PIVOT TECHNOLOGY SOLUTIONS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Quarter and Year Ended December 31, 2016

This Management's Discussion and Analysis (the "MD&A") for the three and twelve months ended December 31, 2016 and 2015 is as of March 27, 2017 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 consolidated financial statements and the related notes for the years ended December 31, 2016 and 2015, and the MD&A for the year ended December 31, 2015. Additional information relating to the Company, including the Annual Information Form to be filed for the year ended December 31, 2016, may be found on www.sedar.com. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and can be found at www.sedar.com and www.pivotts.com. The three month period ended March 31 is referred herein as "Q1". The three month period ended June 30 is referred herein as "Q2". The three month period ended September 30 is referred herein as "Q3". The three month period ended December 31 is referred herein as "Q4". All dollar amounts, except per share amounts stated in this MD&A, are in thousands of United States dollars unless specified otherwise.

Forward-looking statements

Statements in this MD&A contain forward-looking information, including statements with respect to growth in information technology ("IT") spending in 2017, possible sources of funding for future growth, benefit of cost cutting efforts and other operational efficiencies, interest rates applicable to the Company's borrowings, declaration of a dividend in future periods, issuance of options under the Company's Incentive Stock Option Plan, and the purchases of shares by the Company pursuant to a 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 operation efficiency initiatives will result in improved results of operations, that the Company will be in a financial position to declare and pay a dividend in subsequent periods, that the Company will be in a financial position, or that it will repurchase any additional shares for cancellation under the NCIB. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. Some of the important factors, but certainly not all, that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is based on estimated results, (ii) the possible unavailability of financing, (iii) start-up risks, (iv) general operating risks, (v) dependence on third parties, (vi) changes in government regulation, (vii) the effects of competition, (viii) dependence on senior management, (ix) impact of the 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) uncertainty with respect to the number of shares to be repurchased for cancellation by the Company under the NCIB, and (xiii) the risks set out in this MD&A under the heading "Risks and Uncertainties". 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.

Non-IFRS measures

Adjusted EBITDA and the exclusion of GTS Technology Solutions, Inc. ("GTS"), formerly known as Austin Ribbon & Computer Supplies, Inc. results of operations from the Company's results of operations are non-IFRS measures.

Adjusted EBITDA

Adjusted EBITDA is defined as gross profit less selling and administrative expenses, and corresponds to income before income tax, depreciation and amortization, transaction costs, interest expense, change in fair value of liabilities, goodwill impairment, and other income or 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. In 2016, other expense includes the loss relating to the termination of the GTS agreements (as later described), which the Company does not expect will impact results in future periods. *(See Key 2016 Highlights).* 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. See page 15 for a reconciliation of adjusted EBITDA to income (loss) before income taxes.

Exclusion of GTS' results from operations

Management presents the Company's consolidated financial results from operations excluding the results of GTS. Management believes that this adjustment to the Company's financial results is important for management, investors and analysts to understand the Company's financial performance by excluding those results from agreements with GTS that are not expected to be earned in the future.

The exclusion of GTS' results of operations can be reconciled to the Company's results of operations as follows:

	Three months ended December 31, 2016 *(unaudited)*			**Three months ended December 31, 2015** *(unaudited)*		
	Pivot	GTS	Pivot, Excl. GTS	**Pivot**	GTS	Pivot, Excl. GTS
Revenues	**398,873**	-	398,873	**420,188**	30,752	389,436
Cost of sales	**350,415**	-	350,415	**367,930**	27,361	340,569
Gross profit	**48,458**	-	48,458	**52,258**	3,391	48,867
Employee compensation and benefits	**30,318**	-	30,318	**31,412**	1,981	29,431
Other selling, general and administrative expenses, net	**9,683**	-	9,683	**6,958**	967	5,991
	8,457	-	8,457	**13,888**	443	13,445
Depreciation and amortization	**2,762**	-	2,762	**3,447**	5	3,442
Finance expense	**1,208**	-	1,208	**1,323**	(1)	1,324
Change in fair value of liabilities	**(482)**	-	(482)	**(289)**	-	(289)
Other expense	**413**	-	413	**425**	-	425
Income (loss) before income taxes	**4,556**	-	4,556	**8,982**	439	8,543
Provision for income taxes	**1,668**	-	1,668	**2,763**	17	2,746
Income (loss) for the period	**2,888**	-	2,888	**6,219**	422	5,797

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

	Twelve months ended December 31, 2016			Twelve months ended December 31, 2015		
	Pivot	GTS	Pivot, Excl. GTS	**Pivot**	GTS	Pivot, Excl. GTS
Revenues	**1,470,841**	47,225	1,423,616	**1,488,960**	120,201	1,368,759
Cost of sales	**1,294,887**	42,327	1,252,560	**1,318,553**	107,900	1,210,653
Gross profit	**175,954**	4,898	171,056	**170,407**	12,301	158,106
Employee compensation and benefits	**117,347**	**2,858**	114,489	**112,727**	6,806	105,921
Other selling, general and administrative expenses, net	**33,259**	**1,828**	31,431	**26,232**	4,314	21,918
	25,348	212	25,136	**31,448**	1,181	30,267
Depreciation and amortization	**10,965**	**16**	10,949	13,141	13	13,128
Finance expense	**4,566**	**16**	4,550	6,780	(14)	6,794
Change in fair value of liabilities	**(265)**	**-**	(265)	1,479	-	1,479
Other expense	**14,253**	**1,271**	12,982	3,593	1	3,592
Income (loss) before income taxes	**(4,171)**	**(1,091)**	(3,080)	6,455	1,181	5,274
Provision for income taxes	**150**	**36**	114	3,286	106	3,180
Income (loss) for the period	**(4,321)**	**(1,127)**	(3,194)	3,169	1,075	2,094

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

See also the reconciliation of Adjusted EBITDA (before and after the exclusion of GTS' results of operations to loss before income taxes under the heading "Adjusted EBITDA" below.

Neither Adjusted EBITDA nor the exclusion of GTS results of operations are considered recognized measures under IFRS, have no standardized meaning and are therefore unlikely to be comparable to similar measures used by other companies. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS.

Executive summary

Corporate profile

Pivot is a leading IT solutions provider to businesses, government, education and healthcare organizations in North America and Europe. Pivot serves the entire IT spectrum including: data centres, unified communications, networking and storage, mobile and handheld devices, laptops and desktops and computer peripherals. In addition to representing state-of-the-art technologies from more than 400 brand-name partners, Pivot provides a suite of service capabilities to over 2,000 customers, many of them fortune 500 companies, including: managed and hosted services, asset recovery services, security, staffing, advisory, and professional services. Founded in 2010, Pivot employs approximately 800 people in offices throughout North America and Europe. For more information, visit www.pivotts.com.

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 clients optimize IT operations and maintenance costs, while maximizing the value of their IT assets. 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 has also undertaken cost saving initiatives to improve operational efficiencies by integrating operational functions, eliminating redundant costs, improving workflow processes and maximizing utilization of delivery capabilities. The benefits of these efforts will take several quarters to be realized and may result in short term incremental costs as the Company invests in these savings efforts.

