

Consolidated Financial Statements

Pivot Technology Solutions, Inc.

December 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pivot Technology Solutions, Inc.

We have audited the accompanying consolidated financial statements of Pivot Technology Solutions, Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pivot Technology Solutions, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
April 22, 2015

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

As at December 31,	2014	2013
ASSETS		
Current		
Cash and cash equivalents	8,527	22,020
Accounts receivable (note 4)	265,158	196,724
Income taxes recoverable	258	2,652
Inventories	51,705	61,754
Other current assets	27,172	14,191
Total current assets	352,820	297,341
Property, plant and equipment, net (note 5)	6,685	6,394
Goodwill (note 6)	29,733	29,733
Intangible assets (note 7)	52,966	61,417
Deferred income taxes (note 14)	15,984	13,008
Other non-current assets	15,594	6,156
Total assets	473,782	414,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	43,921	10,842
Accounts payable and accrued liabilities (note 8)	219,439	222,355
Deferred revenue and customer deposits	27,156	18,372
Other financial liabilities (note 9)	126,533	112,666
Total current liabilities	417,049	364,235
Other financial liabilities (note 9)	5,000	9,852
Other non-current liabilities	14,495	4,253
Total liabilities	436,544	378,340
Shareholders' equity		
Share capital (note 12)	86,125	86,125
Warrants and options (note 12)	3,082	3,103
Contributed capital	21	-
Accumulated deficit	(51,990)	(53,519)
Total shareholders' equity	37,238	35,709
Total liabilities and shareholders' equity	473,782	414,049

See accompanying notes

On behalf of the Board:

"John Anderson"

"John Sculley"

John Anderson

Director

John Sculley

Director

Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

[in thousands of U.S. dollars]

For the years ended December 31,	2014	2013
Revenue		
Product sales	1,198,411	1,112,314
Service revenue	150,362	116,872
Other revenue	10,456	11,036
	1,359,229	1,240,222
Cost of sales	1,199,871	1,100,354
Gross profit	159,358	139,868
Operating expenses		
Selling and administrative	125,925	112,580
Depreciation and amortization	12,067	11,375
Interest expense (note 16)	6,777	9,190
Change in fair value of liabilities (note 17)	5,965	(9,394)
Goodwill impairment (note 3)	-	11,000
Transaction costs (note 19)	246	2,229
Other (income) expense	(256)	6
	150,724	136,986
Income before income taxes	8,634	2,882
Provision for income taxes (note 14)	4,378	4,639
Net and comprehensive income (loss) for the year	4,256	(1,757)
Net income (loss) per share (note 12):		
Net income (loss) available to common shareholders:		
Net and comprehensive income (loss) for the year	4,256	(1,757)
Deduct preferred dividends declared	(2,727)	(3,062)
Net income (loss) available to common shareholders	1,529	(4,819)
Basic	\$ 0.01	\$ (0.07)
Diluted	\$ 0.01	\$ (0.07)

See accompanying notes

Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of U.S. dollars]

	Share Capital			Contributed	Warrants	Accumulated	
	Preferred	Common	Total	Capital	/Options	Deficit	Total
Balance, December 31, 2012	-	60	60	-	3,000	(48,700)	(45,640)
Common shares issued on subscription receipts (note 11)	-	1,897	1,897	-	-	-	1,897
Capital movement pursuant to reverse acquisition (note 11)	-	783	783	-	21	-	804
Shares issued on debenture conversion (note 11 and 12)	80,216	3,169	83,385	-	-	-	83,385
Warrants issued pursuant to private placement (notes 11 and 12)	-	-	-	-	82	-	82
Preferred share conversion to common shares	(28,425)	28,425	-	-	-	-	-
Preferred share dividends declared (note 12)	-	-	-	-	-	(3,062)	(3,062)
Net and comprehensive loss for the Year	-	-	-	-	-	(1,757)	(1,757)
Balance, December 31, 2013	51,791	34,334	86,125	-	3,103	(53,519)	35,709
Preferred share conversion to common shares	(3,711)	3,711	-	-	-	-	-
Preferred share dividends declared (note 12)	-	-	-	-	-	(2,727)	(2,727)
Warrants expired and unexercised (note 12)	-	-	-	21	(21)	-	-
Net and comprehensive income for the year	-	-	-	-	-	4,256	4,256
Balance, December 31, 2014	48,080	38,045	86,125	21	3,082	(51,990)	37,238

See accompanying notes

Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

For the years ended December 31,	2014	2013
OPERATING ACTIVITIES		
Net and comprehensive income (loss) for the year	4,256	(1,757)
Add (deduct) items not involving cash		
Depreciation and amortization	12,067	11,375
Provision for receivables	240	42
Loss (gain) on disposals of property, plant and Equipment	12	78
Goodwill impairment (note 3)	-	11,000
Deferred income taxes (note 14)	(2,976)	1,806
Amortization of loan fees (note 9)	672	82
Non cash transaction costs (note 11)	-	736
Change in fair value of liabilities (note 17)	5,965	(9,394)
Changes in non-cash working capital balances (note 20)	(63,427)	14,041
Cash provided by (used in) operating activities	(43,191)	28,009
INVESTING ACTIVITIES		
Change in restricted cash	-	2,000
Payments made on contingent/fixed consideration	(10,850)	(18,290)
Net cash acquired from reverse acquisition	-	126
Proceeds from sales of property, plant and equipment	13	192
Capital expenditures	(2,471)	(2,412)
Other intangible assets	(1,461)	(1,030)
Cash used in investing activities	(14,769)	(19,414)
FINANCING ACTIVITIES		
Net change in debt facilities	13,900	(2,208)
Change in bank overdraft	33,079	(88)
Preferred share dividends paid	(2,512)	(2,811)
Issuance of common shares, net of costs	-	1,979
Cash provided by (used in) financing activities	44,467	(3,128)
Net increase (decrease) in cash and cash equivalents during the year	(13,493)	5,467
Cash and cash equivalents, beginning of year	22,020	16,553
Cash and cash equivalents, end of year	8,527	22,020

See accompanying notes

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

1. CORPORATE INFORMATION

Pivot Acquisition Corp. (“Pivot Acquisition”) completed a reverse takeover (“RTO”) of Pivot Technology Solutions, Inc. (“Pivot” or the “Company”), on March 25, 2013. The Company is publicly listed on the TSX Venture Exchange and trades under the symbol “PTG”. It was classified as a Capital Pool Company, as defined in Policy 2.4 of the TSX Venture Exchange Inc. and, accordingly, had no significant assets other than cash and no commercial operations. Pivot changed its fiscal year end to December 31 on March 25, 2013.

