

Consolidated Financial Statements

Pivot Technology Solutions, Inc.

December 31, 2016 and 2015

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## 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, 2016 and 2015, 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 audits 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada  
March 27, 2017

*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,	2016	2015
<b>ASSETS</b>		
Current		
Cash and cash equivalents	8,153	7,978
Accounts receivable (note 6)	300,249	266,285
Inventories	49,215	83,321
Other current assets	33,706	34,151
<b>Total current assets</b>	<b>391,323</b>	<b>391,735</b>
Property, plant and equipment, net (note 7)	7,401	7,866
Goodwill (note 8)	31,111	29,733
Intangible assets (note 9)	35,701	43,955
Deferred income taxes (note 17)	18,268	15,982
Other non-current assets	12,375	11,379
<b>Total assets</b>	<b>496,179</b>	<b>500,650</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Bank overdraft	24,473	33,195
Accounts payable and accrued liabilities (note 10)	248,306	254,168
Income taxes payable	970	500
Deferred revenue and customer deposits	38,673	38,434
Other financial liabilities (note 11)	139,118	123,373
<b>Total current liabilities</b>	<b>451,540</b>	<b>449,670</b>
Other financial liabilities (note 11)	2,228	-
Other non-current liabilities	13,320	11,960
<b>Total liabilities</b>	<b>467,088</b>	<b>461,630</b>
Shareholders' equity		
Share capital (note 13)	86,983	88,096
Warrants and options (note 13)	-	2,015
Contributed surplus	2,416	103
Foreign exchange translation reserve	2	-
Accumulated deficit	(62,585)	(52,853)
<b>Equity attributable to owners of the parent</b>	<b>26,816</b>	<b>37,361</b>
Non-controlling interest (note 4)	2,275	1,659
<b>Total shareholders' equity</b>	<b>29,091</b>	<b>39,020</b>
<b>Total liabilities and shareholders' equity</b>	<b>496,179</b>	<b>500,650</b>

See accompanying notes

On behalf of the Board:

"John Anderson"

John Anderson

Director

"Kevin Shank"

Kevin Shank

President, CEO and 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, 2016 2015

Revenue (note 19)	1,470,841	1,488,960
Cost of sales	1,294,887	1,318,553
Gross profit	175,954	170,407
Employee compensation and benefits (note 20)	117,347	112,727
Other selling, general and administrative expenses, net	33,259	26,232
Income (loss) before the following:	25,348	31,448
Depreciation and amortization	10,965	13,141
Finance expense	4,566	6,780
Change in fair value of liabilities (note 22)	(265)	1,479
Other expense (note 21)	14,253	3,593
Income (loss) before income taxes	(4,171)	6,455
Provision for income taxes (note 17)	150	3,286
Income (loss) for the period	(4,321)	3,169
Income (loss) for the period attributable to non-controlling interests	616	173
Income (loss) for the period attributable to shareholders	(4,937)	2,996
Other Comprehensive income (loss)		
Items that may be reclassified subsequently to income (loss) for the period:		
Exchange gain on translation of foreign operations	2	-
	2	-
Total Comprehensive income (loss) attributable to shareholders	(4,935)	2,996
Income (loss) per common share (note 13):		
Income (loss) available to shareholders:		
Income (loss) for the period attributable to shareholders	(4,937)	2,996
Deduct preferred dividends declared	-	(461)
Income (loss) available to common shareholders	(4,937)	2,535
Basic	\$ (0.12)	\$ 0.06
Diluted	\$ (0.12)	\$ 0.06

See accompanying notes

Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of U.S. dollars]

	Preferred	Share Capital Common	Total	Contributed Surplus	Warrants /Options	Non- Controlling Interests	Foreign Currency Translation Reserve	Accumulated Deficit	Total
Balance, December 31, 2014	48,080	38,045	86,125	21	3,082	1,486	-	(53,476)	37,238
Options exercised	-	1,971	1,971	-	(985)	-	-	-	986
Preferred share conversion to common shares	(48,080)	48,080	-	-	-	-	-	-	-
Preferred share dividends declared (note 13)	-	-	-	-	-	-	-	(461)	(461)
Common share dividends declared (note 13)	-	-	-	-	-	-	-	(1,912)	(1,912)
Warrants expired and unexercised (note 13)	-	-	-	82	(82)	-	-	-	-
Income for the period	-	-	-	-	-	173	-	2,996	3,169
Balance, December 31, 2015	-	88,096	88,096	103	2,015	1,659	-	(52,853)	39,020
Options exercised	-	779	779	-	(388)	-	-	-	391
Share-based compensation	-	-	-	686	-	-	-	-	686
Share repurchases	-	(1,892)	(1,892)	-	-	-	-	-	(1,892)
Common share dividends declared (note 13)	-	-	-	-	-	-	-	(4,795)	(4,795)
Warrants expired and unexercised (note 13)	-	-	-	1,627	(1,627)	-	-	-	-
Gain on translation of foreign operations	-	-	-	-	-	-	2	-	2
Loss for the period	-	-	-	-	-	616	-	(4,937)	(4,321)
Balance, December 31, 2016	-	86,983	86,983	2,416	-	2,275	2	(62,585)	29,091

See accompanying notes

Pivot Technology Solutions, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

For the years ended December 31,	2016	2015
<b>OPERATING ACTIVITIES</b>		
Income (loss) for the period	(4,321)	3,169
Add (deduct) items not involving cash		
Depreciation and amortization	10,965	13,141
Share-based compensation (note 14)	686	-
Impairment (note 5)	4,788	-
Loss on disposal of property, plant and equipment	60	373
Provision for receivables	734	106
Deferred income taxes (note 17)	(3,121)	2
Amortization of loan fees (note 11)	304	572
Non cash loss on derecognition	-	2,553
Non cash loss of control (note 15)	2,398	-
Change in fair value of liabilities (note 22)	(265)	1,479
Changes in non-cash working capital balances (note 23)	12,513	4,666
Cash provided by operating activities	24,741	26,061
<b>INVESTING ACTIVITIES</b>		
Business combinations (note 3)	(2,908)	-
Payments made on contingent/fixed consideration	-	(5,500)
Proceeds from sale of property, plant and equipment	3	128
Capital expenditures	(1,951)	(4,681)
Other intangible assets	(227)	(1,131)
Cash used in investing activities	(5,083)	(11,184)
<b>FINANCING ACTIVITIES</b>		
Net change in debt facilities	14,991	(4,210)
Net change in flooring arrangements	(19,435)	1,112
Net change in bank overdraft	(8,722)	(10,726)
Issuance of common shares, net of cost	391	986
Common share dividends paid	(4,795)	(1,912)
Preferred share dividends paid	-	(676)
Common share repurchases	(1,892)	-
Cash used in financing activities	(19,462)	(15,426)
Net increase (decrease) in cash and cash equivalents during the year	196	(549)
Cash and cash equivalents, beginning of year	7,978	8,527
Effect of foreign exchange fluctuations on cash held	(21)	-
Cash and cash equivalents, end of year	8,153	7,978
<i>See accompanying notes</i>		

## 1. CORPORATE INFORMATION

Pivot Technology Solutions, Inc. (“Pivot” or the “Company”) is located in Ontario Canada, and is publicly listed on the TSX Exchange and trades under the symbol “PTG”.

