PIVOT TECHNOLOGY SOLUTIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Quarter Ended March 31, 2018

This Management's Discussion and Analysis (the "MD&A") for the three months ended March 31, 2018 and 2017 is as of May 14, 2018 and provides information on the operating activities, performance and financial condition of Pivot Technology Solutions, Inc. (TSX: PTG) ("Pivot", or the "Company"). This MD&A should be read in conjunction with Pivot's unaudited interim condensed consolidated financial statements and the related notes for the three months ended March 31, 2018, the audited consolidated financial statements and the related notes for the years ended December 31, 2017 and 2016, and the Annual Information Form for the year ended December 31, 2017. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and can be found at www.sedar.com and www.pivotts.com. The Company assumes that the reader of this MD&A has access to, and has read the audited consolidated financial statements prepared in accordance with IFRS and the MD&A of the Company for the year ended December 31, 2017 and, accordingly, the purpose of this document is to provide a 2018 first quarter update to the information contained in the 2017 MD&A.

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 Company's reporting currency is United States dollars. All dollar amounts, except per share amounts stated in this MD&A, are in thousands of dollars unless specified otherwise. Additional information is contained in the Company's filings with Canadian securities regulators, including its Annual Information Form, found on SEDAR at www.sedar.com and on the Company's website at www.pivotts.com.

Forward-looking statements

Statements in this MD&A contain forward-looking information, including statements with respect to growth in information technology ("IT") spending in future periods, 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, interest rates applicable to the Company's borrowings, the timeline to generating revenues from its Smart Edge™ platform, the declaration of a dividend in future periods, and repurchase of shares under the Normal Course Issuer Bid ("NCIB"). Forward-looking information is based on assumptions of future events and actual results could vary significantly from these estimates. The reader is 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 and operations of certain acquired businesses; the availability of borrowings under the Company's credit facilities and access to other sources of capital; that its operational efficiency initiatives will result in improved results of operations; that the Company will successfully implement the initiatives identified in this MD&A as part of the advancement of its strategy; that the Company will be in a financial position to declare and pay a dividend in subsequent periods; or that the Company will be in a financial position to or that it will repurchase any additional shares for cancellation under the NCIB. 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 the important 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) the possible unavailability of financing, (iii) start-up risks, (iv) general operating risks, (v) dependence on third parties, (vi) changes in government regulation, (vii) the effects of competition, (viii) dependence on senior management, (ix) the impact of Canadian and/or United States economic conditions, (x) fluctuations in currency exchange rates and interest rates, (xi) uncertainty with respect to the ability of the Company to pay a quarterly dividend in subsequent periods, (xii) delays in the licensing of its Smart Edge™ platform, (xiii) testing and operational results from the Smart Edge™ platform not meeting expectations, and (xiii) uncertainty with respect to the number of shares to be repurchased for cancellation by the Company under the NCIB. The reader is cautioned not to place undue reliance on this forward-looking information. 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.

Key performance indicators

Pivot measures the success of its strategies using a number of key performance indicators. These include revenues, gross profit and adjusted EBITDA. (*See Non-IFRS measures*). Pivot believes these are important measures as they allow the Company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations.

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 Europe. Pivot's business strategy 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, reduces capital and operating expenses and accelerates the delivery of new products and services to end users. Pivot provides its customers with IT solutions for their application infrastructure and networking needs along with providing the full lifecycle of 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 multiple 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

Pivot's strategy is to create shareholder value by providing mission critical IT products and fully integrated services offerings to some of the world's leading companies. Pivot's operating strategy is designed to help customers optimize their IT operations, minimize their capital spend and reduce maintenance costs. To execute this strategy, Pivot maintains multi-vendor hardware, software and cloud solutions that it resells and leverages its own resources and expertise to offer end-to-end services. By employing this strategy, Pivot 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.

The Company operates with a continuous improvement approach to improve operational efficiencies and maximize the utilization of its service delivery capabilities, as well as expand its service portfolio and capabilities.

The Company's strategy is comprised of several initiatives: (i) continue to build on Pivot's core business of selling IT solutions, both products and services; (ii) enhance Pivot's service portfolio and capabilities, specifically related to services that Pivot delivers; (iii) drive a commercial transformation to improve sales processes and innovation selling; (iv) support customers as they expand internationally; (v) improve cost management; (vi) address legacy issues and (vii) commercialize and monetize the Smart Edge Technology. 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.

Non-IFRS measures

Adjusted EBITDA

Adjusted EBITDA is defined as gross profit less selling and administrative expenses, and corresponds to income before income tax, depreciation and amortization, finance expense, change in fair value of liabilities, and other expense.

Management believes adjusted EBITDA is an important indicator 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.

Adjusted EBITDA is a non-IFRS measure, reconciled to loss before income taxes as follows:

	Three months ended March 31, *(unaudited)*	
	2018	2017
Loss before income taxes	**(2,605)**	(6,120)
Depreciation and amortization	**2,849**	2,811
Finance costs	**1,313**	1,082
Change in fair value of liabilities	**40**	(107)
Other (income) expense, net	**(99)**	784
Adjusted EBITDA	**1,498**	(1,550)

Notes: *Amounts presented are in thousands of U.S. dollars*

First quarter highlights

- Revenues increased $46,843 or 14.5% for Q1 2018 compared to Q1 2017 as a result of increased revenue from non-major customers. Product sales increased $48,544 or 17.2% while service revenues declined $1,701 or 4.3% over Q1 2017.
- Gross profit increased 15.2% for Q1 2018 over Q1 2017. Gross profit margin remained steady at 10.6% quarter over quarter.
- General and administrative expenses increased $2,125 or 6.0% for Q1 2018 compared to Q1 2017.

- Adjusted EBITDA increased $3,048 or 196.6% from a loss of $1,550 in Q1 2017 to income of $1,498 in Q1 2018.
- Pivot generated a loss before tax of $2,605 for Q1 2018, compared to a loss before tax of $6,120 for Q1 2017.
- Pivot incurred a net loss of $2,264 for Q1 2018 compared to a net loss of $4,187 for Q1 2017.
- Pivot generated a loss of $0.06 per share for Q1 2017 compared to a loss of $0.10 per share for Q1 2017.
- On February 20, 2018, the Pivot Board of Directors ("BOD") declared a common share dividend of C$0.04 per common share, for a total of C$1,612, payable on March 15, 2018 to common shareholders of record on February 28, 2018.
- On February 27, 2018, the Company announced it had formed a wholly-owned subsidiary, Smart-Edge.com, Inc. in order to drive the commercial penetration of the patent-pending Smart Edge™ platform.

