Interim Condensed Consolidated Financial Statements

Pivot Technology Solutions, Inc.

For the Three Months Ended
March 31, 2017 and 2016

(Unaudited)

(Expressed in Thousands of U.S. Dollars)

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	March 31, 2017 *[unaudited]*	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	**7,665**	8,153
Accounts receivable	**241,338**	300,249
Income taxes recoverable	**1,609**	-
Inventories	**64,473**	49,215
Other current assets	**28,997**	33,706
Total current assets	**344,082**	**391,323**
Property, plant and equipment, net	**7,497**	7,401
Goodwill	**31,137**	31,111
Intangible assets	**33,539**	35,701
Deferred income taxes (note 9)	**18,481**	19,055
Other non-current assets	**15,236**	12,375
Total assets	**449,972**	**496,966**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	**23,099**	24,473
Accounts payable and accrued liabilities (note 4)	**254,254**	248,306
Income taxes payable	**-**	970
Deferred revenue and customer deposits	**38,572**	38,673
Other financial liabilities (note 5)	**91,351**	139,118
Total current liabilities	**407,276**	**451,540**
Other financial liabilities (note 5)	**2,367**	2,228
Deferred tax liabilities	**795**	787
Other non-current liabilities	**16,053**	13,320
Total liabilities	**426,491**	**467,875**
Shareholders' equity		
Share capital (note 6)	**86,755**	86,983
Contributed surplus	**2,540**	2,416
Foreign exchange translation reserve	**5**	2
Treasury stock	**(77)**	-
Accumulated deficit	**(67,966)**	(62,585)
Equity attributable to owners of the parent	**21,257**	**26,816**
Non-controlling interest	**2,224**	2,275
Total shareholders' equity	**23,481**	**29,091**
Total liabilities and shareholders' equity	**449,972**	**496,966**

See accompanying notes

On behalf of the Board:

"John Anderson"

John Anderson

Director

"Kevin Shank"

Kevin Shank

President, CEO and Director

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[in thousands of U.S. dollars]

For the three months ended March 31,	**2017**	2016
Revenue (note 10)	**329,794**	332,787
Cost of sales	**295,668**	294,784
Gross profit	**34,126**	38,003
Employee compensation and benefits	**28,204**	29,757
Other selling, general and administrative expenses, net	**7,472**	6,795
Income (loss) before the following:	**(1,550)**	1,451
Depreciation and amortization	**2,811**	2,879
Finance expense	**1,082**	1,038
Change in fair value of liabilities (note 12)	**(107)**	683
Other expense, net (note 11)	**784**	1,634
Loss before income taxes	**(6,120)**	(4,783)
Recovery of income taxes (note 9)	**(1,933)**	(1,028)
Loss for the period	**(4,187)**	(3,755)
Income (loss) for the period attributable to non-controlling interests	**(51)**	42
Loss for the period attributable to shareholders	**(4,136)**	(3,797)
Other comprehensive loss		
Items that may be reclassified subsequently to loss for the period:		
Exchange gain on translation of foreign operations	**3**	-
	3	**-**
Total comprehensive loss attributable to shareholders	**(4,133)**	(3,797)
Loss per common share (note 6):		
Loss available to common shareholders	**(4,136)**	(3,797)
Basic	**$ (0.10)**	$ (0.09)
Diluted	**$ (0.10)**	$ (0.09)

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of U.S. dollars]