The Company has the following wholly owned subsidiaries: Pivot Acquisition Corporation (“PAC”), ACS Holdings (Canada) Inc., Pivot Technology Solutions, Ltd., formerly known as ACS Acquisition Holdings Inc., (“PTSL”), Pivot Research Ltd., Pivot Shared Services Ltd., Pivot of the Americas, ACS (US) Inc. (“ACS”), New ProSys Corp. (“ProSys”), Sigma Technology Solutions, Inc. (“Sigma”), ARC Acquisition (US), Inc. (“ARC”), Pivot Technology Solutions Hong Kong, Ltd., Pivot Technology Solutions Singapore PTE Ltd., TeraMach Technologies Inc., 1955714 Ontario Inc., Infoptic Technology Inc., and TeraMach Systems Inc.

The consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on March 27, 2017.

The Company seeks to create shareholder value by providing mission critical IT products and services to the world’s leading companies. The Company’s operating strategy is designed to help clients contain IT operations and maintenance costs, while maximizing the value of their IT assets. To fuel this strategy, the Company maintains multi-vendor hardware, software and cloud solutions that it resells, and then leverages its own resources and expertise to offer end-to-end services. By employing this strategy, the Company can provide a single point of contact and accountability, and a consistent delivery of customized and specialized IT services and lifecycle product support across any platform.

## 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.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016 and 2015.

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. Non-controlling interests represent the portion of net earnings and net assets that are not held by the Company and are presented separately in the consolidated statements of income (loss) and comprehensive income (loss) and within equity in the consolidated statements of financial position.

#### Change in presentation of financial statements

In the fourth quarter of 2016, the Company changed the presentation of its consolidated statement of income (loss) and comprehensive income (loss) by condensing the revenue and expense categories on the face of the statement. Revenue is now broken out separately in the notes to the consolidated financial statements. Additional subtotals have been added to provide more relevant data with which to analyze the Company's performance. Finance expense relates to costs which were historically reported as interest expense. Transaction costs are now included in other expense. Previously, these costs were reported separately. Certain reclassifications have been made to the comparable 2015 financial information to conform to current year presentation. This change does not change previously reported net income. This change in presentation of financial statements was made in order better align the external financial presentation with both the manner in which management analyzes the business and with the Company's peers in the technology industry.

#### 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*

Multi-element or bundled contracts require an estimate of the relative fair value of separate elements. The Company has a limited number of these arrangements, and assesses the criteria for the recognition of revenue related to arrangements that have multiple components. These assessments require judgment by management to determine if there are separately identifiable



components as well as how to allocate the total price among the components. Deliverables are accounted for as separately identifiable components if they can be understood without reference to the series of transactions as a whole. In concluding whether components are separately identifiable, management considers the transaction from the customer's perspective. Among other factors, management assesses whether the service or product is sold separately by the Company in the normal course of business or whether the customer could purchase the service or product separately.

#### *Impairment*

Impairment exists when the carrying amount of a cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in note 5.

#### *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.

#### 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 statements 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

### 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, with the exception of TeraMach Technologies Inc., 1955714 Ontario Inc., Infortic Technology Inc., and TeraMach Systems Inc. (collectively "TeraMach"). The functional currency of TeraMach is the Canadian dollar. The Company translates the financial statement accounts using the methodology noted below.

### *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 income (loss) and 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.

### 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.

Other financial liabilities include trade and other payables, secured borrowings and fixed consideration, and are measured at amortized cost using the effective interest rate method. Transaction costs related to the secured borrowings are netted against the carrying value of the liability and amortized using the effective interest rate method.

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"> <li>• Cash and cash equivalents</li> <li>• Contingent consideration</li> <li>• Interest rate swap</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts receivable</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts payable and accrued liabilities</li> <li>• Secured borrowings</li> <li>• Fixed consideration</li> </ul>

*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).

*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, canceled 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 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.

#### 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 or 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. 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.

### 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 revenue from distributing storage devices and systems as well as computer products and peripherals. The Company also provides value-added services such as design, integration, installation, maintenance and other consulting services, 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 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 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.

#### 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 statements 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, carryforward 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 carryforward 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 income 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.

### Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments.

### 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.

### Share-based payments

The Company has a share-based payment plan under which the Company issues stock options. Employee stock options generally vest over a two-year vesting period with either 33% or 50% of the options vested and exercisable immediately and the remainder vested and exercisable in equal annual installments over the remaining two years. Consultant stock options vest over a one year vesting period with 50% of the options vested and exercisable immediately and the remainder vested and exercisable in equal quarterly installments over the remaining year. The Company applies a fair value method of accounting to each installment of stock options granted to directors, officers, employees and consultants.

The grant date fair value of stock options granted to directors, officers, employees and consultants is recognized as share-based compensation expense, with a corresponding increase to contributed capital, over the period that the directors, officers, employees and consultants become unconditionally entitled to the stock options. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period. Compensation cost is recognized so that each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation expense is recognized for options that are forfeited and have not met the service requirement for vesting. When options are exercised, the proceeds, as well as the related amount in contributed capital, are credited to share capital. The Company uses the Black-Scholes option pricing model to determine fair value of stock options at the grant date. Measurement inputs include the price of shares on the measurement date, exercise price of the option, expected volatility, expected life of the option, expected dividends and the risk-free interest rate. Weighted average volatility and the forfeiture rates used are based on historical information.

