

PIVOT TECHNOLOGY SOLUTIONS, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Quarter Ended June 30, 2018

This Management’s Discussion and Analysis (the “MD&A”) for the three and six months ended June 30, 2018 and 2017 is as of August 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 and six months ended June 30, 2018, the audited consolidated financial statements and the related notes for the years ended December 31, 2017 and 2016, the MD&A for the three months ended March 31, 2018, the MD&A for the year ended December 31, 2017, 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 sedar.com and 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 second 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 six month period ended June 30 is referred herein as “H1”. 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 United States 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 sedar.com and on the Company’s website at 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 for 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 associated with new lines of business and product lines, (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 (xiv) 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 as well as providing a broad range of services including professional advisory services, deployment services, integration services, workforce services and managed 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) continue the Company's commercial transformation to expand Pivot's addressable opportunities with existing customers; (iv) support customers as they expand internationally; (v) improve cost management; (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 employee compensation and benefits, other selling, general and administrative expenses, and corresponds to income before income tax, depreciation and amortization, finance expense, change in fair value of liabilities, and other (income) 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 income (loss) before income taxes as follows:

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Income (loss) before income taxes	721	2,568	(1,884)	(3,552)
Depreciation and amortization	2,861	2,766	5,710	5,577
Finance costs	1,773	1,279	3,086	2,361
Change in fair value of liabilities	157	33	197	(74)
Other (income) expense	(408)	646	(507)	1,430
Adjusted EBITDA	5,104	7,292	6,602	5,742

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

Q2 highlights

- Revenues of \$381,343 decreased \$19,391 or 4.8% for Q2 2018 compared to Q2 2017. Product sales declined \$22,356 or 6.2% while service revenues increased \$2,965 or 7.5% over Q2 2017.
- Gross profit decreased \$2,345 or 5.5% for Q2 2018 over Q2 2017. Gross profit margin remained relatively steady at 10.6% in Q2 2018 compared to 10.7% in Q2 2017.

- Adjusted EBITDA of \$5,104 decreased \$2,188 or 30.0% for Q2 2018 compared to Q2 2017.
- Pivot generated \$265 in net income for Q2 2018 compared to \$1,958 for Q2 2017.
- Pivot generated earnings of \$0.01 per share for Q2 2018 compared to \$0.05 per share for Q2 2017.
- On May 14, 2018, the Pivot Board of Directors (“BOD”) declared a common share dividend of C\$0.04 per common share, for a total of C\$1,596, payable on June 15, 2018 to common shareholders of record on May 31, 2018.
- On June 20, 2018, the Company announced that it had received regulatory approval for a new NCIB to purchase for cancellation up to 3,789,551 common shares of the Company. This represents the third NCIB the Company has undertaken, and will run from June 22, 2018 to June 21, 2019.
- On June 27, 2018, the Company held its annual meeting in Toronto, Canada. Incumbent directors John Anderson, Wade Dawe, Matthew Girardot, Stephen Moore, Kevin Shank and Lazane Smith were all re-elected and will serve as the Company directors for the next year. Ernst & Young LLP was re-appointed as the Company’s auditors.
- During Q2, the Company purchased and subsequently cancelled 638,100 shares under its NCIB programs.

Developments subsequent to Q2

- The Company issued 78,354 common shares to net settle the amounts vested under its Restricted Stock Unit (“RSU”) plan on July 3, 2018.