	Common Stock	Treasury Stock	Contributed Surplus	Warrants /Options	Non-Controlling Interest	Foreign Currency Translation Reserve	Accumulated Deficit	Total
Balance, December 31, 2015	88,096	-	103	2,015	1,659	-	(52,853)	**39,020**
Options exercised	425	-	-	(212)	-	-	-	**213**
Common share dividends declared (note 6)	-	-	-	-	-	-	(949)	**(949)**
Income (loss) for the period	-	-	-	-	42	-	(3,797)	**(3,755)**
Balance, March 31, 2016	**88,521**	**-**	**103**	**1,803**	**1,701**	**-**	**(57,599)**	**34,529**
Balance, December 31, 2016	**86,983**	**-**	**2,416**	**-**	**2,275**	**2**	**(62,585)**	**29,091**
Share-based compensation	-	-	124	-	-	-	-	**124**
Share repurchases	(228)	-	-	-	-	-	-	**(228)**
Common share dividends declared (note 6)	-	-	-	-	-	-	(1,245)	**(1,245)**
Repurchase of treasury shares	-	(77)	-	-	-	-	-	**(77)**
Gain on translation of foreign operations	-	-	-	-	-	3	-	**3**
Loss for the period	-	-	-	-	(51)	-	(4,136)	**(4,187)**
Balance, March 31, 2017	**86,755**	**(77)**	**2,540**	**-**	**2,224**	**5**	**(67,966)**	**23,481**

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

For the three month periods ended March 31,	2017	2016
OPERATING ACTIVITIES		
Loss for the period	**(4,187)**	(3,755)
Add (deduct) items not involving cash		
Depreciation and amortization	**2,811**	2,879
Share-based compensation (note 7)	**124**	-
Loss on disposal of property, plant and equipment	**-**	5
Provision for receivables	**-**	15
Deferred income taxes (note 9)	**574**	1,014
Amortization of loan fees (note 5)	**80**	74
Change in fair value of liabilities (note 12)	**(107)**	683
Changes in non-cash working capital balances (note 13)	**52,714**	10,658
Cash provided by operating activities	**52,009**	11,573
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**2**	-
Capital expenditures	**(707)**	(691)
Other intangible assets	**(2)**	(184)
Cash used in investing activities	**(707)**	(875)
FINANCING ACTIVITIES		
Net change in debt facilities	**(47,635)**	20,388
Net change in flooring arrangements	**(1,151)**	(7,155)
Net change in bank overdraft	**(1,374)**	(16,675)
Issuance of common shares, net of cost	**-**	213
Common share dividends paid	**(1,245)**	(949)
Common share repurchases	**(228)**	-
Treasury share repurchases	**(77)**	-
Cash used in financing activities	**(51,710)**	(4,178)
Net increase (decrease) in cash and cash equivalents during the period	**(408)**	6,520
Cash and cash equivalents, beginning of period	**8,153**	7,978
Effect of foreign exchange fluctuations on cash held	**(80)**	-
Cash and cash equivalents, end of period	**7,665**	14,498

See accompanying notes

1. CORPORATE INFORMATION

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

The Company has the following wholly owned subsidiaries: Pivot Acquisition Corporation ("PAC"), ACS Holdings (Canada) Inc., Pivot Technology Solutions, Ltd., formerly known as ACS Acquisition Holdings Inc., ("PTSL"), Pivot Research Ltd., Pivot Shared Services Ltd. ("PSSL"), Pivot of the Americas S.A. de C.V. ("POTA"), ACS (US) Inc. ("ACS"), New ProSys Corp. ("ProSys"), Sigma Technology Solutions, Inc. ("Sigma"), ARC Acquisition (US), Inc. ("ARC"), Pivot Technology Solutions Hong Kong, Ltd., Pivot Technology Solutions Singapore PTE Ltd., TeraMach Technologies Inc., 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Systems Inc.

The unaudited interim condensed consolidated financial statements of the Company for the three month periods ended March 31, 2017 and 2016 were authorized for issue in accordance with a resolution of the Company's Board of Directors on May 9, 2017.

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

2. BASIS OF PREPARATION

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

Certain amounts have been reclassified from the unaudited interim condensed consolidated financial statements previously presented to conform to the presentation of these unaudited interim condensed consolidated financial statements in accordance with IFRS.

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

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation are followed in the unaudited interim condensed consolidated financial statements as compared with the Company's most recent audited consolidated financial statements, including the notes, for the year ended December 31, 2016.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of the issuance of the Company's unaudited interim condensed consolidated financial statements are listed below. This listing is of standards issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of reviewing the standard to determine the impact on the unaudited interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the unaudited interim condensed consolidated financial statements.