### Impairment

The Company's tangible and intangible assets are reviewed for indications of impairment at each date of the consolidated statements of financial position. 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 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 is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

##### IFRS 15 Revenue from Contracts with Customers

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

##### IFRS 16, Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the

balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. The Company has not yet determined the impact on its consolidated financial statements.

### 3. BUSINESS COMBINATIONS

#### TeraMach

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach, a value-added reseller incorporated and domiciled in Canada, for consideration of \$7,346 (C\$9,639). The purpose of the acquisition was to enhance Pivot's buying power, provide a new platform to grow in Canada and add local expertise in Toronto and Ottawa that can be used to further the Company's services strategy

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
Cash and cash equivalents	908
Accounts receivable	10,702
Inventories	256
Other current assets	219
Property, plant and equipment	727
Intangible assets (customer and vendor relationships)	3,277
	16,089
Accounts payable and accrued liabilities	10,275
Deferred revenue	373
Deferred tax liability	854
Taxes payable	20
	11,522
Total identifiable net assets at fair value	4,567
Goodwill arising on acquisition	2,779
Purchase consideration transferred	7,346

Purchase consideration transferred on acquisition consists of:

Cash	4,022
Contingent consideration	3,324
	7,346

Cash consideration of \$4,022 consists of \$3,816 paid on the acquisition date and \$206 for working capital adjustments accrued as at December 31, 2016 and paid in February 2017.

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

The operations from the acquisition have been included in the results of Pivot commencing October 1, 2016. From the date of acquisition, the acquired business contributed revenue of \$18,053 and net loss of \$72 to the loss before taxes of the Company in 2016.

Acquired intangible assets of \$3,277 relate to existing customer and vendor relationships from which future cash flows and cost savings are expected to be derived.

The estimated goodwill of \$2,779 comprises the expected value of efficiencies to be achieved subsequent to the acquisition. This goodwill is not deductible for tax purposes.

Transaction costs of \$290 have been expensed in 2016 in relation to this acquisition. These transaction costs consist primarily of payments made for advisory services related to the acquisition of the TeraMach assets.

A contingent liability has been determined at the acquisition date resulting from additional cash amounts payable to TeraMach of up to \$6,703 (C\$9,000) over the four years following the date of acquisition. The payments are dependent on the business achieving certain performance targets over the four-year period. The fair value of the contingent consideration was \$3,324 as at the date of acquisition. The fair value of the contingent consideration was \$3,427 as at December 31, 2016 (see note 11).

#### 4. INTERESTS IN OTHER ENTITIES

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

Name	Jurisdiction	Equity Interest	
		2016	2015
ACS Holdings (Canada) Inc.	Canada	100%	100%
Pivot Acquisition Corporation	Canada	100%	100%
1955714 Ontario Inc.	Canada	100%	100%
Infoptic Technology Inc.	Canada	100%	100%
TeraMach Systems Inc.	Canada	100%	100%
TeraMach Technologies Inc.	Canada	100%	100%
Pivot of the Americas S.A. de C.V.	Mexico	100%	100%
Pivot Research Ltd.	Jersey	100%	100%
Pivot Shared Services Ltd.	Ireland	100%	100%
Pivot Technology Solutions Hong Kong Limited	Hong Kong	100%	100%
Pivot Technology Solutions Singapore PTE. LTD.	Singapore	100%	100%
Pivot Technology Solutions, Ltd.	United States	100%	100%
ACS (US) Inc.	United States	100%	100%
New ProSys Corp.	United States	100%	100%
ProSys Information Systems Inc.	United States	45%	45%
ARC Acquisition (US) Inc.	United States	100%	100%
Austin Ribbon and Computer Supplies Inc.	United States	0%	0%
Sigma Technology Solutions Inc.	United States	100%	100%

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

Old ProSys is a 45% owned affiliate of the Company, whose principal office is located in Norcross, Georgia, United States of America. Despite not owning a majority of the voting rights, management has determined that the Company controls this entity, based on the following facts and circumstances:

- Pivot has the right to acquire, at any time, the remaining shares of Old ProSys they do not already own.
- Any significant decision made at Old ProSys requires Pivot's agreement, including board changes, payment of dividends, merger or acquisition, material changes to compensation, incurring debt in excess of \$100, causing any material change in the business, and assigning or termination of any material agreement.
- Pivot receives the majority of the benefits from Old ProSys' activities (95%+ of net income historically from Old ProSys).

The Company has certain contractual arrangements with Old ProSys, whose activities and results are consolidated with the Company. The Company is deemed to have primary exposure for the significant

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

risks and rewards associated with sales by Old Prosys to its third-party customers. Total sales attributable to the activities of Old Prosys were approximately \$289,631 and \$274,691 for the years ended December 31, 2016 and 2015, respectively. Amounts due from Old Prosys were \$62,360 and \$29,671 as at December 31, 2016 and 2015, respectively.

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

	12/31/2016	12/31/2015
Current Assets	68,068	34,905
Non-current Assets	-	-
Current Liabilities	62,360	29,671
Non-current Liabilities	-	-
Revenue	289,631	274,691
Total Comprehensive Income	616	173
% interest held	45%	45%
Cash (used in) provided by operating activities	(32,689)	37,132
Cash (used in) investing activities	-	-
Cash provided by (used in) financing activities	32,689	(37,132)
Net increase (decrease) in cash and cash equivalents	-	-

*Austin Ribbon and Computer Supplies, Inc. ("GTS")*

The Company has no ownership interests in GTS. Based on the terms under certain contractual arrangements in place with GTS, which recently terminated on August 30, 2016, the Company had a right to variable returns based on GTS' performance. The Company also provided financing and certain financial guarantees for the benefit of GTS during the course of the relationship.

ARC had certain contractual arrangements with GTS, whose activities were consolidated with those of the Company. ARC received notification from GTS that it wished to terminate the existing arrangement effective August 30, 2016. During June of 2016, ARC and GTS began the process of separation, and on July 1st, 2016, the Company was deemed to have effectively lost control over GTS for accounting purposes. Total sales attributable to the activities of GTS were approximately \$47,225 for the six months ending June 30, 2016. Total sales attributable to the activities of GTS were approximately \$120,201 for the twelve month period ended December 31, 2015. Amounts due from GTS were \$5,978 as at December 31, 2016. The Company established a reserve for the \$5,978 during Q3 2016, which remained in place as at December 31, 2016.

