsibilities and the Company is implementing additional security measures as a result of this incident. The Company will continue to invest and implement leading-edge technologies to protect its systems and data from the ever-growing cybersecurity threats.

Integration

One of the Company's integration initiatives was to integrate certain U.S. wholly owned subsidiaries and related business units through a merger. This initiative was successfully completed with a systems integration in Q4 2019, and a merger of certain U.S. subsidiaries on December 31, 2019. Commencing January 1, 2020, these U.S. subsidiaries have been operating as a combined entity. In addition, certain Canadian wholly owned subsidiaries were amalgamated effective January 1, 2020. These actions have allowed the Company to centralize several functional areas, which will generate further cost reductions, while improving controls and creating efficiencies. As part of this integration, the Company incurred $4.7 million of restructuring costs, primarily related to separation costs. These costs have been included in other expenses for the six months ended 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 London Inter-Bank Offered Rate ("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 Company's credit facility, scheduled to expire May 14, 2024.

The interest rate swap contract is re-measured at fair value at each reporting period, with changes in fair value recorded in the statements of earnings.

FINANCIAL HIGHLIGHTS

2020 Second Quarter Financial Highlights

- Revenue was $332.1 million in Q2 2020, representing a decrease of $127.8 million or 27.8% as compared to Q2 2019; excluding the favourable foreign exchange effect of $12.0 million, the decrease was $139.8 million or 30.4%.
- Gross profit was $50.2 million in Q2 2020, representing a decrease of $9.9 million or 16.5% as compared to Q2 2019; excluding the favourable foreign exchange effect of $1.8 million, the decrease was $11.7 million or 19.4%.
- Gross profit margin was 15.1% in Q2 2020, as compared to 13.1% in Q2 2019.
- Adjusted EBITDA(1) was $7.4 million in Q2 2020, representing a decrease of $5.5 million or 42.8% as compared to Q2 2019; excluding the favourable foreign exchange effect of $0.2 million, the decrease was $5.7 million or 44.6%.
- Net loss attributable to shareholders was $0.5 million in Q2 2020, as compared to net income of $2.1 million in Q2 2019; diluted loss per share was $0.01 in Q2 2020, as compared to earnings of $0.05 per diluted share in Q2 2019.

- Adjusted Debt[2] was $74.3 million as at June 30, 2020, an increase of $1.4 million from December 31, 2019; excluding the unfavourable foreign exchange effect of $3.2 million, it was a decrease of $1.8 million.
- The Adjusted Debt to Adjusted EBITDA[1] increased from 2.05 to 2.40; excluding the unfavourable foreign exchange effect, the ratio increased from 2.05 to 2.32.
- The Company repurchased 497,260 shares during Q2 2020 at a cost of $0.7 million through its Normal Course Issuer Bid ("NCIB").
- The Company paid dividends of $1.5 million during Q2 2020.

2020 Six Months Financial Highlights

- Revenue was $708.9 million in H1 2020, representing a decrease of $140.8 million or 16.6% as compared to H1 2019; excluding the favourable foreign exchange effect of $16.4 million, the decrease was $157.2 million or 18.5%.
- Gross profit was $102.3 million in H1 2020, representing a decrease of $6.5 million or 6.0% as compared to H1 2019; excluding the favourable foreign exchange effect of $2.4 million, the decrease was $8.9 million or 8.2%.
- Gross profit margin was 14.4% in H1 2020, as compared to 12.8% in H1 2019.
- Adjusted EBITDA[1] was $12.8 million in H1 2020, representing a decrease of $4.6 million or 26.4% as compared to H1 2019; excluding the favourable foreign exchange effect of $0.3 million, the decrease was $4.9 million or 28.1%.
- Net income attributable to shareholders was $0.3 million in H1 2020, as compared to a net loss of $2.6 million in H1 2019; diluted earnings per share was $0.01 in H1 2020, as compared to a loss of $0.07 per diluted share in H1 2019.
- The Company repurchased 1,321,375 shares during H1 2020 at a cost of $2.1 million through its NCIB.
- The Company paid dividends of $3.1 million during H1 2020.

OUTLOOK FOR 2020

While the global economy continues to be impacted by the COVID-19 pandemic, it has affected industries in different ways. Management has been able to identify certain operations and resources that will be idle or less utilized as a result of the COVID-19 pandemic. In addition, governments around the world have required that non-essential offices be closed. As a result, the Company has furloughed certain employees, some of which have been brought back as at June 30, 2020.

Management's outlook is that some customers remain cautious in their approach to IT investments. If the pandemic were to cause prolonged disruption to the Company's customers, supply chain or its ability to deliver services in the future, it would have a negative impact on revenue, which could be material. In addition, any material negative impact on revenue would impact profitability, as well as liquidity and capital resources.

The Company continues to experience pricing and margin pressures in its product business, while margins remain strong in the services side of the business. The Company is monitoring trade discussions between the U.S. and China and the potential impact of tariffs; however, the long-term impact of these discussions has not yet been determined. The increased acceptance of cloud computing has created uncertainty for hardware in the industry, primarily data centre technology, while creating opportunity for services. Management believes Pivot's opportunities to create shareholder value through its product and services strategy are robust as customers migrate to more remote work environments. Management believes Pivot is well positioned to address this evolving trend.

As part of the integration activities, the Company has standardized on a common set of tools and processes in order to better serve its customers, suppliers and partners. This integrated organization will continue to evolve the sales model to engage customers in a more strategic fashion to develop comprehensive relationships built on the value of selling Pivot's expanded services portfolio. The execution of this strategy is intended to create higher value recurring revenue streams over time that offer greater predictability of performance by reducing the Company's exposure to the capital expenditure cycles of its customers. The sales cycle for service solutions tends to be longer than the cycle for product sales. The refinement of the Company's services strategy may not offset capital spending volatility in the short term.

While the assets of Smart Edge, one of the Company's subsidiaries, were sold in October 2019, Pivot maintains a leadership position with its knowledge of edge technologies. As part of the sale of Smart Edge in 2019, Pivot entered into a preferred channel partner agreement with Intel, which allows Pivot to resell the Smart Edge solution and work with Intel on the services and management around the edge opportunities.