IFRS 16 Leases

On January 13, 2016, the IASB published a new standard, IFRS 16 Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. The Company has not yet determined the impact on its unaudited interim condensed consolidated financial statements.

(unless otherwise noted all amounts are in thousands of U.S. dollars)

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance ("IBM") on August 10, 2011, which provides short-term financing. The IBM secured flooring agreement allows up to $15,000 in advances on purchases from approved vendors. Approved vendors send invoices directly for payment and IBM bills the Company monthly for vendor invoices received. After 60 days, the Company incurs interest on the outstanding balance at LIBOR plus 4.5%. $199 and $1,348 were due to IBM as at March 31, 2017 and December 31, 2016, respectively. The Company is required to maintain certain financial ratios, and was not in compliance as at March 31, 2017 or December 31, 2016. The Company received waivers from IBM on March 21, 2017 to cure the December 31, 2016 non-compliance, and May 8, 2017 to cure the March 31, 2017 non-compliance. This amount is included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position.

5. OTHER FINANCIAL LIABILITIES

	March 31, 2017	December 31, 2016
Current		
Secured borrowings	**88,822**	136,377
Contingent consideration	**3,691**	3,427
Interest rate swap	**1,205**	1,542
	93,718	141,346

Secured borrowings

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMorgan Chase Bank, N.A. ("JPMC"), providing the Company a $200,000 senior secured asset based revolving credit facility ("JPMC Credit Facility"). The JPMC Credit Facility may be used for revolving loans, letters of credit, protective advances, over advances, and swing line loans. Advances under the JPMC Credit Facility accrue interest at rates that are equal to, based on certain conditions, 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 1.50% to 1.75%, at the Company's election. The effective interest rate for the three month period ended March 31, 2017 was 3.60%. The Company may also, upon the agreement of either the then existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $75,000. The lenders under the JPMC Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on September 21, 2020. On January 14, 2016, the JPMC Credit Facility was amended, increasing the overall facility to $225,000. On September 30, 2016, a second amendment was completed, primarily to allow for the purchase of TeraMach which was completed on October 1, 2016. On December 9, 2016, a third amendment was completed, primarily to add TeraMach to the borrowing group.

In connection with the JPMC Credit Facility, the Company incurred finance costs which have been capitalized and are being amortized over the life of the credit agreement. Amounts owing under the Company's revolving credit facilities were $89,964 and $137,599 as at March 31, 2017 and December 31, 2016, respectively. The outstanding balance is shown net of deferred loan costs of $1,142 and $1,222 as at March 31, 2017 and December 31, 2016, respectively, in other current financial liabilities in the unaudited interim condensed consolidated statements of financial position. In addition, a letter of credit for $250 was outstanding at both March 31, 2017 and December 31, 2016.

Additional secured borrowings included within accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position are further discussed in note 4.

Interest rate swap

On April 3, 2014, the Company entered into an interest rate forward swap agreement ("Swap") with PNC Bank to mitigate the risk of fluctuating interest rates. Under the terms of the Swap with PNC, the interest rate was to vary between 4.655% and 5.155% on $50,000 of the amount outstanding under the PNC Credit Facility. On September 21, 2015, the Swap was novated to JPMC. Under the terms of the Swap with JPMC, the interest rate now varies between 4.305% and 4.555% on $50,000 of the amount outstanding under the JPMC Credit Facility. This range of rates is in effect from April 7, 2016 through November 13, 2018. The changes in the fair value of this instrument were recorded as a change in fair value of liabilities in the unaudited interim condensed consolidated statements of loss and comprehensive loss. Interest incurred under the Swap totaled $254 and nil for the three months ended March 31, 2017 and 2016, respectively. As at March 31, 2017, the fair value of the Swap was determined to be $1,205 which represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

On September 21, 2015, in connection with the commencement of the new JPMC Asset-Based Lending Credit Facility ("ABL Credit Facility"), the Company novated the Swap and transferred to JPMC of all the rights, liabilities, duties and obligations of the interest rate swap provider (PNC). The transactions between the Company and JPMC will be subject to the same terms and with the same provisions as set forth in the Interest Rate Swap Agreement but with the modifications as set forth in the Novation Agreement. The Swap agreement with JPMC contains cross covenant restrictions, requiring that the Company be in compliance with the JPMC Credit Facility.

