Consolidated Financial Statements

Pivot Acquisition Corp.

December 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Pivot Acquisition Corp.

We have audited the accompanying consolidated financial statements of Pivot Acquisition Corp., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency 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 Acquisition Corp. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
April 25, 2013.

Pivot Acquisition Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

As at December 31,	2012	2011
ASSETS		
Current		
Cash and cash equivalents	16,553	20,366
Restricted cash (note 22)	2,000	—
Accounts receivable (note 4)	210,982	152,483
Income taxes recoverable	1,347	2,987
Inventories	32,874	41,927
Other current assets	5,630	4,137
Total current assets	269,386	221,900
Property, plant and equipment, net (note 5)	6,123	5,251
Goodwill (notes 3 and 6)	40,733	34,280
Intangible assets (notes 3 and 7)	69,891	64,759
Deferred income taxes (note 13)	14,814	3,932
Other non-current assets	1,123	611
Total assets	402,070	330,733
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Bank overdraft	10,930	5,705
Accounts payable and accrued liabilities (note 8)	197,070	161,733
Deferred revenue and customer deposits	3,251	4,039
Other financial liabilities (note 9)	211,867	97,011
Total current liabilities	423,118	268,488
Other financial liabilities (note 9)	23,928	85,528
Other non-current liabilities	664	315
Total liabilities	447,710	354,331
Shareholders' deficiency		
Share capital (note 11)	60	—
Contributed surplus	3,000	3,000
Accumulated deficit	(48,700)	(26,598)
Total shareholders' deficiency	(45,640)	(23,598)
Total liabilities and shareholders' deficiency	402,070	330,733

See accompanying notes

On behalf of the Board:

John Anderson
Director

John Sculley
Director

Pivot Acquisition Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[in thousands of U.S. dollars]

For the years ended December 31,	2012	2011
Revenues		
Product sales	1,350,176	1,076,004
Service revenues	61,215	39,475
Other revenues	18,188	15,645
	1,429,579	1,131,124
Cost of sales	1,289,179	1,021,201
Gross profit	140,400	109,923
Operating expenses		
Selling and administrative	102,577	76,742
Depreciation and amortization	10,550	9,693
Transaction costs (note 15)	784	18,401
Interest expense (note 16)	21,011	8,894
Change in fair value of liabilities (note 17)	32,383	13,078
Other (income)/expense	(234)	2,516
	167,071	129,324
Loss before income taxes	(26,671)	(19,401)
Provision for/(recovery of) income taxes (note 13)	(4,569)	404
Net and comprehensive loss for the year	(22,102)	(19,805)
Net loss per share (note 11):		
Basic	$(0.42)	$(0.40)
Diluted	$(0.42)	$(0.40)

See accompanying notes

Pivot Acquisition Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
[in thousands of U.S. dollars]

	Share capital	Contributed surplus	Accumulated deficit	Total
Balance, December 31, 2010	—	—	(6,793)	(6,793)
Compensation option expense	—	3,000	—	3,000
Net loss for the year	—	—	(19,805)	(19,805)
Balance, December 31, 2011	—	3,000	(26,598)	(23,598)
Shares issued	60	—	—	60
Net loss for the year	—	—	(22,102)	(22,102)
Balance, December 31, 2012	60	3,000	(48,700)	(45,640)

See accompanying notes

Pivot Acquisition Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS
[in thousands of U.S. dollars]

For the years ended December 31,	2012	2011
OPERATING ACTIVITIES		
Net loss for the year	(22,102)	(19,805)
Add (deduct) items not involving cash		
Depreciation and amortization	10,550	9,693
Bad debt expense	318	236
Deferred income taxes (note 13)	(10,882)	(3,528)
Change in fair value of liabilities (note 17)	32,383	13,078
Non-cash portion of transaction costs	—	6,311
Changes in non-cash working capital balances (note 19)	(13,558)	8,517
Cash provided by (used in) operating activities	(3,291)	14,502
INVESTING ACTIVITIES		
Change in restricted cash	(2,000)	—
Capital expenditures	(2,124)	(1,789)
Other intangible assets	(656)	—
Business combinations (note 3)	(16,181)	(32,454)
Payments made on contingent consideration	(14,574)	—
Cash used in investing activities	(35,535)	(34,243)
FINANCING ACTIVITIES		
Issuance of shares	60	—
Net change in debt facilities	30,728	(27,291)
Convertible debenture issue (retirement), net of costs	(1,000)	41,987
Note repayment	—	(905)
Cash provided by financing activities	29,788	13,791
Revaluation of foreign denominated cash balances	—	(293)
Net increase (decrease) in cash and cash equivalents during the year	(9,038)	(6,243)
Net cash, beginning of year	14,661	20,904
Net cash, end of year	5,623	14,661
Net cash consists of:		
Cash and cash equivalents	16,553	20,366
Bank overdraft	(10,930)	(5,705)
	5,623	14,661

See accompanying notes

1. CORPORATE INFORMATION

Pivot Acquisition Corp. (the "Company") is a company incorporated under the Business Corporations Act (Ontario) ("OBCA") on September 8, 2010, and domiciled in Ontario, Canada. The registered office is located at 161 Bay Street, Suite 4420, Toronto, Ontario.