The Company continually seeks to expand its position and capabilities in the global IT market organically and through selective and accretive acquisitions. The Company's strong and diverse customer and vendor partner relationships provide the foundation to pursue its strategy.

The Company's objective in managing capital is to ensure that adequate resources are available to manage the Company's operations and fund organic growth while providing dividends to shareholders, funding strategic investments including acquisitions and re-acquiring shares under the NCIB. The Board continually evaluates the dividend policy and share re-purchases after giving consideration to these objectives and the Company's future prospects. The Company's NCIB expired in June of 2020.

KEY PERFORMANCE INDICATORS

Pivot measures the success of its strategies using a number of key performance indicators. These include revenues, gross profit, Adjusted EBITDA(1), Adjusted Debt(1), and Adjusted Debt to Adjusted EBITDA(1) ratio. Pivot believes these are important measures to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations (see Non-GAAP measures).

SELECTED QUARTERLY INFORMATION

The following is a summary of selected consolidated financial information for the past eight quarters.

(in thousands of Canadian dollars	2020		2019				2018	
except otherwise noted)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
			(re-presented, see "Change in Accounting Policy")					
Revenue	**332,136**	376,807	402,477	352,404	459,902	389,861	395,872	417,094
Gross profit	**50,189**	52,090	56,646	52,209	60,105	48,691	56,063	53,208
Gross profit margin	***15.1%***	*13.8%*	*14.1%*	*14.8%*	*13.1%*	*12.5%*	*14.2%*	*12.8%*
Adjusted EBITDA[1]	**7,402**	5,391	9,868	8,319	12,939	4,440	6,271	5,424
Adjusted EBITDA[1] margin	***2.2%***	*1.4%*	*2.5%*	*2.4%*	*2.8%*	*1.1%*	*1.6%*	*1.3%*
Net income (loss)	**(555)**	984	21,676	501	1,342	(5,317)	(34)	(3,204)
Net income (loss) attributable to shareholders	**(454)**	797	21,574	(413)	2,134	(4,763)	570	(3,638)
Earnings (loss) per share attributable to shareholders:								
Basic	**($0.01)**	$0.02	$0.55	($0.01)	$0.05	($0.12)	$0.01	($0.09)
Diluted	**($0.01)**	$0.02	$0.54	($0.01)	$0.05	($0.12)	$0.01	($0.09)
Cash dividends declared on common shares	**1,529**	1,556	1,585	1,586	1,579	1,579	1,579	1,579

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

The following is a reconciliation of “income (loss) before income taxes” to “Adjusted EBITDA”.

	2020		2019				2018	
(in thousands of Canadian dollars)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
			(re-presented, see "Change in Accounting Policy")					
Income (loss) before income taxes	**(1,031)**	(1,500)	29,622	506	4,541	(7,224)	840	(2,920)
Depreciation	**1,679**	2,011	1,805	1,970	2,042	2,073	757	825
Amortization	**2,839**	2,680	2,771	2,893	2,935	2,922	2,914	2,915
Finance expense	**1,497**	1,744	1,841	1,922	2,018	2,216	1,989	1,997
Change in fair value of liabilities	**671**	9	725	294	279	308	301	293
Other expenses (income)	**1,747**	447	(26,896)	734	1,124	4,145	(530)	2,314
Adjusted EBITDA[1]	**7,402**	5,391	9,868	8,319	12,939	4,440	6,271	5,424

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

The tables above show selected financial information from the results of operations of the Company for the periods indicated. The financial results are not necessarily indicative of the results that may be expected for any other future comparative period.

In general, the business tends to fluctuate from quarter to quarter. Factors affecting the quarterly trend include the following:

- timing of capital-related spending by large customers who often use budgeted funds before the end of their fiscal periods; consequently, a small number of large customers could periodically cause significant fluctuations in revenue and associated profits in any given quarter, depending on the timing of key projects;
- OEMs tend to create higher sales activity at their own year ends as steeper discounts may be offered to incentivize higher volumes; and
- the impact of the COVID-19 pandemic commencing Q2 2020.

In addition, the following items are transitional or transactional in nature and may distort historical trends:

- fair value adjustments in connection with contingent considerations and interest rate swap are considered transactional in nature; as a result of these items, net income (loss) included an expense of $0.7 million and $0.3 million in Q2 of 2020 and 2019, respectively, and an expense of $0.7 million and $0.6 million in H1 of 2020 and 2019, respectively;
- restructuring costs related to the commercial transformation and U.S. integration activities, reflected as part of other expense (income), were $0.5 million and $0.2 million in Q2 of 2020 and 2019, respectively, and $4.7 million and $3.2 million in H1 of 2020 and 2019, respectively;
- transaction costs, reflected as part of other expenses (income), are considered transactional in nature; these costs were $0.1 million for each of Q2 2020 and 2019, and $1.0 million and $0.4 million for H1 of 2020 and 2019, respectively;
- foreign exchange loss (gain), reflected as part of other expenses (income), fluctuates depending on the strength of the U.S. dollar in relation to the Canadian dollar. The strengthening Canadian dollar in Q2 2020 resulted in a $1.0 million loss in Q2 2020 as compared to a $0.9 million loss in Q2 2019, and the strengthening of the U.S. dollar for H1 2020 resulted in $3.8 million gain as compared to $1.7 million loss in H1 2019; and
- Q4 2019 included the sale of the Smart Edge assets; the Company recorded a pre-tax gain of $28.4 million on the transaction.

2020 Q2 AND SIX MONTHS FINANCIAL AND OPERATING RESULTS

The following is an analysis of the Company's results for the three months and six months ended June 30, 2020 and 2019.

Revenue

In general, changes in revenue quarter over quarter are attributable to a number of factors, including, but not limited to, timing of larger projects and replenishments, vendor incentive programs, competitive pressures in the market, timing of service delivery within our professional services category, and the impact of the COVID-19 pandemic. Service revenues can also be impacted due to customer requirements relating to bundling of product and service offerings and the timing of their investment needs.