## 5. GOODWILL IMPAIRMENT

On June 1, 2016, the Company was informed by GTS that it intended to terminate its distribution, licensing and administrative services agreements with Pivot. The termination of the agreements indicates the Company will experience significant decreases in expected future revenues and gross profit, due to a lower volume of sales. As such, the Company reviewed its business forecast, and performed an interim impairment test on the ARC cash generating unit ("ARC CGU"). The Company concluded that the recoverable amount based on a value in use impairment test was less than the carrying amount of the ARC CGU and accordingly, recorded an impairment charge of \$4,788, consisting of a write off of goodwill of \$1,338, and a reduction to other intangibles of \$3,450 during the year ended December 31, 2016. The impact of the impairment charges net of tax was \$3,095 for the year ended December 31, 2016. The recoverable amount was determined based on the value in use approach using a discounted cash flow model.

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

The Company also performed its annual test for goodwill impairment in the fourth quarters of 2016 and 2015 in accordance with its policy described in note 2. The recoverable amount exceeded the carrying value for both 2016 and 2015. 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 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 5.9 and 7.9 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.



Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

The recoverable amount for each CGU as at December 31, 2016 and 2015 was in excess of its carrying value.

6. ACCOUNTS RECEIVABLE

	2016	2015
Trade accounts receivable		
Current	181,757	165,100
One to three months	102,579	78,681
Over three months	5,195	6,426
	<u>289,531</u>	<u>250,207</u>
Other receivables	11,749	16,527
	<u>301,280</u>	<u>266,734</u>
Less allowance for doubtful accounts	1,031	449
As at December 31,	<u>300,249</u>	<u>266,285</u>

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

	2016	2015
Provision for doubtful accounts		
Balance at the beginning of year	449	472
Provision for doubtful accounts	734	106
Write off bad debts	(66)	(129)
Recoveries	-	-
Loss of control (note 15)	(86)	-
As at December 31,	<u>1,031</u>	<u>449</u>

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

7. PROPERTY, PLANT AND EQUIPMENT, NET

	Leasehold improvements	Furniture and fixtures	Computer and other equipment	Total
<b>Cost</b>				
As at December 31, 2014	2,913	1,651	7,708	12,272
Additions	2,072	564	2,045	4,681
Reclassifications	11	(434)	(251)	(674)
Disposals	(224)	(36)	(1,982)	(2,242)
As at December 31, 2015	4,772	1,745	7,520	14,037
Business combinations	437	133	157	727
Additions	24	312	1,615	1,951
Reclassifications	138	76	(339)	(125)
Disposals	-	(42)	(336)	(378)
Loss of control	(30)	(54)	(297)	(381)
Currency translation	(11)	(4)	(2)	(17)
As at December 31, 2016	5,330	2,166	8,318	15,814
<b>Accumulated depreciation</b>				
As at December 31, 2014	909	750	3,928	5,587
Depreciation	598	210	1,754	2,562
Reclassifications	16	(216)	(37)	(237)
Disposals	(45)	(33)	(1,663)	(1,741)
As at December 31, 2015	1,478	711	3,982	6,171
Depreciation	666	268	1,789	2,723
Reclassifications	-	-	(71)	(71)
Disposals	-	(39)	(322)	(361)
Loss of control	(7)	(19)	(23)	(49)
As at December 31, 2016	2,137	921	5,355	8,413
<b>Net book value</b>				
December 31, 2016	3,193	1,245	2,963	7,401
December 31, 2015	3,294	1,034	3,538	7,866

The Company has no outstanding purchase commitments to purchase property, plant and equipment as at December 31, 2016 and 2015.

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

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

8. GOODWILL

Cost and net book value	
As at December 31, 2014	29,733
As at December 31, 2015	29,733
Business combinations	2,779
Impairment (note 5)	(1,338)
Foreign currency translation	(63)
As at December 31, 2016	31,111

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

	2016	2015
ACS	15,026	15,026
ProSys	6,916	6,916
ARC	-	1,338
Sigma	6,453	6,453
TeraMach	2,716	-
As at December 31,	31,111	29,733

9. INTANGIBLE ASSETS

	Customer and vendor relationships	Purchased technology	Internally developed technology	Other	Total
Cost					
As at December 31, 2014	76,300	9,000	2,753	1,004	89,057
Additions	-	-	1,125	6	1,131
Reclassifications	610	-	-	64	674
Disposals	-	(4,000)	-	-	(4,000)
As at December 31, 2015	76,910	5,000	3,878	1,074	86,862
Business combinations	3,254	-	-	23	3,277
Additions	-	-	225	2	227
Reclassifications	-	-	-	125	125
Disposals	-	-	-	(122)	(122)
Impairment	(3,450)	-	-	-	(3,450)
Foreign currency translation	(75)	-	-	1	(74)
As at December 31, 2016	76,639	5,000	4,103	1,103	86,845

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

	Customer and vendor relationships	Purchased technology	Internally developed technology	Other	Total
<b>Accumulated amortization</b>					
As at December 31, 2014	28,325	7,193	367	206	36,091
Amortization	7,791	1,807	916	65	10,579
Reclassifications	169	-	-	68	237
Disposals	-	(4,000)	-	-	(4,000)
As at December 31, 2015	36,285	5,000	1,283	339	42,907
Amortization	7,319	-	507	416	8,242
Reclassifications	-	-	-	71	71
Disposals	-	-	-	(76)	(76)
As at December 31, 2016	43,604	5,000	1,790	750	51,144
<b>Net book value</b>					
December 31, 2016	33,035	-	2,313	353	35,701
December 31, 2015	40,625	-	2,595	735	43,955

#### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Accounts payable	221,325	227,240
Accrued liabilities	26,981	26,928
As at December 31,	248,306	254,168

ARC entered into a secured flooring agreement with IBM Global Finance (“IBM”) on August 10, 2011, which provides short-term financing. The IBM secured flooring agreement allows up to \$15,000 in advances on purchases from approved vendors. Approved 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%. Amounts of \$1,348 and \$13,710 were due to IBM as at December 31, 2016 and 2015, respectively. The Company is required to maintain certain financial ratios, and received waivers from IBM on March 21, 2017, as it was out of compliance as at December 31, 2016, and September 30, 2016. The Company was in compliance with all required financial ratios as at December 31, 2015. This amount is included in accounts payable and accrued liabilities in the consolidated statements of financial position.