To further execute its strategy, the Company recently strengthened its senior management team with the objectives of aligning its business operations towards a functional structure to create improved operational and delivery capabilities; expanding its services portfolio and capabilities, and improving the overall corporate governance structure of the Company

Key 2016 highlights

Operating results

- On June 1, 2016, GTS provided ARC Acquisition (US), Inc. ("ARC") notice of its intent to terminate the distribution, licensing and administrative services agreements between the parties (the "GTS Agreements") effective August 30, 2016. As a result of this termination, the Company concluded that it lost control of GTS as of July 1, 2016 and the assets and liabilities of GTS were derecognized. The Company recognized a $12,037 loss related to the termination of the GTS Agreements, which was comprised of $1,271 for the removal of the net assets of GTS, a $5,978 write-down of receivables due from GTS and an impairment charge of $4,788. Affiliates of Company have filed a lawsuit against GTS and other related parties to recover damages, but Company has not formed an opinion on whether a favorable outcome is probable or remote, or the amount or range of any possible recovery or costs associated with the litigation. Defendants in the lawsuit (as later defined) have filed a counterclaim against the Company and others.

- GTS accounted for 3.2% of revenues and 0.9% of Adjusted EBITDA for the year ended December 31, 2016.

- Excluding GTS, revenues increased year over year by 4.0%, as both Product and Service revenues increase year over year primarily from the inclusion of TeraMach Technologies Inc.'s ("TeraMach") results, an increase in non-major customers, improved international sales and a recovery in one of market segments, which resulted in stronger year over year Service revenue.

- Excluding GTS, gross profit increased by 8.2% primarily as a result of an increase in total revenue, as discussed above, and from an increase in the amount recognized from vendors as incentives. During the 2016 fiscal year, the Company focused greater efforts on developing its vendor management function which resulted in an increase in the amount of rebates recognized in the year. The timing of these rebates can flucuate over any given time period.

- Excluding GTS, Adjusted EBITDA decreased by 17% during the year as the Company invested in transformational efforts, invested in new innovative product platforms and incurred higher performance compensation associated with higher product revenue.

Growth and development

- Acquisition of TeraMach Technologies, Inc. (“TeraMach”) - On October 1, 2016, Pivot acquired TeraMach, one of Canada’s leading Value Added Resellers (“VARs”). With annual revenues of approximately $80,000 and gross margins similar to Pivot’s, TeraMach is a profitable business with a 20-year track record of growth in addressing the IT needs of various customers including several levels of government in Canada. Strategically, TeraMach will enhance Pivot’s buying power, provides a new platform to grow in Canada – an attractive market – and adds local expertise in Toronto and Ottawa that can be used to further the Company’s services strategy. Under the terms of the share purchase agreement between Pivot and TeraMach, the all cash purchase price of up to C$14,000 for all outstanding shares of TeraMach, consisted of a C$5,000 upfront payment made at closing and C$9,000 in potential earn out payments over a period of four years which will be financed by way of Pivot’s existing borrowing facilities.

Financing and liquidity

- On January 14, 2016, the Company’s senior secured asset based revolving credit facility administered by JPMorgan Chase Bank, N.A. (“JPMC”), was amended and increased to $225,000 from $200,000.

- During 2016, the Company benefitted from lower interest rates charged under its senior secured asset based revolving credit facility administered by JPMC, over its previous facility administered by PNC Bank, N.A. (“PNC”). The change in facilities, which occurred at the end of Q3 2015, included the elimination of a long term debt facility, resulting in a reduction in interest charges of $564 over the prior year.

- On December 19, 2016 the Company successfully met the conditions set by the Toronto Stock Exchange (“TSX”) to graduate to the TSX. Accordingly, Pivot's common shares begin trading on the TSX under the symbol ‘PTG’ and were delisted from the TSX Venture Exchange (“TSX-V”) effective December 16, 2016. Concurrent with the TSX graduation, the Company consolidated its common shares on the basis of four (4) pre-consolidation common shares for one (1) post-consolidation common share.

Equity transactions

- On June 8, 2016, the Company agreed to repurchase 2,500,000 shares from one of its former directors for C$0.38 per share, or a total price of C$950. The shares were repurchased on June 15, 2016, and subsequently cancelled.

- On November 21, 2016, the Board declared a C$0.01 common share dividend for holders of common shares on November 30, 2016, payable on December 15, 2016.

- During 2016, the Company purchased and cancelled 910,574 shares under the NCIB program. This program will expire on March 31, 2017.

Corporate governance / executive management

- On May 1, 2016, Kevin Shank was appointed President and Chief Executive Officer. Mr. Shank brought 20 years of senior leadership experience in the IT industry to this role. Previously, he served as Executive Vice President and Chief Services Officer at CompuCom, a global, multi-billion dollar IT solutions, services and consulting business where he was responsible for 9,000 of its associates. Under his leadership, CompuCom grew to be one of the largest device management companies in North America.

- On August 8, 2016, Brian Kyle was appointed Chief Financial Officer. Mr. Kyle brought 25 years of senior financial and strategic planning experience to Pivot, including serving for five years as Chief Financial Officer of DH Corporation, one of the world's leading financial technology companies.

- On November 11, 2016, Pivot was named Cisco Software Partner of the Year, Americas South and Cisco Capital Partner of the Year, Americas South. These awards reflect best-in-class business practices as determined by Cisco during its annual Cisco Partner Summit.

Outlook for Fiscal 2017

The global economic environment is uncertain and some customers remain cautious in their approach to IT investments at this stage of the business cycle. Against this backdrop, 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 after-sales service are positive and expected to grow in line with the overall market expected growth rate in 2017. The Company's sales organization is preparing to engage customers in a more strategic fashion in order to develop comprehensive relationships built on the value of after-sales "life-time" technology support. The execution of this strategy is intended to create higher value recurring revenue streams that offer greater predictability of performance by somewhat reducing the

Company’s exposure to the capital expenditure cycles of its customers. The intended refinement of the Company’s after-sales 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 capitalize on its recent acquisition of TeraMach to strengthen its financial results for 2017. Founded in Canada 20 years ago, TeraMach’s dedicated workforce generated in 2016 annual revenues of approximately $80,000 and margins in line with the Company’s from a diverse customer base that includes various levels of government in Canada and leading corporations. The two organizations are now in the early stages of sharing best practices and coordinating sales and service efforts. TeraMach plans to introduce Pivot’s services capabilities to its existing customers, giving them access to Pivot’s full portfolio of offerings. By consolidating the financial results of TeraMach and offering additional services to TeraMach’s customer base, the Company sees growth opportunities in its product and service revenues within the Canadian market.

The Company expects to incur less than $3 million in capital expenditures, including capitalization of any development cost, for the year ended December 31, 2017.

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 fund organic growth while continuing as a going concern. The Company’s Board of Directors reviews the dividend policy annually. Operating cash flows are used to provide sustainable cash dividends to shareholders.

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

For the years ended December 31,	2016	2015	2014
Revenue	**1,470,841**	1,488,960	1,359,229
Cost of sales	**1,294,887**	1,318,553	1,199,871
Gross profit	**175,954**	170,407	159,358
Employee compensation and benefits	**117,347**	112,727	107,662
Other selling, general and administrative expenses, net	**33,259**	26,232	18,263
	25,348	31,448	33,433
Depreciation and amortization	**10,965**	13,141	12,067
Finance expense	**4,566**	6,780	6,777
Change in fair value of liabilities	**(265)**	1,479	5,965
Other expense	**14,253**	3,593	(10)
Income (loss) before income taxes	**(4,171)**	6,455	8,634
Provision for income taxes	**150**	3,286	4,378
Income (loss) for the period	**(4,321)**	3,169	4,256
Income (loss) for the period attributable to non-controlling interests	**616**	173	76
Income (loss) for the period attributable to shareholders	**(4,937)**	2,996	4,180
Items that may be reclassified subsequently income (loss):			
Exchange gain on translation of foreign operations	**2**	-	-
Other comprehensive (loss) income, net of tax	**2**	-	-
Total comprehensive income (loss), net of tax	**(4,935)**	2,996	4,180
Total comprehensive income (loss) per share:			
Total income (loss) available to common shareholders:			
Total income (loss) for the period attributable to shareholders	**(4,937)**	2,996	4,180
Deduct preferred dividends declared	**-**	(461)	(2,727)
Total income (loss) available to common shareholders	**(4,937)**	2,535	1,453
Basic	**$ (0.12)**	$ 0.06	$ 0.06
Diluted	**$ (0.12)**	$ 0.06	$ 0.06
Total assets	**$496,179**	$500,650	$473,782
Total current non-financial liabilities	**$312,422**	$326,297	$290,516
Cash dividends declared on common shares	**$4,795**	$1,912	-

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 twelve months ended December 31, 2016 compared to the three and twelve months ended December 31, 2015.