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. Although some customers remain cautious in their approach to IT investments, the global economic environment has not changed significantly and the market appears to be stable. The Company is experiencing continued pricing and margin pressures in its products business, while margins continue to improve in the services side of the business. 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 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 software platform designed to support enterprise Multi-Access Edge Computing solutions and built to operate on Intel technology. Smart Edge brings 5G networks to enterprise IT and allows the enterprise to securely deploy existing and new applications at the network's edge. The Smart Edge solution improves user experiences, enables new revenue streams for stakeholders and reduces ongoing edge total cost of ownership, 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 continues to expand the use cases by deploying the solution at additional sites for further testing during 2018. 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 and 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 June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Revenue	381,343	400,734	750,609	723,157
Cost of sales	340,738	357,784	670,705	646,081
Gross profit	40,605	42,950	79,904	77,076
Employee compensation and benefits	28,422	28,954	58,017	57,158
Other selling, general and administrative expenses	7,079	6,704	15,285	14,176
Income before the following:	5,104	7,292	6,602	5,742
Depreciation and amortization	2,861	2,766	5,710	5,577
Finance expense	1,773	1,279	3,086	2,361
Change in fair value of liabilities	157	33	197	(74)
Other (income) expense	(408)	646	(507)	1,430
Income (loss) before income taxes	721	2,568	(1,884)	(3,552)
Provision for (recovery of) income taxes	456	610	115	(1,323)
Income (loss) for the period	265	1,958	(1,999)	(2,229)
Income (loss) for the period attributable to non-controlling interests	51	(72)	256	(123)
Income (loss) for the period attributable to shareholders	214	2,030	(2,255)	(2,106)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to income (loss) for the period:				
Exchange gain (loss) on translation of foreign operations	(24)	1	(3)	4
	(24)	1	(3)	4
Total comprehensive income (loss)	241	1,959	(2,002)	(2,225)
Total comprehensive income (loss) attributable to shareholders	190	2,031	(2,258)	(2,102)
Income (loss) per common share:				
Income (loss) available to common shareholders	214	2,030	(2,255)	(2,106)
Basic	\$ 0.01	\$ 0.05	\$ (0.06)	\$ (0.05)
Diluted	\$ 0.01	\$ 0.05	\$ (0.06)	\$ (0.05)
Total assets	505,588	519,117	505,588	519,117
Total current non-financial liabilities	31,717	35,084	31,717	35,084
Cash dividends declared on common shares	1,231	1,194	2,490	2,439

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 and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017.

Revenue and gross profit

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Product sales	338,782	361,138	670,331	644,143
Service revenues	42,561	39,596	80,278	79,014
Total revenue	381,343	400,734	750,609	723,157
Cost of sales	340,738	357,784	670,705	646,081
Gross profit	40,605	42,950	79,904	77,076

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

Total revenue of \$381,343 decreased 4.8%, or \$19,391 for the Q2 2018 as compared to the same period in the prior year. This decline was primarily attributable to a \$22,301 decrease in sales to one of the Company's major customers. Revenues attributable to the ACS segment declined by \$39,446, while the ProSys segment grew by \$25,098. Total revenue of \$750,609 increased 3.8%, or \$27,452 for H1 2018 as compared to the same period in the prior year, with non-major customers contributing \$44,239 to the overall increase. Revenues attributable to the ACS segment declined by \$39,259, while the ProSys segment grew by \$69,323.

Product sales of \$338,782 decreased \$22,356 or 6.2% for Q2 2018 over the same period in the prior year. The decline was driven by a drop in product sales in the ACS segment of \$38,023, offset by an increase of \$19,499 in the ProSys segment. Product sales of \$670,331 increased \$26,188 or 4.1% for H1 2018 over the same period in the prior year. Revenues attributable to the ACS segment declined by \$35,043, while the ProSys segment grew by \$61,070.

Service revenues of \$42,561 increased by \$2,965 or 7.5% for Q2 2018 as compared to same period in the prior year. Pivot provided services increased \$5,107, primarily due to the Company's fulfillment of its largest direct services contract to date of \$3,202, offset by a decline in third party maintenance and support contracts of \$2,142. Service revenues of \$80,278 increased by \$1,264 or 1.6% for H1 2018 as compared to same period in the prior year. Pivot provided services increased \$6,885, primarily due to the Company's fulfillment of its largest direct services contract to date of \$3,202, offset by a decline in third party maintenance and support contracts of \$5,621. The Company continues to face pressure in its third party services revenue, and is focused on growing its Pivot provided services.

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 \$144,758 or 38.0%, and \$159,440 or 39.8% of total revenues for Q2 2018 and 2017, respectively, and \$261,523 or 34.8%, and \$278,310 or 38.5% of total revenues for H1 2018 and 2017, respectively.