The consolidated financial statements of the Company for the years ended December 31, 2012 and 2011 were authorized for issue in accordance with a resolution of the directors on April 25, 2013.

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 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").

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

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

The consolidated financial statements are presented in U.S. dollars and all values are rounded to the nearest thousand ($000), except for per share amounts and where otherwise noted.

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, 2012 and 2011.

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 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.
- The business combinations in 2012 and 2011 allow for future additional cash payments to the sellers over three years. In management's judgment, these amounts are contingent consideration related to the asset purchase rather than separate transactions. The payments are dependent on the business acquired achieving certain performance targets. Contingent consideration is valued at fair value at the acquisition date as part of the business combination, and is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Contingent consideration has been classified as a financial liability on the consolidated statements of financial position.
- The convertible debentures issued by the Company in 2011 contain more than one embedded derivative and, therefore, the Company has designated the entire hybrid financial liability at fair value through profit or loss. The Company values the convertible debentures using a discounted cash flow analysis.
- An 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 6.

- 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 recognised, 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 forecast 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.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition costs are expensed as incurred.

When the Company acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”), in profit or loss. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS policy.

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.

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 comprehensive 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 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 comprehensive 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 comprehensive 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	Useful lives	Amortization method
Customer and vendor relationships	Finite	Straight-line basis over 10 years
Technology	Finite	Straight-line basis over 5 years
Other	Finite	Straight-line basis over 5 to 15 years

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 statement of comprehensive 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. The Company currently has no foreign operations requiring translation.

Financial assets and liabilities

Classification

Financial assets within the scope of 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 as 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.

The Company has classified its financial instruments as follows:

Fair value through profit or loss	Loans and receivables	Other financial liabilities
• Cash and cash equivalents • Restricted cash • Contingent consideration • Convertible debentures	• Accounts receivable	• Accounts payable and accrued liabilities • Secured borrowings

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 comprehensive loss.

The convertible debentures contain more than one embedded derivative, and therefore the Company has 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. The Company determines the classification of its financial liabilities at initial recognition. 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 or cancelled or expires.

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

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.

Restricted cash

Restricted cash consists of an escrow account deposit that secures a credit extension with a major supplier.

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 comprehensive 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 comprehensive 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.

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.

Revenues

The Company generates revenues from distributing storage devices and systems and 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 revenues

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

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 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 fulfilment 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 comprehensive 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 and the lease term.

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

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.

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 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 comprehensive 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.

Standards effective January 1, 2012

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee that are applicable for accounting periods beginning January 1, 2012. The standard impacted that is applicable to the Company is as follows:

- IAS 12 Income Taxes: Recovery of Underlying Assets

The adoption of this amendment did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2012.

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.

IAS 19 Employee Benefits

IAS 19 has been amended for annual accounting periods beginning January 1, 2013, with retrospective application. The new standard introduces a measure of 'net interest income (expense)' computed on the net pension asset (obligation) that will replace separate measurement of the expected return on plan assets and interest expense on the benefit obligation. The new standard also requires immediate recognition of past service costs associated with benefit plan changes. Under the current standard, past service costs are recognized over the vesting period. The adoption of this amendment is likely to have no effect on the consolidated financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures

The IASB also amended IAS 28, an existing standard, to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the impact of this change.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12 *Consolidations – Special Purpose Entities* and replaces parts of IAS 27 Consolidated and Separate Financial Statements. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standards to determine the impact on the consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31 *Joint Ventures*. The effective date of this amendment is for annual periods beginning on or after January 1, 2013. The Company is in the process of reviewing the standards to determine the impact on the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The standard combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. The change in disclosure requirements relates to the degree of judgment that is now required to determine whether an entity is controlled and, therefore, consolidated. The standard is effective for annual periods beginning on or after January 1, 2013 but entities will be permitted to early adopt any of the disclosure requirements in this standard before the effective date. The amendment affects disclosure only and has no impact on the Company's financial position or results from operations.

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

IFRS 13 Fair Value Measurement

A new standard was created to establish a single source of guidance under IFRS for all fair value measurements. This standard does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. When measuring fair value, an entity is required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The standard is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The adoption of this standard is likely to have no effect on the consolidated financial statements of the Company.

Amendments to IAS 1 — Changes to the presentation of other comprehensive income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments affect disclosure only and have no impact on the Company's financial position or results from operations.

3. BUSINESS COMBINATIONS

Sigma Technology Solutions, Inc.

On July 1, 2012, a subsidiary of the Company acquired substantially all of the net operating assets of Sigma Technology Solutions, Inc. ("Sigma"), a company incorporated and domiciled in the U.S., for consideration of $22,119.

The allocation of fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Working capital	1,850
Property, plant and equipment	466
Intangible assets	13,310
Other long-term assets	40
Total identifiable net assets at fair value	15,666
Goodwill arising on acquisition	6,453
Purchase consideration transferred	22,119

Purchase consideration transferred on acquisition consists of:

Cash	16,400
Contingent consideration	5,719
	22,119

None of the accounts receivable has been impaired and it is expected that the full contractual amounts will be collected.

From the date of acquisition, the acquired business has contributed $74,874 of revenue and net income of $898 to the income before taxes of the Company in 2012. If the combination had taken place at the beginning of the year, the contribution to revenues would have been $139,772 and income before income taxes would have been $2,248 in 2012.