Revenue and gross profit

	Three months ended December 31, *(unaudited)*				Twelve months ended December 31,			
	2016	2015	2016*	2015*	**2016**	2015	2016*	2015*
Product sales	**358,252**	376,903	358,252	350,566	**1,315,469**	1,329,209	1,277,569	1,226,992
Service revenues	**40,621**	43,285	40,621	38,870	**155,372**	159,751	146,047	141,767
Total revenue	**398,873**	420,188	398,873	389,436	**1,470,841**	1,488,960	1,423,616	1,368,759
Cost of sales	**350,415**	367,930	350,415	340,569	**1,294,887**	1,318,553	1,252,560	1,210,653
Gross profit	**48,458**	52,258	48,458	48,867	**175,954**	170,407	171,056	158,106

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

*Amounts exclude GTS results of operations

Total fourth quarter revenues of $398,873 decreased 5.1%, or $21,315 compared to the fourth quarter of 2015. Excluding GTS' results from operations, total revenue for the quarter increased by 2.4%, primarily due to the inclusion of the results of TeraMach.

Product revenue of $358,252 decreased $18,651 in the fourth quarter or 4.9% compared to the fourth quarter of 2015. Excluding GTS' results from operations, total product revenue increased $7,686 or 2.2% compared to the same period in the prior year primarily due to the inclusion of the results of TeraMach.

Service revenues of $40,621 declined by $2,664 or 6.2% in the fourth quarter of 2016 compared to the fourth quarter of 2015. Excluding GTS' results from operations, service revenues increased $1,751 or 4.5% compared to the same period in the prior year primarily due to the inclusion of the results of TeraMach.

Total revenues for the full year of $1,470,841 remained relatively constant compared to the prior year. Excluding GTS' results from operations, total revenues increased year over year by $54,857 or 4.0% primarily due the inclusion of TeraMach's results and from an increase in revenue from non-major customers as a result of the Company's efforts to reduce overall customer concentration and expand further into the mid-size business market segment in North America.

Product revenues for the full year remained relatively constant at $1,315,469 compared to the prior year. Excluding GTS' results from operations, total product revenues increased $50,577 or 4.1% year over year, primarily due to the inclusion of TeraMach's results and from an increase in revenue from non-major customers as a result of the Company's efforts to reduce overall customer concentration.

Service revenues for the year of $155,372 were down $4,379, or 2.7% compared to the prior year. Excluding GTS' results from operations, service revenues increased $4,280 or 3.0% year over year primarily due to the inclusion of TeraMach's results, higher service offerings directly related to product sales and an increase in delivery of professional services during the year.

In general, changes in revenue quarter over quarter are attributable to a number of factors, including, but not limited to, timing of major projects and replenishments, vendor incentive programs, competitive pressures in the market and timing of service delivery within our professional services category. Service revenue 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 also reviews and evaluates revenue and gross profit margin by major versus non-major customer. A major customer is defined as a customer that generate 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 $144,701 or 36.3%, and $115,845 or 27.6% of total revenues for the three months ended December 31, 2016 and 2015, respectively, and $513,374 or 34.9%, and $508,863 or 34.2% of total revenues for the twelve months ended December 31, 2016 and 2015, respectively.

Cost of sales and gross profit

Fourth quarter 2016 cost of sales of $350,415 decreased by $17,515 or 4.8% quarter over quarter, while gross profit of $48,458 decreased $3,800 or 7.3%. Excluding GTS' results from operations, cost of sales increased 2.9% quarter over quarter while gross profit remained relatively flat, as a positive increase in vendor incentives and the inclusion of TeraMach's results were offset by lower margin revenue. Quarter over quarter, gross profit margins remained relatively flat at 12.1%. Excluding GTS' results from operations, gross profit margin in the fourth quarter of 2016 remained relatively flat at about 12.1% as compared to the same period in the prior year.

For the year ended December 31, 2016, cost of sales of $1,294,887 was down 1.8% year over year while gross profit increased by $5,547 or 3.3%. Excluding GTS' results from operations, cost of goods sold increased by $41,907 or 3.5% while gross profit increased by $12,950 or 8.2% due primarily to increases in products and service revenues and change in customer concentration, timing on vendor rebates and the inclusion of TeraMach's results. Year over year, gross profit margin increased to 12.0% from 11.4%. Excluding GTS' results from operations, gross profit margin for the year ended 2016 increased to 12.0% from 11.6% in the same period in the prior year.

Selling and administrative expenses

	Three months ended December 31, *(unaudited)*				Twelve months ended December 31,			
	2016	2015	2016*	2015*	**2016**	2015	2016*	2015*
Employee compensation and benefits	**30,318**	31,412	30,318	29,431	**117,347**	112,727	114,489	105,921
Other selling and administrative expenses	**9,683**	6,958	9,683	5,991	**33,259**	26,232	31,431	21,918
	40,001	38,370	40,001	35,422	**150,606**	138,959	145,920	127,839

Notes: Amounts presented are in thousands of U.S. dollars
*Amounts exclude GTS results of operations

Selling and administrative expenses for the three months ended December 31, 2016 increased $1,631 or 4.3% to $40,001 over the same quarter in the prior year. Excluding GTS' results from operations, selling and administrative expenses of $40,001 were $4,579 or 12.9% higher than the prior year quarter, primarily due to the acquisition of TeraMach at the beginning of Q4 2016, increases in salaries and employee benefits, as well as contractor fees as the Company made investments in staffing requirements related to platform innovation initiatives.

For the twelve months ended December 31, 2016, selling and administrative expenses of $150,606 were $11,647 or 8.4% higher than the previous year. Excluding GTS' results from operations, selling and administrative expenses of $145,920 were $18,081 or 14.1% higher than the prior year, primarily due to increases in salaries and employee benefits, as well as contractor fees as the Company made investments in staffing requirements related to platform innovation initiatives. The addition of TeraMach at the beginning of Q4 2016 also contributed to the overall increase year over year.