Outlook for fiscal 2018

Management's outlook is unchanged from that expressed in the MD&A for the three and twelve months ended December 31, 2017. The global economic environment has not changed significantly but some customers remain cautious in their approach to IT investments, however the market appears to be stable. The increased acceptance of cloud computing has created uncertainty in the products side of the industry, while creating opportunity for services. Management believes Pivot's opportunities to create shareholder value through its product and services strategy are robust and the secular trends driving IT spending and particularly spending on solutions and services are positive and are expected to grow in line with the overall market's expected growth rate in 2018. The Company's sales organization is entering the second year of its commercial transformation, whereby it engages customers in a more strategic fashion to develop comprehensive relationships built on the value of selling Pivot's expanded portfolio. The execution of this strategy is intended to create higher value recurring revenue streams over time that offer greater predictability of performance by somewhat reducing the Company's exposure to the capital expenditure cycles of its customers. The intended refinement of the Company's service strategy may not offset capital spending volatility in the short term, although management believes the prospects for product sales are positive.

The Company seeks to leverage its investment in Smart Edge™, focused on driving commercial penetration of the patent-pending Smart Edge™ platform ("Smart Edge"). Smart Edge is an advanced developer platform designed to support enterprise Multi-Access Edge Computing (MEC) solutions and built to operate on Intel technology. It simplifies enterprise-based mobility and delivers an immersive user experience by placing compute, applications and content adjacent to the user. The Smart Edge solution improves user experiences, enables new revenue streams for stakeholders and reduces ongoing Edge Total Cost of Ownership (TCO), all driving factors in the adoption of 5G technologies. The Company completed a proof of concept / use case of the Smart Edge solution in 2017, and during the first quarter of 2018 expanded the test cases by deploying the solution at additional sites for further testing. While the solution still has additional testing hurdles to pass, the initial results are encouraging. Some of the preliminary results included a 40% reduction in WAN utilization, download speeds improved 400% with caching and better network monitoring and data collection capability with a real time dashboard. The Company anticipates it will begin to generate revenues from Smart Edge before the end of 2018.

The Company seeks to continue to expand its position in the global IT market organically and through selected 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 and acquiring shares under the NCIB. The BOD sets the dividend policy after giving consideration to these objectives and the Company's future prospects.

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

	Three months ended March 31, (unaudited)	
	2018	2017
Revenue	**369,266**	322,423
Cost of sales	**329,967**	288,297
Gross profit	**39,299**	34,126
Employee compensation and benefits	**29,595**	28,204
Other selling, general and administrative expenses	**8,206**	7,472
Income (loss) before the following:	**1,498**	(1,550)
Depreciation and amortization	**2,849**	2,811
Finance expense	**1,313**	1,082
Change in fair value of liabilities	**40**	(107)
Other (income) expense, net	**(99)**	784
Loss before income taxes	**(2,605)**	(6,120)
Recovery of income taxes	**(341)**	(1,933)
Loss for the period	**(2,264)**	(4,187)
Income (loss) for the period attributable to non-controlling interests	**205**	(51)
Loss for the period attributable to shareholders	**(2,469)**	(4,136)
Other comprehensive income		
Items that may be reclassified subsequently to income for the period:		
Exchange gain on translation of foreign operations	**21**	3
	21	3
Total comprehensive loss	**(2,243)**	(4,184)
Total comprehensive loss attributable to shareholders	**(2,448)**	(4,133)
Loss per common share:		
Loss available to common shareholders	**(2,469)**	(4,136)
Basic	**$ (0.06)**	$ (0.10)
Diluted	**$ (0.06)**	$ (0.10)
Total assets	**469,176**	449,972
Total current non-financial liabilities	**33,145**	38,572
Cash dividends declared on common shares	**1,259**	1,245

Note: *Amounts presented are in thousands of U.S. dollars, except per share amounts*

FINANCIAL AND OPERATING RESULTS

Following is an analysis of the Company's results for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Revenue and gross profit

	Three months ended March 31, *(unaudited)*	
	2018	2017
Product sales	**331,549**	283,005
Service revenues	**37,717**	39,418
Total revenue	**369,266**	322,423
Cost of sales	**329,967**	288,297
Gross profit	**39,299**	34,126

Notes: Amounts presented are in thousands of U.S. dollars

Total revenues of $369,266 increased 14.5%, or $46,843 for the three months ended March 31, 2018 as compared to the same period in the prior year. While sales to major customers declined $7,055 quarter over quarter sales to non-major customers increased by $53,898.

Product sales of $331,549 increased $48,544 or 17.2% for the three months ended March 31, 2018 over the same period in the prior year. The Company's ProSys segment was the major contributor, with increased product sales quarter over quarter of $41,571, primarily within their existing customer base.

Service revenues of $37,717 decreased by $1,701 or 4.3% for the three months ended March 31, 2018 as compared to same period in the prior year. The decline was attributable to reduced revenue from OEM maintenance contracts of $2,275, partially offset by an increase in Pivot provided services of $574.

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 and timing of service delivery within our professional services category. Service revenues can also be impacted quarterly due to customer requirements relating to bundling of product and service offerings and the timing of their investment needs.

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. 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 decreased margin to generate increased revenues and maintain strong relationships.

Major customers represented $116,911 or 31.7%, and $123,966 or 38.4% of total revenues for the three months ended March 31, 2018 and 2017, respectively.

Cost of sales and gross profit

Cost of sales of $329,967 increased $41,670 or 14.5% over the same quarter in the prior year, and were in line with overall increases in revenue. Gross profit of $39,299 increased $5,173 or 15.2%.

While quarter over quarter, gross profit margins remained unchanged at 10.6%, Q1 2018 margins were positively impacted by the consolidation of Applied Computer Solutions ("Applied"), and lower service costs, offset by a decrease in OEM maintenance agreement revenue. *See INTERESTS IN OTHER ENTITIES, Applied Computer Solutions, Inc.*

Selling and administrative expenses

	Three months ended March 31, *(unaudited)*	
	2018	2017
Employee compensation and benefits	**29,595**	28,204
Other selling and administrative expenses	**8,206**	7,472
	37,801	35,676

Notes: *Amounts presented are in thousands of U.S. dollars*

Selling and administrative expenses ("SG&A") for the three months ended March 31, 2018 increased $2,125 or 6.0% to $37,801 over the same period in the prior year. The increase is due to a number of factors, including, but not limited to:

- Increased headcount, primarily in services to support the Company's strategy to enhance Pivot's service portfolio and capabilities.
- Increased commissions related to the increase in gross profit for Q1 2018 over Q1 2017.
- The acquisition and subsequent consolidation of Applied on September 1, 2017 which resulted in increased SG&A in Q1 2018.