Cost of sales and gross profit

Cost of sales of \$340,738 decreased \$17,046 or 4.8% for Q2 2018 over the same quarter in the prior year, and was in line with overall decreases in revenue. Cost of sales of \$670,705 increased \$24,624 or 3.8% for H1 2018 over the same period in the prior year, and was in line with overall increases in revenue. Gross profit of \$79,904 increased \$2,828 or 3.7% for H1 2018 over the same period in the prior year.

Quarter over quarter, gross profit margins remained relatively stable, decreasing slightly from 10.7% in Q2 2017 to 10.6% in Q2 2018. Margins were positively impacted by improved service margins, and the consolidation of Applied Computer Solutions (“Applied”), offset by lower margins on product sales, primarily driven by major customers, and a decrease in OEM maintenance agreement revenue. The Company continues its strategy to increase service revenues which generally have better margins than product sales to improve overall gross margins. In addition, the Company continually works with its suppliers to mitigate the impact of pricing pressures. (*See INTERESTS IN OTHER ENTITIES, Applied Computer Solutions, Inc.*)

Selling, general and administrative expenses

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Employee compensation and benefits	28,422	28,954	58,017	57,158
Other selling and administrative expenses	7,079	6,704	15,285	14,176
	35,501	35,658	73,302	71,334

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

Selling, general and administrative expenses ("SG&A") for Q2 2018 decreased \$157 or 0.4% to \$35,501 over the same period in the prior year. The net overall decrease is due to a number of factors, including, but not limited to:

- Decrease in commissions related to the decline in gross profit Q2 2018 over Q2 2017.
- Decreases in marketing costs and other SG&A due to increased Marketing Development Funds ("MDF") and other incentives received from vendors during Q2 2018.
- Increases in headcount, primarily focused on services to support the Company's strategy to enhance Pivot's service portfolio and capabilities.
- Increased spending in Smart Edge.
- The acquisition and subsequent consolidation of Applied on September 1, 2017 which resulted in increased SG&A in Q2 2018 as compared to Q2 2017.

SG&A for H1 2018 increased \$1,968 or 2.8% to \$73,302 over the same period in the prior year. The net overall increase is due to a number of factors, including, but not limited to:

- Decrease in commissions costs which occurred despite increased gross profit, due to product mix and increases in non-commissionable items.
- Decreases in marketing costs and other SG&A due to increased MDF and other incentives received from vendors during Q2 2018.
- Increases in headcount and related recruiting fees/employee education and development costs, primarily focused on services to support the Company's strategy to enhance Pivot's service portfolio and capabilities.
- The acquisition and subsequent consolidation of Applied on September 1, 2017 which resulted in increased SG&A in H1 2018.

Finance expenses

Finance expenses increased \$494 or 38.6% to \$1,773 and \$725 or 30.7% to \$3,086 for the three and six months ended June 30, 2018, over the same periods in the prior year, respectively.

Finance expenses, which consist primarily of interest and fees on the Company's senior secured credit facility with JPMorgan Chase Bank, N.A. ("JPMC"), were impacted by increases in LIBOR and U.S. Prime interest rates, which caused an average increase of 0.9% and 0.7% in related interest and fees charged on the JPMC facility for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. Average borrowings on the JPMC facility were \$114,895 and \$113,721 for Q2 2018 and 2017, respectively, and \$118,995 and \$105,974 for H1 2018 and 2017, respectively.

Change in fair value of liabilities

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Interest rate swap	(133)	(211)	(367)	(548)
Contingent consideration	290	244	564	474
	157	33	197	(74)

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

For the three and six months ended June 30, 2018, the fair value of liabilities increased \$124 and \$271 over the same periods in the prior year respectively.