Other expense

	Three months ended December 31, *(unaudited)*				Twelve months ended December 31,			
	2016	2015	**2016***	**2015***	**2016**	2015	**2016***	**2015***
Finance costs	**1,208**	1,323	1,208	1,324	**4,566**	6,780	**4,550**	6,794
Loss of control	**-**	-	-	-	**7,249**	-	**5,978**	-
Impairment	**-**	-	-	-	**4,788**	-	**4,788**	-
Loss on derecognition	-	-	-	-	-	2,611	-	2,611
Restructuring costs	**100**	-	100	-	**1,524**	-	**1,524**	-
Transaction costs	**275**	229	275	229	**977**	660	**977**	660
Change in fair value of liabilities	**(482)**	(289)	(482)	(289)	**(265)**	1,479	**(265)**	1479
Other (income) expense	**38**	196	38	196	**(285)**	322	**(285)**	321
	1,139	1,459	1,139	1,460	**18,554**	11,852	**17,267**	11,865

Notes: Amounts presented are in thousands of U.S. dollars
*Amounts exclude GTS results of operations

Other expense of $1,139 for the three month period and $18,554 for the twelve month period decreased $320 or 21.9% and increased by $6,702 or 56.5% over the same period in the prior year respectively. On a year over year basis the increase is primarily due to the loss of control of GTS and associated impairment charge offset by improved financing costs from improved lending terms associated with the Company's new credit agreement. Further discussion is outlined below:

Finance costs

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMC. The new facility replaced the previous asset based revolving credit and term loan facilities with PNC, providing increased borrowing capacities, along with lower interest rates and fees. The increased capacity allowed the Company to wean itself from borrowing under other unsecured arrangements, and take advantage of significantly lower borrowing rates. Despite the increase in the average LIBOR rate from 2015, the lower overall interest rates and fees charged by the new JPMC facility significantly lowered the Company's interest costs year over year. *See Secured Borrowings*

Loss of control

On June 1, 2016, GTS provided ARC notice of its intent to terminate the GTS Agreements effective August 30, 2016. During June, ARC and GTS began the separation process, and it was determined that a loss of control occurred effective July 1, 2016. As such, a charge of $7,249 was recorded during the third quarter to account for the loss of control and deconsolidation of GTS. The charge consisted of the removal of net assets of $1,271, and a reserve against all remaining receivables due from GTS of $5,978. Subsequent to the termination of the GTS Agreements, the Company commenced a lawsuit seeking damages and other relief. *See INTERESTS IN OTHER ENTITIES and RISKS AND UNCERTAINTIES - Risks relating to the management of Pivot's business - Legal disputes and proceedings.*

Impairment

On June 1, 2016, GTS provided ARC notice of its intent to terminate the GTS Agreements effective August 30, 2016. The termination of the agreements indicates ARC will experience significant decreases in expected future revenues and gross profit, due to lower sales volumes. As such, the Company reviewed its business forecast, and performed an interim impairment test on the GTS cash generating unit ("GTS CGU"). The Company concluded that the recoverable amount, based on a value in use impairment test, was less than the carrying amount of the GTS CGU and, accordingly, recorded an impairment charge of $3,838, consisting of a write off of goodwill of $1,338, and a reduction to other intangibles of $2,500 during the three month period ended June 30, 2016. An additional impairment charge of $950 was recorded during the three-month period ended September 30, 2016. The impact of the impairment charges net of tax was nil and $3,095 for the three and twelve months ended December 31, 2016, respectively. The recoverable amount was determined based on the value in use approach using a discounted cash flow model.

The significant key assumptions included forecasted cash flows based on financial plans prepared by management covering a three year period taking into consideration the minimum liquidity requirements of the Company. The discounted cash flow model was established using a discount rate of 11%, a pre-tax discount rate of 34%, and a terminal growth rate of 3%.

Adjusted EBITDA

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

	Three months ended December 31, *(unaudited)*				Twelve months ended December 31,			
	2016	2015	2016*	2015*	**2016**	2015	2016*	2015*
Loss (income) before income taxes	**4,556**	8,982	4,556	8,543	**(4,171)**	6,455	(3,080)	5,274
Depreciation and amortization	**2,762**	3,447	2,762	3,442	**10,965**	13,141	10,949	13,128
Finance costs	**1,208**	1,323	1,208	1,324	**4,566**	6,780	4,550	6,794
Change in fair value of liabilities	**(482)**	(289)	(482)	(289)	**(265)**	1,479	(265)	1,479
Other expenses	**413**	425	413	425	**14,253**	3,593	12,982	3,592
Adjusted EBITDA	**8,457**	13,888	8,457	13,445	**25,348**	31,448	25,136	30,267

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

*Amounts exclude GTS results of operations

In measuring Adjusted EBITDA, the Company has adjusted for certain non-recurring items that have been classified in other expenses. The losses recognized in other expense during 2016 relate mainly to the termination of the GTS Agreements ($12,037), which the Company does not expect will impact results in the future. A one-time charge of $1,524 was recognized in other expenses in 2016, relating to costs incurred to restructure the business. In addition, a one-time charge of $2,611 was recognized in other expenses in 2015, related to the termination of the PNC Credit Facility.

Adjusted EBITDA of $8,457 decreased $5,431 or 39.1% for the three months ended December 31, 2016, over the same period in the prior year. The overall decrease was driven by a combination of factors, including a decline in total revenues, with a greater percentage of sales going to major customer and an increase in service delivery costs, which provided for lower profit margins of $3,800. Adjusted EBITDA was also impacted by an increase in selling and administrative costs primarily due to investments in innovation funding and an increase in variable compensation.

Adjusted EBITDA decreased $6,100 or 19.4% for the twelve months ended December 31, 2016, over the prior year. While the Company experienced an increase in gross profit year over year of $5,547, it was overshadowed by an increase in selling and administrative expense of $11,647, primarily driven by investments in employees and contractors to support the business transformation and future growth and variable compensation aligned to business performance targets.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, *(unaudited)*							
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Revenues	**398,873**	365,473	373,708	332,787	420,188	414,517	357,882	296,373
Gross profit	**45,458**	42,857	46,636	38,003	52,258	40,651	45,302	32,196
Adjusted EBITDA	**8,457**	6,317	9,123	1,451	13,888	6,331	9,920	1,309
Net and comprehensive income (loss)	**2,888**	(3,239)	(215)	(3,755)	6,219	(2,606)	2,663	(3,107)
Income (loss) per share:								
Basic	**$0.06**	($0.08)	($0.01)	($0.09)	$0.15	($0.06)	$0.06	($0.12)
Diluted	**$0.05**	($0.08)	($0.01)	($0.09)	$0.15	($0.06)	$0.06	($0.12)
Cash dividends declared on preferred shares	-	-	-	-	-	-	-	461
Cash dividends declared on common shares	**1,242**	1,292	1,312	949	955	957	-	-
Total assets (1)	**496,179**	447,121	501,875	453,458	500,650	491,472	494,777	449,500
Total current non-financial liabilities (1)	**312,422**	282,122	301,397	261,358	326,297	289,592	314,728	270,042

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

(1) 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 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 can periodically cause significant fluctuations in revenue and associated profits in any given quarter, depending on the timing of key projects. Additionally, Original Equipment Manufacturer vendors ("OEMs") tend to create higher sales activity at their own year ends as steeper discounts tend to be offered to incentivize higher volumes.

LIQUIDITY AND CAPITAL RESOURCES

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

Total cash on hand was $8,153 and $7,978, while $137,599 and $122,816 was borrowed under existing credit facilities, as at December 31, 2016 and 2015, respectively. There were working capital deficiencies of $60,217 and $57,935 as at December 31, 2016 and 2015, 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 strategically finances the working capital deficiencies related to its business acquisitions using its short term facility.

Average undrawn availability on existing, secured credit facilities administered by JPMC and PNC was $63,430 and $64,958 for the twelve month periods ended December 31, 2016 and 2015, respectively**.**

Cash flow analysis

	Three months ended December 31 *(unaudited)*		**Twelve months ended December 31**	
	2016	2015	**2016**	2015
Cash (used in) provided by operating activities	**(12,946)**	11,325	**24,741**	26,061
Cash (used in) investing activities	**(2,950)**	(4,940)	**(5,083)**	(11,184)
Cash provided by (used in) financing activities	**16,533**	(10,950)	**(19,462)**	(15,426)
Net increase (decrease) in cash and cash equivalents	**637**	**(4,565)**	**196**	**(549)**
Cash and cash equivalents at the beginning of the year	**7,537**	12,543	**7,978**	8,527
Effect of foreign exchange fluctuations on cash held	**(21)**	-	**(21)**	-
Cash and cash equivalents at the end of the year	**8,153**	**7,978**	**8,153**	**7,978**

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

Cash used in operating activities increased $24,271 for the three months ended December 31, 2016, compared to the same period in the prior year, primarily due to changes in non-cash working capital. The change in non-cash working capital quarter over quarter was primarily due to comparative increases in accounts receivable of $49,682, and decreases in inventory of $28,462.