On August 26, 2014, ACS executed a purchase finance agreement with Macquarie Equipment Finance (“Macquarie”) that allowed up to \$10,000 in unsecured advances on purchases from approved suppliers. On March 24, 2015, the agreement with Macquarie was amended to allow up to \$15,000 on 60-day unsecured advances from approved suppliers. Interest of LIBOR plus 1.58% will be applied. Macquarie advised during the second quarter of 2016 that it would no longer (for an unstated period

of time) provide financing in respect of new invoices issued to the Company under the facility, as Macquarie is now focusing on credit facilities over \$50,000. Macquarie has indicated that it does not propose to terminate the facility as it may choose to provide financing under the existing agreement in the future. Nil and \$7,073 were outstanding under the Macquarie purchase finance agreement as at December 31, 2016 and 2015. These amounts are included in accounts payable and accrued liabilities in the consolidated statements of financial position.

## 11. OTHER FINANCIAL LIABILITIES

	2016	2015
Current		
Secured borrowings	136,377	121,386
Contingent consideration	1,199	-
Interest rate swap	1,542	1,987
	<u>139,118</u>	<u>123,373</u>
Non-current		
Contingent consideration	2,228	-
	<u>2,228</u>	<u>-</u>
As at December 31,	<u>141,346</u>	<u>123,373</u>

### Secured borrowings

On November 13, 2013 ("PNC Closing Date"), PTSL, along with certain of its subsidiaries (ACS, ProSys and Sigma, collectively the "PNC Borrowing Group"), entered into a revolving credit, term loan and security agreement with PNC for the provision of \$185,000 of senior secured asset based credit facilities ("PNC Credit Facility"). The PNC Credit Facility originally consisted of a \$10,000 Term Loan ("PNC Term Loan") and a senior secured revolving credit facility ("PNC Revolving Credit Facility") that allowed the PNC Borrowing Group to draw up to \$175,000, subject to borrowing base limitations. The PNC Credit Facility was paid off and terminated at the Company's election on September 21, 2015. As a result of the transactions described above, the Company incurred a loss on the derecognition of the PNC Credit Facility. This loss consisted of (i) \$2,553 for the write-off of deferred costs associated with the repayment of the PNC Credit Facility and (ii) a 1% fee of \$58, which was required to prepay the PNC Term Loan before the third anniversary of the PNC Closing Date.

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

On September 21, 2015, the Company entered into a five year credit agreement with a lending group represented by JPMorgan Chase ("JPMC"), providing the Company a \$200,000 senior secured asset based revolving credit facility ("JPMC Credit Facility"). The JPMC Credit Facility may be used for revolving loans, letters of credit, protective advances, over advances, and swing line loans. Advances under the JPMC Credit Facility accrue interest at rates that are equal to, based on certain conditions, either (a) JPMC's "prime rate" as announced from time to time plus 0.0% to 0.25%, or (b) LIBOR, or a comparable or successor rate that is approved by JPMC, for an interest period of one month plus 1.50% to 1.75%, at the Company's election. The effective interest rate for the year ended December 31, 2016 was 3.24%. The Company may also, upon the agreement of either the then existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional \$75,000. The lenders under the JPMC Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. The JPMC Credit Facility is scheduled to expire on September 21, 2020. On January 14, 2016, the JPMC Credit Facility was amended, increasing the overall facility to \$225,000. On September 30, 2016, a second amendment was completed, primarily to allow for the purchase of TeraMach which was completed on October 1, 2016 (note 3). On December 9, 2016, a third amendment was completed, primarily to add TeraMach to the borrowing group.

In connection with the JPMC Credit Facility, the Company incurred finance costs which have been capitalized and are being amortized over the life of the credit agreement. Amounts owing under the Company's revolving credit facilities were \$137,599 and \$122,816 as at December 31, 2016 and 2015, respectively. The outstanding balance is shown net of deferred loan costs of \$1,222 and \$1,430, as at December 31, 2016 and 2015, respectively, in current other financial liabilities in the consolidated statements of financial position. Average undrawn availability on existing, secured credit facilities administered by JPMC and PNC was \$63,430 and \$64,958 for the twelve month periods ended December 31, 2016 and 2015, respectively.

The revolving credit facilities with both PNC and JPMC required/require that the Company comply with certain covenants as defined in each of the respective agreements. Under the terms of the PNC Credit Facility, the PNC Borrowing Group was subject to certain restrictive covenants. The covenants in place at June 30, 2015 required that the PNC Borrowing Group maintain a Fixed Charge Coverage Ratio ("FCCR") of at least 1.15 to 1.0 and a Senior Leverage Ratio ("SLR") of 4.50 to 1.0. Under the terms of the JPMC Credit Facility, the covenants require that the Company maintain a Fixed Charge Ratio ("FCR") of at least 1.1 to 1 on a trailing twelve month basis, triggered in the event that availability is less than 12.5% of the revolving commitment until such time that availability has been greater than 12.5% of the revolving commitment for 30 consecutive days. Additional negative covenants place restrictions on additional indebtedness, liens, fundamental changes to the Company's legal structure, investments, asset sales, sale and leaseback transactions, swap agreements, restricted payments, transactions with affiliates, restrictive agreements, amendment of material documents, and

distribution of loan proceeds amongst the Company's subsidiaries. The Company was in compliance with all applicable covenants at December 31, 2016 and 2015.

Additional secured borrowings included within accounts payable and accrued liabilities in the consolidated statements of financial position are further discussed in note 10.

#### 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 with PNC, the interest rate was to vary between 4.655% and 5.155% on \$50,000 of the amount outstanding under the PNC Credit Facility. On September 21, 2015, the Swap was novated to JPMC. Under the terms of the Swap with JPMC, the interest rate now varies between 4.305% and 4.555% on \$50,000 of the amount outstanding under the JPMC Credit Facility. This range of rates is in effect from April 7, 2016 through November 13, 2018. The changes in the fair value of this instrument were recorded as a change in fair value of liabilities in the consolidated statements of income (loss) and comprehensive income (loss). Interest incurred under the Swap totaled \$863 and nil for the years ended December 31, 2016 and 2015, respectively. As at December 31, 2016 and 2015, the fair value of the Swap was determined to be \$1,542 and \$1,987, respectively, which represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

On September 21, 2015, in connection with the commencement of the new JPMC Asset-Based Lending Credit Facility ("ABL Credit Facility"), the Company novated the Swap and transferred to JPMC of all the rights, liabilities, duties and obligations of the interest rate swap provider (PNC). The transactions between the Company and JPMC will be subject to the same terms and with the same provisions as set forth in the Interest Rate Swap Agreement but with the modifications as set forth in the Novation Agreement. The Swap agreement with JPMC contains cross covenant restrictions, requiring that the Company be in compliance with the JPMC Credit Facility.