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 \$138 as at June 30, 2018 compared to \$505 as at December 31, 2017. (*See Interest rate forward swap agreements*)

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. *(See Contingent consideration)*

Other (income) expense

	Three months ended June 30, <i>(unaudited)</i>		Six months ended June 30, <i>(unaudited)</i>	
	2018	2017	2018	2017
Foreign exchange (gain) loss	(366)	12	(1,060)	319
Other (income) expense	(42)	634	553	1,111
	(408)	646	(507)	1,430

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

Other (income) expense decreased \$1,054 and \$1,937 for the three and six months ended June 30, 2018 over the same periods in the prior year, respectively. These decreases are primarily due to net gains on foreign exchange translation associated with the weakening Canadian dollar, and restructuring costs incurred in 2017.

Provision for (recovery of) income taxes

	Three months ended June 30, <i>(unaudited)</i>		Six months ended June 30, <i>(unaudited)</i>	
	2018	2017	2018	2017
Current tax expense (benefit)	589	759	230	(1,748)
Deferred tax expense (benefit)	(133)	(149)	(115)	425
	456	610	115	(1,323)

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

The provision for income tax decreased \$154 or 25.2% for Q2 2018 over Q2 2017, and increased \$1,493 for H1 2018 over H1 2017. 2018 income taxes were impacted by U.S. Tax Reform, where the most significant impacts are limitations on interest deductions, which are now limited to 30% of adjusted taxable income, and a decrease in U.S. federal tax rates from 35% to 21%.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, (unaudited)							
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Revenues	381,343	369,266	399,407	389,077	400,734	322,423	394,006	365,473
Gross profit	40,605	39,299	48,878	42,797	42,950	34,126	48,458	42,857
Adjusted EBITDA ⁽¹⁾	5,104	1,498	11,125	7,251	7,292	(1,550)	8,457	6,317
Net income (loss)	265	(2,264)	(2,586)	(813)	1,958	(4,187)	2,888	(3,239)
Income (loss) per share:								
Basic	\$0.01	(\$0.06)	(\$0.07)	(\$0.02)	\$0.05	(\$0.10)	\$0.06	(\$0.08)
Diluted	\$0.01	(\$0.06)	(\$0.07)	(\$0.02)	\$0.05	(\$0.10)	\$0.05	(\$0.08)
Cash dividends declared on common shares	1,231	1,259	1,246	1,288	1,194	1,245	1,242	1,292
Total assets ⁽²⁾	505,588	469,176	527,883	478,347	519,117	449,972	496,966	447,121
Total current non- financial liabilities ⁽²⁾	30,511	33,145	33,632	33,374	35,084	38,572	38,673	37,310

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

⁽¹⁾ A Non-IFRS measure (See Non-IFRS measures)

⁽²⁾ Amounts as at period date

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 from 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 may 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 June 30, 2018 and December 31, 2017, total cash on hand was \$4,284 and \$5,248, respectively. As at June 30, 2018 and December 31, 2017, amounts borrowed under existing credit facilities were \$159,329 and \$135,481, respectively. There were working capital deficiencies of \$76,219 and \$75,558 as at June 30, 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 \$78,484 and \$69,762 for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively.

Cash flow analysis

	Three months ended June 30, <i>(unaudited)</i>		Six months ended June 30, <i>(unaudited)</i>	
	2018	2017	2018	2017
Cash provided by (used in) operating activities	(30,362)	(46,171)	(14,119)	5,838
Cash used in investing activities	(1,754)	(991)	(2,225)	(1,698)
Cash provided by (used in) financing activities	32,441	49,162	15,392	(2,548)
Net increase (decrease) in cash and cash equivalents	325	2,000	(952)	1,592
Cash and cash equivalents at the beginning of the period	3,983	7,665	5,248	8,153
Effect of foreign exchange fluctuations on cash held	(24)	(7)	(12)	(87)
Cash and cash equivalents at the end of the period	4,284	9,658	4,284	9,658

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

Cash used in operating activities decreased \$15,809 and increased \$19,957 for the three and six months ended June 30, 2018, respectively, as compared to the same periods 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 increased \$763 and \$527 for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. During Q2 2018, the Company invested in capital assets to relocate some of its facilities, and add capabilities to its distribution center.