(unless otherwise noted all amounts are in thousands of U.S. dollars)

Contingent consideration

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach. As part of the asset purchase agreement with TeraMach, contingent consideration had been agreed. The payments are dependent on the business achieving certain performance targets during the four consecutive 12-month periods ending December 31, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be $3,324. As at March 31, 2017 and December 31, 2016, the fair value of the consideration was determined to be $3,691 and $3,427, respectively. The Company recorded a charge of $230 related to the change in fair value of the consideration during the three months ended March 31, 2017. This charge was offset by a foreign currency translation adjustment of $34. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C$9,000. No payments were made during the three months ended March 31, 2017.

6. SHARE CAPITAL

As at March 31, 2017, the issued share capital amounted to $86,755. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the three month period ended March 31, 2017 were as follows:

	Common shares #
As at January 1, 2017	41,463,333
Treasury stock repurchases	(61,900)
Share repurchases	(188,100)
As at March 31, 2017	**41,213,333**

Note: Share amounts are not rounded

(unless otherwise noted all amounts are in thousands of U.S. dollars)

As at March 31, 2016, the issued share capital amounted to $88,521. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the three month period ended March 31, 2016 were as follows:

	Common shares #
As at January 1, 2016	42,725,407
Cancellation of shares	(45,000)
Options exercised	175,000
As at March 31, 2016	**42,855,407**

Note: Share amounts are not rounded

Reverse stock split

On December 19, 2016, the Company implemented a one-for-four reverse stock split of its common stock. As a result of the reverse stock split, each four outstanding shares of pre-split common stock were automatically combined into one share of post-split common stock. Fractional shares are rounded to the nearest whole share. All option and share information in the unaudited interim condensed consolidated financial statements for all prior periods have been retroactively adjusted to reflect this stock split.

Normal course issuer bid

On March 30, 2016, the Company obtained the approval of the TSX-V to implement a Normal Course Issuer Bid (“NCIB”) for its common shares. Under the NCIB, the Company may acquire up to approximately 5% of the Company’s issued and outstanding common shares. The NCIB for the common shares of the Company terminated on March 31, 2017. All common shares acquired under the NCIB will be acquired at the market price of the securities at the time of acquisition. The common shares so acquired will be canceled. On November 28, 2016, the TSX confirmed its acceptance of the Company’s existing NCIB upon the Company’s graduation to the TSX. During the three month period ended March 31, 2017, 250,000 common shares were acquired under the NCIB. 188,100 of these shares had been cancelled as at March 31, 2017 and 61,900 shares were held in treasury until their cancellation on April 3, 2017 (note 16).

Loss per share

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

(unless otherwise noted all amounts are in thousands of U.S. dollars)

The basic loss per share calculated amount is the same as the fully diluted loss per share amount as the effect of any outstanding options or warrants would be anti-dilutive, as the Company was in a loss position. The weighted average number of common shares issued and outstanding for the periods ended March 31, 2017 and 2016 were 41,359,549 and 42,758,868, respectively. The computation of diluted earnings per share for the periods ended March 31, 2017 and 2016 did not include options to purchase 2,112,500 and 876,250 shares, respectively, as the result would have been anti-dilutive.

Warrants and options

Broker warrants

In connection with the brokered private placement of debentures in 2011, PAC granted broker compensation options, entitling the agent to purchase 7% of the aggregate number of shares issuable on conversion of the debentures. Upon completion of the Qualifying Transaction on March 25, 2013, the agent was entitled to 1,863,750 broker compensation options at a price of C$1.60 per share, expiring April 14, 2016. The fair value allocated to the options was $3,000, which was recognized as an expense in fiscal 2011. During the three months ended March 31, 2016, 175,000 options were exercised for proceeds of C$280. On April 14, 2016, 732,750 broker compensation options expired.