Finance expenses

Finance expenses increased $231 or 21.3% to $1,313 for the three months ended March 31, 2018, respectively, over the same period in the prior year.

Finance expenses, which consist primarily of interest rates on the Company's senior secured credit facility with JPMorgan Chase Bank, N.A. ("JPMC"), were impacted by higher overall interest rates, which increased on average 0.23% for the three months ended March 31, 2018, as compared to the same period in the prior year. Average borrowings on the JPMC facility were $123,142 and $98,052 for the three months ended March 31, 2018 and 2017, respectively. Management is continually exploring alternatives to minimize the impact of future rate increases. *(See Interest rate forward swap agreements)*

Change in fair value of liabilities

	Three months ended March 31, *(unaudited)*	
	2018	2017
Interest rate swap	**(234)**	(337)
Contingent consideration	**274**	230
	40	(107)

Notes: *Amounts presented are in thousands of U.S. dollars*

For the three months ended March 31, 2018, the fair value of liabilities increased $147 or 137.4% over the same period in the prior year.

On April 3, 2014 the Company entered into an interest rate forward swap agreement to mitigate the risk of fluctuating interest rates. The fair value of the swap liability represents the cost to exit the swap and was $271 as at March 31, 2018 compared to $505 as at December 31, 2017. The change in fair value of the swap liability decreased $103 or 30.6% for the three months ended March 31, 2018 over the same period in the prior year. *(See Secured borrowings)*

The change in the fair value of contingent consideration relates to financial liabilities arising from the business acquisition of TeraMach on October 1, 2016, and the Cloudscapes asset acquisition on July 1, 2017. Both acquisitions are currently on track to meet the requirements for full payment of their 2018 contingent consideration, and correspondingly, the Company recorded expense of $274 for contingent consideration, which represents an increase of $44 or 19.1% for the three months ended March 31, 2018 as compared to the same period in the prior year. *(See Contingent consideration)*

Other (income) expense, net

	Three months ended March 31, *(unaudited)*	
	2018	**2017**
Foreign exchange (gain) or loss	**(694)**	307
Other expense	**595**	477
	(99)	784

Notes: *Amounts presented are in thousands of U.S. dollars*

Other (income) expense, net decreased $883 or 112.6% for the three months ended March 31, 2018 over the prior year. The primary reason for the decrease is due to a net gain on foreign exchange translation associated with the Canadian Dollar.

Recovery of income taxes

	Three months ended March 31, *(unaudited)*	
	2018	**2017**
Current tax expense	**(347)**	(2,507)
Deferred tax expense	**6**	574
	(341)	(1,933)

Notes: *Amounts presented are in thousands of U.S. dollars*

The recovery of income tax decreased $1,592 or 82.4% for the three months ended March 31, 2018, as compared to the same period in the prior year. The decrease is attributable to an increase in earnings before tax of $3,515 over Q1 2017, offset by decreases in the US Federal tax rate from 35% to 21%, which became effective for the Company as of January 1, 2018

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, (unaudited)							
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Revenues	**369,266**	399,407	389,077	400,734	322,423	394,006	365,473	373,708
Gross profit	**39,299**	48,878	42,797	42,950	34,126	48,458	42,857	46,636
Adjusted EBITDA (2)	**1,498**	11,125	7,251	7,292	(1,550)	8,457	6,317	9,123
Net income (loss)	**(2,264)**	(2,586)	(813)	1,958	(4,187)	2,888	(3,239)	(215)
Income (loss) per share:								
Basic	**($0.06)**	($0.07)	($0.02)	$0.05	($0.10)	$0.06	($0.08)	($0.01)
Diluted	**($0.06)**	($0.07)	($0.02)	$0.05	($0.10)	$0.05	($0.08)	($0.01)
Cash dividends declared on common shares	**1,259**	1,246	1,288	1,194	1,245	1,242	1,292	1,312
Total assets (1)	**469,176**	527,883	478,347	519,117	449,972	496,966	447,121	501,875
Total current non-financial liabilities (1)	**33,145**	33,632	33,374	35,084	38,572	38,673	37,310	39,454

Notes: *Amounts presented are in thousands of U.S. dollars, except per share amounts*

(1) Amounts as at period date

(2) Non-IFRS measure (See Non-IFRS measures)

The table above shows 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 quarter to quarter. This is driven by a variety of factors including timing of capital-related spending by large customers who often use budgeted funds before the end of their fiscal periods. Accordingly, 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. Additionally, OEMs tend to create higher sales activity at their own year ends as steeper discounts tend to be offered to incentivize higher volumes.

LIQUIDITY AND CAPITAL RESOURCES

Pivot's capital requirements consist primarily of working capital necessary to fund operations and capital to finance the cost of strategic acquisitions. Sources of funds available to meet these requirements include existing cash balances, cash flow from operations and secured borrowings. Pivot must generate sufficient earnings and cash flow from operations to satisfy its covenants in order to provide access to additional capital under its secured borrowings. Failure to do so would adversely impact Pivot's ability to pay current liabilities and comply with covenants applicable to its secured borrowings (see details of covenants in *"Secured borrowings"*).

As at March 31, 2018 and December 31, 2017, total cash on hand was $3,983 and $5,248, respectively. As at March 31, 2018 and December 31, 2017, amounts borrowed under existing credit facilities were $127,593 and $135,481, respectively. There were working capital deficiencies of $75,869 and $75,558 as at March 31, 2018 and December 31, 2017, respectively. The working capital deficiencies originate from bank financings obtained to fund business acquisitions in previous years. Due to the fact that the borrowing rate on the Company's secured credit facility is favorable compared to market terms on long-term debt, the Company continues to strategically finance the investments related to its business acquisitions using its short-term facility.

