

PIVOT TECHNOLOGY SOLUTIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 28, 2014

This Management's Discussion and Analysis (the "MD&A") pertains to the financial condition and results of operations of Pivot Technology Solutions, Inc. (TSX-V: PTG) (formerly ACME Capital Corporation) ("Pivot", the "Company", or the "Corporation") for the three months ended March 31, 2014 and 2013. This MD&A should be read in conjunction with Pivot's unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2014 and 2013, and the consolidated financial statements and related notes for the years ended December 31, 2013 and 2012, and related MD&A. 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. All dollar amounts, except per share amounts stated in this MD&A, are in thousands of United States dollars unless specified otherwise.

Statements in this document may contain forward-looking information. 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. 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 of a preliminary nature and may be subject to further adjustment, (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) impact of the Canadian and/or United States economic conditions, and (x) fluctuations in currency exchange rates and interest rates. The reader is cautioned not to place undue reliance on this forward looking information.

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

	Three months ended March 31,	
	2014	2013
Revenues	319,327	254,284
Cost of sales	283,864	224,403
Gross profit	35,463	29,881
Selling and administrative expenses	29,257	26,472
Adjusted EBITDA*	6,206	3,409
Depreciation and amortization	2,865	2,816
Transaction costs	-	1,754
Interest expense	1,327	2,561
Change in fair value of liabilities	3,759	(384)
Other income	(156)	(287)
Loss before income taxes	(1,589)	(3,051)
Provision for (recovery of) income taxes	(620)	1,764
Net and comprehensive loss	(969)	(4,815)
Loss per share:		
Basic	\$ (0.02)	\$ (0.08)
Diluted	\$ (0.02)	\$ (0.08)
Cash and cash equivalents	9,556	10,489
Total assets	401,512	338,092
Total long-term financial liabilities	3,067	18,702
Cash dividends declared on preferred shares	696	nil

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

Operations for the three months ended March 31, 2014 and 2013 include the results of the Company's wholly owned subsidiaries, ACS (US) Inc. ("ACS"), New ProSys Corp. ("ProSys"), ARC Acquisition (US) Inc. ("ARC"), Sigma Technology Solutions, Inc. ("Sigma"), and the corporate function.

*** Non IFRS measures**

In the Company's financial reporting, adjusted EBITDA is a non IFRS measure which is defined as gross profit less selling and administrative expenses, and corresponds to income before depreciation and amortization, transaction costs, interest expense, change in fair value of liabilities, and other (income) expense. Management believes this is an important indicator as adjusted EBITDA excludes 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 also used by 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 not a recognized measure under IFRS, has no standardized meaning and is therefore unlikely to be comparable to similar measures used by other companies. Readers are cautioned that this term should not be construed as an alternative to net income determined in accordance with IFRS.

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. Gross profit is defined as revenues less cost of sales. 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.

Q1 2014 financial and operating highlights

- Revenues of \$319,327 were up 25.6%, or \$65,043, from Q1 2013, due to an increase in product and service revenues of 22.0% and 78.0% respectively. Revenues were down from Q4 2013, by 5.5%, or \$18,677, consistent with historically lower business activity in the first quarter of the calendar year.
- Gross profit of \$35,463 was up 18.7% or \$5,582, from Q1 2013, and down 2.4%, or \$885, from Q4 2013, consistent with the movement in revenues. Gross profit margins of 11.1% were down from 11.8% in Q1 2013 as a result of lower gross margins on product sales, though up slightly from 10.8% in Q4 2013.
- Adjusted EBITDA of \$6,206 was up 82.0%, or \$2,797, from Q1 2013, and down 19.6%, or \$1,513, from Q4 2013. Again, this performance against the comparative quarters was

driven mainly by the movement in business activity, and specifically reflected in gross profits.

- Interest expense of \$1,327 was down \$1,234 from Q1 2013 as a result of the conversion of the debentures into Series A Preferred Shares at the end of Q1 2013, and down \$2,253 from Q4 2013, which included charges of \$1,907 relating to the termination of the Wells Fargo Bank N.A. (“Wells”) secured borrowing agreement on November 13, 2013. Series A Preferred Share dividends of \$696 were declared during Q1 2014, reflecting a fixed cumulative preferential dividend at the rate of 6% per annum.
- A charge of \$3,759 against change in fair value of liabilities was recorded in Q1 2014 as management revised estimates related to the contingent consideration for ARC and Sigma based on revised forecasts.

FINANCIAL AND OPERATING RESULTS

Three months ended March 31, 2014 compared to the three months ended March 31, 2013

Revenue

	Three months ended March 31,	
	2014	2013
Product sales	283,694	232,625
Service revenues	33,534	18,836
Other revenues	2,099	2,823
	319,327	254,284

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

Product sales increased \$51,069 or 22.0%, for the three months ended March 31, 2014 over the same period in the prior year. The growth was attributable to several new customer wins as well as overall increased revenues within the existing customer base. In 2013, one of ACS’s major customers transitioned away from an existing proprietary based server configuration, into x86 based systems. The x86 systems are provided to this customer by another supplier as part of their standard mapping process to tag a supplier to a specific product, which resulted in significant lost revenues for ACS. The Company focused on providing new offerings to this customer, increasing total revenues from the customer by \$15,402 for the quarter ended March 31, 2014 over the same period in the prior year.