Revenue by types of goods and services

	Three months ended June 30				Six months ended June 30			
(in thousands of Canadian dollars)	**2020**	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
Product sales	**281,948**	408,653	(126,705)	(31.0%)	**609,484**	756,154	(146,670)	(19.4%)
Pivot Provided Services	**29,954**	26,718	3,236	12.1%	**58,692**	50,694	7,998	15.8%
Third-party services	**20,234**	24,531	(4,297)	(17.5%)	**40,767**	42,915	(2,148)	(5.0%)
Total revenue	**332,136**	459,902	(127,766)	(27.8%)	**708,943**	849,763	(140,820)	(16.6%)
Gross profit	**50,189**	60,105	(9,916)	(16.5%)	**102,279**	108,796	(6,517)	(6.0%)
Gross profit margin	***15.1%***	*13.1%*			***14.4%***	*12.8%*		

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

Total revenue of $332.1 million for Q2 2020 decreased by $127.8 million or 27.8% as compared to the same period in the prior year; excluding the favourable foreign exchange effect of $12.0 million, the decrease was $139.8 million or 30.4%. Total revenue of $708.9 million for H1 2020 decreased by $140.8 million or 16.6% as compared to the same period in the prior year; excluding the favourable foreign exchange effect of $16.4 million, the decrease was $157.2 million or 18.5%. The decrease was mainly attributable to a decrease in product sales and third-party services, partially offset by increases in Pivot Provided Services during the quarter and the six-month period. Over $30.0 million of revenue slipped from Q2 2020 into Q3 2020 as a result of customer delays and product shipment delays due to supply chain issues, both caused by COVID-19.

Product sales of $281.9 million for Q2 2020 decreased by $126.7 million or 31.0% as compared to Q2 2019; excluding the favourable foreign exchange effect of $10.3 million, the decrease was $137.0 million or 33.5%. Product sales of $609.5 million for H1 2020 decreased by $146.7 million or 19.4% as compared to H1 2019; excluding the favourable foreign exchange effect of $14.0 million, the decrease was $160.7 million or 21.3%. The decline in product sales is primarily due to decreased sales to major customers (see below), and the prior year including a non-recurring project with a non-major customer of over $41.0 million (US$30.0 million).

Pivot Provided Services of $30.0 million for Q2 2020 increased by $3.2 million or 12.1% as compared to Q2 2019; excluding the favourable foreign exchange effect of $1.0 million, the increase was $2.2 million or 8.3%. Pivot Provided Services of $58.7 million for H1 2020 increased by $8.0 million or 15.8% as compared to H1 2019; excluding the favourable foreign exchange effect of $1.4 million, the increase was $6.6 million or 13.1%. The improvement in Pivot Provided Services is due to expanding managed services with new customers in Canada combined with certain projects requiring professional services and workforce services. Pivot Provided Services continue to be a focus area of growth for the Company.

Third-party services revenue of $20.2 million for Q2 2020 decreased by $4.3 million or 17.5% as compared to Q2 2019; excluding the favourable foreign exchange effect of $0.7 million, the decrease was $5.0 million or 20.4%. Third-party services revenue of $40.8 million for H1 2020 decreased by $2.1 million or 5.0% as compared to H1 2019; excluding the favourable foreign exchange effect of $1.0 million, the decrease was $3.1 million or 7.2%. The decrease in third-party services revenue is primarily driven by the timing of certain contracts and renewals. Third-party services revenue tends to fluctuate in line with product sales.

Revenue by geographical markets

(in thousands of Canadian dollars)	Three months ended June 30				Six months ended June 30			
	2020	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
United States	**305,069**	438,584	(133,515)	(30.4%)	**611,626**	753,040	(141,414)	(18.8%)
Canada	**19,372**	13,087	6,285	48.0%	**67,918**	79,684	(11,766)	(14.8%)
International	**7,695**	8,231	(536)	(6.5%)	**29,399**	17,039	12,360	72.5%
Total revenue	**332,136**	459,902	(127,766)	(27.8%)	**708,943**	849,763	(140,820)	(16.6%)

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

By region, revenue from International decreased slightly in the quarter; however, year to date grew due to increased volume in Europe from one of the Company's U.S. based customers. Revenue from the U.S. declined for the quarter as compared to the same period in the prior year due to the lower sales to major customers and the prior year including a non-recurring project with a non-major customer of over $40.0 million, as mentioned above. Revenue from Canada increased in the quarter due to timing of certain projects, combined with growth in managed services. Revenue from Canada declined on a year-to-date basis compared to the prior year due primarily to reduced product purchases from certain government customers, which generally have lower gross profit margins.

Revenue by customer mix

(in thousands of Canadian dollars)	Three months ended June 30				Six months ended June 30			
	2020	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
Non-major customers	**298,873**	355,165	(56,292)	(15.8%)	**643,918**	669,684	(25,766)	(3.8%)
Major customers	**33,263**	104,737	(71,474)	(68.2%)	**65,025**	180,079	(115,054)	(63.9%)
Total revenue	**332,136**	459,902	(127,766)	(27.8%)	**708,943**	849,763	(140,820)	(16.6%)
Non-major customers *(as % of total revenue)*	90.0%	77.2%		12.8%	90.8%	78.8%		12.0%

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

The Company continued to experience a shift in customer mix, generating a higher proportion of revenue from non-major customers in Q2 2020, which usually have a higher gross profit margin (see "Major customers" below). Non-major customers represented $298.9 million or 90.0% and $355.2 million or 77.2% of total revenues for Q2 of 2020 and 2019, respectively, and $643.9 million or 90.8% and $669.7 million or 78.8% for H1 of 2020 and 2019, respectively.

Major customers

The Company reviews and evaluates revenue and gross profit margin by major versus non-major customers. A major customer is defined as a customer that generates revenues 10% or greater of total revenues to the Company in a reporting period. Generally, the significance of the quantity of products sold or services provided to these customers provides major customers with additional buying power, and thus the Company earns a reduced gross profit margin to generate increased revenues and maintain strong relationships. The Company continues to classify two customers as major customers as they have had over 10% of revenue in prior periods.