Pivot Acquisition was incorporated under the Business Corporations Act (Ontario) on September 8, 2010, and domiciled in Ontario, Canada. The registered office is located at 40 King Street, Suite 4400, Toronto, Ontario.

The Company has the following wholly owned subsidiaries: ACS Holdings (Canada) Inc., Pivot Technology Solutions, Ltd. (formerly known as ACS Acquisition Holdings Inc.), Pivot Research Ltd., Pivot Shared Services Ltd., ACS (US) Inc. (“ACS”), New ProSys Corp. (“ProSys”), Sigma Technology Solutions, Inc. (“Sigma”) and ARC Acquisition (US), Inc. (“ARC”).

The consolidated financial statements of the Company for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on April 22, 2015.

The Company’s strategy is to acquire and integrate technology solution providers, primarily in North America. The businesses acquired to date design, sell and support integrated computer hardware, software and networking products for business database, network and network security systems. The Company primarily serves customers throughout the United States of America (“U.S.”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value.

The comparative audited consolidated financial statements have been reclassified from consolidated financial statements previously presented to conform to the presentation of the current year consolidated financial statements in accordance with IFRS.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Management has determined that the Company's operations have similar economic characteristics, and are similar in the nature of products and services, production processes, types and classes of customer, methods of distribution and regulatory environment and as such have aggregated its operating units into a single reportable segment. The Company undertakes its operations in the U.S. and has no significant assets located or revenues generated outside the U.S. Therefore, no segment reporting is included in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014 and 2013.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated on consolidation.

Critical judgments and estimates

The preparation of the Company's consolidated financial statements requires management to make judgments on how to apply the Company's accounting policies and make estimates about the future. Due to the inherent uncertainty in making these critical judgments and estimates, actual outcomes could be different.

The more significant judgments and estimates, where a risk that a material adjustment to the carrying value of assets and liabilities in the next fiscal year could occur, relate to:

Revenue Recognition

Revenue recognition where, on a limited number of bundled contracts, an estimate of the relative fair value of separate elements is required. As described in the revenue recognition policy, the Company 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 good is sold separately by the Company in the normal course of business or whether the customer could purchase the service or good separately.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

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 key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 3.

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.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Intangible assets, other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in the consolidated statements of income (loss) and comprehensive income (loss) in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The Company has no indefinite lived intangible assets.

A summary of the policies applied to the Company's intangible assets is as follows:

Type	Amortization method
Customer and vendor relationships	Straight-line basis over 10 years
Technology	Straight-line basis over 5 years
Other	Straight-line basis over 5 to 15 years

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Secured borrowings

Transfers of trade receivables in secured borrowing transactions are recognized as financial liabilities and thus do not result in the Company's derecognition of the trade receivables sold.

Foreign currency

Functional currency is the currency of the primary economic environment in which the reporting entity operates and is normally the currency in which the entity generates and expends cash. Each entity in the Company determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of each entity in the consolidated group is U.S. dollars.

Transactions

Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are recorded in the consolidated statements of comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Translation

The assets and liabilities of foreign operations are translated into U.S. dollars at period-end exchange rates and their revenue and expense items are translated at exchange rates prevailing at the date of the transactions. The resulting exchange differences are recognized in other comprehensive income (loss). The Company currently has no foreign operations requiring translation.

Financial assets and liabilities

Classification

Financial assets within the scope of "IAS 39, Financial instruments: recognition and measurement, ("IAS 39") are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial instruments, classified at fair value through profit or loss, are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

The Company has classified its financial instruments as follows:

Fair value through profit or loss	Loans and receivables	Other financial liabilities
<ul style="list-style-type: none"> • Cash and cash equivalents • Contingent consideration • Interest rate swap 	<ul style="list-style-type: none"> • Accounts receivable 	<ul style="list-style-type: none"> • Accounts payable and accrued liabilities • Secured borrowings • Fixed consideration

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are carried at fair value. Changes in fair value are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

The convertible debentures retired during 2013 contained more than one embedded derivative and therefore, the Company designated the entire instrument as a financial liability at fair value through profit or loss.

Loans and receivables

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. Receivables are reduced by provisions for estimated bad debts which are determined by reference to past experience and expectations.

Other financial liabilities

All other financial liabilities within the scope of IAS 39 are classified as other financial liabilities. Other financial liabilities are measured at amortized cost using the effective interest rate method. Debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long-term debt instruments are included in the value of the instruments and amortized using the effective interest rate method.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or when the Company transfers its rights to receive cash flows from the asset and the associated risks and rewards to a third party.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Determination of fair value

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with original maturities of three months or less.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventories, which consist primarily of finished goods, is generally determined by the purchase cost on a first-in, first-out basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Repair and maintenance costs are recognized in the consolidated statements of income (loss) and comprehensive income (loss) as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 to 5 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	Shorter of the estimated life of the asset or the lease term

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Revenue

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales tax, estimated discounts, rebates and estimated returns.

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

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

Product sales

Revenue is recognized when the significant risks and rewards of ownership of the goods has passed to the buyer, usually on delivery to the customer.

Service revenue

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

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

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

Vendor rebates

The Company receives funds from vendors for price protection, product rebates, marketing, promotions and other competitive pricing programs. The Company accounts for these rebates and other incentives received from its vendors, relating to the purchase of inventories, as a reduction of cost of sales and inventories.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recognized and carried at their original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Balances are written off when the probability of recovery is assessed as being remote.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of income (loss) and comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognized as an operating expense in the consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income (loss) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Pension plan

The Company operates a defined contribution pension plan for certain of its employees. Contributions are recognized as an expense in the consolidated statements of income (loss) and comprehensive income (loss) as they become payable in accordance with the terms of the plan.

Impairment

The Company's tangible and intangible assets are reviewed for indications of impairment at each consolidated statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. In addition, goodwill and other indefinite-lived intangibles are tested for impairment annually on October 1.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Standards issued but not yet effective

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 unaudited interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38, Intangible Assets, prohibiting the use of revenue based depreciation for property, plant and equipment and significantly limiting the use of revenue based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company has not yet begun the process of evaluating the impact of this standard on its annual consolidated financial statements.

3. GOODWILL IMPAIRMENT

The Company performed its annual test for goodwill impairment in the fourth quarters of 2014 and 2013 in accordance with its policy described in note 2. The recoverable amount exceeded the carrying value for both 2014 and 2013. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test are described below. The selection and

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

application of valuation techniques and the determination of significant assumptions requires judgment.

The recoverable amount for each CGU was determined 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. Data for the benchmark companies was obtained from publicly available information, and ranged between 3.2 and 7.8 times earnings.