Cash provided by operations remained relatively consistent with the prior year, decreasing $1,321 year over year.

Cash used in investing activities decreased by $1,990 and $6,101 for the three and twelve months ended December 31, 2016, respectively, over the same periods in the prior year. The decrease is primarily due to a reduction in earn out payments/business combinations and capital expenditures. Capital expenditures were significantly higher in the comparable twelve month period of 2015 due to costs incurred for a new warehouse and integration center.

Cash used in financing activities is comprised of borrowings on secured and unsecured debt facilities, changes in banking overdrafts, dividend payments on Series A Preferred Shares and common shares, installment payments on the term loan from PNC ("Term Loan"), proceeds from issuance of common shares related to the exercise of broker compensation options, and stock repurchases. Cash used in financing activities decreased by $27,483 and increased $4,036 for the three and twelve month periods ended December 31, 2016, respectively, 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, flooring arrangements and related banking overdrafts, which consist of checks that have been distributed, but have not yet been presented for payment and dividends.

Days sales outstanding (DSO) were 52 and 44 days at December 31, 2016 and 2015, respectively. Receivables and collections are closely monitored against expected cash flow. Days payables outstanding (DPO) were 39 and 38 days at December 31, 2016 and 2015, respectively.

Secured borrowings

Flooring agreement

ARC, a wholly owned subsidiary of the Company, entered into a secured flooring agreement with IBM Global Finance ("IBM") on August 10, 2011, which provides short-term accounts payable financing. The IBM secured flooring agreement allows up to $15,000 in advances on purchases from approved vendors. Approved vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. After 60 days, the Company incurs interest on the outstanding balance at LIBOR plus 4.5%. $1,348 and $13,710 were outstanding under the IBM secured flooring agreement as at December 31, 2016 and 2015, respectively. The Company is required to maintain certain financial ratios, and received waivers from IBM on March 21, 2017, as it was out of compliance as at December 31, 2016, and September 30, 2016. The Company was in compliance with all required financial ratios as at December 31, 2015. All amounts under this arrangment are included in current liabilities.

Revolving credit facilities

PNC credit facility

On November 13, 2013 ("PNC Closing Date"), Pivot Technology Solutions Ltd, a wholly owned subsidiary of the Company, along with certain of its subsidiaries, ACS (US), Inc. ("ACS"), New ProSys Corp. ("ProSys") and Sigma Technology Solutions, Inc. (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 ("PNC Credit Facility"). The PNC Credit Facility originally consisted of a $10,000 Term Loan and a senior secured revolving credit facility ("PNC Revolving Credit Facility") that allowed the PNC Borrowing Group to draw up to $175,000, subject to borrowing base limitations. The PNC Credit Facility was paid off and terminated at the Company's election on September 21, 2015. The Company incurred expenses relating to the termination of (i) $2,553 for the write-off of deferred costs associated with the repayment of the PNC Credit Facility and (ii) a 1% fee of $58, which was required to prepay the PNC Term Loan before the third anniversary of the PNC Closing Date.

The PNC Revolving Credit Facility provided for a borrowing rate of Prime plus 1% to 1.5% or LIBOR plus 2% to 2.5% per annum, based on average quarterly undrawn availability, at the Company's election. The PNC Term Loan bore interest at Prime plus 9% or LIBOR plus 10% per annum at the Company's election. The PNC Revolving Credit Facility contained an unused commitment fee of 0.375% per annum.

Under the terms of the PNC Credit Facility, the PNC Borrowing Group was subject to certain restrictive covenants. The covenants in place at June 30, 2015 required that the PNC Borrowing Group maintain a Fixed Charge Coverage Ratio ("FCCR") of at least 1.15 to 1.0 and a Senior Leverage Ratio ("SLR") of 4.50 to 1.0.

JPMC credit facility

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMC, providing the Company a $200,000 senior secured asset based revolving credit facility ("JPMC Credit Facility"). The JPMC Credit Facility may be used for revolving loans, letters of credit, protective advances, over advances, and swing line loans. Advances under the JPMC Credit Facility accrue interest at rates that are equal to, based on certain conditions, either (a) JPMC's "prime rate" as announced from time to time plus 0.0% to 0.25%, or (b) LIBOR, or a comparable or successor rate that is approved by JPMC, for an interest period of one month plus 1.50% to 1.75%, at the Company's election. The Company may also, upon the agreement of either the then existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $75,000. The lenders under the JPMC Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on September 21, 2020. On January 14, 2016, the JPMC Credit Facility was amended, increasing the overall facility to $225,000. On September 30, 2016, a second amendment was completed, primarily to allow for the purchase of TeraMach which was completed on October 1, 2016. On December 9, 2016, a third amendment was completed, primarily to add TeraMach to the borrowing group.

Under the terms of the JPMC Credit Facility, the covenants require that the Company maintain a Fixed Charge Ratio ("FCR") 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 30 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 December 31, 2016 and 2015.

The Company had availability to borrow under its revolving credit facilities of $55,568 and $76,162 as at December 31, 2016 and 2015, 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 $137,563 and $122,816 as at December 31, 2016 and 2015, respectively. In addition, a letter of credit for $250 was outstanding at both December 3, 2016 and 2015.

Interest rate forward swap agreements

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 terms of the Swap with PNC, the interest rate was to vary between 4.655% and 5.155% on $50,000 of the amount outstanding under the PNC Credit Facility. On September 21, 2015, the Swap was novated to JPMC. Under the terms of the Swap with JPMC, the interest rate now varies between 4.305% and 4.555% on $50,000 of the amount outstanding under the PNC Credit Facility. This range of rates is in effect from April 7, 2016 through November 13, 2018. The Swap agreement with JPMC contains cross covenant restrictions, requiring that the Company be in compliance with the JPMC Credit Facility.

Interest incurred under the Swap totaled $288 and $863 for the three and twelve months ended December 31, 2016, respectively. As at December 31, 2016 and 2015, the fair value of the Swap was determined to be $1,542 and $1,987, respectively, which represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

Unsecured borrowings

On August 26, 2014, ACS executed a purchase finance agreement with Macquarie Equipment Finance (“Macquarie”) that allows up to $10,000 in unsecured advances on purchases from approved suppliers. On March 24, 2015, the agreement with Macquarie was amended to allow up to $15,000 on 60 day unsecured advances from approved suppliers. Interest of LIBOR plus 1.58% will be applied. Macquarie advised during Q2 2016 that it would no longer (for an unstated period of time) provide financing in respect of new invoices issued to the Company under the facility, as Macquarie is now focusing on credit facilities over $50,000. Macquarie has indicated that it does not propose to terminate the Company’s facility as it may choose to provide financing under the existing agreement in the future. Nil and $7,073 were outstanding under the Macquarie purchase finance agreement as at December 31, 2016 and 2015, respectively. As the Company has significant availibility under its secured credit facilities, the impact of the Macquarie decision not to lend to the Company has been minimal, and has reduced the Company’s interest related expense.