While major customers generate a high volume of revenue, gross profit margin is usually lower for these customers. Major customers represented $33.3 million or 10.0% and $104.7 million or 22.8%, of total revenues for Q2 of 2020 and 2019, respectively; and $65.0 million or 9.2% and $180.1 million or 21.2% for H1 of 2020 and 2019, respectively.

Gross profit

Gross profit of $50.2 million for Q2 2020 decreased by $9.9 million or 16.5% as compared to the same period in the prior year; excluding the favourable foreign exchange effect of $1.8 million, the decrease was $11.7 million or 19.4%. Gross profit of $102.3 million for H1 2020 decreased by $6.5 million or 6.0% as compared to the same period in the prior year; excluding the favourable foreign exchange effect of $2.4 million, the decrease was $8.9 million or 8.2%. Gross profit margin was 15.1% in Q2 2020 as compared to 13.1% in Q2 2019, and was 14.4% in H1 2020 as compared to 12.8% in H1 2019.

The decrease in gross profit for Q2 2020 was mainly driven by the decrease in revenue described above, partially offset by improved gross profit margin. During H1 2020, the continued favourable shift in the customer mix resulted in a lower percentage of revenue being generated from major customers, which improved overall gross profit margins. Since the gross profit margins for non-major customers are generally more favourable, the 2020 gross profit margins for Q2 and H1 continued to benefit from this shift. In addition, the growth in Pivot Provided Services revenue, which generally has higher gross profit margins than product sales, combined with continued cost management, contributed to the improvement in gross profit margin in Q2 2020.

Selling, general and administrative expenses

	Three months ended June 30				**Six months ended June 30**			
(in thousands of Canadian dollars)	**2020**	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
SG&A	**42,787**	47,166	(4,379)	(9.3%)	**89,486**	91,417	(1,931)	(2.1%)

SG&A of $42.8 million for Q2 2020 decreased $4.4 million or 9.3% as compared to the same period in the prior year; excluding the unfavourable foreign exchange effect of $1.5 million, the decrease was $5.9 million or 12.5%, and is mainly due to the following:

- cost reductions of $0.8 million due to the sale of the Smart Edge business in Q4 2019;
- increased payroll costs of $0.9 million due to investment in growth areas of the business which have been mostly offset by cost reductions from integration activity, and furlough actions in response to COVID-19;
- lower commissions and variable compensation of $3.3 million associated with lower gross profit and Adjusted EBITDA;
- decreased costs of $2.6 million associated with timing of events, travel and marketing spend, primarily as a result of COVID-19;
- partially offset by increased bad debt expense of $0.7 million.

SG&A of $89.5 million for H1 2020 decreased $1.9 million or 2.1% as compared to the same period in the prior year; excluding the unfavourable foreign exchange effect of $2.1 million, the decrease was $4.0 million or 4.4%, and is mainly due to the following:

- cost reductions of $1.4 million due to the sale of the Smart Edge business in Q4 2019;
- lower commissions and variable compensation of $2.8 million associated with lower gross profit and Adjusted EBITDA;
- decreased costs of $2.0 million associated with timing of events, travel and marketing spend as a result of COVID-19;
- decreased facility costs of $0.4 million as a result of the integration efforts;
- partially offset by increased costs of $1.6 million due to investment in growth areas of the business, offset by cost reductions from integration activity and furlough actions, and decreased vendor incentives; and
- increased bad debt expense of $0.8 million.

Finance expense

(in thousands of Canadian dollars)	Three months ended June 30				Six months ended June 30			
	2020	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
Finance expense	**1,497**	2,018	(521)	(25.8%)	**3,241**	4,234	(993)	(23.5%)

Finance expense of $1.5 million for Q2 2020 decreased $0.5 million or 25.8% for the quarter as compared to the same period in the prior year, and finance expense of $3.2 million for H1 2020 decreased $1.0 million or 23.5% as compared to the same period in the prior year. The decrease for the quarter and six months was due to lower effective rates of interest, partially offset by higher average borrowings. Foreign exchange impact was nominal.

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").

Finance expense consists primarily of interest and fees on the JPMC Credit Facility, and the accretion expense on leases. The change in finance expense were impacted by fluctuations in LIBOR and U.S. Prime interest rates based on the average borrowings. The interest rate for the Q2 2020 year was lower than Q2 2019, with effective rates of interest on the JPMC Credit Facility being 2.5% and 4.3% for Q2 of 2020 and 2019, respectively, and 3.0% and 4.2% for H1 of 2020 and 2019, respectively. Average borrowings on the JPMC Credit Facility were US$118.3 million and US$102.1 million for Q2 of 2020 and 2019, respectively, and US$115.4 million and US$110.6 million for H1 of 2020 and 2019, respectively.

Other expenses

	Three months ended June 30			Six months ended June 30		
(in thousands of Canadian dollars)	**2020**	2019	$ Change	**2020**	2019	$ Change
Restructuring costs	**479**	169	310	**4,658**	3,226	1,432
Transaction costs	**101**	107	(6)	**1,042**	365	677
Foreign exchange loss (gain)	**1,012**	859	153	**(3,769)**	1,715	(5,484)
Other	**155**	(11)	166	**263**	(37)	300
Other expenses	**1,747**	1,124	623	**2,194**	5,269	(3,075)

Other expenses were $1.7 million for Q2 2020 as compared to $1.1 million for Q2 2019 and $2.2 million for H1 2020 as compared to $5.3 million for H1 2019. The fluctuation is due to a number of factors as follows:

- In 2020, the Company incurred $4.7 million in restructuring costs as part of its merging of its wholly owned U.S. subsidiaries and related impacts on headcount, of which $0.5 million was incurred in Q2 2020. In 2019, the Company incurred $3.2 million of restructuring costs, of which $0.2 million was incurred in Q2 2019, associated with the Company's activities to accelerate its commercial transformation whereby customers are engaged in a more strategic fashion to develop comprehensive relationships built on the value of selling the Company's expanded portfolio.
- Foreign exchange is associated with changes in value of the U.S. dollar as compared to the Canadian dollar. The strengthening Canadian dollar in Q2 2020 resulted in a $1.0 million loss as compared to a $0.9 million loss in Q2 2019. For the six month period ended June 30, fluctuations in the U.S. dollar as compared to the Canadian dollar resulted in a $3.8 million gain in H1 2020 as compared to $1.7 million loss in H1 2019.