Service revenues increased \$14,698 or 78.0% for the three months ended March 31, 2014 over the same period in the prior year, and made up 10.5% of total revenues this quarter, up from 7.4% of total revenues in Q1 2013. While all of the operating companies experienced increased service revenues over the same period in the prior year, ProSys and Sigma contributed \$11,255 of the total increase, each almost doubling service revenues quarter over quarter. ProSys's contributions were primarily related to "First Call", an enhanced, service offering where customers can elect to add live support via a fully staffed call center, to purchased vendor support contracts. First Call revenues have continually increased each quarter since the product was first offered. All operating subsidiaries continued to penetrate new accounts and provide more service offerings which have higher margins than product sales.

The top ten customers represented approximately 51.8% and 54.9% of total revenues for the three months ended March 31, 2014 and 2013, respectively.

Cost of sales and gross profit

Gross profit increased by \$5,582 or 18.7% for the three months ended March 31, 2014, over the corresponding period in 2013. As a percentage of revenue, gross profit was 11.1% for the three months ended March 31, 2014, compared with 11.8% for the same period in the prior year. The drop in gross profit percentage was primarily due to decreased margins on product sales on large customer accounts, tempered by increased contributions on service offerings.

Selling and administrative expenses

	Three months ended March 31,	
	2014	2013
Salaries and employee benefits	25,020	21,820
Other selling and administrative expenses	4,237	4,652
	29,257	26,472

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

Selling and administrative expenses increased by \$2,785 for the three months ended March 31, 2014 over the corresponding period in 2013. Increases in salaries and employee benefits are primarily attributable to a 3% increase in headcount, lower marketing development funds, and increased commissions attributable to increases in gross profit.

Change in fair value of liabilities

	Three months ended March 31,	
	2014	2013
Convertible debentures	-	4,555
Contingent consideration	3,759	(4,939)
	3,759	(384)

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

The change in fair value relates to the application of fair-value accounting to the convertible debentures which were converted to Series A Preferred Shares on March 25, 2013, and contingent consideration arising from business acquisitions. During the first quarter of 2013, management revised downward its estimates related to the contingent consideration for ACS, resulting in the decrease in 2013. During the first quarter of 2014, management revised estimates related to the contingent consideration for ARC and Sigma based on revised forecasts, resulting in the increase in 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, (unaudited)							
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Revenues	319,327	338,004	326,257	321,677	254,284	328,676	353,089	469,081
Net and comprehensive income (loss)	(969)	748	1,621	689	(4,815)	(4,986)	(7,964)	(4,322)
Income (loss) per share:								
Basic	(\$0.02)	\$0.00	\$0.01	\$0.00	(\$0.08)	\$0.00	(\$0.16)	(\$0.08)
Fully diluted	(\$0.02)	\$0.00	\$0.00	\$0.00	(\$0.08)	\$0.00	(\$0.16)	(\$0.08)
Cash dividends declared on preferred shares	696	913	1,017	1,132	nil	nil	nil	nil
<i>Included in the totals above:</i>								
Sigma revenues	52,863	53,332	41,216	54,346	34,394	42,893	31,981	
Sigma net and comprehensive income (loss)	(530)	1,016	(334)	(133)	57	776	(376)	

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

The above table shows selected financial information on the results of operations of the Company for the periods shown. 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 on capital-related spending at large customers, who try to use budgeted funds before the end of fiscal periods. Additionally, OEM vendors tend to drive higher activity at their own year ends as steeper discounts tend to be offered to drive deals.

Further, a small number of large customers can periodically cause significant fluctuations in revenue and associated profits in any given quarter, depending on the timing of key projects. This is particularly noticeable in the second quarter of 2012, when significant increases in volumes were driven by a single customer's new data center build outs and product launches.

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.

Total cash on hand was \$9,556 and \$22,020, while \$132,821 and \$111,624 was borrowed under existing credit facilities as at March 31, 2014 and December 31, 2013, respectively. There was also a working capital deficiency of \$75,031 and \$67,343 as at March 31, 2014 and December 31, 2013, respectively. The working capital deficiency originates from the bank financings obtained to fund the business acquisitions. Average availability on the PNC Bank ("PNC") revolving line of credit for the three month period ended March 31, 2014 was \$24,483, representing 19.0% availability as a percentage of net collateral. Average availability on the PNC revolving line of credit from inception to December 31, 2013 was \$22,798, representing 17.3% availability as a percentage of net collateral.

Cash provided by operations decreased \$55,675 for the first quarter compared to the same period in the prior year, primarily due to a net decrease in non-cash working capital of \$59,845, offset by a net increase in underlying cash from operations of \$4,170. The working capital changes quarter over quarter were primarily due to an increase in accounts receivable of \$81,806, offset by a decrease in inventory of \$21,085, representative of the increased revenues quarter over quarter.