The revenue and operating margin assumptions used were based on the individual CGU's internal forecast for the next fiscal year. In arriving at the forecast, the Company considered past experience and inflation as well as industry and market trends. The forecast also took into account the expected impact from new product initiatives, customer retention and efficiency initiatives. The Company has used earnings multiples for its CGUs similar to the range for benchmark companies.

In the second quarter of 2013, the Company identified several potential indicators of impairment on its ACS business. These indicators included significant decreases in expected future revenues and gross profit, due to lower volumes of sales, as well as increased pressures on margins from customers seeking better pricing and from vendors making reductions in rebate programs. As such, the Company reviewed its business forecast and performed an interim impairment test on the ACS CGU.

The Company concluded that the recoverable amount based on the value in use impairment test was less than the carrying amount of the ACS CGU and accordingly, a goodwill impairment charge of \$11,000 was recorded during the second quarter of 2013. The impact of the impairment charge net of tax was \$6,490. The recoverable amount of the ACS CGU after the impairment charge was \$70,346 as at June 30, 2013.

The recoverable amount for each CGU as at December 31, 2014 and 2013 was in excess of its carrying value.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

4. ACCOUNTS RECEIVABLE

	2014	2013
Trade accounts receivable		
Current	174,372	155,425
One to three months	80,591	38,494
Over three months	4,484	2,431
	259,447	196,350
Other receivables	6,183	755
	265,630	197,105
Less allowance for doubtful accounts	472	381
As at December 31,	265,158	196,724

The continuity of the allowance for doubtful accounts is as follows:

	2014	2013
Provision for doubtful accounts		
Balance at the beginning of year	381	369
Provision for doubtful accounts	240	42
Write off bad debts	(149)	(53)
Recoveries	-	23
As at December 31,	472	381

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

5. PROPERTY, PLANT AND EQUIPMENT, NET

	Leasehold improvements	Furniture and fixtures	Computer and other equipment	Total
Cost				
As at December 30, 2012	2,012	1,194	5,537	8,743
Business combination	-	-	-	-
Additions	433	406	1,573	2,412
Disposals	(197)	(44)	(813)	(1,054)
As at December 31, 2013	2,248	1,556	6,297	10,101
Additions	667	112	1,692	2,471
Disposals	(2)	(17)	(281)	(300)
As at December 31, 2014	2,913	1,651	7,708	12,272
Accumulated depreciation				
As at December 30, 2012	491	337	1,792	2,620
Depreciation	255	301	1,315	1,871
Disposals	(215)	(44)	(525)	(784)
As at December 31, 2013	531	594	2,582	3,707
Depreciation	380	166	1,609	2,155
Disposals	(2)	(10)	(263)	(275)
As at December 31, 2014	909	750	3,928	5,587
Net book value				
December 31, 2014	2,004	901	3,780	6,685
December 31, 2013	1,717	962	3,715	6,394

The Company has no outstanding purchase commitments to purchase property, plant and equipment as at December 31, 2014 and 2013.

The Company has no significant fully depreciated property, plant and equipment that are still in use.

6. GOODWILL

Cost and net book value	
As at December 30, 2012	40,733
Impairment (note 4)	(11,000)
As at December 31, 2013	29,733
Impairment (note 3)	-
As at December 31, 2014	29,733

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

The Company has four CGUs, all of which include goodwill. The carrying value of goodwill for the CGUs is identified separately in the table below:

	2014	2013
ACS	15,026	15,026
ProSys	6,916	6,916
ARC	1,338	1,338
Sigma	6,453	6,453
As at December 31,	29,733	29,733

7. INTANGIBLE ASSETS

	Customer and vendor relationships	Purchased Technology	Internally Developed Technology	Other	Total
Cost					
As at December 30, 2012	76,300	9,000	656	610	86,566
Business combination	-	-	-	-	-
Additions	-	-	1,030	-	1,030
As at December 31, 2013	76,300	9,000	1,686	610	87,596
Additions	-	-	1,067	394	1,461
As at December 31, 2014	76,300	9,000	2,753	1,004	89,057
Accumulated amortization					
As at December 30, 2012	13,033	3,603	-	39	16,675
Amortization	7,630	1,796	-	78	9,504
As at December 31, 2013	20,663	5,399	-	117	26,179
Amortization	7,662	1,794	367	89	9,912
As at December 31, 2014	28,325	7,193	367	206	36,091
Net book value					
December 31, 2014	47,975	1,807	2,386	798	52,966
December 31, 2013	55,637	3,601	1,686	493	61,417

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Accounts payable	192,203	198,350
Accrued liabilities	27,236	24,005
As at December 31,	219,439	222,355

A subsidiary of the Company has a secured flooring agreement with IBM Global Finance (“IBM”) which provides short-term financing. Certain vendors send invoices directly for payment and IBM bills the Company monthly for vendor invoices received. After 60 days, the Company incurs interest on the outstanding balance at LIBOR plus 4.5%. The Company is required to maintain certain financial ratios and was in compliance at December 31, 2014 and 2013. \$11,157 and \$18,595 was due to IBM at December 31, 2014 and 2013, respectively. This amount is included in accounts payable in the consolidated statements of financial position.

On August 26, 2014, another subsidiary executed a purchase finance agreement with Macquarie Equipment Finance that allows up to \$10,000 in unsecured advances on purchases from approved suppliers. Interest of LIBOR plus 0.7%, (for 30 day advances) or LIBOR plus 1.06% (for 45 day advances) will be applied. \$8,515 was due to Macquarie at December 31, 2014. This amount is included in accounts payable in the consolidated statements of financial position. 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 (note 23).

9. OTHER FINANCIAL LIABILITIES

	2014	2013
Current		
Secured borrowings	120,525	103,624
Contingent consideration	-	9,042
Fixed consideration	4,992	-
Interest rate swap	1,016	-
	126,533	112,666
Non-current		
Secured borrowings	5,000	8,000
Contingent consideration	-	1,852
	5,000	9,852
As at December 31,	131,533	122,518

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Secured borrowings

On November 13, 2013 (“Closing Date”), Pivot Technology Solutions Ltd., a wholly owned subsidiary of the Company, along with certain of its subsidiaries, ACS, ProSys and Sigma (collectively the “PNC Borrowing Group”), entered into an agreement with PNC Bank (“PNC”) for the provision of \$185,000 of senior secured asset based credit facilities (“ABL Credit Facility”). The ABL Credit Facility replaces the separate facilities held by ACS, ProSys and Sigma with PNC and Wells Fargo Bank, N.A. (“Wells”). The ABL Credit Facility originally consisted of a \$10,000 term loan (“ABL Term Loan”) and a senior secured revolving credit facility (“ABL Revolving Credit Facility”) that allows the PNC Borrowing Group to draw up to \$175,000, subject to borrowing base limitations, a portion of which may be used for letters of credit or swing line loans. Simultaneously, as part of the agreement with PNC, the Wells agreement held by ACS was formally terminated and paid off. Financing fees of \$229 and \$3,261 were incurred during the years ended December 31, 2014 and 2013, respectively, which are being amortized over the term of the ABL Revolving Credit Facility.