Income tax expense (recovery)

	Three months ended June 30				Six months ended June 30			
(in thousands of Canadian dollars)	**2020**	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
Income tax expense (recovery)	**(476)**	3,199	(3,675)	(114.9%)	**(2,960)**	1,292	(4,252)	(329.1%)
Effective tax rate	***46.2%***	*70.4%*			***116.9%***	*(48.2%)*		

The Company's tax expense (recovery) 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 tax rate for Q2 2020 was unusual due to certain U.S. tax rule changes as a result of the U.S. Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which includes an additional benefit of carrying back prior year losses.

The Company had deferred tax assets, which totalled $11.2 million and $10.6 million as at June 30, 2020 and December 31, 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The sources and uses of cash for Q2 and six months ended June 30, 2020 and 2019 are summarized below.

	Three months ended June 30				Six months ended June 30			
(in thousands of Canadian dollars)	**2020**	2019	$ Change	% Change	**2020**	2019	$ Change	% Change
Cash and cash equivalents, beginning of period	**15,641**	6,117	9,524	155.7%	**35,430**	20,881	14,549	69.7%
Cash provided by (used in)								
Operating activities	**35,198**	53,185	(17,986)	(33.8%)	**(9,371)**	6,205	(15,575)	(251.0%)
Investing activities	**(3,823)**	(1,604)	(2,219)	138.3%	**(5,048)**	(3,032)	(2,016)	66.5%
Financing activities	**(34,038)**	(37,805)	3,766	(10.0%)	**(10,483)**	(4,092)	(6,392)	156.2%
Effect of foreign exchange fluctuations on cash held	**(616)**	(146)	(470)	321.9%	**1,834**	(215)	2,049	(953.0%)
Change in cash	**(3,279)**	13,630	(16,909)	(124.1%)	**(23,068)**	(1,134)	(21,934)	1934.2%
Cash and cash equivalents, end of period	**12,362**	19,747	(7,385)	(37.4%)	**12,362**	19,747	(7,385)	(37.4%)

Cash provided by (used in) operating activities

Net cash from operating activities was a source of cash of $35.2 million in Q2 2020, as compared to $53.2 million in Q2 2019, and a use of cash of $9.4 million in H1 2020, as compared to a source of $6.2 million in H1 2019. The change in net cash from operating activities primarily fluctuates depending on timing of non-cash working capital items, specifically accounts receivable, inventory and accounts payable. The Company finances its working capital through its revolving credit line, therefore fluctuations in cash from operations are normal and are generally offset by changes in the JPMC Credit Facility, which are captured in financing activities (see “Secured Borrowings” under the heading “Debt”).

Cash used in investing activities

Cash used in investing activities was $3.8 million in Q2 2020, as compared to $1.6 million in Q2 2019; and was $5.0 million in H1 2020, as compared to $3.0 million in H1 2019. Cash used in investing activities in H1 2020 primarily related to payments of contingent consideration totalling $2.4 million, incurred mostly in Q2 2020, and capital expenditures. The outflow of $2.3 million in H1 2019 primarily related to the capitalization of Smart Edge development costs, payments of contingent consideration in respect of previous acquisitions and capital expenditures.

Cash used in financing activities

Cash used in financing activities was $34.0 million in Q2 2020 as compared to $37.8 million in Q2 2019; and was $10.5 million in H1 2020, as compared to $4.1 million in H1 2019. Cash used in financing activities is comprised of borrowings and repayments on secured and unsecured debt facilities, changes in banking indebtedness, dividend payments, proceeds from issuance of common shares related to the exercise of options, and stock repurchases. The change in cash used in financing activities in Q2 2020 as compared to 2019 was primarily driven by movements in net borrowing associated with the Company’s JPMC Credit

Facility and changes in bank indebtedness. As noted above, the JPMC Credit Facility tends to fluctuate inversely with the changes in working capital and cash from operations.

Financial condition

The Company expects that cash and cash equivalents, cash flow from operations and amounts available to be drawn against the JPMC Credit Facility will provide sufficient liquidity for its operations and organic growth. The Company's expectation is based on the assumption that the COVID-19 pandemic will not negatively and materially impact the Company's revenue and profitability in the longer term.

The Company uses the key metrics discussed below to measure its liquidity.

Working capital

The amount of time it takes for the Company to convert the receivables to cash and to pay its obligations has an effect on working capital. Days sales outstanding ("DSO") were 65 and 51 days at June 30, 2020 and December 31, 2019, respectively (DSO were 50 and 54 days at June 30, 2019 and December 31, 2018, respectively). The DSO is consistent with March 31, 2020, and there is some unfavourable impact due to COVID-19 as customers look to extend terms. Receivables and collections are continually monitored very closely against expected cash flow. Days payables outstanding ("DPO") were 60 and 54 days at June 30, 2020 and December 31, 2019, respectively. The Company continually works with its vendors to share the cash flow implications when customers require longer payment terms where possible, as is demonstrated by the increase in DPO at June 30, 2020.

Working capital deficiencies as at June 30, 2020 and December 31, 2019 were $78.5 million and $76.7 million, respectively; excluding the favourable foreign exchange effect, working capital deficiency was $75.1 million as at June 30, 2020. Included in working capital are cash and cash equivalents of $12.4 million and $35.4 million as at June 30, 2020 and December 31, 2019, respectively; and amounts borrowed under the JPMC Credit Facility of $140.8 million and $138.7 million, as at June 30, 2020 and December 31, 2019, respectively.