Average undrawn availability on existing, secured credit facilities was $83,805 and $69,762 for the periods ended March 31, 2018 and December 31, 2017, respectively**.**

Cash flow analysis

	Three months ended March 31, *(unaudited)*	
	2018	2017
Cash provided by operating activities	**16,243**	52,009
Cash used in investing activities	**(471)**	(707)
Cash used in financing activities	**(17,049)**	(51,710)
Net decrease in cash and cash equivalents	**(1,277)**	**(408)**
Cash and cash equivalents at the beginning of the period	**5,248**	8,153
Effect of foreign exchange fluctuations on cash held	**12**	(80)
Cash and cash equivalents at the end of the period	**3,983**	**7,665**

Note: *Amounts presented are in thousands of U.S. dollars*

Cash provided by operating activities decreased $35,766 for the three months ended March 31, 2018, as compared to the same period in the prior year. The decrease was primarily due to 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 credit line, which are captured in financing activities.

Cash used in investing activities decreased $236 for the three months ended March 31, 2018, as compared to the same period in the prior year. Changes were driven by reductions in capital expenditures over the prior year.

Cash used in financing activities is comprised of borrowings on secured and unsecured debt facilities, changes in banking overdrafts, dividend payments, proceeds from issuance of common shares related to the exercise of options, and stock repurchases. Cash used in financing activities decreased by $34,661 for the three months ended March 31, 2018 as compared to the same period in the prior year. The movement in financing cash outflows was primarily driven by movements in net borrowing associated with Pivot's secured borrowing arrangements. As noted above, the revolving credit line tends to fluctuate inversely with the changes in working capital and cash from operations.

Days sales outstanding ("DSO") were 60 and 52 days at March 31, 2018 and December 31, 2017, respectively. Receivables and collections are closely monitored against expected cash flow. The increase in DSO is driven by larger customers demanding longer payment terms.

Days payables outstanding ("DPO") were 49 and 43 days at March 31, 2018 and December 31, 2017, respectively. The Company works closely with its vendors to share the cashflow implications when customers require longer payment terms, which partially contributed to the increase in DPO. In addition, the Company began utilizing a purchasing card ("PCard") with one of its major vendors in 2017. Previously, the vendor required prepayment when certain large volume orders were placed which could take up to four to six weeks to ship. Under the PCard facility, the vendor charges the card when the product is shipped, providing the Company an extended timeframe to pay for these purchases.

Secured borrowings

Flooring agreement

ARC Acquisition (US), Inc. ("ARC"), a wholly-owned subsidiary of the Company, entered into a secured flooring agreement with IBM Credit LLC ("IBM") on August 10, 2011, which provides short-term accounts payable financing. The IBM secured flooring agreement previously allowed up to $15,000 in advances on purchases from approved vendors. The agreement was amended and restated on July 6, 2017, and now allows for up to $2,500 in advances on purchases from approved vendors, which maximum advance amount may be changed by IBM in its discretion. Approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. Currently, the Company incurs interest on the outstanding balance at LIBOR plus 4.5% after a free financing period of 60 days, but the interest rate and free financing period may be changed at IBM's discretion. $532 and $648 were outstanding under the IBM secured flooring agreement as at March 31, 2018 and December 31, 2017, respectively. Under the original flooring agreement, the Company was required to maintain certain financial ratios, and was not in compliance as at June 30, 2017 or March 31, 2017. The Company received waivers from IBM after the balance sheet dates to cure each of the compliance related issues. The amended and restated agreement does not impose any financial covenants on the Company. All amounts under this arrangement are included in current liabilities.

Revolving credit facilities

JPMC credit facility

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by 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, 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 1.50% to 1.75%. 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. On July 20, 2017, a fourth amendment was completed, increasing the amount the Company can have outstanding in investments at any one time to $100.

Under the terms of the JPMC Credit Facility, the covenants require that the Company maintain a Fixed Charge Coverage Ratio of at least 1.1 to 1 on a trailing twelve month basis, triggered in the event that availability is less than 12.5% of the revolving commitment until such time that availability has been greater than 12.5% of the revolving commitment for thirty consecutive days.

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 Company was in compliance with all applicable covenants at March 31, 2018 and December 31, 2017.

The Company had availability to borrow under its revolving credit facilities of $34,501 and $87,698 as at March 31, 2018 and December 31, 2017, respectively, after giving effect to borrowing base limitations, swing loans and letters of credit issued. Amounts owing under the Company's revolving credit facilities were $127,593 and $135,481 as at March 31, 2018 and December 31, 2017, respectively. In addition, a letter of credit for $250 was outstanding at both March 31, 2018 and December 31, 2017.

Interest rate forward swap agreements

The Company is subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness, loans and borrowings. Interest rates fluctuate in response to general economic conditions and policies imposed by governmental and regulatory agencies. The Company's principal interest bearing obligations are its borrowings under the JPMC Credit Facility. Amounts outstanding under the JPMC Credit Facility bear interest based on a floating rate. An increase of 100 basis points to the interest rate applicable to the Company's floating rate obligations under the JPMC Credit Facility would have resulted in an increase of $180 and $120 during the three months ended March 31, 2018 and 2017, respectively. Sustained increases in interest rates could have a material adverse impact on the Company's financial condition and results of operations.

The Company entered into an interest rate forward swap agreement ("Swap") with JPMC to mitigate the risk of fluctuating interest rates. The Swap contains cross covenant restrictions, requiring that the Company be in compliance with the JPMC Credit Facility.

Under the terms of the Swap, the interest rate 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.

Interest incurred under the Swap totaled $159 and $254 for the three months ended March 31, 2018 and 2017, respectively. The fair value of the Swap was determined to be $271 and $505 as at March 31, 2018 and December 31, 2017, respectively. The fair value represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

Contingent consideration

TeraMach

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach Systems Inc., 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Technologies Inc., collectively "the TeraMach Group". The contingent consideration is dependent on the the TeraMach Group achieving certain performance targets during four consecutive twelve month periods ending September 30, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be $3,324. As at March 31, 2018 and December 31, 2017, the fair value of the consideration was determined to be $3,490 and $3,326, respectively. The Company recorded a charge of $252 and $230 related to the change in fair value of the consideration during the three month periods ended March 31, 2018 and 2017, respectively. This charge was impacted by a foreign currency translation adjustment of ($88) and $34 during the three month periods ended March 31, 2018 and 2017, respectively. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C$7,000 as at March 31, 2018 and December 31, 2017. Payments of the remaining consideration are required to be made within five business days of Board approval of the Company's annual financial statements. No payments were made during the three months ended March 31, 2018 and 2017.

Cloudscapes

On July 1, 2017, the Company executed an Asset Purchase Agreement in order to acquire certain customer accounts, contracts, agreements and other arrangements of Cloudscapes Consulting, Inc. ("Cloudscapes"). The agreed upon purchase price for the acquired Cloudscapes assets was up to $1,350. $100 was paid upon acquisition with the remaining $1,100 to be paid over eleven quarters at up to $100 per quarter, commencing on October 1, 2017 and ending on April 30, 2020. Additionally, if certain targets are achieved, a bonus of $150 could be paid.