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

The ABL Revolving Credit Facility provides for a borrowing rate of Prime plus 1% to 1.5% or LIBOR plus 2% to 2.5% per annum, based on average quarterly undrawn availability, at the Company’s election. The ABL Term Loan bears interest at Prime plus 9% or LIBOR plus 10% per annum at the Company’s election and contains an unused commitment fee of 0.75% per annum. The ABL Revolving Credit Facility also contains an unused commitment fee of 0.375% per annum.

As at December 31, 2014 and 2013, \$117,525 and \$101,624 was outstanding under the ABL Revolving Credit Facility. The ABL Term Loan had an outstanding balance of \$8,000 and \$10,000 as at December 31, 2014 and 2013, respectively.

The PNC Borrowing Group had available borrowings under the ABL Credit Facility of \$56,805 and \$34,888, as at December 31, 2014 and 2013, respectively, after giving effect to the borrowing base limitations, swing loans and letters of credit issued. The PNC Borrowing Group can use up to \$10,000 of its available borrowing under the ABL Credit Facility for letters of credit which are charged a fronting fee of 0.25% and currently bear interest at Prime plus 1.5%. The PNC Borrowing Group can also use up to \$17,500 of its available borrowing under the ABL Credit Facility for swing loans which are currently charged a fee of Prime plus 1.5% per annum. As at December 31, 2014

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

and 2013, \$250 and nil letters of credit were outstanding under the ABL Credit Facility. As at December 31, 2014 and 2013, nil and \$21 of swing loans were outstanding under the ABL Credit Facility, respectively.

Under the terms of the ABL Credit Facility, the PNC Borrowing Group is subject to certain restrictive covenants. The covenants require that the PNC Borrowing Group maintain a Fixed Charge Coverage Ratio ("FCCR") of at least 1.20 to 1.0 and a Senior Leverage Ratio ("SLR") of 4.50 to 1.0. Additional restrictive covenants require that distributions from the PNC Borrowing Group to the Company be restricted to the payment of dividends in respect of the Series A Preferred Shares, and to operating expenses incurred by the Company in the ordinary course of business. The covenants also place restrictions on investments, additional indebtedness, distributions (including distributions by the Company's subsidiaries to the Company), capital expenditures and leases. The credit agreement was amended on August 22, 2014, whereby the FCR was increased to 1.20 to 1.00 for the quarters ending September 30, 2014 through March 31, 2015, and 1.15 to 1.00 for each quarter thereafter. An additional amendment on December 31, 2014 increased the SLR to 5.00 to 1.00 for the quarter ended December 31, 2014. The Company was in compliance with these covenants at December 31, 2014 and 2013. The credit agreement was further amended on March 31, 2015, whereby the FCR for March 31, 2015 will be reduced to 0.95 to 1.00, increasing to 1.15 to 1.00 for subsequent quarters, and the SLR will be fixed at 4.50 to 1.00 until the Term Loan is paid in full.

Fixed and contingent consideration

On December 30, 2010, the Company acquired substantially all of the net assets of Applied Computer Solutions ("Old ACS"). As part of the asset purchase agreement with Old ACS, contingent consideration had been agreed. The consideration was dependent on the profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. The consideration was to be paid over three years and was due for final measurement and payment to the shareholders of Old ACS on May 1, 2014. On August 19, 2013, the Company reached an agreement with the shareholders of Old ACS to allow up to \$4,000 of the contingent consideration liability to be deferred until June 30, 2014. All amounts unpaid after December 31, 2013 bear interest at 8% per annum. On July 23, 2014, the Company reached an agreement with the shareholders of Old ACS for the remaining balance to be deferred until July 31, 2014, for consideration of \$35. At the date of acquisition, the fair value of the contingent liability was determined to be \$33,291. As at December 31, 2013, the fair value of the consideration was determined to be \$3,800. The Company recorded a charge (recovery) of \$212 and \$(15,293) related to the change in fair value of the consideration in 2014 and 2013, respectively. Payments of \$4,037 (including the \$35 additional consideration) and \$12,648 were made during 2014 and 2013, respectively. All remaining amounts owed were paid on July 24, 2014.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

On January 4, 2011, the Company acquired all of the issued and outstanding share capital of ProSys, a wholly owned subsidiary of Avnet, Inc. As part of the purchase agreement with the shareholders of ProSys, contingent consideration had been agreed. The consideration was dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. The fair value at the acquisition date was \$4,707 and was determined to be \$2,213 as at December 31, 2013. The Company recorded a charge of \$125 and \$17 related to the change in fair value of the consideration in 2014 and 2013, respectively. Payments of \$2,338 and \$1,642 were made during 2014 and 2013, respectively. The final payment of \$2,338 was made on May 6, 2014.

On August 12, 2011, the Company acquired substantially all of the assets and liabilities of Austin Ribbon & Computer Supplies, Inc. ("Old ARC"). As part of the asset purchase agreement with the shareholders of Old ARC, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending August 12, 2014. The fair value at the acquisition date was \$3,060 and was determined to be nil as at December 31, 2013. At the conclusion of the three year earn out period, the undiscounted consideration was determined to be fixed at \$2,500, and was paid in full November 24, 2014. The Company recorded a charge (recovery) of \$2,500 and \$(1,622) related to the change in fair value of the consideration in 2014 and 2013, respectively. Payments of \$2,500 and nil were made during 2014 and 2013, respectively.

On July 1, 2012, the Company acquired substantially all of the net operating assets of Sigma Solutions, LP ("Old Sigma"). As part of the asset purchase agreement with the partners of Old Sigma, contingent consideration had been agreed. The consideration is dependent on a measure of operating profit before tax of the business acquired from Old Sigma during the three consecutive 12-month periods ending July 1, 2015. The purchase agreement was amended on May 7, 2014, whereby the remaining undiscounted consideration was fixed at \$7,500, payable in increments of \$3,500 and \$4,000 on October 31, 2014 and October 31, 2015, respectively. The agreement was further amended on October 28, 2014, whereby the first increment of the fixed consideration was payable in the amounts of \$2,000 on October 31, 2014, with the remaining \$1,500 to accrue interest at 8% per annum, and to be paid on or before April 30, 2015. If any of the \$1,500 remains unpaid after April 30, 2015, it will bear interest at 15% per annum. The fair value at the acquisition date was estimated to be \$5,719 and was determined to be \$4,880 as at December 31, 2013. The present value of the consideration was determined to be \$4,992 as at December 31, 2014. The Company recorded a charge of \$2,112 and \$2,949 related to the change in fair value of the consideration in 2014 and 2013, respectively. Payments of \$2,000 and \$4,000 were made during 2014 and 2013, respectively.