The Company has financed its operations through an asset-based revolving credit facility as opposed to term debt or equity in order to take advantage of lower borrowing costs and flexibility that the facility allows to match the cash flow requirements of the Company. The JPMC Credit Facility matures in May 2024; however, the borrowings under the facility are presented as current liabilities.

The working capital deficiencies are primarily due to the Company's strategic decision to take advantage of more favourable borrowing rates on debt. Since 2011, the Company's investments in acquisitions has been in excess of US$100.0 million. Due to the fact that the Company was able to negotiate more favourable borrowing rates on the Company's secured credit facility, as compared to typical long-term debt, the Company has historically and continues to strategically finance its operations and acquisitions using its secured credit facility.

The Company has significant liquidity with access to additional funds through its JPMC Credit Facility. The average undrawn availability on the JPMC Credit Facility was $64.9 million for the six months ended June 30, 2020 and $84.8 million for the year ended December 31, 2019; the undrawn availability was $94.7 million and $69.8 million as at June 30, 2020 and December 31, 2019, respectively.

Key metrics on consolidated debt

Adjusted Debt

(in thousands of Canadian dollars)	**June 30, 2020**	December 31, 2019
Current liabilities	**494,060**	492,330
Other financial liabilities – long-term	**14,207**	14,999
Less: Lease obligations – total	**(18,330)**	(18,769)
Less: Current assets	**(415,641)**	(415,626)
Adjusted Debt[(2)]	**74,296**	72,934

Adjusted Debt[(2)] normalizes the impact of the changes in working capital. Management believes it is a more relevant indicator of the Company's debt position and is a more comparable metric with industry peers. The increase of Adjusted Debt[(2)] in 2020 was mainly due to foreign exchange; excluding the foreign exchange effect, Adjusted Debt was $71.1 million as at June 30, 2020.

Below are the key metrics of our consolidated debt as at June 30, 2020 and December 31, 2019.

	June 30, 2020	December 31, 2019
Adjusted Debt[(2)] to Adjusted EBITDA[(1)]	**2.40**	2.05
Net interest coverage[(3)]	**4.42**	4.45

The change in Adjusted Debt to Adjusted EBITDA at June 30, 2020 was due to the decline in Adjusted EBITDA in Q2 2020 compared to Q2 2019, and also due to foreign exchange; excluding the foreign exchange effect, Adjusted Debt to Adjusted EBITDA was 2.32 as at June 30, 2020. The decline in net interest coverage reflects the lower Adjusted EBITDA, partially offset by lower net finance expense as at June 30, 2020 on a trailing 12-month basis as compared to the same trailing 12-month period at December 31, 2019.

Debt

(in thousands of Canadian dollars)	**June 30, 2020**	December 31, 2019
Other financial liabilities - total, excluding lease obligations	**141,203**	140,740
Lease obligations - total	**18,330**	18,769
Bank indebtedness	**19,368**	19,682
Total debt	**178,901**	179,191
Less: Cash and cash equivalents	**(12,362)**	(35,430)
Net debt	**166,539**	143,761

Secured borrowings

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 certain conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on May 14, 2024. 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.

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.

Additional negative covenants place restrictions on additional indebtedness, liens, fundamental changes to the Company’s legal structure, investments, asset sales, sale and leaseback transactions, swap agreements, restricted payments, transactions with affiliates, restrictive agreements, amendment of material documents, and distribution of loan proceeds amongst the Company’s subsidiaries. The declaration of dividends and acquisition of shares under the NCIB are both restricted payments under the JPMC Credit Facility, are subject to Board approval, and must meet certain minimums for availability or minimums for availability and fixed charge coverage ratio.

The Company had availability to borrow under its revolving credit facilities of $94.7 million and $69.8 million as at June 30, 2020 and December 31, 2019, respectively, after giving effect to borrowing base limitations, swing loans and letters of credit issued.

Amounts borrowed under the JPMC Credit Facility were $140.8 million and $138.7 million, as at June 30, 2020 and December 31, 2019, respectively. In addition, a letter of credit for $0.3 million was outstanding at both June 30, 2020 and December 31, 2019.

Contingent consideration

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 achieved all of the performance targets at September 30, 2019. As a result, the Company reached an agreement, in December 2019, to pay 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, commencing on October 1, 2017 and ending on April 30, 2020. All payments were fully made as at June 30, 2020

Lease obligations

Lease obligations represent the present value of the undiscounted cash flows for leases in connection with the right-of-use assets related to office and warehouse leases.

Capital structure

Shareholders' equity

The following summarizes the equity attributable to shareholders.

(in thousands of Canadian dollars)	**June 30, 2020**	December 31, 2019
Share capital	**79,682**	83,176
Contributed surplus	**8,422**	6,562
Foreign exchange translation reserve	**9,080**	8,212
Accumulated deficit	**(82,971)**	(80,229)
Equity attributable to shareholders	**14,213**	17,721

Share capital

	Six months ended June 30, 2020		Twelve months ended December 31, 2019	
(in thousands of Canadian dollars except number of shares)	**Number of shares**	**Share capital**	Number of shares	Share capital
Issue and outstanding, beginning of period	**39,414,066**	**83,176**	39,473,032	83,550
Shares issued in vesting of RSUs	**9**	**–**	178,344	272
Stock options exercised	**122,083**	**276**	–	–
Share repurchases	**(1,321,375)**	**(3,770)**	(237,310)	(646)
Issued and outstanding, end of period	**38,214,783**	**79,682**	39,414,066	83,176
Weighted average outstanding	**38,757,559**		39,546,901	

Authorized capital

The Company's authorized capital consists of an unlimited number of voting common shares and preferred shares, with no par value. As at August 10, 2020, the Company had 38,214,783 common shares issued and outstanding.