Cancellation of shares

Pursuant to terms of a service agreement with one of the Company's former CEOs, the Company canceled 16,875 common shares each on March 30, 2015 and September 28, 2015. On March 28, 2016, 45,000 shares were canceled, satisfying the cancellation requirements of the service agreement.

Dividends declared and paid

Common share dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
February 4, 2016	February 29, 2016	March 15, 2016	C$0.0300	C$1,284
May 4, 2016	May 31, 2016	June 15, 2016	C$0.0400	C$1,720
August 19, 2016	August 31, 2016	September 15, 2016	C$0.0400	C$1,695
November 21, 2016	November 30, 2016	December 15, 2016	C$0.0400	C$1,667
February 16, 2017	March 3, 2017	March 15, 2017	C$0.0400	C$1,654

Note: Per share amounts are not rounded

(unless otherwise noted all amounts are in thousands of U.S. dollars)

7. SHARE BASED PAYMENTS

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

A summary of the status of the Company's stock option plan as at March 31, 2017 and during the period then ended follow:

	Number of options	Weighted average exercise price
Options Outstanding at January 1, 2017	2,162,500	C$1.63
Options Granted	-	-
Options Canceled	(50,000)	C$1.60
Options Outstanding at March 31, 2017	2,112,500	C$1.63
Options Exercisable at March 31, 2017	823,967	C$1.62

Note: Share and per share amounts are not rounded

The following information relates to share options that were outstanding as at March 31, 2017:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
C$1.60-C$1.96	2,029,167	9.24	C$1.63

Total share based compensation expense recognized in employee compensation and benefits in the unaudited interim condensed consolidated statements of loss and comprehensive loss for the three month periods ended March 31, 2017 and 2016 was $124 and nil, respectively.

(unless otherwise noted all amounts are in thousands of U.S. dollars)

8. FINANCIAL INSTRUMENTS

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

As at March 31, 2017	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	**7,665**	**-**	**-**	**-**	**7,665**
Accounts receivable	**-**	**241,338**	**-**	**-**	**241,338**
Other non-financial assets	**-**	**-**	**-**	**200,969**	**200,969**
Total assets	**7,665**	**241,338**	**-**	**200,969**	**449,972**
Bank overdraft	**23,099**	**-**	**-**	**-**	**23,099**
Accounts payable and accrued liabilities	**-**	**-**	**254,254**	**-**	**254,254**
Other financial liabilities	**4,896**	**-**	**88,822**	**-**	**93,718**
Other non-financial liabilities	**-**	**-**	**-**	**55,420**	**55,420**
Total liabilities	**27,995**	**-**	**343,076**	**55,420**	**426,491**

As at December 31, 2016	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	8,153	-	-	-	8,153
Accounts receivable	-	300,249	-	-	300,249
Other non-financial assets	-	-	-	188,564	188,564
Total assets	8,153	300,249	-	188,564	496,966
Bank overdraft	24,473	-	-	-	24,473
Accounts payable and accrued liabilities	-	-	248,306	-	248,306
Other financial liabilities	4,969	-	136,377	-	141,346
Other non-financial liabilities	-	-	-	53,750	53,750
Total liabilities	29,442	-	384,683	53,750	467,875

(unless otherwise noted all amounts are in thousands of U.S. dollars)

Fair values

The following tables present information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the guidance hierarchy in which the fair value measurements fall as at March 31, 2017 and December 31, 2016:

	Fair value as at March 31, 2017			
	Level 1	Level 2	Level 3	Total
Interest rate swap	-	**1,205**	-	**1,205**
Contingent consideration	-	**-**	**3,691**	**3,691**
	-	**1,205**	**3,691**	**4,896**

	Fair value as at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Interest rate swap	-	1,542	-	1,542
Contingent consideration	-	-	3,427	3,427
	-	1,542	3,427	4,969

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

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

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. Contingent consideration payable was the only instrument recorded as Level 3 as the amount payable was not based on observable inputs. The fair value of the contingent consideration was calculated using forecasts based on financial plans prepared by management covering the periods under agreement, using a discount rate of 26.0%. The Company recorded a charge of $230 and nil related to the change in fair value of the contingent consideration for the three month periods ended March 31, 2017 and 2016, respectively.