Pivot Technology Solutions, Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

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

Convertible debentures and Series A Preferred Shares

On April 14, 2011, the Company issued unsecured subordinated convertible debentures (“Debentures”) pursuant to a debenture indenture in the aggregate amount of C\$43,600. The Debentures bore interest at 12% per annum and matured on the earlier of the date that the Company completed a liquidity event or April 14, 2013. Interest was payable quarterly in July, October, January and April.

On November 21, 2012, Debentures totalling C\$1,000 were cancelled to settle amounts due from members of management, representing foreign withholding tax paid by the Company on behalf of those members of management, reducing the outstanding principal amount of the Debentures from C\$43,600 to C\$42,600.

The terms of the Debentures provided that if a liquidity event is completed after the first anniversary date but prior to the maturity date, the Debentures will convert into common shares of the Company at a conversion price per common share that is 50% of the value of each common share, as determined by the liquidity event.

On January 25, 2013, Pivot Acquisition amended the terms of its outstanding Debentures to provide an additional conversion right, such that a Debenture holder has the right, exercisable within 10 business days of the receipt of notice of a proposed reverse takeover or a merger or amalgamation with a publicly listed company, to convert all or a portion of such holder’s outstanding Debentures into a new class of Pivot Series A Preferred Shares (“Series A Preferred Shares”) at a price per share that is equal to 50% of the offering price in any concurrent public or private financing with a proposed reverse takeover, merger or amalgamation with a publicly listed company.

On March 25, 2013, immediately prior to the completion of the RTO, Debentures in the amount of C\$40,981 were converted into 102,452,501 Series A Preferred Shares (note 11) and Debentures in the amount of C\$1,619 were converted into 4,047,500 common shares (note 11) of the Company in accordance with the terms of the Debentures.

Interest rate swap

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, the interest rate will vary between 4.655% and 5.155% on \$50,000 of the amount outstanding under the ABL Credit Facility. This range of rates will be in effect from April 7, 2016, through November 13, 2018. Changes in the fair value of this instrument are recorded as a change in fair value of liabilities in the consolidated statements income (loss) and comprehensive income (loss). As at December 31, 2014, the net present value of the Swap was determined to be \$(1,016), which represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations. The Swap agreement with PNC contains cross covenant restrictions, requiring that the Company be in compliance with the ABL Credit Facility.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

10. OBLIGATIONS UNDER LEASES

The Company leases its facilities and certain equipment under non-cancellable long-term operating leases. It is expected that in the normal course of business these leases will expire and be renewed.

Future commitments under non-cancellable operating leases are as follows:

As at December 31, 2014	Related parties (note 22)	Unrelated parties	Total
Years ending December 31,			
2015	1,530	3,404	4,934
2016	1,442	2,870	4,312
2017	1,288	2,509	3,797
2018	436	2,426	2,862
2019	-	1,274	1,274
Thereafter	-	4,746	4,746
	4,696	17,229	21,925

Rent expense amounted to \$4,890 and \$4,830 for 2014 and 2013, respectively.

11. PRIVATE PLACEMENT AND REVERSE ACQUISITION

The private placement and reverse acquisition (“Qualifying Transaction”) was completed on the following basis:

- The Company changed its name from Acme Capital Corporation to Pivot Technology Solutions, Inc., effective March 21, 2013, and now trades under the symbol “PTG” on the TSX Venture Exchange.
- 8,000,000 outstanding shares of Pivot were consolidated on the basis of one post-consolidation share for each previously outstanding 8 common shares of the Company effective March 21, 2013.
- 800,000 outstanding employee options issued by Pivot were consolidated on the basis of one post-consolidation option for each previously outstanding 8 issued options. The options were exercisable for C\$0.80 per share. The options expired on March 25, 2014.
- 200,000 agent compensation options of Pivot granted to the IPO Agent were consolidated on the basis of one post-consolidation option for each previously outstanding 8 issued options. The options were exercisable for C\$0.80 per share. The options expired on June 29, 2013.
- 56,000,000 common shares owned by the former shareholders of Pivot Acquisition were issued common shares of Pivot on a one for one basis.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

- The subscription receipts issued by Pivot Acquisition (the “Subscription Receipts”) at a price of C\$0.80 per Subscription Receipt in connection with its brokered private placement was completed on March 11, 2013, resulting in the issue of 4,421,625 Subscription Receipts and raising gross proceeds of C\$3,537. The Subscription Receipts were subsequently converted into common shares of Pivot on a one for one basis. 309,514 agent compensation options issued by Pivot Acquisition in connection with the private placement were replaced with 309,514 agent compensation options under Pivot, entitling the holder to purchase one Pivot share at C\$0.80 per share until March 11, 2015.
- Following the Qualifying Transaction, Pivot Acquisition converted Debentures in the amounts of C\$40,981 and C\$1,619 into 102,452,501 Series A Preferred Shares and 4,047,500 common shares, respectively. These shares were exchanged on a one for one basis into 102,452,501 preferred shares and 4,047,500 common shares of Pivot. Broker compensation options of 7,455,000 issued in relation to this transaction were exchanged on a one for one basis into Pivot options. The options can be exercised for C\$0.40 per share, and expire April 14, 2016.
- The Company changed its financial year end to December 31, beginning with the financial year ended December 31, 2013.
- On March 25, 2013, the Company issued 166,921,626 of common and preferred shares to the former shareholders of Pivot Acquisition in exchange for 100% interest in Pivot Acquisition.

As a result of the transaction, the former shareholders of Pivot Acquisition owned 99.40% of the outstanding shares of the Company.

In accordance with IFRS 3, Business Combinations, the substance of the transaction is a reverse acquisition of a non-operating company. The transaction does not constitute a business combination as the Company prior to the RTO did not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Pivot Acquisition being identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of Pivot Acquisition and comparative figures presented in the consolidated financial statements after the reverse acquisition are those of Pivot Acquisition.