Stock options

The summary of the Company's options as at June 30, 2020 are as follows:

			June 30, 2020
Exercisable price	**Number of options outstanding**	**Weighted average remaining contractual life**	**Number of 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

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

Restricted share units

The summary of the Company's RSUs as at June 30, 2020 are 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

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. The dividends paid over the past few years are as follows:

Period paid	Per share amount	Total dividend
Year ended December 31, 2017	$0.16	6,486
Year ended December 31, 2018	$0.16	6,366
Year ended December 31, 2019	$0.16	6,329
Six months ended June 30, 2020	$0.08	3,085

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.

Normal course issuer bid

Under its NCIB, which was approved 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, totaling 1.558,685 common shares for a cost of $2.5 million. The NCIB expired on June 23, 2020.

Activity under the Company's NCIB up to June 30, 2020, is shown in the following table:

			As at June 30, 2020	
Start Date	End Date	Number of shares approved	Number of shares repurchased and cancelled	Total cost of shares repurchased and cancelled
March 30, 2016	March 31, 2017	2,097,332	1,160,754	1,977
June 22, 2017	June 21, 2018	3,820,852	993,900	2,109
June 22, 2018	June 21, 2019	3,789,551	347,500	655
June 24, 2019	June 23, 2020	3,791,395	1,558,685	2,499

Off-balance sheet arrangements

Letters of credit

Letters of credit are used in connection with certain obligations related to the normal course of business. The gross potential liability related to the Company's letters of credit is approximately $0.3 million as at June 30, 2020 and December 31, 2019.

Contractual commitments

The following table summarizes Pivot's contractual obligations as at June 30, 2020:

(in thousands of Canadian dollars)	**On demand**	**Less than one year**	**One to two year**	**Two to five years**	**Greater than five years**	**Total**
Bank indebtedness	19,368	–	–	–	–	**19,368**
Secured borrowings	140,848	–	–	–	–	**140,848**
Accounts payable and accrued liabilities	–	280,712	–	–	–	**280,712**
Cash-settled share-based compensation	–	–	558	–	–	**558**
Lease obligations	–	5,827	5,335	7,459	2,252	**20,873**
	160,216	**286,539**	**5,893**	**7,459**	**2,252**	**462,359**

Future financing

Management is focused on exploring and executing strategic alternatives to enhance its existing financing structure with options that provide the necessary flexibility to grow the business and meet its future obligations in the normal course of business. In addition to the Company's available borrowings under its credit facilities, these options may include an equity raise or other permanent capital injection.

INTERESTS IN OTHER ENTITIES

The following table includes the significant subsidiaries and affiliates of the Company:

		Equity Interest	
		June 30,	December 31,
Name	**Jurisdiction**	**2020**	2019
1955714 Ontario Inc.	Canada	**–**	100%
ACS Holdings (Canada) Inc	Canada	**100%**	100%
ACS Holdings Corporation	Canada	**94%**	94%
Applied Computer Solutions Inc.	United States	**40%**	40%
ARC Acquisition (US) Inc.	United States	**100%**	100%
Infoptic Technology Inc.	Canada	**–**	100%
Pivot Acquisition Corporation	Canada	**100%**	100%
Pivot Information Technology (Shanghai) Company Limited	China	**94%**	–
Pivot of the Americas, S.A. de C.V.	Mexico	**100%**	100%
Pivot Research Ltd.	Jersey	**100%**	100%
Pivot Services International Singapore Pte. Ltd.	Singapore	**94%**	94%
Pivot Services Japan G.K.	Japan	**94%**	94%
Pivot Services Limited	Hong Kong	**94%**	94%
Pivot Shared Services Limited	Ireland	**100%**	100%
Pivot Solutions International (UK) Ltd.	United Kingdom	**100%**	100%
Pivot Technology Services Corp.	United States	**100%**	100%
Pivot Technology Services Pty Ltd.	Australia	**100%**	100%
Pivot Technology Solutions, Ltd.	United States	**100%**	100%
ProSys Information Systems Inc.	United States	**45%**	46%
Smart-Edge.com, Inc.	United States	**100%**	100%
TeraMach Systems Inc.	Canada	**–**	100%
TeraMach Technology Inc.	Canada	**100%**	100%

Integration

One of the Company's integration initiatives was to integrate related business units into a single Pivot brand through a merger. Effective January 1, 2020, 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Systems Inc. were amalgamated into Pivot Acquisition Corporation.

Applied Computer Solutions ("Applied")

Applied is a 40% owned affiliate of the Company, whose principal office is located in Huntington Beach, California, United States of America. Despite not owning a majority of the voting rights, the Company controls this entity for accounting purposes, based on the following facts and circumstances:

- Pivot has the right to acquire, at any time, the remaining shares of Applied it does not already own, or to designate a different owner to purchase the shares provided such transfer(s) are in compliance with applicable Women Business Enterprise ("WBE") requirements;
- Pivot has multiple representatives on the Applied board of directors; and

- any significant decisions made at Applied requires the approval of the Applied board of directors and/or shareholders, including board changes, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of US$0.1 million, causing any material change in the business, and/or assignment or termination of any material agreement.

The following table summarizes the financial information of Applied:

	June 30, 2020	December 31, 2019
Current assets	**29,370**	16,509
Non-current assets	**23,307**	25,186
Current liabilities	**(51,192)**	(37,818)
Non-current liabilities	**(449)**	(2,971)
Net assets	**1,036**	906
% interest held	**40.0%**	40.0%

	Three months ended June 30,		**Six months ended June 30,**	
	2020	2019	**2020**	2019
Revenue	**21,558**	134,295	**58,426**	200,926
Total comprehensive income (loss)	**81**	(1,451)	**35**	(1,394)
Cash provided by (used in) operating activities	**11,398**	(322)	**(9,490)**	(20)
Cash used in investing activities	**–**	(1)	**–**	–
Cash provided by (used in) financing activities	**(15,458)**	327	**4,483**	104
Net increase (decrease) in cash and cash equivalents	**(4,060)**	4	**(5,007)**	84

The Company has certain contractual arrangements with Applied, which provide the Company the majority of the variable returns from Applied activities. Total sales attributable to the activities of Applied were $21.6 million and $134.3 million for Q2 2020 and Q2 2019, respectively, and were $58.4 million and $200.9 million for H1 2020 and H1 2019, respectively. Amounts due from Applied were $36.1 million and $30.3 million as at June 30, 2020 and December 31, 2019, respectively.