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

(unless otherwise noted all amounts are in thousands of U.S. dollars)

9. INCOME TAXES

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

Three month periods ended March 31,	2017	2016
Current tax benefit	**(2,507)**	(2,042)
Deferred tax expense	**574**	1,014
	(1,933)	(1,028)

10. REVENUE

Major components of revenue are as follows:

Three month periods ended March 31,	2017	2016
Product sales	**291,428**	293,467
Service revenues	**38,366**	39,320
	329,794	332,787

11. OTHER EXPENSE, NET

Three month periods ended March 31,	2017	2016
Restructuring costs	**87**	1,113
Transaction costs	**414**	191
Other expense	**283**	330
	784	1,634

12. CHANGE IN FAIR VALUE OF LIABILITIES

Three month periods ended March 31,	2017	2016
Contingent consideration	**230**	-
Interest rate swap	**(337)**	683
	(107)	683

(unless otherwise noted all amounts are in thousands of U.S. dollars)

13. UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Three month periods ended March 31,	2017	2016
Accounts receivable	**59,151**	63,502
Income taxes recoverable	**(2,579)**	(4,331)
Inventories	**(15,256)**	(9,524)
Other assets	**1,853**	453
Accounts payable and accrued liabilities	**6,812**	(40,609)
Other liabilities	**2,733**	1,167
	52,714	10,658

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

Three month periods ended March 31,	2017	2016
Interest paid	**999**	894
Income taxes paid	**-**	2,478

14. BUSINESS SEGMENT INFORMATION

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

ACS

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

ARC

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

ProSys

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

(unless otherwise noted all amounts are in thousands of U.S. dollars)

Sigma

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

TeraMach

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

Shared Services

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

Revenues and segment profit

Three month period ended March 31, 2017	ACS	ARC	ProSys	Sigma	TeraMach	Shared Services	Total
Revenue	120,181	415	123,440	41,233	44,158	367	329,794
Cost of sales	111,385	353	109,569	35,018	39,081	262	295,668
Gross profit	8,796	62	13,871	6,215	5,077	105	34,126
Employee compensation and benefits	7,088	48	9,304	4,382	2,069	5,313	28,204
Other selling, general and administrative expenses, net	990	45	2,749	1,249	279	2,160	7,472
Income (loss) before the following:	718	(31)	1,818	584	2,729	(7,368)	(1,550)
Depreciation and amortization							2,811
Finance expense							1,082
Change in fair value of liabilities							(107)
Other expense							784
Loss before income taxes							**(6,120)**

(unless otherwise noted all amounts are in thousands of U.S. dollars)

Three month period ended March 31, 2016	**ACS**	**ARC**	**ProSys**	**Sigma**	**TeraMach**	**Shared Services**	**Total**
Revenue	130,719	26,441	135,591	40,033	-	3	332,787
Cost of sales	116,807	23,085	121,715	33,174	-	3	294,784
Gross profit	13,912	3,356	13,876	6,859	-	-	38,003
Employee compensation and benefits	8,386	2,380	9,857	5,284	-	3,850	29,757
Other selling, general and administrative expenses, net	923	437	2,804	1,382	-	1,249	6,795
Income (loss) before the following:	4,603	539	1,215	193	-	(5,099)	1,451
Depreciation and amortization							2,879
Finance expense							1,038
Change in fair value of liabilities							683
Other expense							1,634
Loss before income taxes							**(4,783)**

The following table presents details on revenues derived from the following geographical sources, by location of segment:

Three month periods ended March 31,	**2017**	2016
United States	**281,271**	330,542
Canada	**43,897**	-
International	**4,626**	2,245
	329,794	332,787

(unless otherwise noted all amounts are in thousands of U.S. dollars)