At the date of acquisition, the fair value of the contingent liability was determined to be $1,003. As at March 31, 2018 and December 31, 2017, the fair value of the consideration was determined to be $852 and $930. The Company recorded a charge of $22 related to the change in fair value of the consideration during the three month period ended March 31, 2018. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is $1,050. Payments of $100 were made during the three month period ended March 31, 2018

Contractual commitments

The following table summarizes Pivot's contractual obligations as at March 31, 2018:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	15,235	-	-	-	-	**15,235**
Secured borrowings	127,593	-	-	-	-	**127,593**
Accounts payable and accrued liabilities	-	261,548	-	-	-	**261,548**
Operating leases	-	4,962	5,084	9,915	4,458	**24,419**
Contingent consideration	-	2,226	2,503	1,551	-	**6,280**
Interest rate swap	-	271	-	-	-	**271**
	142,828	**269,007**	**7,587**	**11,466**	**4,458**	**435,346**

Note: *Amounts presented are in thousands of U.S. dollars*

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 in the event the Company undertakes future acquisitions.

Share capital

Authorized capital

The Company's authorized capital consisted of an unlimited number of voting common shares and preferred shares, with no par value. As at May 11, 2018, the Company had 40,122,869 common shares issued and outstanding.

Cancellation of common shares

The Company has cancelled shares repurchased from former directors, and under the NCIB during 2017 and 2018 as follows:

	Cancellation date	# of Shares cancelled	Average price per share	Total cost of shares
Shares repurchased under the NCIB	February 1, 2017	80,800	C$1.65	C$133
Shares repurchased under the NCIB	February 28, 2017	40,200	C$1.60	C$64
Shares repurchased under the NCIB	March 28, 2017	67,100	C$1.50	C$101
Shares repurchased under the NCIB	April 3, 2017	61,900	C$1.65	C$102
Shares repurchased from former directors	April 12, 2017	750,000	C$1.50	C$1,125
Shares repurchased from former directors	April 18, 2017	170,313	C$1.50	C$255
Shares repurchased under the NCIB	August 1, 2017	36,500	C$2.24	C$82
Shares repurchased under the NCIB	August 31, 2017	23,800	C$2.47	C$59
Shares repurchased under the NCIB	September 27, 2017	63,600	C$2.37	C$151
Shares repurchased under the NCIB	October 26, 2017	30,800	C$2.49	C$77
Shares repurchased under the NCIB	November 28, 2017	226,100	C$2.38	C$539
Shares repurchased under the NCIB	April 27, 2018	231,000	C$1.97	C$458
		1,782,113	C$1.77	C$3,146

Note: *Amounts presented are in thousands of Canadian dollars, except share amounts*

Stock options

On June 21, 2016, the shareholders approved the amended Incentive Stock Option Plan (“Plan”) under which directors, officers, employees and consultants (“Participants”) of the Company and its subsidiaries are eligible to receive incentive and non-qualified stock options. The Plan is a “10% rolling plan” in that it continuously provides for the reservation of a number of common shares under the Plan equal to 10% of the Company’s issued and outstanding common shares less any common shares reserved for issuance pursuant to other security based compensation arrangements. The available pool of shares that can be currently issued under the Plan (including shares reserved in respect of options currently outstanding and shares reserved for issuance pursuant to the Company’s Restricted Stock Unit plan as described below) as at May 11, 2018 is 3,714,559, assuming no shares are reserved for issuance pursuant to any other share compensation arrangement adopted by the Company. The exercise price of each option is subject to BOD approval but shall not be less than the market price at the time of grant.

The BOD has granted a total of 2,597,500 options to Participants as follows:

Grant date	Expiration date	Vesting period	# of Options	Exercise price
June 21, 2016	June 20, 2026	Over 2 years	1,987,500	C$1.60
August 31, 2016	August 30, 2026	Over 2 years	150,000	C$1.96
December 22, 2016	December 21, 2026	Over 1 year	25,000	C$1.73
June 30, 2017	June 29, 2022	Over 3 years	425,000	C$2.47
August 8, 2017	August 8, 2022	Over 3 years	10,000	C$2.61

Note: *Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

A summary of the status of the Company's stock option plan as at March 31, 2018 and 2017 and during the three month periods then ended is as follows:

	2018		**2017**	
	# of options	**Weighted average exercise price**	**# of options**	**Weighted average exercise price**
Options outstanding at January 1	**1,946,875**	**C$1.79**	2,162,500	C$1.63
Options granted	**-**	**-**	-	-
Options forfeited	**(29,166)**	**C$1.60**	(75,000)	C$1.60
Options exercised	**(65,625)**	**C$1.60**	-	-
Options outstanding at March 31	**1,852,084**	**C$1.80**	2,087,500	C$1.63
Options exercisable at March 31	**1,014,594**	**C$1.60**	798,967	C$1.63

Note: *Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

Restricted stock units

The Company has adopted a Restricted Stock Unit ("RSU") plan that allows the Company to award RSUs to Participants upon such conditions as the BOD may establish. The effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by the shareholders on June 21, 2016. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, restrictions, time periods or other conditions established by the BOD. The maximum aggregate number of shares that may be issued under the restated plan pursuant to the exercise of RSUs shall not exceed 1,250,000 shares. The maximum number of common shares which may be reserved and set aside for issuance upon the grant or exercise of RSU or stock option awards under the plan is 10% of the Company's common shares issued and outstanding from time to time on a non-diluted basis.

On June 30, 2017, the BOD granted 385,000 RSUs to Participants at a price of C$2.47, and 5,000 RSUs to Participants at a price of C$2.61 on August 8, 2017. These RSUs vest over a three year term. Within 60 days of the vesting date, the Participant shall have the right to receive, at the sole election of the Company, payment for the RSUs by any of the following methods or by a combination of such methods: (i) a cash payment equal in value to the number of RSUs recorded in the Participant's account multiplied by the weighted average trading price of the common shares for the five days preceding the vesting date; or (ii) one common share multiplied by the number of RSUs recorded in the Participant's account, issued from treasury and subject to the receipt of necessary approvals, less applicable withholdings in all cases.