ProSys Information Systems, Inc. (“ProSys”)

ProSys is a 44.9% owned affiliate of the Company, whose principal office is located in Norcross, Georgia, United States of America. During Q2 2020, 1.5% of the ownership was sold to a minority shareholder.

Despite not owning a majority of the voting rights, the Company controls this entity for accounting purposes based on the following facts and circumstances:

- Pivot has the right to acquire, at any time, the remaining shares of ProSys it does not already own or to designate a different owner to purchase the shares provided such transfer(s) are in compliance with applicable WBE requirements;
- Pivot is represented on the ProSys board of directors and any significant decision made at ProSys requires the approval of the board of directors and/or shareholders, including changes to its board of directors, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of US$0.1 million, causing any material change in the business, and/or assigning or termination of any material agreement; and

- Pivot receives the majority of the benefits from the activities of ProSys.

The following table summarizes the financial information of ProSys:

	June 30, 2020	December 31, 2019
Current assets	**86,509**	30,693
Non-current assets	**3,838**	700
Current liabilities	**(74,516)**	(25,290)
Non-current liabilities	**(8,561)**	–
Net assets	**7,270**	6,103
% interest held	**44.9%**	46.4%

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Revenue	**119,527**	104,254	**190,321**	182,637
Total comprehensive income (loss)	**(306)**	147	**91**	(952)
Cash provided by (used in) operating activities	**(1,836)**	23,276	**(6,223)**	44,460
Cash used in investing activities	**(506)**	–	**(506)**	–
Cash provided by (used in) financing activities	**1,569**	(23,276)	**5,956**	(44,460)
Net decrease in cash and cash equivalents	**(773)**	–	**(773)**	–

The Company has certain contractual arrangements with ProSys, which provide the Company the majority of the variable returns from ProSys activities. Total sales attributable to the activities of ProSys were approximately $119.5 million and $104.3 million for Q2 2020 and Q2 2019, respectively. Amounts due from ProSys were $74.1 million and $23.7 million as at June 30, 2020 and December 31, 2019, respectively.

RELATED PARTIES

The Company has certain contractual arrangements with Applied and 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 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.

LEGAL CLAIMS

GTS Technology Solutions, Inc., formerly known as Austin Ribbon & Computer Supplies, Inc.

On November 23, 2016, a lawsuit was filed by the Company's affiliates, Pivot Technology Solutions, Ltd., Pivot Acquisition Corporation and ARC Acquisition (US), Inc. ("ARC"), seeking damages and other relief for breaches of various contracts, statutes and torts against a number of parties, including with GTS

Technology Solutions, Inc. (“GTS”), its owners and a number of its employees. In response, GTS asserted claims against ARC claiming it breached certain contracts (including Amended and Restated Administrative Services, License and Distribution Agreements (the “Agreements”)) and committed various torts. On December 29, 2017, ARC filed a second lawsuit alleging that GTS also breached the Agreements. On February 10, 2020, the parties entered into a confidential settlement agreement, whereby all parties agreed to settle and dismiss their pending claims with prejudice and release the other parties from any and all claims.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks inherent with the business, which are disclosed in its AIF for the year ended December 31, 2019, which is hereby incorporated by reference, supplemented by disclosures in this MD&A. Additional risks and uncertainties not presently known or not currently considered material to the Company, could adversely affect the business, operations and financial conditions of the Company, cause the trading price of the Company’s securities to decline, and cause the actual outcome to differ significantly from the expectations of the Company regarding future results and performance reflected in this MD&A and other information provided by the Company from time to time. Readers should carefully consider before investing in the Company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s 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 consolidated financial statements and accompanying notes.

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 are discussed below.

Assessment of impact from global pandemic

There continues to be uncertainty surrounding the duration and severity of the COVID-19 pandemic, and the related impacts on the Company’s results of operations and financial conditions cannot be reasonably estimated at this time. The pace of recovery following the pandemic cannot be accurately predicted.

In the preparation of its interim condensed consolidated financial statements, the Company has reviewed its estimates, judgments and 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.

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 cash-generating units 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.

The Company measures the recoverable amount for each CGU by using a fair value less costs to sell ('market') approach. The market approach assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate fair value. Under the market approach, fair value is calculated based on earnings multiples of benchmark companies comparable to the businesses in each CGU. Data for the benchmark companies was obtained from publicly available information.

The revenue and operating margin assumptions used were based on the individual CGU's internal forecast for the next fiscal year. In arriving at the forecast, the Company considers past experience and inflation as well as industry and market trends. The forecast also took into account the expected impact from new product initiatives, customer retention and efficiency initiatives. The Company has used earnings multiples for its CGUs similar to the range for benchmark companies.

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 cash flows 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. Furthermore, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICIES ADOPTED

Change in presentation currency

Effective January 1, 2020, the Board elected to change the Company's presentation currency from U.S. dollars to Canadian dollars. The change in presentation currency is to improve the 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.

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.

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 which 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 expect 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 expect to early adopt these amendments, and is currently assessing the impact of these amendment on its consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure control and procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P"), as defined by *Canadian Securities Administrators' National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings,* to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosures.

There were no changes in the Company's internal control over financial reporting during the six months ended June 30, 2020, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures.

Internal control over financial reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

It should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

There were no changes in the Company's internal control over financial reporting during the six months ended June 30, 2020, that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

MD&A Endnotes

(1) A non-GAAP measure, see "Non-GAAP Measures" section of this MD&A, the reconciliation of such non-GAAP measures is included in the sections "Selected Annual Information" and "Selected Quarterly Information".
(2) A non-GAAP measure, see "Non-GAAP Measures" section of this MD&A, the reconciliation of such non-GAAP measures is included in the section "Liquidity and Capital Resources" under the heading "Key Metrics on Consolidated Debt".
(3) A non-GAAP measure, see "Non-GAAP Measures" section of this MD&A.