Contingent consideration

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 purchase price for the TeraMach Group consists of up-front payments totalling $4,022, and contingent consideration to be paid in four future installments. The contingent consideration is dependent on the adjusted EBITDA of the acquired business during the 4-four consecutive 12-month periods ending December 31, 2017 through December 31, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be $3,324 As at December 31, 2016, the fair value of the contingent liability was determined to be $3,427. The Company recorded a charge of $180 related to the change in fair value of the contingent consideration during the three months ended December 31, 2016. The undiscounted value of the remaining consideration to be paid is $6,703.

Contractual commitments

The following tables summarize Pivot's contractual obligations as at December 31, 2016:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	24,473	-	-	-	-	24,473
Secured borrowings	137,599	-	-	-	-	137,599
Accounts payable and accrued liabilities	-	248,306	-	-	-	248,306
Operating leases	-	5,046	4,039	7,460	3,530	20,075
Contingent consideration	-	1,490	1,862	3,351	-	6,703
Interest rate swap	-	-	1,542	-	-	1,542
	162,072	254,842	7,443	10,811	3,530	438,698

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

Share consolidation

On June 21, 2016, the shareholders approved a plan to consolidate the common shares of the Company, where a shareholder will receive one post-consolidated common share for every four pre-consolidated common shares held immediately prior to the effective date of the share consolidation.

On December 19, 2016, the Company completed the consolidation of its common shares. As a result of the share consolidation, each four outstanding shares of pre-consolidated common stock were combined into one share of post-consolidated common stock. Fractional shares were rounded to the nearest whole share. All option and share amounts for all prior periods have been retroactively adjusted to reflect this stock split, unless otherwise noted.

Authorized

The Company's authorized capital consisted of an unlimited number of voting common shares and preferred shares, with no par value. As at March 27, 2017, the Company had 41,342,333 common shares issued and outstanding.

Series A Preferred Shares

The holders of Series A Preferred Shares were entitled to receive, on a monthly basis, in cash, out of any funds legally available therefore, a fixed cumulative preferential dividend at the rate of 6% per annum, when declared by the Board of Directors. The holders of the Series A were permitted to require the Company to redeem the Series A for cash at a price per share that is equal to C$1.92 following the completion of any transaction where the Company had raised C$75,000 in capital. The Series A carried an optional conversion right where each Series A could, at the option of the holders, be converted into one common share of the Company. The Series A also carried a conversion right, whereby at any time after June 30, 2013, the Company was permitted to require the holders to convert the Series A into common shares of the Company. On March 16, 2015, the Company converted all of the outstanding Series A into common shares.

Series A Dividends were declared and paid as follows:

Declaration date	Record date	Distribution date	Per share amount	Total Dividend
December 10, 2014	December 22, 2014	January 5, 2015	C$0.0163068	C$250
January 13, 2015	January 26, 2015	February 3, 2015	C$0.0163068	C$245
February 11, 2015	February 23, 2015	March 4, 2015	C$0.0147288	C$221
March 6, 2015	March 15, 2015	April 3, 2015	C$0.0078904	C$115

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

Cancellation of common shares

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

On June 15, 2016, the Company repurchased, and subsequently cancelled, 625,000 shares from a former director of the Company at a price of C$1.52 per share, for a total of C$950.

The Company has cancelled shares repurchased under the NCIB as follows:

Date	# of Shares cancelled	Total cost of shares
October 3, 2016	56,000	C$104
November 1, 2016	323,750	C$580
December 1, 2016	431,874	C$727
December 20, 2016	74,750	C$125
December 28, 2016	24,200	C$41
February 1, 2017	80,800	C$133
February 28, 2017	40,200	C$64
	1,031,574	C$1,774

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

Broker compensation options

In connection with the brokered private placement of debentures in 2011, Pivot Acquisition Corporation. ("PAC"), a subsidiary of the Company, granted broker compensation options, entitling the agent to purchase 7% of the aggregate number of shares issuable on conversion of the debentures. Upon completion of the Qualifying Transaction on March 25, 2013, the agent was entitled to 1,863,750 broker compensation options at a price of C$1.60 per share, expiring April 14, 2016. The fair value allocated to the options was $3,000, which was recognized as an expense in fiscal 2011. On April 14, 2016, 732,750 broker compensation options expired.

A total of 1,131,000 broker compensation options were exercised as follows:

Date	# of Options exercised	# of Shares issued	Price per share	Proceeds
May 19, 2015	25,000	25,000	C$1.60	C$40
September 18, 2015	75,000	75,000	C$1.60	C$120
September 28, 2015	100,000	100,000	C$1.60	C$160
October 16, 2015	125,000	125,000	C$1.60	C$200
October 22, 2015	175,000	175,000	C$1.60	C$280
November 27, 2015	112,500	112,500	C$1.60	C$180
December 8, 2015	200,000	200,000	C$1.60	C$320
February 22, 2016	75,000	75,000	C$1.60	C$120
March 28, 2016	100,000	100,000	C$1.60	C$160
April 1, 2016	75,000	75,000	C$1.60	C$120
April 14, 2016	68,500	68,500	C$1.60	C$110
Total broker compensation options exercised	1,131,000	1,131,000		C$1,810

Note: Amounts presented are in thousands of U.S. dollars, except share and per 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 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) is 4,199,415, 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 Board approval but shall not be less than the market price at the time of grant.

The Board has granted a total of 2,162,500 options to directors, officers, employees and consultants per the following table:

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

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

No options have been exercised to date.

Normal course issuer bid

On February 25, 2015, the Board of Directors approved the implementation of an NCIB, which allows Pivot to repurchase up to 5% of the Company's issued and outstanding common shares after conversion of the Series A Preferred Shares, over a twelve-month period. Implementation of the NCIB was subject to the filing of a formal notice and approval by the TSX-V.

On March 30, 2016, the Company obtained the approval of the TSX-V to implement an NCIB for its common shares. On November 28, 2016, the TSX confirmed its acceptance of the Company's existing NCIB upon the Company's graduation to the TSX. The Company received approval to acquire up to 2,097,332 common shares under the NCIB, representing approximately 5% of the Company's issued and outstanding common shares. Unless extended, the NCIB for the common shares of the Company will terminate on the earlier of March 31, 2017 or the date on which the Company has acquired the maximum number of common shares permitted under the NCIB. All common shares acquired under the NCIB will be acquired at the market price of the securities at the time of acquisition. The common shares so acquired will be cancelled. Purchases pursuant to the NCIB will be made by Cantor Fitzgerald Canada Corporation on behalf of the Company. By contacting the Company, a Pivot shareholder may, without charge, obtain a copy of the notice filed by the Company with the TSX-V in respect of the Company's intention to initiate the NCIB.

On April 25, 2016, the Company entered into an automatic share purchase plan with Cantor Fitzgerald for the purpose of permitting the purchase of common shares under the NCIB at times when the Company would not be permitted to purchase shares, including regularly scheduled quarterly blackout periods. Such purchases will be determined by Cantor Fitzgerald in its sole discretion based on parameters established prior to any blackout period, in accordance with rules of the TSX-V and applicable securities laws. As at March 24, 2017, 1,093,674 shares have been repurchased under the NCIB.