A summary of the status of the Company's RSU plan as at March 31, 2018 and during the three month period then ended is as follows:

	# of RSU's	**Weighted average exercise price**
Units outstanding at January 1, 2018	355,000	C$2.47
Units granted	-	-
Units vested	-	-
Units forfeited	-	-
Units outstanding at March 31, 2018	**355,000**	**C$2.47**

Note: *Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

Normal course issuer bid

On March 30, 2016, the Company obtained the approval of the TSX-V to implement an NCIB for its common shares. On November 28, 2016, the TSX confirmed its acceptance of the Company's existing NCIB upon the Company's graduation to the TSX. The Company received approval to acquire up to 2,097,332 common shares under the NCIB, representing 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. The Company was able to repurchase a total of 1,160,574 common shares under this NCIB prior to its termination. All common shares acquired under the NCIB were acquired at the market price of the securities at the time of acquisition. The common shares so acquired were cancelled. Purchases pursuant to the NCIB were made by Cantor Fitzgerald Canada Corporation on behalf of the Company.

On June 8, 2016, the Company entered into an automatic share purchase plan with Cantor Fitzgerald for the purpose of permitting the purchase of common shares under the NCIB at times when the Company would not be permitted to purchase shares, including regularly scheduled quarterly blackout periods. Such purchases were determined by Cantor Fitzgerald in its sole discretion based on parameters established prior to any blackout period, in accordance with rules of the TSX-V and applicable securities laws.

On March 27, 2017, the BOD approved the implementation of a second NCIB, which allows Pivot to repurchase for cancellation up to 10% of the Company's issued and outstanding common shares (excluding shares held by principal shareholders, directors and senior officers) during the twelve months ending June 21, 2018.

On May 12, 2017, the Company entered into an automatic share purchase plan with Echelon Wealth Partners, Inc. ("Echelon"), for the purpose of permitting the purchase of common shares under the 2017 NCIB at times when the Company would not be permitted to purchase shares, including regularly scheduled quarterly blackout periods. Such purchases will be determined by Echelon in its sole discretion based on parameters established prior to any blackout period, in accordance with rules of the TSX and applicable securities laws.

On June 19, 2017, the Company obtained the approval from the TSX to proceed with its second NCIB to repurchase up to 3,820,852, or approximately 10% of the Company's issued and outstanding common shares (excluding shares held by principal shareholders, directors and senior officers) at prevailing market prices during the twelve months ending June 21, 2018. The Company has repurchased and subsequently cancelled 611,800 common shares under its second NCIB through May 11, 2018. *See Cancellation of common shares.*

Common share dividends

On February 25, 2015, the BOD approved the initiation of a quarterly common share dividend. Common share dividends were declared and paid during 2017 and 2018 as follows:

Declaration date	Record date	Distribution date	Per share amount	Total dividend
February 16, 2017	March 3, 2017	March 15, 2017	C$0.04	C$1,654
May 9, 2017	May 31, 2017	June 15, 2017	C$0.04	C$1,612
August 8, 2017	August 31, 2017	September 15, 2017	C$0.04	C$1,614
November 13, 2017	November 30, 2017	December 15, 2017	C$0.04	C$1,606
February 20, 2018	February 28, 2018	March 15, 2018	C$0.04	C$1,612

Note: *Amounts presented are in thousands of Canadian dollars, except share and per share amounts*

As at March 31, 2018, the issued share capital amounted to $85,642. The changes in issued shares for the period ended March 31, 2018 were as follows:

	# of Common shares
As at January 1, 2018	40,229,930
Stock options exercised	65,625
As at March 31, 2018	**40,295,555**

Note: *Share amounts are unrounded*

Off-balance sheet arrangements and derivative financial instruments

Pivot's off-balance sheet arrangements are comprised of operating leases entered into in the normal course of business. Pivot has no other off-balance sheet arrangements. Pivot does not enter into the speculative use of derivatives.

Financial instruments and other instruments

Other than the Swap agreement described under *Liquidity and Capital Resources – Secured borrowings*, the Company is not a party to financial instruments.

INTERESTS IN OTHER ENTITIES

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

		Equity Interest	
Name	**Jurisdiction**	**Q1 2018**	**2017**
ACS Holdings (Canada) Inc.	Canada	100%	100%
Pivot Acquisition Corporation	Canada	100%	100%
1955714 Ontario Inc.	Canada	100%	100%
Infoptic Technology Inc.	Canada	100%	100%
TeraMach Systems Inc.	Canada	100%	100%
TeraMach Technologies Inc.	Canada	100%	100%
Pivot of the Americas S.A. de C.V.	Mexico	100%	100%
Pivot Research Ltd.	Jersey	100%	100%
Pivot Shared Services Ltd.	Ireland	100%	100%
Pivot Technology Solutions Hong Kong Limited (1)	Hong Kong	100%	100%
Pivot Technology Solutions Singapore PTE. LTD. (2)	Singapore	100%	100%
Pivot Technology Solutions, Ltd.	United States	100%	100%
ACS (US) Inc.	United States	100%	100%
Applied Computer Solutions, Inc.	United States	40%	40%
New ProSys Corp. (3)	United States	100%	100%
ProSys Information Systems Inc.	United States	46%	45%
ARC Acquisition (US) Inc.	United States	100%	100%
Sigma Technology Solutions Inc.	United States	100%	100%
Smart-Edge.com, Inc. (4)	United States	100%	-

(1) Pivot Technology Solutions Hong Kong Limited was deregistered and dissolved effective April 13, 2018.

(2) Pivot Technology Solutions Singapore Pte. LTD was deregistered and dissolved effective January 8, 2018.

(3) ProSys Information Systems, Inc. purchased and subsequently cancelled 24,000 of its own shares from a former shareholder, which represented a 3% stake in the company. The cancellation resulted in a 1.2% increase to Pivot's total ownership..

(4) Smart-Edge.com, Inc., was incorporated January 12, 2018.

ProSys Information Systems, Inc. ("Old ProSys")

Old ProSys is a 46.4% owned affiliate of the Company, whose principal office is located in Norcross, Georgia, United States of America. Despite not owning a majority of the voting rights, management has determined that the Company controls this entity, based on the following facts and circumstances:

- Pivot has the right to acquire, at any time, the remaining shares of Old ProSys it does not already own.
- Any significant decision made at Old ProSys requires Pivot's agreement, including changes to its board of directors, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of $100, causing any material change in the business, and/or assigning or termination of any material agreement.
- Pivot receives the majority of the benefits from the activities of Old ProSys (95%+ of net income historically from Old ProSys).