The estimated goodwill of $6,453 comprises the expected value of efficiencies to be achieved subsequent to the acquisition. All of the goodwill is expected to be deductible for tax purposes in the U.S.

Transaction costs of $728 have been expensed in 2012 in relation to this acquisition. These transaction costs consist primarily of payments made to companies controlled by shareholders and management of the Company for advisory services related to the acquisition of the Sigma assets and the related financing (note 21).

A contingent liability has been determined at the acquisition date resulting from additional cash amounts payable to Sigma of up to $16,000 over the three years following the date of acquisition. The payments are dependent on the business achieving certain performance targets over the three-year period. The fair value of the contingent consideration was $5,931 and $5,719 as at the date of acquisition and as at December 31, 2012, respectively.

Austin Ribbon & Computer Supplies, Inc.

On August 12, 2011, a subsidiary of the Company acquired substantially all of the assets and liabilities of Austin Ribbon & Computer Supplies, Inc. (“ARC”), a company incorporated and domiciled in the U.S.

During 2012, the Company refined its analysis to the purchase accounting previously performed for ARC, and determined the contingent consideration should have been $3,060 at the date of acquisition. This resulted in a decrease of $1,169 to the contingent consideration, and goodwill amounts previously presented as at December 31, 2011.

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

The allocation of fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition, as originally presented and as amended, is as follows:

	Fair value recognized on acquisition	Fair value recognized on acquisition *as amended*
Accounts receivable	11,200	11,200
Inventories	1,469	1,469
Other current assets	141	141
Property, plant and equipment	198	198
Intangible assets	7,000	7,000
	20,008	20,008
Accounts payable and accrued liabilities	12,854	12,854
Total identifiable net assets at fair value	7,154	7,154
Goodwill arising on acquisition	2,507	1,338
Purchase consideration transferred	9,661	8,492

Purchase consideration transferred on acquisition, as originally presented and amended, consists of:

	Fair value recognized on acquisition	Fair value recognized on acquisition *as amended*
Cash	5,432	5,432
Contingent consideration	4,229	3,060
	9,661	8,492

None of the accounts receivable has been impaired and it is expected that the full contractual amounts will be collected.

From the date of acquisition, the acquired business contributed $22,640 of revenue and a net loss before tax of $473 to the loss before income taxes of the Company in 2011. If the combination had taken place at the beginning of 2011, revenues contributed by the acquired business would have been $66,665 and income before income taxes contributed by the acquired business would have been $837.

The goodwill of $1,338, as amended, comprises the expected value of efficiencies to be achieved subsequent to the acquisition. All of the goodwill is expected to be deductible for tax purposes in the U.S.

A contingent liability has been determined at the acquisition date resulting from additional cash amounts payable to the shareholders of ARC of up to $6,000 over the three years following the date of acquisition. The payments are dependent on the business achieving certain performance targets over the three-year period. At the date of acquisition, the fair value of the contingent liability was $3,060, as amended. As at December 31, 2011, the contingent liability is determined to be $3,442, as amended. The difference has been recorded as a change in fair value of liabilities in the consolidated statements of comprehensive loss.

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

During 2012, management determined that the acquired business would not meet the performance target upon which the first year's contingent payment was based. This resulted in a reduction of the contingent liability of $1,820. This difference has been recorded as a change in fair value of liabilities in the consolidated statement of comprehensive loss. As at December 31, 2012, the contingent liability is determined to be $1,622.

New ProSys Corp.

On January 4, 2011, a subsidiary of the Company acquired all of the issued and outstanding share capital of New ProSys Corp ("ProSys"), a wholly owned subsidiary of Avnet, Inc. ProSys is a value-added distributor of systems and a reseller of data storage and server products and solutions. ProSys is also a provider of server, networking and IT infrastructure, and consulting services with operations serving customers throughout the U.S. The acquisition aligns with the Company's strategy of acquiring and integrating technology solution providers.

The allocation of fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Accounts receivable	87,822
Inventories	12,223
Other current assets	2,878
Property, plant and equipment	2,712
Intangible assets	10,200
Deferred income taxes	404
Other long-term assets	461
	116,700
Accounts payable and accrued liabilities	38,261
Deferred revenue and customer deposits	3,628
Financial liabilities	49,998
	91,887
Total identifiable net assets at fair value	24,813
Goodwill arising on acquisition	6,916
Purchase consideration transferred	31,729

Purchase consideration transferred on acquisition consists of:

Cash	27,022
Contingent consideration	4,707
	31,729

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

None of the accounts receivable has been impaired and it is expected that the full contractual amounts will be collected.

From the date of acquisition, the acquired business contributed $448,526 of revenue and a net loss of $8,403 to the loss before income taxes of the Company in fiscal 2011. If the combination had taken place at the beginning of fiscal 2011, revenues and loss before income taxes would not have been materially different.

The goodwill of $6,916 comprises the expected value of efficiencies to be achieved subsequent to the acquisition. All of the goodwill is expected to be deductible for tax purposes in the U.S.

Transaction costs of $28 and $9,990 have been expensed in relation to this acquisition in 2012 and 2011, respectively. These transaction costs consist primarily of payments made to companies controlled by shareholders and management of the Company for advisory services related to the acquisition of ProSys and the related financing (note 21).