Common share dividends

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

Declaration date	Record date	Distribution date	Per share amount	Total dividend
August 19, 2015	August 31, 2015	September 15, 2015	C$0.03	C$1,259
November 20, 2015	December 2, 2015	December 15, 2015	C$0.03	C$1,276
February 4, 2016	February 29, 2016	March 15, 2016	C$0.03	C$1,284
May 4, 2016	May 31, 2016	June 15, 2016	C$0.04	C$1,720
August 19, 2016	August 31, 2016	September 15, 2016	C$0.04	C$1,695
November 21, 2016	November 30, 2016	December 15, 2016	C$0.04	C$1,667
February 16, 2017	March 3, 2017	March 15, 2017	C$0.04	C$1,654

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

As at December 31, 2016, the issued share capital amounted to $86,983. The changes in issued shares for the year ended December 31, 2016 were as follows:

	# of Common shares
As at January 1, 2016	42,725,407
Cancellation of shares	(45,000)
Options exercised	318,500
Share repurchases	(1,535,574)
As at December 31, 2016	41,463,333

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

Off-balance sheet arrangements and derivative financial instruments

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

Financial instruments and other instruments

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

INTERESTS IN OTHER ENTITIES

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

		Equity Interest	
Name	**Jurisdiction**	**2016**	**2015**
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	Hong Kong	100%	100%
Pivot Technology Solutions Singapore PTE. LTD.	Singapore	100%	100%
Pivot Technology Solutions, Ltd.	United States	100%	100%
ACS (US) Inc.	United States	100%	100%
New ProSys Corp.	United States	100%	100%
ProSys Information Systems Inc.	United States	45%	45%
ARC Acquisition (US) Inc.	United States	100%	100%
GTS Technology Solutions, Inc., formerly known as Austin Ribbon & Computer Supplies, Inc. (1)	United States	0%	0%
Sigma Technology Solutions Inc.	United States	100%	100%

(1) GTS was not a subsidiary or affiliate of the Company at any time during 2016 or 2015. However, its results of operations were consolidated with those of the Company until June 30, 2016. *See GTS Technology Solutions, Inc.*, below.

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

Old ProSys is a 45% 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 they do not already own.
- Any significant decision made at Old ProSys requires Pivot's agreement, including board changes, payment of dividends, merger or acquisition, material changes to compensation, incurring debt in excess of $100, causing any material change in the business, and 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 $97,503 and $77,623 for the three months ended December 31, 2016 and 2015, respectively. Total sales attributable to the activities of Old ProSys were approximately $289,631 and $274,691 for the twelve months ended December 31, 2016 and 2015, respectively. Amounts due from Old ProSys were $62,360 and $29,671 as at December 31, 2016 and 2015, respectively.

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

	12/31/2016	**12/31/2015**
Current Assets	68,068	34,905
Non-Current Assets	-	-
Current Liabilities	62,360	29,671
Non-Current Liabilities	-	-
Net Assets	**5,708**	**5,234**
Revenue	289,631	274,691
Total Comprehensive Income	**616**	**173**
Cash (used in) provided by operating activities	(32,689)	37,132
Cash (used in) investing activities	-	-
Cash provided by (used in) financing activities	32,689	(37,132)
Net increase (decrease) in cash and cash equivalents	-	-

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

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

Pivot has no ownership interest in GTS. Pursuant to the terms of the Administrative Services Agreement between ARC and GTS, which recently 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. During June of 2016, ARC and GTS began the process of separation, and on July 1st, 2016, the Company was deemed to have effectively lost control over GTS for accounting purposes. Total sales attributable to the activities of GTS were approximately $47,225 for the six months ending June 30, 2016. Total sales attributable to the activities of GTS were approximately $30,752 and $120,201 for the three and twelve month periods ended December 31, 2015, respectively. Amounts due from GTS were $5,978 and $7,983 as at December 31, 2016 and 2015, respectively. The Company established a reserve of $5,978 during Q3 2016, which remained in place as at December 31, 2016.

On November 23, 2016, a lawsuit was filed by the Company's affiliates seeking damages and other relief for breaches of various contracts, statutory violations and torts against a number of parties, including, but not limited to: GTS, certain GTS employees, GTS' owner and GTS' former shareholders (the "Lawsuit"). The Company intends to vigorously pursue this matter to recover damages incurred by Pivot Technology Solutions, Ltd., ARC and PAC in connection with the relationship with GTS. Because the Company has not formed a conclusion as to whether a favorable outcome is either probable or remote, the Company cannot express an opinion as to the likelihood of a favorable outcome or the amount or range of any possible recovery or costs associated with this matter. In the same Lawsuit, GTS, Laura Grant, Ryan Grant and Anne Fielding have filed counterclaims against Pivot Technology Solutions, Ltd., ARC and PAC, including claims for breaches of the GTS Agreements, tortious interference with contractual relations, defamation and conversion. All parties have filed motions to dismiss under the Texas Citizens Participation Act. 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. *See RISKS AND UNCERTAINTIES – Risks relating to the management of Pivot's business – Legal disputes and proceedings.*

RELATED PARTIES

Applied Computer Solutions, Inc. ("Applied")

A former key member of management of ACS had significant influence over Applied, resulting in a related-party relationship until March 31, 2016. In addition to the asset purchase agreement with Applied, ACS entered into an administrative services agreement, a license agreement and a distribution agreement with Applied commencing with the date of the asset purchase on December 30, 2010. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Applied. The total amount charged to Applied for shared administrative services in 2016 through the termination of the related-party relationship was $395 for the three months ended March 31, 2016. The total amount charged to Applied for shared administrative services was $1,018 and $3,379, for three and twelve months ended December 31, 2015, respectively. The license agreement permits Applied to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. The total amount charged for licensing fees was $575 for the three months ended March 31, 2016, and $575 and $2,300 for the three and twelve months ended December 31, 2015, respectively.

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Applied Computer Solutions, Inc. ("Applied") to its third-party customers, and thus the Company is the principal and Applied is the agent of the Company with respect to such sales. The Company recognizes this revenue on a gross basis. Total gross sales through the agent were approximately $70,177 and $30,764 for the three months ended December 31, 2016 and 2015, respectively. Total gross sales through the agent were approximately $162,591 and $100,461 for the twelve months ended December 31, 2016 and 2015, respectively. Amounts due from Applied totaled $10,562 and $7,423 as at December 31, 2016 and 2015, respectively.

ACS leases two of its offices from a related entity controlled by a former key member of the ACS management team. The Company is obligated for repairs, maintenance, insurance and property tax on these leases. Rents incurred under these leases through the termination of the related-party relationship were $407 for the three months ended March 31, 2016. Rents paid on these leases were $443 and $1,647 for the three and twelve months ended December 31, 2015, respectively.

ACS incurred expenses for the use of aircraft owned by a related entity controlled by a former key member of the ACS management team through the termination of the related-party relationship on March 31, 2016. Amounts incurred were nil for the three months ended March 31, 2016, and nil and $20 in for the three and twelve months ended December 31, 2015, respectively.

ACS incurred $1,292 and $594 for the three months ended December 31, 2016 and 2015, respectively, and $3,012 and $1,800 for the twelve months ended December 31, 2016 and 2015, respectively, for research and development provided by a related entity where the president of ACS has significant influence. $330 was payable as at December 31, 2016 and 2015, respectively.

Pivot Shared Services Ltd. incurred expenses for sales and marketing support provided by a related entity during which time a former Company director had significant influence until May 25, 2016. Amounts incurred were $96 in 2016, until May 25, 2016, the last day of the related party relationship. Amounts incurred were $61 and $245 during the three and twelve months ended December 31, 2015, respectively. $15 was owed at December 31, 2015.