Cash used in financing activities is comprised of borrowings and repayments 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 increased by \$16,721 and decreased \$17,940 for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. The change in cash used in financing activities 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 57 and 54 days at June 30, 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 were 42 and 43 days at June 30, 2018 and December 31, 2017, respectively. The Company works closely with its vendors to share the cashflow implications when customers require longer payment terms where possible.

Secured borrowings

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. As amended, the facility provides the Company a \$225,000 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 \$50,000. 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.

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 June 30, 2018 and December 31, 2017.

The Company had availability to borrow under its revolving credit facilities of \$63,526 and \$87,698 as at June 30, 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 \$159,329 and \$135,481 as at June 30, 2018 and December 31, 2017, respectively. In addition, a letter of credit for \$250 was outstanding at both June 30, 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 \$162 and \$159 during the three months ended June 30, 2018 and 2017, respectively. 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 \$342 and \$278 during the six months ended June 30, 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 \$122 and \$232 for the three months ended June 30, 2018 and 2017, respectively. Interest incurred under the Swap totaled \$281 and \$486 for the six months ended June 30, 2018 and 2017, respectively. The fair value of the Swap was determined to be \$138 and \$505 as at June 30, 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.

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. \$284 and \$648 were outstanding under the IBM secured flooring agreement as at June 30, 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.

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 June 30, 2018 and December 31, 2017, the fair value of the contingent consideration was determined to be \$3,686 and \$3,326, respectively.

The Company recorded a charge of \$264 and \$244 related to the change in fair value of the contingent consideration during the three months ended June 30, 2018 and 2017, respectively. The contingent consideration balance was reduced by a foreign currency translation adjustment of \$68 during the three months ended June 30, 2018 and was increased by a foreign currency translation adjustment of \$100 during the three months ended June 30, 2017. The Company recorded a charge of \$516 and \$474 related to the change in fair value of the contingent consideration during the six months ended June 30, 2018 and 2017, respectively. The contingent consideration balance was reduced by a foreign currency translation adjustment of \$156 during the six months ended June 30, 2018, and was increased by a foreign currency translation adjustment of \$134 during the six months ended June 30, 2017.

The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met, is C\$7,000 as at June 30, 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 and six months ended June 30, 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 June 30, 2018 and December 31, 2017, the fair value of the consideration was determined to be \$778 and \$930. The Company recorded a charges of \$26 and \$48 related to the change in fair value of the consideration during the three and six months ended June 30, 2018. The undiscounted value of the remaining consideration to be paid, assuming all contingencies are met is \$950. Payments of \$100 and \$200 were made during the three and six months ended June 30, 2018, respectively.

Contractual commitments

The following table summarizes Pivot’s contractual obligations as at June 30, 2018:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	18,309	-	-	-	-	18,309
Secured borrowings	159,329	-	-	-	-	159,329
Accounts payable and accrued liabilities	-	266,423	-	-	-	266,423
Operating leases	-	5,073	5,156	9,318	4,116	23,663
Contingent consideration	-	2,223	2,432	1,551	-	6,206
Interest rate swap	-	-	-	-	-	-
	177,638	273,719	7,588	10,869	4,116	473,930

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 August 13, 2018, the Company had 39,643,843 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
Shares repurchased under the NCIB	May 29, 2018	216,000	C\$1.92	C\$415
Shares repurchased under the NCIB	June 20, 2018	87,500	C\$2.01	C\$175
Shares repurchased under the NCIB	June 22, 2018	78,600	C\$1.95	C\$154
Shares repurchased under the NCIB	June 28, 2018	25,000	C\$1.95	C\$49
Shares repurchased under the NCIB	July 26, 2018	150,300	C\$1.92	C\$289
		2,339,513	C\$1.81	C\$4,228

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 August 13, 2018 is 3,596,225, 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 June 30, 2018 and 2017 and during the six 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	-	-	425,000	C\$2.47
Options forfeited	(29,166)	C\$1.60	(200,000)	C\$1.81
Options exercised	(123,959)	C\$1.60	(99,750)	C\$1.79
Options outstanding at June 30	1,793,750	C\$1.81	2,287,750	C\$1.76
Options exercisable at June 30	1,507,082	C\$1.68	1,297,929	C\$1.60

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

Restricted stock units

The Company has adopted an 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, and 5,000 RSUs to Participants 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.