A contingent liability has been determined at the acquisition date resulting from additional cash amounts payable to Avnet, Inc. of up to $12,500 over the three years following the date of acquisition. The payments are dependent on the business achieving certain performance targets over the three-year period. At the date of acquisition, the fair value of the contingent liability was $4,707. As at December 31, 2012 and 2011, the contingent liability is determined to be $3,838 and $5,554, respectively. Payments of $1,244 were made during 2012. The difference has been recorded as a change in fair value of liabilities in the consolidated statement of comprehensive loss.

4. ACCOUNTS RECEIVABLE

	2012	2011
Trade accounts receivable		
Current	143,180	115,914
One to three months	56,480	31,466
Over three months	7,838	2,502
	207,498	149,882
Other receivables	3,853	3,135
	211,351	153,017
Less allowance for doubtful accounts	369	534
	210,982	152,483

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

Provision for doubtful accounts	2012	2011
Balance at the beginning of year	534	—
Provision for doubtful accounts	318	534
Business combination	250	—
Write off bad debts	(733)	—
Balance at the end of year	369	534

(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 31, 2010	1,790	370	275	2,435
Additions	120	239	1,600	1,959
Business combination	212	161	2,537	2,910
Disposals	(269)	(33)	(448)	(750)
As at December 31, 2011	1,853	737	3,964	6,554
Additions	134	78	2,061	2,273
Business combination	27	381	56	464
Disposals	(2)	(2)	(544)	(548)
As at December 31, 2012	2,012	1,194	5,537	8,743
Accumulated Depreciation				
As at December 31, 2010	—	—	—	—
Depreciation	425	175	1,283	1,883
Disposals	(199)	(29)	(352)	(580)
As at December 31, 2011	226	146	931	1,303
Depreciation	267	197	1,252	1,716
Disposals	(2)	(6)	(391)	(399)
As at December 31, 2012	491	337	1,792	2,620
Net book value				
December 31, 2012	1,521	857	3,745	6,123
December 31, 2011	1,627	591	3,033	5,251

The Company has no outstanding purchase commitments to purchase property, plant and equipment as at December 31, 2012 and 2011.

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 31, 2010	26,026
Business combinations	8,254
As at December 31, 2011	34,280
Business combination	6,453
As at December 31, 2012	40,733

(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:

	2012	2011
Applied Computer Solutions ("ACS")	26,026	26,026
ProSys	6,916	6,916
ARC (see note 3)	1,338	1,338
Sigma	6,453	—
	40,733	34,280

The Company performed its annual test for goodwill impairment in the fourth quarters of 2012 and 2011 in accordance with its policy described in note 2. The recoverable amounts of all CGUs exceeded their carrying values for both 2012 and 2011. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test are described below. The selection and application of valuation techniques and the determination of significant assumptions requires judgment.

The recoverable amount of individual CGUs in 2012 were determined based on a value in use calculation. Value in use is determined by discounting future cash flows generated from the continuing operations of the CGUs. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth rates, operating margins and discount rates.

The assumptions used were based on the Company's internal forecasts. Cash flows were projected for a three-year period based on past experience, actual operating results and the three-year business plan. Cash flows for future periods beyond December 31, 2015 and the terminal value are extrapolated using a long-term annual growth rate of 3%, which is consistent with the anticipated long-term growth rate of the industry. In arriving at its forecasts, the Company considered past experience, economic trends, as well as industry and market trends. The projections also take into account the expected impact from historical acquisitions, competitive landscape and the maturity of the markets in which each business operates.

The Company used a 20% discount rate in order to calculate the present value of its projected cash flows. The discount rate considers the Company's cost of debt and equity and takes into account certain risk premiums.

The Company used a market approach to assess goodwill impairment in 2011. 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 4.1 and 4.6 times earnings.

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

The revenue and operating margin assumptions used were based on the Company'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.

The recoverable amount for each CGU, calculated as fair value less costs to sell, was in excess of its carrying value.

7. INTANGIBLE ASSETS

	Customer and vendor relationships	Technology	Other	Total
Cost				
As at December 31, 2010	50,400	5,000	—	55,400
Business combinations	13,200	4,000	—	17,200
As at December 31, 2011	63,600	9,000	—	72,600
Business combination	12,700	—	610	13,310
Additions	—	656	—	656
As at December 30, 2012	76,300	9,656	610	86,566
Accumulated Amortization				
As at December 31, 2010	28	3	—	31
Amortization	6,010	1,800	—	7,810
As at December 31, 2011	6,038	1,803	—	7,841
Amortization	6,995	1,800	39	8,834
As at December 31, 2012	13,033	3,603	39	16,675
Net book value				
December 30, 2012	63,267	6,053	571	69,891
December 31, 2011	57,562	7,197	—	64,759

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Accounts payable	168,596	134,260
Accrued liabilities	28,474	27,473
	197,070	161,733

A subsidiary of the Company has a flooring agreement with IBM Global Finance ("IBM") which provides short-term financing. Company 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. $7,528 and $4,699 is due to IBM at December 31, 2012 and 2011, respectively. This amount is included in accounts payable.