The Company has certain contractual arrangements with Old ProSys which provide the Company the majority of the variable returns from Old ProSys activities. In addition, the Company holds a majority of the director and officer positions, which provide control on a de facto power basis.

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 $91,198 and $57,168 for the three months ended March 31, 2018 and 2017, respectively. Amounts due from Old ProSys were $68,712 and $95,904 as at March 31, 2018 and December 31, 2017, respectively.

The following table summarizes the financial information of Old ProSys, as included in its own financial statements:

	Three months ended March 31, *(unaudited)*	
	2018	**2017**
Current assets	74,582	42,115
Non-current assets	-	-
Current liabilities	68,712	36,500
Non-current liabilities	-	-
Net assets	**5,870**	**5,615**
Revenue	91,198	57,168
Total Comprehensive Income (Loss)	**85**	**(93)**
Cash provided by operating activities	27,192	25,860
Cash (used in) investing activities	-	-
Cash used in financing activities	(27,192)	(25,860)
Net increase (decrease) in cash and cash equivalents	-	-

Note: *Amounts presented are in thousands of U.S. dollars*

Applied Computer Solutions, Inc.

On September 1, 2017, the Company acquired 40% of the issued and outstanding share capital of Applied for consideration of $14,202. Applied's principal office is located in Huntington Beach, California, United States of America. Despite not owning a majority of the voting rights, management has determined that the Company controls this entity for accounting purposes, based on the following facts and circumstances:

- Pivot has the right in its sole discretion to either acquire, at any time, shares of Applied that 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.
- Any significant decision made at Applied requires Pivot's agreement, including board changes, payment of dividends, mergers or acquisitions, material changes to compensation, incurring debt in excess of $100, causing any material change in the business, and/or assignment or termination of any material agreement.
- The Applied board of directors is made up of a majority of Pivot employees.

Prior to the acquisition of 40% of Applied, the Company was deemed to have primary exposure for the significant risks and rewards associated with sales by Applied to its third-party customers until August 31, 2017. The Company recognized this revenue on a gross basis.

Total sales attributable to the activities of Applied were $84,002 and $48,266 for the three months ended March 31, 2018 and 2017, respectively. Amounts due from Applied were $14,117 and $14,883 as at March 31, 2018 and December 31, 2017, respectively.

The following table summarizes the post-acquisition financial information of Applied, as included in its own financial statements:

	Three months ended March 31, *(unaudited)* **2018**
Current assets	42,472
Non-current assets	19,654
Current liabilities	59,135
Non-current liabilities	1,903
Net assets	**1,088**
Revenue	84,002
Total comprehensive income	**263**
Cash used in operating activities	(410)
Cash used in investing activities	-
Cash used in financing activities	(49)
Net decrease in cash and cash equivalents	(459)

Note: *Amounts presented are in thousands of U.S. dollars*

The contractual arrangements with Applied and Old ProSys as described above accounted in aggregate for 47.4% and 32.7%, of the overall Pivot revenues for the three months ended March 31, 2018 and 2017, respectively. The contractual arrangements with Applied may be terminated by either party upon notice to the other.

RELATED PARTIES

ACS incurred $375 for each of the three month periods ended March 31, 2018 and 2017, for research and development provided by a related entity where the president of ACS has significant influence. Amounts payable were nil and $375 as at March 31, 2018 and December 31, 2017, respectively.

SUMMARY COMPENSATION TABLE

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

	Three months ended March 31,	
	(unaudited)	
	2018	2017
Compensation	**447**	403
Annual incentive plans	**292**	346
Share-based compensation	**45**	31
Other compensation	**209**	201
	993	981

Note: *Amounts presented are in thousands of U.S. dollars*

OTHER MATTERS

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

Pivot has no ownership interest in GTS. Pursuant to the terms of the Administrative Services Agreement between ARC and GTS, which terminated on August 30, 2016, ARC had a right to variable returns in the form of fees based on GTS' performance. Pivot also provided financing and certain financial guarantees for the benefit of GTS during the course of the relationship.

ARC had certain contractual arrangements with GTS, whose activities were consolidated with those of the Company ("ARC Segment"). 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 1, 2016, the Company was deemed to have effectively lost control over GTS for accounting purposes. The amount due from GTS was $5,978 as at March 31, 2018 and December 31, 2017. The Company established a reserve of $5,978 during Q3 2016, which has remained in place through March 31, 2018.

On November 23, 2016, a lawsuit was filed by the Company's affiliates seeking damages and other relief for breaches of various contracts, statutory violations and torts against a number of parties, including, but not limited to: GTS, certain GTS employees, GTS' owner and GTS' former shareholders (the "Unfair Competition Lawsuit"). The Company intends to vigorously pursue this matter to recover damages incurred by Pivot Technology Solutions, Ltd. ("PTSL"), ARC and Pivot Acquisition Corporation ("PAC") in connection with the relationship with GTS. Because the Company has not formed a conclusion as to whether a favorable outcome is either probable or remote, the Company cannot express an opinion as to the likelihood of a favorable outcome or the amount or range of any possible recovery or costs associated with this matter. In the Unfair Competition Lawsuit, GTS, Laura Grant, Ryan Grant and Anne Fielding have filed counterclaims against PTSL, ARC and PAC, including claims for breaches of the GTS Agreements, tortious interference with contractual relations, defamation and conversion. All parties have filed motions to dismiss under the Texas Citizens Participation Act ("TCPA"). The District Court denied GTS' motion to dismiss under the TCPA. GTS has appealed this ruling, which appeal is pending. While the Company intends to vigorously defend against the counterclaims that have been asserted, it has not formed a conclusion as to whether a favorable outcome is either probable or remote, and the Company cannot express an opinion as to the likelihood of a favorable outcome or the amount or range of any possible recovery or costs associated with this matter.

On December 29, 2017, ARC filed a second lawsuit against GTS asserting that GTS breached its contractual obligations to ARC by failing to pay the fees it was obligated to pay under the Amended and Restated Licensing Agreement, Amended and Restated Administrative Services Agreement and Amended and Restated Distribution Agreement ("Breach of Contract Lawsuit"). The Breach of Contract Lawsuit alleges damages in excess of $8.2 million. GTS has generally denied the claims and has sought to consolidate the Breach of Contract Lawsuit with the Unfair Competition Lawsuit. The Court denied GTS' motion to consolidate the Breach of Contract Lawsuit with the Unfair Competition Lawsuit at this stage but has stayed discovery in the Breach of Contract Lawsuit until the Court issues a ruling on the appeal in the Unfair Competition Lawsuit. ARC intends to vigorously pursue this matter to recover fees it is owed in connection with the relationship with GTS. Because the Company has not formed a conclusion as to whether a favorable outcome is either probable or remote, the Company cannot express an opinion as to the likelihood of a favorable outcome or the amount or range of any possible recovery or costs associated with this matter.