Days sales outstanding (DSO) were 49 and 44 days at March 31, 2014 and December 31 2013, respectively. The Company's DSO generally runs between 40 to 45 days throughout the year, and is closely monitored against expected cash flow requirements.

Cash used in investing activities decreased by \$4,047 for the three months ended March 31, 2014 compared to the same period in the prior year. The decrease quarter over quarter was primarily driven by earn out payments on acquisitions made in previous years.

Cash provided by financing activities increased by \$44,806 for the three months ended March 31, 2014 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.

Secured borrowings

On November 13, 2013 ("Closing Date"), Pivot Technology Solutions Ltd, a wholly owned subsidiary of the Company, along with certain of its subsidiaries, ACS, ProSys and Sigma (collectively the "PNC Borrowing Group"), entered into a revolving credit, term loan and security agreement with PNC for the provision of \$185,000 of senior secured asset based credit facilities ("ABL Credit Facility"). The ABL Credit Facility replaced the separate facilities held by ACS, ProSys and Sigma with PNC and Wells. The ABL Credit Facility consists of a \$10,000 term loan ("ABL Term Loan") and a senior secured revolving credit facility ("ABL Revolving Credit Facility") that allows the PNC Borrowing Group to draw up to \$175,000, subject to borrowing base limitations, a portion of which may be used for letters of credit or swing line loans. Simultaneously, as part of the agreement with PNC, the Wells secured borrowing agreement held by ACS was formally terminated, and paid off.

The ABL Term Loan principal is due in four consecutive quarterly installments of \$500 commencing January 1, 2014, ten consecutive quarterly installments of \$750 commencing on January 1, 2015, followed by a final payment of \$500 plus all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses on August 13, 2017. Unless a new credit facility is arranged by PNC, a 2% premium applies to any portion of the ABL Term Loan that is prepaid on or before the one year anniversary of the Closing Date and a 1% premium applies to any prepayment after the first anniversary of the Closing Date and on or before the third anniversary of the Closing Date. The ABL Term Loan may be prepaid without premium or penalty after the third anniversary of the Closing Date.

The ABL Revolving Credit Facility provides for a borrowing rate of Prime plus 1.25% or LIBOR plus 2.25% per annum, at the Company's election. The ABL Term Loan bears interest at Prime plus 9% or LIBOR plus 10% per annum at the Company's election and contains an unused commitment fee of 0.75% per annum. The ABL Revolving Credit Facility also contains an unused commitment fee of 0.375% per annum.

As at March 31, 2014, \$123,321 was outstanding under the ABL Revolving Credit Facility, and the ABL Term Loan had an outstanding balance of \$9,500.

The PNC Borrowing Group had availability to borrow under the ABL Credit Facility of \$26,414 and \$34,888 as at March 31, 2014 and December 31, 2013, respectively, after giving effect to the borrowing base limitations, swing loans and letters of credit issued. The PNC Borrowing Group can use up to \$10,000 of its available borrowing under the ABL Credit Facility for Letters of Credit which are charged a fronting fee of 0.25% and bear interest at LIBOR plus 2.25% per annum. The PNC Borrowing Group can also use up to \$17,500 of its available borrowing under the ABL Credit Facility for Swing Loans which are charged a fee of Prime plus 1.25% per annum. As at March 31, 2014, nil and \$6,369 of Letters of Credit and Swing Loans were outstanding under the ABL Credit Facility, respectively. As at December 31, 2013, nil and \$21 of Letters of Credit and Swing Loans were outstanding under the ABL Credit Facility, respectively.

Under the terms of the ABL Credit Facility, the PNC Borrowing Group is subject to certain restrictive covenants. The covenants require that the PNC Borrowing Group maintain a fixed charge ratio of at least 1.15 to 1 and a senior leverage ratio of 4.25 to 1. In addition, distributions from the PNC Borrowing Group to the Company are restricted to the payment of dividends in respect of the Series A Preferred Shares, and to operating expenses incurred by the Company in the ordinary course of business. The covenants also place restrictions on investments, additional indebtedness, distributions, capital expenditures and leases. On March 31, 2014, the PNC Borrowing Group's senior leverage ratio exceeded the maximum senior leverage ratio allowed per the terms of the credit agreement. Management obtained a waiver from PNC on May 23, 2014, subsequent to the balance sheet date. As such, the entire outstanding senior credit facility balance is reflected as payable upon demand, as a current liability, in the statement of financial position at March 31, 2014. The Company was in compliance with these covenants at December 31, 2013.

On April 3, 2014 the Company entered into an interest rate forward swap agreement ("Swap") with PNC to mitigate the risk of fluctuating interest rates. Under the Swap, the LIBOR interest rate will, effective April 7, 2016, be fixed at 2.655% on \$50,000 of the amount outstanding under the ABL Credit Facility. The Swap will terminate on November 13, 2018.

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 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

Unlimited number of voting common shares and Series A Preferred Shares, with no par value. The Series A Preferred Shares can be converted to common shares at any time, at the option of the Company or the holder.