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

9. OTHER FINANCIAL LIABILITIES

	2012	2011
Current		
Secured borrowings	113,833	83,105
Contingent consideration	19,204	13,906
Convertible debentures	78,830	—
	211,867	97,011
Non-current		
Convertible debentures	—	51,023
Contingent consideration	23,928	34,505
	23,928	85,528
	235,795	182,539

Secured borrowings

On December 30, 2010, the Company entered into an accounts receivable purchase agreement ("ARPA") with Wells Fargo & Company ("Wells Fargo"). This agreement has not met the de-recognition criteria of IAS 39 as the Company has not transferred all risks and rewards of accounts receivable to Wells Fargo. The balance owing to Wells Fargo is $40,283 and $53,982 as at December 31, 2012 and 2011, respectively.

Under the terms of the agreement, Wells Fargo has agreed to purchase the related rights of certain accounts receivable of ACS at a price of 90% of the face value of the receivable. The excess of payment made by customers as compared to the purchase price is remitted to the Company, net of applicable charges. The agreement expires on December 30, 2015. The maximum amount available under the facility is $80,000. Interest is payable monthly at a rate of LIBOR plus 3.5%. The ARPA is subject to certain financial covenants as conditions to continued borrowing, including a covenant to achieving defined levels of net income in 2012. The Company was in compliance with these covenants at December 31, 2012 and 2011.

On May 17, 2012, the ARPA between ACS and Wells Fargo was amended temporarily such that the maximum available under the facility was increased by $80,000 to $160,000 for the period to and including July 30, 2012, and for the period from July 31, 2012 to and including August 30, 2012 the ARPA was increased by $30,000 to a maximum of $110,000. This amendment was subject to a guarantee by the Company.

On February 4, 2011, the Company entered into a revolving credit agreement with PNC Bank ("PNC"). This agreement, which is an asset based loan ("ABL"), provides a line of credit secured by the assets of the Company. The ABL can be drawn to the lesser of $50,000 and the aggregate of 85% of eligible accounts receivable and 50% of eligible inventory balances to a maximum of $7,500. Interest is payable monthly at a rate of the higher of prime plus 0.5% or LIBOR plus 2.5%.

On April 4, 2012, the terms of the ABL between ProSys and PNC were amended such that the ABL can be drawn to the lesser of $75,000 and 85% of eligible accounts receivable plus 60% of eligible inventory balances, to a maximum of $15,000. The term of the ABL was extended until April 6, 2015. The balance owing to PNC is $53,889 and $29,123 at December 2012 and 2011, respectively.

On June 30, 2012, Sigma entered into a revolving credit security agreement with PNC. This agreement, which is an ABL, provides a line of credit secured by the assets of Sigma. The ABL can be drawn to the lesser of $30,000 or the aggregate of 85% of eligible accounts receivable. Interest is payable monthly at a rate of the higher of prime plus 1.75%, the Federal Funds Rate plus 2.25% or LIBOR plus 2.75%. The agreement expires June 30, 2015. The balance owing to PNC is $19,661 at December 31, 2012.

Under the terms of the credit agreements with PNC, the Company is subject to certain restrictive covenants. The covenants require that the Company maintain a fixed charge ratio of at least 1.10 to 1.0 and places restriction on investments, additional indebtedness, dividends and distributions, capital expenditures and leases. The Company was in compliance with these covenants at December 31, 2012 and 2011, respectively, except the Company's capital expenditures during fiscal 2011 exceeded the allowable amount per the credit agreement. Subsequent to December 31, 2011, the Company obtained the necessary waiver from PNC with respect to the covenant violation, and the agreement was amended to increase the level of allowable capital expenditures.

Contingent consideration

As part of the asset purchase agreement with the shareholders of ACS, a contingent consideration has been agreed. This consideration is dependent on the profit before tax of the business acquired from ACS during the three consecutive 12-month periods ending December 31, 2013. At the date of acquisition, the fair value of the contingent liability was $33,291. As at December 31, 2012 and 2011, the fair value of the contingent liability is determined to be $31,741 and $39,415, respectively. The Company recorded a charge of $5,656 and $6,124 related to the change in fair value of the contingent consideration in 2012 and 2011, respectively. The consideration is paid over three years and is due for final measurement and payment to the shareholders of ACS on May 1, 2014. Payments of $13,330 were made during 2012. The possible range of undiscounted fair values of the remaining consideration to be paid is between $20,300 and $36,700.

As part of the purchase agreement with the former shareholders of ProSys, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the business acquired from ProSys 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 $3,838 and $5,554 as at December 31, 2012 and 2011, respectively. The Company recorded a recovery (charge) of $472 and $(847) related to the change in fair value of the contingent consideration for 2012 and 2011, respectively. The possible range of undiscounted fair values of the remaining consideration to be paid is between $1,677 and $12,500.

As part of the asset purchase agreement with the shareholders of ARC, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the business acquired from ARC 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 $1,622 and $3,442 at December 31, 2012 and 2011, respectively, as amended (see note 3). The Company recorded a recovery of $1,820 and $382 related to the change in fair value of the contingent consideration at December 31, 2012 and 2011, respectively. The possible range of undiscounted fair values of the remaining consideration to be paid is between nil and $4,500.

As part of the asset purchase agreement with the shareholders of Sigma, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the business acquired from Sigma during the three consecutive 12-month periods ending July 1, 2015. The fair value at the acquisition date was estimated to be $5,719 and was determined to be $5,931 as at December 31, 2012. The possible range of undiscounted fair values of the remaining consideration to be paid is between $2,000 and $16,000.