IFRS 2, *Share-based Payment*, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because the Company has issued shares with a value in excess of the assets received, IFRS 2 would indicate that the difference be recognized in comprehensive income (loss) as a reverse acquisition transaction cost. The amount assigned to reverse acquisition transaction cost of \$851 is the difference between the fair value of the consideration and the net identifiable liabilities of the Company acquired by Pivot Acquisition, and is included in the consolidated statements of comprehensive income (loss).

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders have in the combined entity after the RTO transaction. This represents the fair value of the shares that Pivot Acquisition would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of Pivot Acquisition acquiring 100% of the shares in the Company.

The percentage of ownership the legal parent's shareholders had in the combined entity is 0.6% after the issue of 166,921,626 common and preferred shares of the Company to Pivot Acquisition shareholders. The warrants granted prior to the RTO remain exercisable after the completion of the amalgamation, and as such, the fair value of the warrants at the date of amalgamation is also included as part of the consideration transferred (note 12).

Based on the statement of financial position of the Company at the time of the reverse acquisition, the net liabilities at estimated fair value that were acquired by Pivot Acquisition amounted to \$47 and the resulting reverse acquisition transaction cost charged to the consolidated statements of comprehensive income (loss) is as follows:

Consideration:	
Deemed issue of shares by Pivot Acquisition	783
Deemed replacement of options	21
	<u>804</u>
Identifiable net liabilities acquired:	
Cash	126
Taxes recoverable	16
Accounts payable and accrued liabilities	(189)
	<u>(47)</u>
Unidentifiable assets acquired:	
Reverse acquisition transaction cost	851
	<u>851</u>
Total net identifiable liabilities and reverse acquisition transaction cost	<u>804</u>

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

12. SHARE CAPITAL

As at December 31, 2014, the issued share capital amounted to \$86,125. An unlimited number of both common and Series A Preferred Shares, with no par value, are authorized for issuance. The changes in issued share capital for the year ended December 31, 2014 were as follows:

	Series A Preferred #	Common Shares #
As at January 1, 2014	65,262,480	102,659,146
Cancellation of shares	-	(135,000)
Preferred shares converted to common shares	(5,099,100)	5,099,100
As at December 31, 2014	60,163,380	107,623,246

Note: Share amounts are not rounded

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 therefor, 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 Preferred Shares were permitted to require the Company to redeem the Series A Preferred Shares for cash at a price per share that is equal to C\$0.48 following the completion of any transaction where the Company had raised C\$75,000 in capital. The Series A Preferred Shares carried an optional conversion right where each Series A Preferred Share could, at the option of the holders, be converted into one common share of the Company. The Series A Preferred Shares 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 Preferred Shares into common shares of the Company. On March 16, 2015, the Company converted all of the outstanding Series A Preferred Shares into common shares. Subsequent to the conversion, the Company had 167,786,626 common shares issued and outstanding (note 23).

Earnings (loss) per share

Basic net earnings (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company's basic earnings per share. Common share equivalents represent potentially dilutive stock options, warrants, and dilutive shares related to the Company's Series A Shares. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect. The weighted average number of common shares issued and outstanding for the years ended December

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

31, 2014 and 2013 was 104,919,473 and 73,939,372, respectively. The computation of diluted earnings per share for years ended December 31, 2014 and 2013 did not include options to purchase 7,764,514 and 7,889,514 shares, respectively, as the result would have been anti-dilutive. The computation of diluted earnings per share for years ended December 31, 2014 and 2013 also did not include the potential conversion of 60,163,280 and 65,262,480, respectively, Series A Preferred Shares as the result would have been anti-dilutive.

For the year ended December 31, 2014, the basic income per share calculated amount is the same as the fully diluted income per share amount as the effect of the conversion of all the outstanding preferred shares would be anti-dilutive as no dividends would have been declared. For the year ended December 31, 2013, the basic loss per share calculated amount is the same as the fully diluted loss per share amount as the effect of any outstanding options or warrants would be anti-dilutive as the amount available to common shareholders was a net loss.

Warrants and options

Broker warrants

The Company's broker warrant instruments are classified as equity and measured at fair value on the date of issue. Broker warrants are compensation warrants issued to the brokers involved in the Company's financing efforts. Fair value is calculated at the grant date using the Black-Scholes option pricing model and management's assumptions.

Subsequent to issue, broker warrants are not revalued. Warrants and broker warrants are reclassified to share capital when they are exercised.

On March 11, 2013, Pivot Acquisition granted to its agents non-transferable warrants to purchase up to an aggregate of 309,514 common shares at a price of C\$0.80 per share exercisable for a period of two years. The relative fair value of the warrants included in the private placement units (note 11) was valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield of 0%, volatility rate of 60%, expected life of two years and risk-free interest rate of 0.98%. The fair value allocated to the warrants was C\$83.

During 2011, Pivot Acquisition issued 7,455,000 broker compensation options in relation to the Company's Debenture issue. The options can be exercised for C\$0.40 per share and expire on April 14, 2016. The fair value allocated to the warrants was \$3,000, which was recognized as an expense in fiscal 2011.

Options issued to directors and officers

On June 29, 2011, the Company granted share options to its directors and officers to acquire an aggregate of 100,000 common shares (after consolidation of 8 to 1) at a price of C\$0.80 per share exercisable until June 29, 2021. Upon the completion of the RTO on March 25, 2013 which qualified as a qualifying transaction, the expiry date of the options was changed to March 25, 2014. As the

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

options remain exercisable after the completion of the RTO, the fair value of the options at the date of the RTO was included as part of the consideration transferred by Pivot Acquisition in the RTO. On March 25, 2013, the fair value of the options was estimated at C\$19 using the Black-Scholes option pricing model. The assumptions used were as follows: risk-free interest rate of 1.03%, dividend yield of 0%, volatility rate of 60% and expected life of one year. On March 25, 2014, the options had not been exercised, and have expired accordingly.

Options issued to agents

On June 29, 2011, the Company granted share options to agents (non-employees) to acquire an aggregate of 25,000 common shares (after consolidation of 8 to 1) at a price of C\$0.80 per share exercisable until June 29, 2013. As the options remain exercisable after the completion of the RTO, the fair value of the options at the date of the RTO was included as part of the consideration transferred by Pivot Acquisition in the RTO. On March 25, 2013, the fair value of the options was estimated at C\$3 using the Black-Scholes option pricing model. The assumptions used were as follows: risk-free interest rate of 0.96%, dividend yield of 0%, volatility rate of 60% and expected life of 0.29 year. On June 29, 2013, the options had not been exercised, and have expired accordingly.