As at May 28, 2014, 62,614,180 Series A Preferred Shares and 105,232,446 common shares were issued and outstanding. From January 1, 2014 to May 28, 2014, Series A Preferred shareholders converted 2,648,300 preferred shares into common shares, on a one for one basis. On April 17, 2014, 75,000 common shares were cancelled.

As at March 31, 2014, the issued share capital amounted to \$86,125. The changes in issued shares and share capital for the year ended March 31, 2014 were as follows:

	Series A Preferred	Common Shares
	#	#
As at January 1, 2014	65,262,480	102,659,146
Conversion of preferred shares to common shares	(132,500)	132,500
As at March 31, 2014	65,129,980	102,791,646

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 and does not anticipate entering into any such arrangements. Pivot does not enter into the speculative use of derivatives.

Financial Instruments and Other Instruments

Other than the interest rate forward swap agreement (the "Swap") described under "Liquidity and Capital Resources – Secured Borrowings", the Company is not a party to financial instruments. The purpose of the Swap is to allow the Company to fix the LIBOR rate under the ABL Credit Facility to 2.655% per annum on \$50,000 of the amount outstanding under the ABL Credit Facility for the period of April 7, 2016 to November 13, 2018. The Company does not propose to enter into arrangements to fix the variable interest rate payable under the ABL Credit Facility for periods preceding April 7, 2016. As the Swap will not be effective until the second quarter of 2016, any gain or cost associated with the Swap would not be incurred until that time.

Contractual commitments

The following tables summarize Pivot's contractual obligations as at March 31, 2014:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	10,318	-	-	-	-	10,318
Secured borrowings	132,821	-	-	-	-	132,821
Accounts payable and accrued liabilities	-	183,130	-	-	-	183,130
Operating leases	-	4,653	4,202	8,542	2,452	19,849
Contingent consideration	-	9,627	2,641	-	-	12,268
	143,139	197,410	6,843	8,542	2,452	358,386

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

Contingent consideration

On December 30, 2010, the Company acquired substantially all of the net assets of Applied Computer Solutions ("Old ACS"). As part of the asset purchase agreement with Old ACS, contingent consideration has been agreed. This consideration is dependent on the profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. At the date of acquisition, the fair value of the contingent consideration was determined to be \$33,291. As at March 31, 2014, the fair value of the contingent consideration was determined to be \$3,788, and the undiscounted value of the remaining consideration to be paid was \$4,000. The Company recorded a charge of \$80 related to the change in fair value of the contingent consideration for the three month period ended March 31, 2014. The consideration is paid over three years and was due for final measurement and payment to the shareholders of Old ACS on May 1, 2014. On August 19, 2013, the Company reached an agreement with the shareholders of Old ACS to allow up to \$4,000 of the contingent consideration to be deferred into 2014. All amounts unpaid after December 31, 2013 bear interest at 8% per annum. The amounts deferred plus any accumulated interest must be repaid in full no later than June 30, 2014. Interest of \$92 was paid during the three-month period ended March 31, 2014. \$2,000 of the remaining contingent consideration was paid during April and May of 2014.

On January 4, 2011, the Company acquired all of the issued and outstanding share capital of ProSys Information Systems, Inc. ("Old ProSys"), a wholly owned subsidiary of Avnet, Inc. As part of the purchase agreement with the shareholders of Old ProSys, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. The fair value of the contingent consideration at the acquisition date was \$4,707 and was determined to be \$2,306 as at March 31, 2014. The Company recorded a charge of \$93 related

to the change in fair value of the contingent consideration for the three months ended March 31, 2014. The final payment of \$2,338 was made during May 2014.

On August 12, 2011, the Company acquired substantially all of the assets and liabilities of Austin Ribbon & Computer Supplies, Inc. (“Old ARC”). As part of the asset purchase agreement with the shareholders of Old ARC, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending August 12, 2014. The fair value of the contingent consideration at the acquisition date was \$3,060 and was determined to be \$2,232 as at March 31, 2014. The Company recorded a charge of \$2,232 related to the change in fair value of the contingent consideration for the three months ended March 31, 2014. No payments were made during the three months ended March 31, 2014. The possible range of undiscounted values of the remaining consideration to be paid is between nil and \$2,500.

On July 1, 2012, the Company acquired substantially all of the net operating assets of Sigma Solutions, LP (“Old Sigma”). As part of the asset purchase agreement with the partners of Old Sigma, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the business acquired from Old Sigma during the three consecutive 12-month periods ending July 1, 2015. The fair value of the contingent consideration at the acquisition date was estimated to be \$5,719 and was determined to be \$6,234 as at March 31, 2014. The Company recorded a charge of \$1,354 related to the change in fair value of the contingent consideration for the three months ended March 31, 2014. No payments were made during the three months ended March 31, 2014. Based on an amendment to the asset purchase agreement, signed May 7, 2014, the undiscounted value of the remaining consideration to be paid is \$7,500.