On June 30, 2018 116,667 RSU's vested for eligible Participants. The Company elected to net settle the shares, issuing 78,354 shares, and withholding 38,313 to cover the Participants' required tax withholdings. The net shares were issued on July 3, 2018.

A summary of the status of the Company's RSU plan as at June 30, 2018 and during the six months then ended is as follows:

	# of RSU's	Weighted average grant date fair value
Units outstanding at January 1, 2018	355,000	C\$2.47
Units granted	-	-
Units vested ⁽¹⁾	116,667	C\$2.47
Units forfeited	-	-
Units unvested at June 30, 2018	238,333	C\$2.47
Units outstanding at June 30, 2018 ⁽¹⁾	355,000	C\$2.47

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

⁽¹⁾ 116,667 units vested and outstanding at June 30, 2018 were settled July 3, 2018, 78,354 shares were issued to participants, while 38,313 were withheld to cover the participants' required tax withholdings.

Normal course issuer bid

On March 30, 2016, the Company obtained the approval of the TSX Venture Exchange to implement its first 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 ("Cantor") on behalf of the Company.

The Company entered into an automatic share purchase plan with Cantor for the purpose of permitting the purchase of common shares under the NCIB at times when the Company would not have been permitted to purchase shares, including regularly scheduled quarterly blackout periods. Such purchases were determined by Cantor in its sole discretion based on parameters established prior to any blackout period, in accordance with applicable securities laws.

On June 19, 2017, the Company obtained regulatory approval to proceed with a 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 was able to repurchase and subsequently cancel 993,900 common shares under its second NCIB through June 22, 2018. Some of these purchases were made pursuant to an automatic share purchase plan with Echelon Wealth Partners, Inc. ("Echelon"), for the purpose of permitting the purchase of common shares under the NCIB at times when the Company would not have been permitted to purchase shares, including regularly scheduled quarterly blackout periods.

On June 20, 2018, the Company obtained regulatory approval to proceed with a third NCIB to repurchase up to 3,789,551, 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, 2019. The Company has repurchased and subsequently cancelled 175,300 common shares under its third NCIB through August 13, 2018.

The Company renewed its automatic share purchase plan with Echelon, for the purpose of permitting the purchase of common shares under its third 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. (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
May 14, 2018	May 31, 2018	June 15, 2018	C\$0.04	C\$1,596

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

As at June 30, 2018, the issued share capital amounted to \$84,782. The changes in issued shares for the six months ended June 30, 2018 were as follows:

	# of Common shares
As at January 1, 2018	40,229,930
Share repurchases and subsequent cancellations	(638,100)
Stock options exercised	123,959
As at June 30, 2018	39,715,789

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:

Name	Jurisdiction	Equity Interest	
		Q2 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 ⁽⁴⁾	Hong Kong	-	100%
Pivot Technology Solutions Singapore PTE. LTD. ⁽²⁾	Singapore	-	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.	United States	100%	100%
ProSys Information Systems Inc. ⁽¹⁾	United States	46%	45%
ARC Acquisition (US) Inc.	United States	100%	100%
Sigma Technology Solutions Inc.	United States	100%	100%
Smart-Edge.com, Inc. ⁽³⁾	United States	100%	-

⁽¹⁾ ProSys Information Systems, Inc. purchased and subsequently cancelled 24,000 of its own shares from a former shareholder on January 3, 2018, which represented a 3% stake in the company. The cancellation resulted in a 1.2% increase to Pivot's total ownership.

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

⁽³⁾ Smart-Edge.com, Inc., was incorporated January 12, 2018.