RISKS AND UNCERTAINTIES

The Company's business is subject to a number of risk factors which are described in Annual Information Form for the year ended December 31, 2017 available at sedar.com under the Company's profile. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

CRITICAL ACCOUNTING ESTIMATES

Preparing the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates, judgments and assumptions are evaluated on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that management believes are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those estimates.

By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the audited consolidated financial statements of future periods. Estimates and accounting judgments are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.

In making these estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with those in the prior year, and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized.

The accounting policies that reflect management's more significant estimates, judgments and assumptions which managment believes are the most critical to aid in fully understanding and evaluating reported financial results are discussed below.

Revenue recognition

Multi-element or bundled contracts require an estimate of the relative fair value of separate elements. The Company has a limited number of these arrangements, and assesses the criteria for the recognition of revenue related to arrangements that have multiple components. These assessments require judgment by management to determine if there are separately identifiable components as well as how to allocate the total price among the components. Deliverables are accounted for as separately identifiable components if they can be understood without reference to the series of transactions as a whole. In concluding whether components are separately identifiable, management considers the transaction from the customer's perspective. Among other factors, management assesses whether the service or product is sold separately by the Company in the normal course of business or whether the customer could purchase the service or product separately. See section on IFRS 15 Revenue from Contracts with Customers below.

Impairment

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.

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.

Other significant assumptions include revenue and operating margin, which are 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 takes into account the expected impact from new product initiatives, customer retention and efficiency initiatives. The Company uses earnings multiples for its CGUs similar to the range for benchmark companies.

Income taxes

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

AMENDED ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2018

The Company adopted new amendments to the following accounting standards effective for our interim and annual consolidated financial statements commencing January 1, 2018. These changes did not have a material impact on our financial results.

- IFRS 2, Share-based payment
- IFRIC 22, Foreign currency transactions and advance consideration

New Accounting Standards

Pivot applied, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require assessment and potential restatement of previous financial statements, where transition adjustments exist. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Pivot adopted IFRS 15 using the modified retrospective method of adoption. There was no quantitative impact from the adoption of IFRS 15.

The Company generates revenue from distributing storage devices and systems as well as computer products and peripherals. The Company also provides value-added services such as design, integration, installation, maintenance and other consulting services, consolidated with a variety of storage and computer hardware and software products.

The Company assesses its revenue arrangements in order to determine if it is acting as a principal or agent. In arrangements where the Company is acting as agent, revenue is recorded net of the related costs.

The following specific recognition criteria must also be met before revenue is recognized:

Product sales

Sales of products to customers generally include one performance obligation. Pivot has concluded that the revenue from sale of products should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the product. Therefore, the adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

Service revenue

Revenue is recognized when receivable under a contract following delivery of a service or in line with the stage of the work completed. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated hours for each contract.

At the time the Company enters into contracts with third-party service providers or vendors, the Company determines whether it acts as a principal in the transaction and controls the service prior to its transfer to the customer or if it is simply acting as an agent or broker. Where the Company is not the primary obligor for the maintenance contracts performed by third parties, these arrangements do not meet the criteria for gross revenue presentation and, accordingly, are recorded on a net basis. Revenue on maintenance contracts performed by internal resources is recognized on a gross basis rateably over the term of the maintenance period.

When a single sales transaction requires the delivery of more than one product or service, the revenue recognition criteria are applied to the separately identifiable performance obligations within the contract. A performance obligation is considered to be separately identifiable if the product or service delivered is capable of being distinct on its own and is distinct within the context of the contract. The amount recognized as revenue is based on the relative stand-alone selling price of each separately identifiable performance obligation in the contract.

IFRS 9 Financial Instruments: Classification and Measurement (IFRS 9)

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Previously under IAS 39, the Company's financial assets and financial liabilities included cash and cash equivalents, accounts receivable, bank overdraft, accounts payable and accrued liabilities, secured borrowings, contingent consideration liabilities, and interest rate swap liability. Except for the contingent consideration and interest rate swap which were recorded at fair value through profit or loss, all other instruments were measured at amortized cost under IAS 39. Under IFRS 9, the Company has classified cash and cash equivalents and accounts receivable based on the business model and contractual cash flow characteristics of the instruments, which remained unchanged and continues to be held at amortized cost. Similarly, the classification and measurement of each of the financial liabilities have not changed. There was no transitional impact as a result of the adoption of the new classification and measurement requirements.

The Company has previously used the incurred loss approach in the accounting for impairment losses for financial assets held at amortized cost. Upon transition to IFRS 9, the Company is using a forward-looking expected credit loss approach. For its accounts receivables and any contract assets, the Company has applied the simplified approach and has calculated lifetime expected credit losses based on the Company's historical credit loss experience and consideration for forward-looking factors specific to the debtors and the economic environment. Cash equivalents held at amortized cost are considered to be low credit risk investments and any expected credit loss is determined based on the 12-month expected credit loss approach. There was no transitional impact as a result of the adoption of the new impairment requirements.

As the Company does not currently use hedge accounting, there was no impact from that perspective.

FUTURE ACCOUNTING POLICIES

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.

IAS 12 Income tax consequences of payments on instruments classified as equity (Amendments to IAS 12)

IAS 12, "Income Taxes" ("IAS 12") requires a company to recognize the tax consequences of dividends in profit or loss in some circumstances.

The amendments to IAS 12 clarify that a company accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises, and are effective for annual periods beginning on or after January 1, 2019, with early application permitted. The Company has not yet determined the impact on its 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 consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"), to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The Company is currently assessing the impact of IFRIC 23 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 to provide reasonable assurance that all material information relating to the Company is made known and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As required by the Canadian Securities Administrators' National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated, or caused to be evaluated, the design and operating effectiveness of disclosure controls and procedures. Based on that evaluation, they have concluded that, as of the end of the period covered by this MD&A, the design and the operation of the Company's disclosure controls and procedures were effective.

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. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

Management has conducted an evaluation of the design of internal controls over financial reporting, utilizing the 2013 COSO Internal Control - Integrated Framework. Based on this evaluation, management concluded that the Company's ICFR design was effective as at the reporting date.

Changes in internal control over financial reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended March 31, 2018, that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.