Series A Preferred Shares

The holders of Series A Preferred Shares are entitled to receive on a monthly basis in cash, out of any funds legally available therefor, a fixed cumulative preferential dividend at the rate of 6% per annum. Following the completion by the Company of any transaction where the Company has raised C\$75,000 in capital, the holders of the Series A Preferred Shares will be permitted to require the Company to redeem the Series A Preferred Shares for cash at a per share price that is equal to C\$0.48. The Series A Preferred Shares carry an optional conversion right, where the Series A Preferred Shares can, at the option of the holder, be converted into common shares of the Company on a one for one basis. The Series A Preferred Shares also carry a mandatory conversion right, whereby at any time after June 30, 2013, the Company is permitted to require the holders to convert the Series A Preferred Shares into common shares of the Company. The Company has not exercised this conversion right to date.

The Board of Directors declared dividends of \$696 and nil during the quarters ended March 31, 2014 and 2013, respectively. All declared dividends have been subsequently paid.

On January 20, 2014, Pivot announced that it would postpone the formalization of an exchange offer for its Series A Preferred Shares previously announced on November 21, 2013. The proposed offer did not carry sufficient support by Series A Preferred shareholders to commence a formal process. At the date of the MD&A, no decision has been made to propose a change to its preferred share structure or to initiate the conversion of Series A Preferred Shares.

RELATED PARTIES

In addition to the asset purchase agreement with Old ACS, a subsidiary of the Company has entered into an administrative services agreement, a license agreement and a distribution agreement with Old ACS commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Old ACS. The total amount collected from Old ACS for these shared administrative services for the three month periods ended March 31, 2014 and 2013, amounted to \$395 and \$395, respectively. The license agreement permits Old ACS to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. A member of key management of the Company has significant influence over Old ACS, resulting in a related party relationship.

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Old ACS to its third-party customers, and thus the Company is the principal and Old ACS is the agent of the Company with respect to such sales. The Company recognizes these revenues on a gross basis. Total gross sales through the agent are approximately \$33,435 and \$6,982 for the three month periods ended March 31, 2014 and 2013, respectively. The Company's effective cost to the agent in respect of these revenues was approximately \$474 and \$109 for the three month periods ended March 31, 2014 and 2013, respectively, which is included in the Company's cost of sales.

The Company has a similar contractual arrangement with Old ARC, whereby Old ARC is an agent of the Company. Total gross sales through the agent are approximately \$10,211 and \$8,896 for the three month periods ended March 31, 2014 and 2013, respectively.

Certain subsidiaries lease offices from related entities. One subsidiary of the Company leases two of its offices from a related entity controlled by that subsidiary's chief executive officer. The Company is obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease was \$361 and \$208 for the three month periods ended March 31, 2014 and 2013, respectively. Another subsidiary of the Company leases an office from an entity in which that subsidiary's president and another key management member has an ownership

interest. The Company is obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease was \$28 for each of the three month periods ended March 31, 2014 and 2013.

A subsidiary of the Company incurred \$190 and \$176 for the three month periods ended March 31, 2014 and 2013, respectively, for marketing services provided by related entities controlled by that subsidiary's chief executive officer and \$7 and \$3 in expenses for the use of aircraft owned by a related entity controlled by that subsidiary's chief executive officer for the three month periods ended March 31, 2014 and 2013, respectively.

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

	Three months ended	
	March 31,	
	2014	2013
Compensation	409	1,397
Short-term employee benefits	9	-
	418	1,397

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

RISKS AND UNCERTAINTIES

Pivot is subject to risks and uncertainties that could result in a material adverse effect on the Company's business and financial results. The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company's management is responsible for developing and monitoring the Company's risk strategy, and reports to the Board of Directors on its activities. Risk management is incorporated in all levels of strategic and operational planning, and is reviewed regularly to reflect changes in market conditions and the Company's activities. Management has identified the risks below as specific risks to Pivot. The reader is urged to review these risk factors. The markets in which Pivot currently operates are very competitive and change rapidly. New risks may emerge from time to time.

Risks relating to the Technology Supply and Distribution Channel

Dependence on Third Party Suppliers

Pivot is substantially dependent upon the services of certain key technology distributors and manufacturers, for the successful operation of its business. Pivot's contracts with these suppliers vary in duration and are generally terminable by either party at will or upon notice. A supplier's

failure to supply materials or components in a timely manner, or Pivot's inability to obtain substitute sources for these materials and components in a timely manner or on terms acceptable to the Company, could harm the Company's ability to integrate and deliver its products to its customers. Additionally, the loss of the services of any of these suppliers and a failure to obtain an acceptable alternative solution at a similar cost could have a material adverse effect on the business, operations and financial condition of Pivot.

Dependence on Original Equipment Manufacturers (“OEMs”)

Pivot is an authorized reseller of the products and services of leading IT manufacturers. In many cases Pivot has achieved the highest level of relationship the manufacturer offers. In addition, Pivot's employees hold certifications issued by these manufacturers and by industry associations relating to the configuration, installation and servicing of these products. Pivot differentiates itself from its competitors by the range of manufacturers it represents, the relationship level it has achieved with these manufacturers and the scope of the manufacturer and industry certifications Pivot's employees hold. There can be no assurance that the Company will be able to retain these relationships with the manufacturers, that it will be able to retain the employees holding these manufacturer and industry certifications, or that its employees will maintain their manufacturer or industry certifications. The loss of any of these relationships or certifications could have a material adverse effect on the business of Pivot.