#### Contingent consideration

On October 1, 2016, the Company acquired all of the issued and outstanding share capital of TeraMach (note 3). As part of the asset purchase agreement with TeraMach, contingent consideration had been agreed. The payments are dependent on the business achieving certain performance targets during the four consecutive 12-month periods ending December 31, 2020. At the date of acquisition, the fair value of the contingent liability was determined to be \$3,324. As at December 31, 2016, the fair value of the consideration was determined to be \$3,427. The Company recorded a charge of \$180 related to the change in fair value of the consideration in 2016. This charge was offset by a foreign currency translation adjustment of \$77. No payments were made during 2016.

## 12. OBLIGATIONS UNDER LEASES

The Company leases its facilities and certain equipment under non-cancelable 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, 2016	Total
Years ending December 31,	
2017	5,046
2018	4,039
2019	2,755
2020	2,559
2021	2,146
Thereafter	3,530
	20,075

Rent expense amounted to \$6,534 and \$6,341 for 2016 and 2015, respectively, and is included within other selling, general and administrative expenses.

## 13. SHARE CAPITAL

As at December 31, 2016, the issued share capital amounted to \$86,983. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the year ended December 31, 2016 were as follows:

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

Note: Share amounts are not rounded



Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

As at December 31, 2015, the issued share capital amounted to \$88,096. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the year ended December 31, 2015 were as follows:

	Series A preferred #	Common shares #
As at January 1, 2015	60,163,380	26,905,812
Cancellation of shares	-	(33,750)
Options exercised	-	812,500
Preferred shares converted to common shares	(60,163,380)	15,040,845
As at December 31, 2015	-	42,725,407

Note: Share amounts are not rounded

#### Reverse stock split

On December 19, 2016, the Company implemented a one-for-four reverse stock split of its common stock. As a result of the reverse stock split, each four outstanding shares of pre-split common stock were automatically combined into one share of post-split common stock. Fractional shares are rounded to the nearest whole share. All option and share information in the consolidated financial statements for all prior periods have been retroactively adjusted to reflect this stock split.

#### Normal course issuer bid

On March 30, 2016, the Company obtained the approval of the TSX-V to implement a Normal Course Issuer Bid ("NCIB") for its common shares. Under the NCIB, the Company may acquire up to approximately 5% of the Company's issued and outstanding common shares. Subject to renewal of the NCIB, the NCIB for the common shares of the Company will terminate on the earlier of March 31, 2017 and the date on which the Company has acquired the maximum number of common shares permitted under the NCIB. All common shares acquired under the NCIB will be acquired at the market price of the securities at the time of acquisition. The common shares so acquired will be canceled. On November 28, 2016, the TSX confirmed its acceptance of the Company's existing NCIB upon the Company's graduation to the TSX. As at December 31, 2016, 910,574 common shares had been acquired and subsequently canceled under the NCIB.

#### Series A Preferred Shares

The holders of Series A Preferred Shares ("Series A") were entitled to receive, on a monthly basis, in cash, out of any funds legally available therefore, a fixed cumulative preferential dividend at the rate

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015

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

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

Income (loss) per share

Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company's basic income (loss) per share. Common share equivalents represent potentially dilutive stock options. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect. For the year ended December 31, 2016, 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 would be anti-dilutive as the amount available to common shareholders was a net loss. Diluted income per share for the year ended December 31, 2015 assumes, as of the beginning of the period, exercise of stock options using the treasury stock method.

The following table summarizes the basic and diluted income per share and the basic and diluted weighted average number of common shares outstanding:

	Year ended December 31,	
	2016	2015
Income (loss) for the period attributable to shareholders	(4,937)	2,996
Preferred share dividends declared	-	(461)
Income (loss) for the period available to common shareholders	(4,937)	2,535
Weighted average number of common shares outstanding – basic	42,440,735	39,042,637
Effect of dilutive potential common shares	-	110,141
Weighted average number of common shares outstanding – diluted	42,440,735	39,152,778
Income (loss) per share		
Basic	\$(0.12)	\$0.06
Diluted	\$(0.12)	\$0.06

#### Share repurchases

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

#### 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 re-classified to share capital when they are exercised or contributed capital, if expired and unexercised.

On March 11, 2013, PAC granted to its private placement agents non-transferable warrants to purchase up to an aggregate of 77,379 common shares at a price of C\$3.20 per share exercisable for a period of two years. The relative fair value of the warrants were 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. On March 11, 2015, the options had not been exercised, and have expired accordingly.

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

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

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

Date	# of Options Exercised	# of Shares Issued	Price per Share	Proceeds
May 19, 2015	25,000	25,000	C\$1.60	C\$40
September 18, 2015	75,000	75,000	C\$1.60	C\$120
September 28, 2015	100,000	100,000	C\$1.60	C\$160
October 16, 2015	125,000	125,000	C\$1.60	C\$200
October 22, 2015	175,000	175,000	C\$1.60	C\$280
November 27, 2015	112,500	112,500	C\$1.60	C\$180
December 8, 2015	200,000	200,000	C\$1.60	C\$320
February 22, 2016	75,000	75,000	C\$1.60	C\$120
March 28, 2016	100,000	100,000	C\$1.60	C\$160
April 1, 2016	75,000	75,000	C\$1.60	C\$120
April 14, 2016	68,500	68,500	C\$1.60	C\$110
<b>Total Options Exercised</b>	<b>1,131,000</b>	<b>1,131,000</b>		<b>C\$1,810</b>

Note: Share and per share amounts are not rounded

#### Cancellation of shares

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

#### Dividends declared and paid

Series A Dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
December 10, 2014	December 22, 2014	January 5, 2015	C\$0.01630684	C\$250
January 13, 2015	January 26, 2015	February 3, 2015	C\$0.01630684	C\$245
February 11, 2015	February 23, 2015	March 4, 2015	C\$0.01472876	C\$221
March 6, 2015	March 15, 2015	April 3, 2015	C\$0.00789040	C\$115