Cancellation of shares

On April 17, 2014 and September 30, 2014, respectively, 75,000 and 60,000 common shares were cancelled. The cancellation is related to the resignation of the Company's former CEO, which was announced on July 3, 2013. On the date of resignation, 40% (or 300,000) of the 750,000 shares previously granted to the former CEO pursuant to his service agreement with the Company had vested, and as such, 60% or 450,000 shares are required to be cancelled upon release from escrow. All 750,000 shares had been placed into escrow following the completion of the Qualifying Transaction as described in the Company's filing statement dated March 8, 2013. 60% of the shares will be cancelled as they are released from escrow, until a total of 450,000 shares are cancelled. As at December 31, 2014, 135,000 shares have been cancelled.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Series A preferred share dividends declared and paid

Dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
April 25, 2013	April 30, 2013	May 1, 2013	C\$0.00486575	C\$452
April 25, 2013	May 27, 2013	June 3, 2013	C\$0.00407671	C\$364
June 13, 2013	June 25, 2013	July 2, 2013	C\$0.00394521	C\$351
July 12, 2013	July 25, 2013	August 1, 2013	C\$0.00407671	C\$363
August 8, 2013	August 27, 2013	September 3, 2013	C\$0.00407671	C\$363
September 13, 2013	September 24, 2013	October 1, 2013	C\$0.00394521	C\$351
October 9, 2013	October 25, 2013	November 1, 2013	C\$0.00407671	C\$363
November 18, 2013	November 29, 2013	December 3, 2013	C\$0.00394521	C\$346
December 10, 2013	December 24, 2013	January 3, 2014	C\$0.00407671	C\$266
January 13, 2014	January 27, 2014	February 3, 2014	C\$0.00407671	C\$266
February 11, 2014	February 24, 2014	March 3, 2014	C\$0.00368219	C\$240
March 10, 2014	March 25, 2014	April 3, 2014	C\$0.00407671	C\$266
April 9, 2014	April 25, 2014	May 2, 2014	C\$0.00394521	C\$247
May 12, 2014	May 26, 2014	June 3, 2014	C\$0.00407671	C\$255
June 10, 2014	June 24, 2014	July 3, 2014	C\$0.00394521	C\$246
July 10, 2014	July 24, 2014	August 5, 2014	C\$0.00407671	C\$254
August 12, 2014	August 25, 2014	September 3, 2014	C\$0.00407671	C\$254
September 9, 2014	September 23, 2014	October 3, 2014	C\$0.00394521	C\$247
October 9, 2014	October 24, 2014	November 4, 2014	C\$0.00407671	C\$250
November 6, 2014	November 21, 2014	December 3, 2014	C\$0.00394521	C\$242
December 10, 2014	December 22, 2014	January 5, 2015	C\$0.00407671	C\$250

Note: Per share amounts are not rounded

13. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth and to provide returns to its shareholders. The Company defines capital as the aggregate of its shareholders' equity and non-cash working capital financial liabilities.

Total managed capital is as follows:

	2014	2013
Other financial liabilities (note 9)	131,533	122,518
Shareholders' equity	37,238	35,709
As at December 31,	168,771	158,227

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements and there has been no change in the Company's capital management approach during the year.

14. INCOME TAXES

Significant components of the provision for income taxes are as follows:

	2014	2013
Current tax expense	7,354	2,835
Deferred tax (benefit) expense	(2,976)	1,804
	4,378	4,639

The provision for income taxes differed from the amount computed by applying the combined federal and provincial statutory rate as follows. Any change in the applicable tax rate reflects appropriate enacted law.

	2014	2013
Expected income tax at combined statutory rate	2,172	764
Unrecognized temporary differences	(366)	1,536
Permanent differences	442	485
Differences in income tax rates of foreign jurisdictions	2,078	1,222
True ups/adjustments in respect to income tax of previous years	25	101
Tax credits	(227)	(171)
Part VI.1 tax	438	702
Other	(184)	-
Income tax expense	4,378	4,639

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

	2014	2013
Intangible assets	13,811	13,958
Contingent/fixed consideration	3,813	4,335
Reserves and provisions	1,133	1,278
Property, plant and equipment	(742)	(980)
Loss carry forwards	337	334
Other	(2,368)	(5,917)
	15,984	13,008

As at December 31, 2014 the Company has tax losses of \$17,302 which arose in Canada that are available for off-set against future taxable profits. These losses begin to expire in 2030.

Deferred tax assets of \$5,515 have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in the consolidated group and they have arisen in companies that have no history of profitability. As at December 31, 2014 and 2013, there are other deferred tax assets which have been recognized on the consolidated statements of financial position which total \$15,984 and \$13,008, respectively.

There are no significant temporary differences related to the investment in subsidiaries.

As at December 31, 2014 and 2013, there was no recognized deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The Company's tax expense includes \$438 and \$702 related to the dividends paid to its preferred shareholders during 2014 and 2013.

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

15. FINANCIAL INSTRUMENTS

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

As at December 31, 2014	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	8,527	-	-	-	8,527
Accounts receivable	-	265,158	-	-	265,158
Other non-financial assets	-	-	-	200,097	200,097
Total assets	8,527	265,158	-	200,097	473,782
Bank overdraft	43,921	-	-	-	43,921
Accounts payable and accrued liabilities	-	-	219,439	-	219,439
Other financial liabilities	1,016	-	130,517	-	131,533
Other non-financial liabilities	-	-	-	41,651	41,651
Total liabilities	44,937	-	349,956	41,651	436,544

As at December 31, 2013	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	22,020	-	-	-	22,020
Accounts receivable	-	196,724	-	-	196,724
Other non-financial assets	-	-	-	195,305	195,305
Total assets	22,020	196,724	-	195,305	414,049
Bank overdraft	10,842	-	-	-	10,842
Accounts payable and accrued liabilities	-	-	222,355	-	222,355
Other financial liabilities	10,894	-	111,624	-	122,518
Other non-financial liabilities	-	-	-	22,625	22,625
Total liabilities	21,736	-	333,979	22,625	378,340

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Fair values

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

Fair value as at December 31, 2014				
	Level 1	Level 2	Level 3	Total
Interest rate swap	-	1,016	-	1,016
	-	1,016	-	1,016

Fair value as at December 31, 2013				
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	10,894	10,894
	-	-	10,894	10,894

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

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

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. Contingent consideration payable was the only instrument recorded as Level 3 as the amount payable was not based on observable inputs. Management estimated the fair value of contingent consideration internally based on a discounted cash flow methodology. The fair value was determined by applying a fixed 18% discount rate.