Convertible debentures (see note 22 – Subsequent Events)

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 bear interest at 12% per annum and mature on the earlier of the date that the Company completes a liquidity event or April 14, 2013. Interest is 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.

In accordance with the terms of the Pivot Debenture Indenture, a bonus cash payment of 10% of the principal amount of the Debentures was paid to the holders of the Debentures on April 14, 2012. An additional bonus cash payment of 10% of the principal amount of the Pivot Debentures was paid to the holders of the Pivot Debentures on October 14, 2012.

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.

If the Debentures mature on April 14, 2013, the Debenture holders will have the option of receiving the principal amount of the Debentures in cash or in common shares of the Company. If the Debenture holders elect to receive the principal amount in common shares of the Company, the conversion price per common share will be equal to the value per common share that is implied by an enterprise value that is equal to 2.5 times the most recent audited 12 months' trailing earnings before interest, taxes, depreciation and amortization less net interest bearing debt including the Debentures.

The fair value of the Debentures was calculated using discounted cash flows. The Company recorded a charge of $28,807 and $5,725 related to the change in fair value of the Debentures for the years ended December 2012 and 2011, respectively.

(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, 2012	Related Parties	Unrelated Parties	Total
Years ending December 31,			
2013	1,096	2,948	4,044
2014	1,334	2,851	4,185
2015	682	2,436	3,118
2016	207	1,641	1,848
2017	—	1,430	1,430
Thereafter	—	3,115	3,115
	3,319	14,421	17,740

As at December 31, 2011	Related Parties	Unrelated Parties	Total
Years ending December 31,			
2012	1,231	2,251	3,482
2013	1,289	1,893	3,182
2014	1,350	1,910	3,260
2015	604	1,711	2,315
2016	207	1,451	1,658
Thereafter	—	4,277	4,277
	4,681	13,493	18,174

Rent expense was $4,212 and $3,737 for 2012 and 2011, respectively.

11. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Class A Common Shares, Class B Common Shares, Class C Common Shares and Class A Preference Shares.

Each Class A Common Share shall confer the right to one vote at all meetings of shareholders of the Company. The holders of Class B Common Shares, Class C Common Shares and Class A Preference Shares shall not be entitled to vote at meetings of shareholders of the Company.

In the event of liquidation, dissolution or winding-up of the Company or other distribution of assets of the Company for the purpose of winding up its affairs, the holders of Class A Preference Shares are entitled to a payment in priority to all other classes of shares of the Company to the extent of the redemption amount of the Class A Preference Shares, but will not be entitled to any surplus in excess of that amount. The remaining property and assets will be available for distribution to the holders of the Class A Common Shares, Class B Common Shares and Class C Common Shares, which shall be paid or distributed equally, share for share, between the holders of the Class A Common Shares, Class B Common Shares and the Class C Common Shares, without preference or distinction.

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

Issued and outstanding

The common and preference shares issued and outstanding are as follows:

	2012		2011	
	#	$	#	$
Class A Common Shares	3,000,000	—	3,000,000	—
Class B Common Shares	2,000,000	—	2,000,000	—
Class C Common Shares	51,000,000	60	45,000,000	—
	56,000,000	60	50,000,000	—

In 2012, 6,450,000 Class C Common Shares were issued for $0.01 per share. In June 2012, 450,000 of the newly issued Class C Common Shares were recalled by the Company for $0.01 per share.

Compensation options

On April 14, 2011, the Company issued compensation options to the agent for the Company's Debenture issue. These options permit the option holder to purchase from the Company the number of Class A Common Shares which is equal to 7% of the aggregate number of Class A Common Shares issuable on conversion of the Debentures of the Company at a price equal to the conversion price of the Debentures.

The Company determined the fair value of the compensation options using a Black-Scholes model to be $3,000, which was recognized as an expense in fiscal 2011.

Commitments to issue shares

As at December 31, 2011, the Company had made commitments to issue up to 1,250,000 Class C Common Shares to members of senior management. These commitments were settled in fiscal 2012 through the issuance of Class C Common Shares.

Dividends

The holders of common and preferred shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid, to the exclusion of any other classes of shares of the Company.

No dividends were declared or paid in 2012 or 2011.

Earnings per share

Basic earnings per share is calculated by dividing net loss for the year attributable to shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net loss for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential instruments into common shares.

The following is a reconciliation of the numerator and denominators (in thousands) used for the computation of the basic and diluted earnings per share amounts:

	2012	2011
Net loss attributable to shareholders	(22,102)	(19,805)
Weighted average number of shares - basic	52,942	50,000
Effect of dilutive securities	—	—
Weighted average number of shares – diluted	52,942	50,000

The calculation of diluted loss per share for 2011 excluded 425 weighted average common shares issuable under commitments to senior management because the effect of their issuance would not be dilutive.

12. 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' deficiency and non-cash working capital financial liabilities.

Total managed capital is as follows:

	2012	2011
Financial liabilities (note 9)	235,795	183,708
Shareholders' deficiency	(45,640)	(23,598)
	190,155	160,110

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.