Reliance on Financial Incentives

Pivot receives payments and credits from vendors, including consideration pursuant to volume sales incentive programs and marketing development funding programs. Vendor funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. If Pivot is not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to the Company by its vendors. No assurance can be given that Pivot will continue to receive financial incentives at historical payment levels in the future, or that Pivot will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in, the discontinuance of, or a significant delay in receiving or the inability to collect such incentives could have a material adverse effect on Pivot's business, results of operations and financial condition.

Inability to Respond to Changes in IT Distribution

Distribution methods and practices continually change in the IT industry. Some OEMs distribute their products directly to end users. If this practice proliferates, Pivot would potentially be cut out of the supply chain and revenues may suffer as a result. In addition, companies are increasingly using the Internet to distribute software and a variety of technology services. If this

trend continues, Pivot may miss out on revenue opportunities and/or experience a reduction in its existing client base as clients source products through other distribution channels.

Technical Innovation

The growth of the Company's business relies in part on the OEMs' ability to develop new technologies and products that appeal to the customers of Pivot. Should the OEMs' rate of successful innovations decline, Pivot's growth and revenue levels may be materially adversely affected.

Changes in the IT Industry

The IT industry is characterized by rapid technological innovation, changing client needs, evolving industry standards, frequent introductions of new products, product enhancements, services and distribution methods. The success of Pivot depends on its ability to develop expertise with these new products, product enhancements, services and distribution methods and to implement IT consulting and professional services, technology integration and managed services that anticipate and respond to rapid and continuing changes in technology, industry dynamics and client needs. The introduction of new products, product enhancements and distribution methods could decrease demand for current products or render them obsolete. Sales of products and services can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on net sales and/or cause write-downs of obsolete inventory, if the Company fails to adapt to such changes in a timely manner. As client requirements evolve and competitive pressures increase, Pivot will likely be required to modify, enhance, reposition or introduce new IT solutions and service offerings. Pivot may experience difficulties that could delay or prevent the successful development, introduction and marketing of services and solutions that respond to technological changes or evolving industry standards, or fail to develop services and solutions that adequately meet the requirements of the marketplace or achieve market acceptance. Pivot may not be successful in doing so in a timely, cost-effective and appropriately responsive manner, or at all, which could adversely affect its competitive position and financial condition. All of these factors make it difficult to predict future operating results, which may impair Pivot's ability to manage its business and its investors' ability to assess Pivot's prospects.

Competition

The industry in which Pivot operates is developing rapidly and related technology trends are constantly evolving. In this environment, Pivot faces significant price competition from its competitors. There is no assurance that Pivot will be able to respond effectively or in a timely manner to the various competitive factors affecting the industries in which it operates. Pivot may be forced to reduce the prices of the products and services it sells in response to offerings made

by its competitors. In addition, Pivot may not be able to maintain the level of bargaining power that it has enjoyed in the past when negotiating the prices of its services. Pivot faces substantial competition from other national, multi-regional, regional and local value-added resellers and IT service providers, some of which may have greater financial and other resources than that of the Company, or that may have more fully developed business relationships with clients or prospective clients than Pivot. Many of Pivot's competitors compete principally on the basis of price and may have lower costs or accept lower selling prices and, therefore, Pivot may need to reduce its prices. The Company's profitability is dependent on the rates it is able to charge for its products and services. The rates charged for products and services are affected by a number of factors, including but not limited to:

- customers' perceptions of the Company's ability to add value through its services;
- introduction of new services or products by the Company or its competitors;
- competitors' pricing policies;
- the ability to charge higher prices where market demand or the value of the Company's services justifies it;
- the ability to accurately estimate, attain and sustain contract revenues, margins and cash flows over long contract periods;
- procurement practices of the Company's customers; and
- general economic and political conditions.

If Pivot is not able to maintain favourable pricing for its products and services, its profit margin and profitability may suffer.

Business Certifications

Certain of Pivot's largest contracting parties are certified as women business enterprises ("WBEs") in the United States. Certification as a WBE enables a company to sell products or provide services to corporations that promote or are required to support supplier diversity. These include a number of major U.S. corporations as well as the federal government and agencies and departments, and numerous state and local governments, agencies and related entities. These contracting parties are annually certified as WBEs by qualifying regional organizations. Each has been certified as a WBE for an extended period of time, and is currently so certified. If any of these contracting parties were to lose its WBE certification, and therefore not be eligible to provide product or services to its customers, Pivot would likely suffer significant reductions in revenues and profits as a result.

Risks relating to the Management of Pivot's Business

Reliance on Key Personnel

Pivot is substantially dependent upon the services of its management team for the successful

operation of its business. The loss of the services of any of these individuals could have a material adverse effect on the Company's business. If Pivot cannot successfully recruit and retain the employees it needs, or replace key employees following their departure, its ability to develop and manage its business could be impaired.