The fair value of the contingent consideration was calculated using forecasts based on financial plans prepared by management covering the periods under agreement, using a discount rate of 18%. The Company recorded a charge (recovery) of \$3,801 and (\$13,949) related to the change in fair value of the contingent consideration for the years ended December 31, 2014 and 2013, respectively.

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

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. As at December 31, 2014, one customer represented 23% of the outstanding receivable balance. As at December 31, 2013, one customer represented 12% of the outstanding accounts receivable balance. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and short-term investments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Company monitors its risk to a shortage of funds by monitoring its working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31, based on contractual undiscounted payments.

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	43,921	-	-	-	-	43,921
Secured borrowings	117,525	3,000	3,000	2,000	-	125,525
Accounts payable and accrued liabilities	-	219,439	-	-	-	219,439
Interest rate swap	-	-	1,016	-	-	1,016
Fixed consideration	-	5,500	-	-	-	5,500
As at December 31, 2014	161,446	227,939	4,016	2,000	-	395,401

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	10,842	-	-	-	-	10,842
Secured borrowings	101,624	2,000	3,000	5,000	-	111,624
Accounts payable and accrued liabilities	-	222,355	-	-	-	222,355
Contingent consideration	-	9,719	2,641	-	-	12,360
As at December 31, 2013	112,466	234,074	5,641	5,000	-	357,181

In addition to the financial liabilities listed in the tables above, the Company pays interest on its secured borrowings.

Other risks

During 2013, the Company was exposed to foreign exchange risk through its Canadian dollar denominated Debentures. The debentures were cancelled or converted during 2013. Included in the fair value adjustment of \$4,555 for 2013 is a foreign exchange loss of \$395 for 2013.

The Company is exposed to interest rate risk through its secured borrowing agreements; however, a fluctuation in interest rate would not have had a significant impact on the net income (loss) of the Company for 2014 or 2013.

The Company does not engage in the speculative use of derivatives.

16. INTEREST EXPENSE

	2014	2013
Debentures	-	1,151
Secured borrowings	6,777	8,039
	6,777	9,190

17. CHANGE IN FAIR VALUE OF LIABILITIES

	2014	2013
Convertible debentures	-	4,555
Contingent consideration	3,801	(13,949)
Interest rate swap	1,016	-
Fixed consideration	1,148	-
	5,965	(9,394)

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

18. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	2014	2013
Cost of sales	33,629	28,035
Selling and administrative expenses	107,662	93,766
	141,291	121,801

19. TRANSACTION COSTS

	2014	2013
Reverse takeover costs	-	1,238
Reverse acquisition transaction costs	-	851
Proposed Series A preferred shares exchange offer	246	140
	246	2,229

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2014	2013
Accounts receivable	(68,674)	14,216
Income taxes recoverable and payable	2,394	(1,289)
Inventories	10,049	(28,880)
Other assets	(23,091)	(13,676)
Accounts payable and accrued liabilities	5,653	24,960
Other liabilities	10,242	18,710
	(63,427)	14,041

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

	2014	2013
Interest paid	6,360	8,112
Income taxes paid	5,638	3,176

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

21. MAJOR CUSTOMERS

The Company had two customers that represented 25% and 12%, and 29% and 13% of gross revenues for 2014 and 2013, respectively.

22. RELATED PARTY DISCLOSURES

In addition to the asset purchase agreement with Old ACS, a subsidiary of the Company has entered into an administrative services agreement, a license agreement and a distribution agreement with Old ACS commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Old ACS. Total amounts collected from Old ACS for these shared administrative services was \$2,207 and \$1,580 for the years ended December 31, 2014 and 2013, respectively. The license agreement permits Old ACS to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. A member of key management of the Company has significant influence over Old ACS, resulting in a related party relationship.

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Old ACS to its third-party customers, and thus the Company is the principal and Old ACS is the agent of the Company with respect to such sales. The Company recognizes these revenues on a gross basis. Total gross sales through the agent are approximately \$110,732 and \$114,287 for the year ended December 31, 2014 and 2013, respectively. The Company's effective cost to the agent in respect of these revenues was approximately \$3,461 and \$4,466 for the years ended December 31, 2014 and 2013, respectively, which is included in the Company's cost of sales.

The Company has a similar contractual arrangement with Old ARC, whereby Old ARC is an agent of the Company. Total gross sales through the agent are approximately \$91,424 and \$65,758 for the years ended December 31, 2014 and 2013, respectively.

Certain subsidiaries lease offices from related entities. One subsidiary of the Company leases two of its offices from a related entity controlled by that subsidiary's chief executive officer. The Company is obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on these leases amounts to \$1,581 and \$1,571 for the years ended December 31, 2014 and 2013, respectively.

Another subsidiary of the Company leased an office from an entity in which that subsidiary's president and another key management member have an ownership interest. The Company was obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease amounts to \$66 and \$112 for the years ended December 31, 2014 and 2013, respectively. This lease expired in August 2014 and was not renewed.

A subsidiary of the Company incurred \$352 and \$612 for the years ended December 31, 2014 and 2013, respectively, for marketing services provided by related entities controlled by that subsidiary's

Pivot Technology Solutions, Inc.
Notes to the consolidated financial statements
December 31, 2014 and 2013

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

chief executive officer and \$160 and \$21 in expenses for the use of aircraft owned by a related entity controlled by that subsidiary's chief executive officer for the year ended December 31, 2014 and 2013, respectively.

A subsidiary of the Company incurred \$1,211 and \$0 for the years ended December 31, 2014 and 2013, respectively, for research and development provided by a related entity controlled by that subsidiary's president.

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

	2014	2013
Compensation	2,134	3,267
Termination benefits	-	500
Short-term employee benefits	36	54
Other long term benefits	-	-
	2,170	3,821

23. SUBSEQUENT EVENTS

On March 16, 2015, the Company converted all of the outstanding Series A Preferred Shares into common shares. Subsequent to the conversion, the Company had 167,786,626 common shares issued and outstanding.

The Company's Board of Directors has also approved the implementation of a normal course issuer bid ("NCIB"), which will allow Pivot to repurchase the greater of up to 5% of the Company's issued and outstanding common shares or up to 10% of the Company's public float, calculated in accordance with TSX Venture regulations, after conversion of the Series A Preferred Shares, over a twelve month period. Implementation of the NCIB is subject to the filing of a formal notice and approval by the TSX Venture Exchange.

Concurrent with the approval of the preferred share conversion and the adoption of the NCIB, the Board has also approved the initiation of a C\$0.03 per share annual dividend, to be paid quarterly. The Company anticipates declaring the initial quarterly dividend of C\$0.0075 per share at the time of the publication of the financial results for the second quarter of 2015, with payment in September 2015.

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.