13. INCOME TAXES

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

	2012	2011
Current tax expense	6,313	3,932
Deferred tax benefit	(10,882)	(3,528)
	(4,569)	404

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

The provision for income taxes differed from the amount computed by applying the federal statutory rate as follows:

	2012	2011
Expected Income tax at combined statutory rate of 28.3%	(7,068)	(5,481)
Unrecognized temporary differences	1,064	4,707
Permanent differences	226	1,245
Differences in income tax rates of foreign jurisdictions	2,147	(423)
Change in future statutory income tax rates	(521)	—
Adjustments in respect to income tax of previous years	(546)	—
Other	129	356
Income tax expense	(4,569)	404

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

	2012	2011
Intangible assets	10,094	2,111
Contingent consideration	4,729	—
Reserves and provisions	1,016	1,011
Property, plant and equipment	(1,093)	—
Loss carry forwards	(835)	—
Other	903	810
	14,814	3,932

The Company had tax losses of $15,482 and $4,103 which arose in Canada that are available for offset against future taxable profits of the companies in which the losses arose as at December 31, 2012 and 2011, respectively. These losses begin to expire in 2030.

Deferred tax assets of C$14,330 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, 2011, there are other deferred tax assets which have not been recognized on the consolidated statements of financial position which total $12,026. During 2012, the Company reversed the valuations against these deferred tax assets, as it determined there were tax planning opportunities available that could support the recognition of these items as deferred tax assets.

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

At December 31, 2012 and 2011, 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. There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

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

14. FINANCIAL INSTRUMENTS

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

As at December 31, 2012	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	16,553	—	—	—	16,553
Restricted cash	2,000	—	—	—	2,000
Accounts receivable	—	210,982	—	—	210,982
Other non-financial assets	—	—	—	172,535	172,535
Total assets	18,553	210,982	—	172,535	402,070
Bank overdraft	10,930	—	—	—	10,930
Accounts payable and accrued liabilities	—	—	197,070	—	197,070
Other financial liabilities	121,962	—	113,833	—	235,795
Other non-financial liabilities	—	—	—	3,915	3,915
	132,892	—	310,903	3,915	447,710

As at December 31, 2011	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	20,366	—	—	—	20,366
Accounts receivable	—	152,483	—	—	152,483
Other non-financial assets	—	—	—	157,884	157,884
Total assets	20,366	152,483	—	157,884	330,733
Bank overdraft	5,705	—	—	—	5,705
Accounts payable and accrued liabilities	—	—	161,733	—	161,733
Other financial liabilities	99,434	—	83,105	—	182,539
Other non-financial liabilities	—	—	—	4,354	4,354
	105,139	—	244,838	4,354	354,331

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

Fair values

The carrying amount of the Company's current receivables and payables is a reasonable approximation of their fair values due to the short-term maturities of these instruments.

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 following table presents 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, 2012			
Description	Level 1	Level 2	Level 3	Total
Debentures	—	—	78,830	78,830

	Fair value as at December 31, 2011			
Description	Level 1	Level 2	Level 3	Total
Debentures	—	—	51,023	51,023

The fair value of the Debentures was calculated using discounted cash flows. The Company recorded a charge of $28,807 and $5,725 related to the change in fair value of the Debentures in 2012 and 2011, respectively.

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, 2012, one customer represented 28% of the outstanding receivable balance. As at December 31, 2011, two customers represented 21% and 16% 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.

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

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 at December 31, based on contractual undiscounted payments.

As at December 31, 2012	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	10,930	—	—	—	—	10,930
Secured borrowings	113,833	—	—	—	—	113,833
Accounts payable and accrued liabilities	—	197,070	—	—	—	197,070
Debenture principal and interest	—	42,404	—	—	—	42,404
Contingent consideration	—	20,293	28,395	2,502	—	51,190
	124,763	259,767	28,395	2,502	—	415,427

As at December 31, 2011	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	5,705	—	—	—	—	5,705
Secured borrowings	83,105	—	—	—	—	83,105
Accounts payable and accrued liabilities	—	161,733	—	—	—	161,733
Debenture principal and interest	—	13,952	46,216	—	—	60,168
Contingent consideration	—	14,474	21,244	26,039	—	61,757
	88,810	190,159	67,460	26,039	—	372,468

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

Other risks

The Company is exposed to foreign exchange risk through its Canadian-dollar denominated Debentures. Included in the fair value adjustment of $28,807 for 2012 is a foreign exchange loss of $1,135. Included in the 2011 fair value adjustment of $5,725 is a foreign exchange gain of $2,400.

The Company is exposed to interest rate risk through its secured borrowing agreements; however, a fluctuation in interest rates would not have had a significant impact on the net losses of the Company for 2012 or 2011.