Inability to Successfully Execute Strategies

If the Company fails to execute any element of its strategy in a timely and effective manner, competitors may be able to seize marketing opportunities that Pivot has identified. The Company's business strategy will require that it successfully and simultaneously complete many tasks. In order to be successful, Pivot must: (i) continue to build and operate a highly reliable, complex infrastructure; (ii) attract and retain customers; (iii) hire, train and retain quality employees; and (iv) evolve the business to gain advantages in a competitive environment.

Acquisition and Integration Risk

The Company may in the future acquire additional businesses. Acquisitions involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have a material adverse effect on the business, results of operations and financial condition. In addition, there can be no assurance that Pivot can complete any acquisition it pursues on favourable terms, that any acquired businesses, products or technologies will achieve anticipated revenues and income, or that any acquisitions completed will ultimately benefit the business. An acquisition could also result in a potentially dilutive issuance of equity securities. If a strategy of growth through acquisition is pursued, the failure of Pivot to successfully manage this strategy could have a material adverse effect on its business, results of operations and financial condition.

Customer Concentration

A substantial proportion of Pivot's total revenues are derived from a small number of customers. Given that a significant portion of the Company's revenues will have been derived from a similarly limited customer base, the loss of one or more of these top customers or a reduction in sales to one or more of the top customers may have a material adverse effect on Pivot's business, results of operations or liquidity. The concentration of the Company's sales to a few customers could make it more vulnerable to collection risk if one or more of these customers were unable to pay for the Company's products. Also, having such a large portion of its total revenue concentrated in a few customers may hinder Pivot's negotiating leverage with these customers.

Customer Retention / Attrition

Once Pivot's solutions and methodologies are deployed within its customers' IT infrastructure environments, the customers rely on Pivot's support services to resolve any related issues. A

high level of client support and service is important for the successful marketing and sale of the services and solutions of the Company. If the Company does not help its customers quickly resolve post-deployment issues and provide effective ongoing support, its ability to sell its IT solutions to existing customers would suffer and its reputation with prospective customers could be harmed.

Information Systems

Pivot's information systems are internally developed, and contain external applications that are linked to the proprietary core. There are continued risks when various departments operate on different systems and the Company must rely on developed interfaces between these systems. There can be no assurance that these systems will continue to expand to meet the needs of the growth of the Company or that the interfaces will be robust enough as Pivot grows.

Service Interruptions or Failures

Pivot's success depends, in part, on its ability to provide reliable data centre, technology integration and managed services to its customers. Pivot data centres are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks and similar events. The Company may experience failures or interruptions of its systems and services, or other problems in connection with its operations, as a result of damage to or failure of its computer software or hardware or its connections. Such damage or failure may result from any of the following:

- errors in the processing of data by the Company's systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events;
- increased capacity demands or changes in system requirements of Pivot's customers; and
- errors by the Company's employees or third-party service providers.

Any interruptions to the Company's systems or services may damage its reputation, thereby harming its business and the results of operations. While Pivot maintains disaster recovery plans and insurance, claims may exceed insurance coverage limits, may not be covered by insurance, or insurance may not continue to be available on commercially reasonable terms. In addition, the Company's customers may experience a loss in connectivity by its hosted solution as a result of a power loss at its data centre, internet interruption or software defects. Such loss in connectivity may result in lost revenues, delays in client acceptance or unforeseen liabilities which could be detrimental to the Company's reputation and business.

Damage to the Company's Computer Systems

Pivot's operations will be dependent on the continued and uninterrupted performance of its computer systems and, accordingly, on its ability to protect its computer systems against damage from computer viruses, fire, power loss, telecommunications failures, vandalism and other malicious acts, and similar unexpected adverse events. Any system failure, security breach or other damage or unanticipated problem with the Company's computer systems could interrupt or delay its operations, damage its reputation and, if sustained or repeated, reduce the attractiveness of its services and result in the loss of customers.

Protection of Intellectual Property

The Company's ability to secure its intellectual property rights is essential to the success of its ongoing operations and future opportunities. There is no assurance, however, that none of the Company's rights will be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect proprietary rights to the same extent as do the laws of the United States and Canada, and therefore there can be no assurance that Pivot will be able to adequately protect its proprietary technology against unauthorized third-party copying or use. Such unauthorized copying or use may adversely affect the Company's competitive position. Further, there can be no assurance that the Company will successfully obtain licenses to any technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost.

Infringement of Intellectual Property

From time to time the Company may receive notices from third parties alleging that it has infringed their intellectual property rights. Responding to any such claim, regardless of its merit, may be time-consuming, result in costly litigation, divert management's attention and resources and cause Pivot to incur significant expenses. Any meritorious claim of intellectual property infringement against the Company may potentially result in a temporary or permanent injunction, prohibiting it from marketing or selling certain products or requiring it to pay royalties to a third party. In the event of a meritorious claim, failure of the Company to develop or license substitute technology may materially adversely affect its business and results of operations.