Segment assets and liabilities

Three month periods ended March 31,	**2017**	2016
Assets		
ACS	**155,046**	147,010
ARC	**7,022**	26,314
ProSys	**177,258**	206,372
Sigma	**49,798**	65,634
TeraMach	**54,584**	-
Corporate	**6,264**	8,128
	449,972	453,458
Liabilities		
ACS	**103,180**	100,963
ARC	**10,516**	21,249
ProSys	**159,884**	187,328
Sigma	**50,260**	66,103
TeraMach	**53,112**	-
Corporate	**49,539**	43,286
	426,491	418,929

15. RELATED PARTY DISCLOSURES

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Applied Computer Solutions, Inc. ("Applied"). The Company recognizes this revenue on a gross basis. Total gross sales through the agent were approximately $48,266 and $36,117 for the three month periods ended March 31, 2017 and 2016, respectively. Amounts due from Applied totaled $11,306 and $10,562 as at March 31, 2017 and December 31, 2016, respectively.

ARC had certain contractual arrangements with GTS Technology Solutions, Inc. ("GTS"), formerly known as Austin Ribbon & Computer Supplies, Inc., whose activities were consolidated with those of the Company. ARC received notification from GTS that it wished to terminate the existing arrangement effective August 30, 2016. During June of 2016, ARC and GTS began the process of separation, and on July 1st, 2016, the Company was deemed to have effectively lost control over GTS for accounting purposes. Total sales attributable to the activities of GTS were nil and $24,130 for the three months ending March 31, 2017 and 2016, respectively. The amount due from GTS was $5,978 as at March 31, 2017 and December 31, 2016. The Company established a reserve of $5,978 during Q3 2016, which has remained in place through March 31, 2017.

The Company has certain contractual arrangements with ProSys Information Systems, Inc. (“Old ProSys”), whose activities and results are consolidated with the Company. The Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Old ProSys to its third-party customers. Total sales attributable to the activities of Old ProSys were approximately $57,168 and $55,981 for the three month periods ended March 31, 2017 and 2016, respectively. Amounts due from Old ProSys were $36,500 and $33,936 as at March 31, 2017 and 2016, respectively.

The contractual arrangements with Applied, GTS and Old ProSys as described above accounted in aggregate for 32.0% and 34.9% of the overall Pivot revenues for the three month periods ended March 31, 2017 and 2016, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

A former key member of management of ACS had significant influence over Applied, resulting in a related-party relationship until March 31, 2016. In addition to the asset purchase agreement with Applied, ACS entered into an administrative services agreement, a license agreement and a distribution agreement with Applied commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Applied. The total amount charged to Applied for shared administrative services in 2016 through the termination of the related-party relationship was $395 for period ended March 31, 2016. The license agreement permits Applied to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. The total amount charged for licensing fees was $575 for the three months ended March 31, 2016.

ACS leases two of its offices from a related entity controlled by a former key member of the ACS management team. The Company is obligated for repairs, maintenance, insurance and property tax on these leases. Rents incurred under these leases through the termination of the related-party relationship were $407 for the three months ended March 31, 2016.

ACS incurred $375 and $705 for the three month periods ended March 31, 2017 and 2016, respectively, for research and development provided by a related entity over which the subsidiary’s president has significant influence. $1,273 was payable as at March 31, 2017.

PSSL incurred expenses for sales and marketing support provided by a related entity during which time a former Company director had significant influence until May 25, 2016. Amounts incurred were $96 in 2016, until May 25, 2016, the last day of the related party relationship.

(unless otherwise noted all amounts are in thousands of U.S. dollars)

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

Three-month periods ended March 31,	**2017**	2016
Compensation	**403**	681
Annual incentive plans	**346**	286
Share-based compensation	**31**	-
Other compensation	**201**	286
	981	1,253

16. SUBSEQUENT EVENTS

On April 3, 2017, the Company cancelled all 61,900 (C$102) shares held in treasury stock at March 31, 2017.

On April 12, 2017 and April 18, 2017, the Company repurchased 750,000 and 170,313 shares, respectively, from former directors of the Company, at a price of C$1.50 per share (C$1,380 total).