⁽⁴⁾ Pivot Technology Solutions Hong Kong Limited was deregistered and dissolved effective April 13, 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 \$142,121 and \$91,668 for the three months ended June 30, 2018 and 2017, respectively, and \$233,319 and \$148,836 for the six months ended June 30, 2018 and 2017, respectively. Amounts due from Old ProSys were \$112,030 and \$95,904 as at June 30, 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 June 30, <i>(unaudited)</i>		Six months ended June 30, <i>(unaudited)</i>	
	2018	2017	2018	2017
Current assets	118,048	59,581	118,048	59,581
Non-current assets	-	-	-	-
Current liabilities	112,030	54,096	112,030	54,096
Non-current liabilities	-	-	-	-
Net assets	6,018	5,485	6,018	5,485
Revenue	142,121	91,668	233,319	148,836
Total comprehensive income (loss)	148	(130)	233	(223)
Cash provided by (used in) operating activities	(43,318)	(17,596)	(16,126)	8,264
Cash used in investing activities	-	-	-	-
Cash provided by (used in) financing activities	43,318	17,596	16,126	(8,264)
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.
- The Applied board of directors is made up of a majority of Pivot employees.
- Any significant decision made at Applied requires the approval of the Applied board of directors, 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.

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 \$91,229 and \$56,156 for the three months ended June 30, 2018 and 2017, respectively. Total sales attributable to the activities of Applied were \$175,231 and \$100,422 for the three and six months ended June 30, 2018 and 2017, respectively. Amounts due from Applied were \$15,135 and \$14,883 as at June 30, 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 June 30, (unaudited) 2018	Six months ended June 30, (unaudited) 2018
Current assets	41,376	41,376
Non-current assets	19,561	19,561
Current liabilities	57,992	57,992
Non-current liabilities	1,903	1,903
Net assets	1,042	1,042
Revenue	91,229	175,231
Total comprehensive income (loss)	(46)	217
Cash provided by operating activities	514	104
Cash used in investing activities	-	-
Cash used in financing activities	(474)	(523)
Net increase (decrease) in cash and cash equivalents	40	(419)

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 61.2% and 35.7%, of the overall Pivot revenues for the three months ended June 30, 2018 and 2017, respectively, and 36.9% and 33.7% for the six months ended June 30, 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 June 30, 2018 and 2017, and \$750 for each of the six month periods ended June 30, 2018 and 2017, respectively, for research and development provided by a related entity where certain officers of ACS and Smart Edge have significant influence. Amounts payable were nil and \$375 as at June 30, 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 June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2018	2017	2018	2017
Compensation	532	414	979	817
Annual incentive plans	65	(190)	357	156
Share-based compensation	53	-	53	-
Other compensation	208	13	417	214
	858	237	1,806	1,187

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 Technology Solutions, Inc. (“GTS”). Pursuant to the terms of the Administrative Services Agreement between ARC Acquisition (US) Inc. (“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 received notification from GTS that it wished to terminate the existing arrangement effective August 30, 2016. Based on its review to date, ARC believes the amount due from GTS exceeds \$8.2 million. The Company established a reserve of \$5,978 during Q3 2016, which has remained in place through June 30, 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’ owners 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”) as a result of the actions of GTS, certain GTS employees, GTS’ current and former owner and GTS’ former shareholders. 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 filed motions to dismiss under the Texas Citizens Participation Act (“TCPA”). The District Court denied GTS’ motion to dismiss under the TCPA. Following the denial of the motion to dismiss under the TCPA, GTS appealed. On August 3, 2018, the appellate court issued a decision in which it upheld, in part, the trial court’s denial of GTS’ motion to dismiss and reversed, in part, the trial court’s decision. The Company is currently considering whether to seek reconsideration of and/or appeal the unfavorable portion of the appellate ruling. 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. As of August 3, 2018, the stay in the Breach of Contract Lawsuit has been lifted and the parties will proceed to the discovery phase of the suit. 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 its 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 management 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 its interim and annual consolidated financial statements commencing January 1, 2018. These changes did not have a material impact on its 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. 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, along 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 twelve-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.

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.

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 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 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 and six months ended June 30, 2018, that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.