The contractual arrangements with Applied, GTS and Old ProSys as described above and in *INTERESTS IN OTHER ENTITIES* accounted in aggregate for 42.0% and 34.0% of the overall Pivot revenues for the three months ended December 31, 2016 and 2015, respectively, and 33.1% and 33.3% for the twelve months ended December 30, 2016 and 2015, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other. *See Risks and Uncertainties – Business certifications.*

SUMMARY COMPENSATION TABLE

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

	Twelve months ended December 31,	
	2016	2015
Compensation	**2,168**	2,204
Annual incentive plans	**677**	1,051
Share-based compensation	**192**	-
Other compensation	**1,611**	1,089
	4,648	4,344

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 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, 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 proliferated, Pivot would potentially be removed from the supply chain and revenues would suffer as a result. In addition, companies are increasingly using the Internet to distribute software and a variety of technology services. If this trend acclerated, Pivot would miss out on revenue opportunities and/or experience a reduction in its existing customer base as customers 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 intermediary contracting parties (Applied and Old ProSys) are certified as Women Business Enterprises ("**WBE**s") 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 signficant reductions in revenues and profits as a result. Moreover, if the contractual arrangements with any such parties were to be terminated and therefore such party were to no longer provide the Company's products or service to its customers, such as has been the case with the termination by GTS (a certified HUB entity) effective August 30, 2016, Pivot will suffer significant reduction in revenues and profits as a result and may be required to deconsolidate the results of such contracting party, as was the result of the loss of control consequent upon the termination of its relationship with GTS. *See Interests in Other Entities, and Related Parties.*

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 has and 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 incurring of expected and unforeseen liabilities, some or all of which could have a material adverse effect on the business, results of operations and financial condition. Such liabilities may result from the agreement of the Company to assume liabilities of a third party or purusuant to indemnities provided by the Company, or may result from the failiure of parties to comply with their obligation or as a result of conflcts in the expectations of the parties. 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 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

Certain of 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.

Security threats to the Company's systems and infrastructure

Pivot's systems and infrastructure face security threats, and any compromise of the security of these systems could disrupt the Company's business, damage the Company's reputation and result in the disclosure of confidential information, liability for damages and loss of customers.

In the ordinary course of Pivot's business, Pivot generates, collects and stores sensitive data, including intellectual property, Pivot's proprietary business data and that of customers, suppliers and business partners, and personally identifiable information of customers and employees. Pivot's ability to securely process and maintain this information is critical to running the Company's business. Despite Pivot's security policies and procedures, Pivot's systems and infrastructure may be vulnerable to unauthorized access by hackers, competitors, computer viruses, employees and other disruptive problems. Someone who is able to circumvent security measures could misappropriate the data stored within Pivot's infrastructure. This unauthorized access to data could cause interruptions in normal business operations, including accessing resources in both the internal and external networks.

Online retail systems have in the past experienced, and may in the future experience, interruptions in service because of the accidental or intentional actions of Internet users, current and former employees or others.

Pivot may need to expend significant capital and other resources to protect against the threat of security breaches or alleviate problems caused by breaches. Identifying and eliminating security breaches, viruses and other external intrusions may require interruptions, delays or cessation of service to users and customers transacting business with Pivot. Infrastructure and network security breach may lead to a material disruption of the Company's business and/or the loss of business information, which may materially and adversely affect the Company's business. Risks relating to such a security breach may include, among other things: a material adverse impact on the Company's business and future financial results due to the theft, destruction, loss, misappropriation or release of confidential data, negative publicity resulting in reputation or brand damage with customers, vendors or peers due to the theft, destruction, loss, misappropriation or release of confidential data, operational or business delays resulting from the disruption of information technology systems and subsequent clean-up and mitigation activities and adverse effects on the Company's compliance with regulatory laws and regulations. Repeated or substantial interruptions could result in the loss of customers and reduced revenues.

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.

Legal disputes and proceedings

From time to time the Company may be involved, either as claiming party or defending party, in legal disputes and proceedings arising from its operations, including as a result of its relationships with suppliers, customers, employees and former owners of businesses acquired by the Company. The outcome of any such dispute or proceeding is generally uncertain, and accordingly the Company may not be able to accurately assess the outcome of such disputes or proceedings and reflect the risks associated with pending or ongoing disputes in its periodic reports.

On November 23, 2016, the Company filed a lawsuit seeking damages and other relief for breaches of various contracts, statutory violations and torts against a number of parties including, but not limited to: certain former employees, GTS, GTS' owner and GTS' former shareholders. The Company intends to vigorously pursue this matter to recover damages incurred by the Company in connection with the termination of its relationship with GTS. As the Company has not formed a conclusion as to whether a favorable outcome is either probable or remote, the Company can not 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. *See Interests in Other Entities.*

Consolidation of associates and affiliates

As set out in note 4 in the Consolidated Financial Statements for the year ended December 31, 2016, our results consolidate the results of operations of one non majority owned affiliate, Old ProSys, as well as those of our subsidiaries. We have determined that notwithstanding the fact that we own less than 50% of Old ProSys, we nonetheless control Old Prosys as a result of certain contractual arrangements which provide Pivot the majority of the variable returns from Old ProSys' activities. Moreover, Pivot holds a majority of the officer positions of Old ProSys. Should Pivot cease to control Old ProSys, including as a result of amendments to our contractual arrangements, we may be required under IFRS to deconsolidate the results of Old ProSys. A loss of consolidation of Old ProSys' results would result in a significant reduction in revenues and profits. Old Prosys contributed $289,631 in revenue and $616 in comprehensive income to the Company's total revenue and total comprehensive income for the year ended December 31, 2016.

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, declare or pay dividends, 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 OEMs, 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 obtained financial covenant amendments in respect of the periods ended March 31, 2015 and June 30, 2015, there is no certainty that it will be able to obtain waivers or amendments in the 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, the Company 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.

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.

Foreign operations risk

Pivot has begun to engage in operations in Mexico and Asia, and continues to grow operations in Europe. While Pivot has developed significant operations in the United States, and during Q4 acquired a Canadian-based company, it does not have any institutional operating experience in jurisdictions outside these two countries. Pivot may not be aware of all the factors that may affect its business in such foreign jurisdictions. Operations in such foreign jurisdictions may be subject to a variety of risks including, but not limited to: currency exchange fluctuations; devaluations and exchange controls; inflation; unexpected changes in legal and regulatory restrictions or requirements; uncertain political and economic conditions; international import and export legislation; availability of competent employees and contractors at acceptable compensation levels; social unrest; product sourcing; delivery and customs difficulties; inadequate infrastructure; immigration issues; multinational tax and financing issues; laws and uncertain enforcement relating to intellectual property and privacy rights; unauthorized copying of software; and other factors depending on the jurisdiction involved.

There can be no assurance that Pivot will not experience these risks and that its operations will not be negatively impacted thereby. If foreign operations expand to the point where they account for a significant portion of the Company's revenues, foreign operations risks could have a material adverse effect on the Company's business, operating results and financial condition.

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 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 during the three and twelve month periods ended December 31, 2016 would have resulted in an increase of $165 and $909 in the Company's interest payments for the period, respectively. Sustained increases in interest rates could have a material adverse impact on the Company's financial condition and results of operations. The Company had entered into a Swap agreement with PNC, which was subsequently novated to JPMC, to mitigate the impact of possible increases in interest rates during the period the Swap agrement 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.

Sales taxes

Pivot is required to remit sales taxes in a number of jurisdictions. Such taxes are generally assessed as a result of the sale of goods and services to customers in particular jurisdictions. There is a risk that the Company may not be made aware of the jurisdictions where such goods or services will be used by a customer. Moreover, there is a risk that the Company may not be able to monitor the practices of intermediary contracting parties in respect of sales taxes to be remitted by such parties' customers, and as a result may be subject to certain liabilities resulting from such parties' failure to comply with sales tax remittance obligations.

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. We base our estimates on historical experience and on various other assumptions that we believe 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 that 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 our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our 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.

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.

FUTURE ACCOUNTING POLICIES

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

IFRS 9 Financial Instruments: Classification and Measurement

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

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