Changes in Laws

Changes to any of the laws, rules, regulations or policies to which Pivot is subject could have a significant impact on its business. There can be no assurance that the Company will be able to comply with any future laws, rules, regulations and policies. Failure by the Company to comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory

proceedings, including fines or injunctions, which may have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. In addition, compliance with any future laws, rules, regulations and policies could negatively impact Pivot's profitability and have a material adverse effect on its business, financial condition, liquidity and results of operations.

Risks relating to the Economy and Financial Conditions

Economic Conditions

The Company is sensitive to the spending patterns of its customers, which are subject to economic and business conditions. It is difficult to estimate the level of growth for the economy as a whole. As all components of Pivot's budgeting and forecasting will be dependent upon estimates of growth in the markets that the Company will serve and economic uncertainties make it difficult to estimate future income and expenditures, downturns in the economy or geopolitical uncertainties may cause clients to reduce or cancel orders. Hence, economic factors could have an effect on Pivot's business. Pivot's customer base is predominantly in the United States, and to the extent that capital investment in IT either declines or increases, the Company may be affected.

Seasonality of the Business

Pivot's sales are subject to quarterly and seasonal variations that may cause significant fluctuations in operating results. The timing of the Company's revenues may be difficult to predict. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle. The Company spends substantial time, effort and money on its sales efforts without any assurance that the efforts will produce any sales during a given period.

Adequate Liquidity

Although Pivot generates positive cash flow and the Company may have access to additional credit, there is no guarantee that such positive cash flow position will be maintained, or that such additional credit will be obtained. Under its current capital structure, Pivot must generate sufficient revenue from operations to provide access to additional capital under its secured borrowings. Failure to maintain adequate liquidity would restrict the Company's ability to operate, pay current liabilities, comply with covenants applicable to its secured borrowings, or pursue new business opportunities in the future.

Access to Credit

Pivot's suppliers manage their credit exposure closely. As a result, there is a risk that they could reduce or reorganize the credit available to the Company. From time to time, the Company will

rely upon its OEM, distribution and banking relationships in order to finance sizeable, non-recurring transactions of scale. Moreover, ongoing access to Pivot's credit facilities requires continued compliance with the terms thereof, including financial covenants. There is no certainty that the Company will be in compliance with all covenants at all relevant times. Although the Company has obtained a waiver from one financial covenant in respect of the period ended March 31, 2014, there is no certainty that it will be able to obtain waivers in future if it were to exceed any financial ratio set out in its credit facilities. Access to credit in a challenging economic environment could adversely affect Pivot's ability to successfully meet those requirements.

Additional Financing

Pivot may require additional financing to fund growth in working capital and for other purposes. The ability to source such financing in the future, if needed, will depend in part on prevailing capital market conditions and the Company's ongoing financial success. There can be no assurance the Company will be successful in its efforts to arrange additional financing, if needed, on favourable terms. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of the Company may change and existing shareholders will suffer dilution. If sufficient funds are not available or are only available on terms which are not acceptable, shareholders may not be able to take advantage of certain opportunities or be in a position to adequately respond to competitive pressures, which could materially and adversely affect Pivot's results of operations and financial condition.

Dilution to Common Shareholders

The Company's Series A Preferred Shares are convertible into common shares on a one-for-one basis at the option of the holder or the Company. Should any Series A Preferred Shares be converted or should the Company choose to issue additional common shares, holders of common shares will suffer dilution in the interest represented by their common shares.

Foreign Currency Risk

The Company is subject to risks and losses resulting from fluctuations in the relative value of the currencies of different countries where its customers and operations are located. While the Company will attempt to be prudent in managing such foreign exchange risks, there can be no assurance that shareholders will not suffer losses in the future. Any such losses could have a material adverse impact on results of operations and cash available to support operations.

Interest Rate Risk

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 ABL Credit Facility. Amounts outstanding under the ABL 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 ABL Credit Facility during the quarter ended March 31, 2014 would have resulted in an increase of \$273 in our interest payments for the period. Sustained increases in interest rates could have a material adverse impact on the Company's financial condition and results of operations. The Company has entered into a Swap agreement with PNC to mitigate the impact of possible increases in interest rates during the period the Swap agreement will be in effect. *See Liquidity and Capital Resources – Secured Borrowings.*

Changes to Tax Rates or Exposure to Additional Tax Liabilities

Pivot is subject to income taxes in various jurisdictions. Significant judgment may be required in determining the Company's worldwide provision for income taxes and, in the ordinary course of its business, there are many transactions and calculations where the ultimate tax determination may be uncertain. Pivot will be required to estimate what its taxes will be in the future. Although Pivot believes its current tax estimates are reasonable, the estimate process and applicable tax laws are inherently uncertain, and its estimates are not binding on tax authorities. The Company's effective tax rate could be adversely affected by changes in its business, including but not limited to the mix of earnings in countries with differing statutory tax rates, changes in the elections it makes, or changes in applicable tax laws. The Company's tax determinations will be subject to audit by tax authorities, which audits, if any, could adversely affect the Company's income tax provision. Should the Company's ultimate tax liability exceed its estimates, its income tax provision and net income may be materially affected.