Note: Per share amounts are not rounded

Common share dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
August 19, 2015	August 31, 2015	September 15, 2015	C\$0.0300	C\$1,259
November 20, 2015	December 2, 2015	December 15, 2015	C\$0.0300	C\$1,276
February 4, 2016	February 29, 2016	March 15, 2016	C\$0.0300	C\$1,284
May 4, 2016	May 31, 2016	June 15, 2016	C\$0.0400	C\$1,720
August 19, 2016	August 31, 2016	September 15, 2016	C\$0.0400	C\$1,695
November 21, 2016	November 30, 2016	December 15, 2016	C\$0.0400	C\$1,667

Note: Per share amounts are not rounded

#### 14. SHARE BASED PAYMENTS

The Company has adopted an incentive share option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The effective date of the plan was June 17, 2014. The plan was amended on May 16, 2016 and approved by shareholders on June 21, 2016. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not exceed 10% of the issued common shares of the Company, at the time the options were granted. Employee options granted under the plan generally have a term of ten years and vest either immediately or in specified increments, which is typically two years. The exercise price of each option is subject to Board approval but shall not be less than the market price at the time of grant. During the year ended December 31, 2016, the following equity-settled stock options were granted:

In June 2016, 1,987,500 options were granted to directors, officers, employees and consultants of the Company with an exercise price of C\$1.60 and an exercise period of 10 years. 1,345,833 of the options vest in one third increments beginning on the grant date and annually for the following two years. The remaining 641,667 options vest over two years with half of the options vesting on the grant date and in equal increments annually thereafter. Conditions for vesting of the stock options require that those who receive the stock options continue to be employed by the Company or its subsidiaries from the grant date to the vesting date. The fair value of the common share options was C\$1,293 or C\$0.67 per option. As at December 31, 2016, the remaining weighted average contractual life of these stock option grants was 9.47 years.

In August 2016, 150,000 options were granted to an officer of the Company with an exercise price of C\$1.96 and an exercise period of 10 years. One third of the options vest immediately and the remainder vest annually in equal increments over the next two years. Conditions for vesting of the stock options require that the officer who received the stock options continue to be employed by the Company from the grant date to the vesting date. The fair value of the common share options was C\$135 or C\$0.94 per option. As at December 31, 2016, the remaining weighted average contractual life of these stock option grants was 9.67 years.

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

In December 2016, 25,000 options were granted to a consultant with an exercise price of C\$1.73 and an exercise period of 10 years. Half of the options vest immediately and the remainder vest quarterly in equal increments over the next year. Conditions for vesting of the stock options require that the consultant who received the stock options continue to be performing services for the Company from the grant date to the vesting date. The fair value of the common share options was C\$19 or C\$0.77 per option. As at December 31, 2016, the remaining weighted average contractual life of these stock option grants was 9.97 years.

A summary of the status of the Company's stock option plan as at December 31, 2016 and during the period then ended follow:

	Number of Options	Weighted Average Exercise Price
Options Outstanding at January 1, 2016	-	-
Options Granted	2,162,500	C\$1.624
Options Outstanding at December 31, 2016	2,162,500	C\$1.624
Options Exercisable at December 31, 2016	820,842	C\$1.624

*Note: Share and per share amounts are not rounded*

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	June 2016
Expected volatility	111.87%
Risk free interest rate	0.75%
Dividend yield	10.26%
Forfeiture rate	5.5%
Expected life	5.46

	August 2016
Expected volatility	108.31%
Risk free interest rate	0.69%
Dividend yield	8.16%
Forfeiture rate	5.5%
Expected life	5.49

	December 2016
Expected volatility	105.46%
Risk free interest rate	1.25%
Dividend yield	9.25%
Forfeiture rate	5.5%
Expected life	5.16

Total share based compensation expense recognized in employee compensation and benefits in the consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2016 and 2015 was \$686 and nil, respectively.

#### 15. LOSS OF CONTROL

On June 1, 2016, the Company was informed by GTS that it intended to terminate its distribution, licensing and administrative services agreements with Pivot. During June, the Company and GTS began the separation process, and it was determined that a loss of control occurred effective during the third quarter of 2016. As such, a charge of \$7,249 was recorded during the third quarter, to account for the loss of control and deconsolidation of GTS. The charge consisted of the removal of net assets of \$1,271, and a reserve against remaining receivables due from GTS of \$5,978. The loss of control is included in other expense in the consolidated statements of income (loss) and comprehensive income (loss).

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

## 16. 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:

	2016	2015
Other financial liabilities (note 11)	141,346	123,373
Shareholders' equity	29,091	39,020
As at December 31	170,437	162,393

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.

## 17. INCOME TAXES

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

	2016	2015
Current tax expense	3,271	3,288
Deferred tax benefit	(3,121)	(2)
	150	3,286

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.



Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

	2016	2015
Expected income tax at combined statutory rate	(995)	1,625
Unrecognized temporary differences	1,791	(262)
Permanent differences	255	236
Differences in income tax rates of foreign jurisdictions	3	898
Adjustments in respect to income tax of previous years	(329)	192
Foreign exchange	(591)	688
Change in tax rates	(20)	
Tax credits	-	(85)
Other	36	(6)
Income tax expense	150	3,286

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

	2016	2015
Intangible assets	9,957	13,827
Contingent/fixed consideration	3,831	3,840
Reserves and provisions	3,617	1,469
Property, plant and equipment	(764)	(994)
Share based compensation	93	-
Loss carryforwards	3,301	6
Other	(1,767)	(2,166)
Total	18,268	15,982

As of December 31, 2016, the Company has tax losses of \$19,907 which arose in Canada that are available for offset against future taxable profits. These losses begin to expire in 2021.

Deferred tax assets of \$5,276 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, 2016 and 2015, there are other deferred tax assets which have been recognized on the consolidated statements of financial position which total \$18,268 and \$15,982, respectively.

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

As at December 31, 2016 and 2015, 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.