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

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

15. TRANSACTION COSTS

	2012	2011
Advisory services provided by related parties	668	9,708
Bank fees	50	1,652
Compensation options	—	3,000
Debenture issue costs	—	3,311
Other	66	730
	784	18,401

16. INTEREST EXPENSE

	2012	2011
Debentures	13,908	3,741
Secured borrowings	7,103	5,157
Other	—	(4)
	21,011	8,894

17. CHANGE IN FAIR VALUE OF LIABILITIES

	2012	2011
Convertible debentures	28,807	5,725
Contingent consideration	3,576	7,353
	32,383	13,078

18. EMPLOYEE BENEFITS EXPENSE

	2012	2011
Cost of sales	12,764	13,596
Selling and administrative expenses	65,679	57,467
	78,443	71,063

19. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2012	2011
Accounts receivable	(29,646)	32,823
Income taxes recoverable and payable	1,640	(2,987)
Inventories	10,256	(19,592)
Other assets	(1,399)	261
Accounts payable and accrued liabilities	7,577	(1,423)
Other liabilities	(1,986)	(565)
	(13,558)	8,517

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

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

	2012	2011
Interest paid	21,385	7,605
Income taxes paid	2,250	6,934

20. MAJOR CUSTOMERS

The Company had two customers that represented 36% and 30%, and 30% and 27% of gross revenues for 2012 and 2011, respectively.

21. RELATED PARTY DISCLOSURES

The Company has the following wholly owned subsidiaries: ACS Holdings (Canada) Inc., ACS Acquisition Holdings Inc., Pivot Research Ltd., Pivot Shared Services Ltd., ACS (US) Inc., New ProSys Corp. and ARC Acquisition (US), Inc.

In addition to the asset purchase agreement with ACS, a subsidiary of the Company has entered into an administrative services agreement, a license agreement and a distribution agreement with ACS commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of ACS. Total amount collected from ACS for these shared administrative services in 2012 and 2011 amounted to $1,580 and $1,130, respectively. The license agreement permits 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 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 ACS to its third-party customers, and thus the Company is the principal and 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 $199,718 and $237,400 for 2012 and 2011, respectively. The Company's effective cost to the agent in respect of these revenues was approximately $5,400 and $5,700 for 2012 and 2011, respectively, which is included in the Company's cost of sales.

The Company has a similar contractual arrangement with ARC, whereby ARC is an agent of the Company. Total gross sales through the agent are approximately $28,740 and $20,944 for 2012 and 2011, respectively.

A subsidiary of the Company leases two of its offices from a related entity controlled by that subsidiary's chief executive officer. The Company is obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease was $1,439 and $1,231 in 2012 and 2011, respectively.

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

A subsidiary of the Company incurred $994 and $1,175 in 2012 and 2011, respectively, for marketing services provided by related entities controlled by that subsidiary's chief executive officer and $80 $316 in expenses for the use of aircraft owned by a related entity controlled by that subsidiary's chief executive officer in 2012 and 2011, respectively.

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

	2012	2011
Compensation	2,619	3,024
Short-term employee benefits	24	15
Other long term benefits	1	1
Transaction costs	—	9,708
	2,644	12,748

22. SUBSEQUENT EVENTS

On January 25, 2013, the Company 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 Shares") at a per share price 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.

The holders of Series A Shares will be entitled to receive on a monthly basis in cash, out of any funds legally available therefore, a fixed cumulative preferential dividend at the rate of 6% per annum. Following the completion by the Company of any transaction where the Company has raised C$75,000 in capital, the holders of the Series A Shares will be permitted to require the Company to redeem the Series A Shares for cash at a per share price that is equal to C$0.48. The Series A Shares carry an optional conversion right, where each Series A Share can, at the option of the holder, be converted into one common share of the Company. The Series A Shares also carry a mandatory conversion right, whereby at any time after June 30, 2013, the Company will be permitted to require the holders to convert the Series A Shares into common shares of the Company.

On March 4, 2013, the Company approved two transactions, a brokered private placement to raise between C$2,500 to C$10,000, and a three-cornered amalgamation between the Company, Acme Capital Corporation ("Acme") and a wholly-owned subsidiary of Acme (the “Qualifying Transaction”). Under the terms of the Qualifying Transaction, Acme would acquire all of the issued and outstanding shares of the Company, and the business of the Company will be carried on by Acme (which will change its name to “Pivot Technology Solutions, Inc.” in connection with the completion of the Qualifying Transaction) as a publicly listed entity on the TSX Venture Exchange Inc. As part of the Qualifying Transaction, each subscription receipt was ultimately converted into one common share of Pivot Technology Solutions, Inc. (“Pivot”). In connection with the brokered private placement, the Company agreed to grant the agent under such offering options to purchase 7% of the aggregate number of shares issuable on conversion of the subscription receipts at a price per share equal to the conversion price until the date that is two years following the date of issuance of the subscription receipts.

On March 11, 2013, the brokered private placement was completed, resulting in the issue of 4,421,625 subscription receipts and raising gross proceeds of C$3,537. In consideration for its services, the agents received cash compensation of C$248, in addition to options entitling the agents to acquire 309,513 Pivot shares at C$0.80 per share for a period of twenty-four months from the closing date of the private placement.

The Qualifying Transaction became effective on March 25, 2013. Immediately prior to the completion of the amalgamation, debentures in the amount of C$40,981 were converted into 102,452,501 Series A Shares and debentures in the amount of C$1,619 were converted into 4,047,500 common shares of the Company in accordance with the terms of the debentures. In addition, all classes of common shares of the Company were converted to Pivot common shares on a one for one basis, and the Series A Shares were converted to Series A Preferred Shares of Pivot, having substantially identical terms, on a one for one basis.

On March 1, 2013, the Company no longer required a credit extension with a major supplier. As a result, the $2,000 of restricted cash held in escrow was released by the supplier. The cash is now available for immediate use for general operating needs.