## 18. FINANCIAL INSTRUMENTS

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

As at December 31, 2016	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	8,153	-	-	-	8,153
Accounts receivable	-	300,249	-	-	300,249
Other non-financial assets	-	-	-	187,777	187,777
<b>Total assets</b>	<b>8,153</b>	<b>300,249</b>	<b>-</b>	<b>187,777</b>	<b>496,179</b>
Bank overdraft	24,473	-	-	-	24,473
Accounts payable and accrued liabilities	-	-	248,306	-	248,306
Other financial liabilities	4,969	-	136,377	-	141,346
Other non-financial liabilities	-	-	-	52,963	52,963
<b>Total liabilities</b>	<b>29,442</b>	<b>-</b>	<b>384,683</b>	<b>52,963</b>	<b>467,088</b>
As at December 31, 2015	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	7,978	-	-	-	7,978
Accounts receivable	-	266,285	-	-	266,285
Other non-financial assets	-	-	-	226,387	226,387
<b>Total assets</b>	<b>7,978</b>	<b>266,285</b>	<b>-</b>	<b>226,387</b>	<b>500,650</b>
Bank overdraft	33,195	-	-	-	33,195
Accounts payable and accrued liabilities	-	-	254,168	-	254,168
Other financial liabilities	1,987	-	121,386	-	123,373
Other non-financial liabilities	-	-	-	50,894	50,894
<b>Total liabilities</b>	<b>35,182</b>	<b>-</b>	<b>375,554</b>	<b>50,894</b>	<b>461,630</b>

#### 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, 2016				
	Level 1	Level 2	Level 3	Total
Interest rate swap	-	1,542	-	1,542
Contingent consideration	-	-	3,427	3,427
	-	1,542	3,427	4,969

Fair value as at December 31, 2015				
	Level 1	Level 2	Level 3	Total
Interest rate swap	-	1,987	-	1,987
	-	1,987	-	1,987

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. 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 26.0%. The Company recorded a charge of \$180 related to the change in fair value of the contingent consideration for the year ended December 31, 2016.

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

#### 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, 2016, one customer represented 30.8%

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015

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

of the outstanding accounts receivable balance. As at December 31, 2015, one customer represented 17.0% of the outstanding 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	24,473	-	-	-	-	24,473
Secured borrowings	137,599	-	-	-	-	137,599
Accounts payable and accrued liabilities	-	248,306	-	-	-	248,306
Interest rate swap	-	-	1,542	-	-	1,542
Contingent consideration	-	1,490	1,862	3,351	-	6,703
As at December 31, 2016	162,072	249,796	3,404	3,351	-	418,623

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	33,195	-	-	-	-	33,195
Secured borrowings	122,816	-	-	-	-	122,816
Accounts payable and accrued liabilities	-	254,168	-	-	-	254,168
Interest rate swap	-	-	1,987	-	-	1,987
As at December 31, 2015	156,011	254,168	1,987	-	-	412,166

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

Other risks

The Company is subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness, loans and borrowings. The ABL Credit Facility carries floating interest rates that are tied to LIBOR or the prime rate, and therefore, the Company's consolidated statements of income (loss) and comprehensive income (loss) and its cash flows will be exposed to changes in interest rates to the extent that effective hedging arrangements are not in place. The Company is currently using a Swap agreement to economically hedge a portion of the variable cash flows associated with the interest on the ABL Credit Facility. As at December 31, 2016 and 2015, the Company was a party to a Swap agreement which covers \$50,000 of the indebtedness under the ABL Credit Facility, beginning April 7, 2016 through November 13, 2018. As discussed in note 11, the fair market value of the Swap was a charge of \$1,542 and \$1,987 as at December 31, 2016 and 2015, respectively, which is recorded in other financial liabilities on the consolidated statements of financial position. Changes in the fair value of the Swap agreement are recognized as a change in fair value of liabilities in the consolidated statements of income. The Company is exposed to risks due to fluctuations in the market value of the Swap agreement and changes in interest rates with respect to the portion of the ABL Credit Facility that is not covered by the Swap agreement. Based upon a sensitivity analysis as at December 31, 2016, a hypothetical 1.0% change in interest rates would have changed the Company's annual interest expense by approximately \$909. The Company does not use derivative financial instruments for speculative or trading purposes, however, this does not preclude the adoption of specific hedging strategies in the future.

19. REVENUES

Major components of revenue are as follows:

	2016	2015
Product sales	1,315,469	1,329,209
Service revenues	155,372	159,751
	<u>1,470,841</u>	<u>1,488,960</u>

The Company had two customers that represented 21.9% and 13.0%, and 21.6% and 12.6% of revenues for the years ended December 31, 2016 and 2015, respectively.

## 20. EMPLOYEE COMPENSATION AND BENEFITS EXPENSE

Employee salaries and benefits are included in the following:

	2016	2015
Cost of sales	32,392	34,521
Employee compensation and benefit expenses	117,347	112,727
	<u>149,739</u>	<u>147,248</u>

## 21. OTHER EXPENSE, NET

	2016	2015
Loss on derecognition	-	2,611
Impairment (note 5)	4,788	-
Loss of control (note 15)	7,249	-
Restructuring costs	1,524	-
Transaction costs	977	660
Other (income) expense	(285)	322
	<u>14,253</u>	<u>3,593</u>

## 22. CHANGE IN FAIR VALUE OF LIABILITIES

	2016	2015
Contingent consideration	180	-
Interest rate swap	(445)	971
Fixed consideration	-	508
	<u>(265)</u>	<u>1,479</u>

## 23. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2016	2015
Accounts receivable	(37,135)	(1,233)
Income taxes recoverable	488	758
Inventories	30,692	(31,616)
Other assets	(1,213)	(397)
Accounts payable and accrued liabilities	18,321	39,689
Other liabilities	1,360	(2,535)
	<u>12,513</u>	<u>4,666</u>

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

	2016	2015
Interest paid	4,271	5,758
Income taxes paid	2,774	2,518

## 24. BUSINESS SEGMENT INFORMATION

The Company's business activities are conducted through six segments:

### ACS

The ACS segment is located in the United States and designs, sells and supports integrated computer hardware, software and networking products for business database, network and network security systems. ACS also provides comprehensive training services and offers first call support.

### ARC

The ARC segment is located in the United States. ARC is an authorized reseller of technology and provides several professional services, including enterprise services, manager services and staffing services

### ProSys

The ProSys segment is located in the United States and sells storage, server and IT infrastructure consulting solutions to enterprises. The Company also derives revenue from professional engineering and installation services, and services provided by third parties including maintenance, consulting, and training services.

### Sigma

The Sigma segment is located in the United States and derives revenue from the sale of computer hardware and software, software licenses, professional services and maintenance and support contracts.

### TeraMach

The TeraMach segment is located in Canada and offers data center, security, big data, mobility and application services. Revenues are also derived from consulting and implementation services, staffing and cloud computing services.

### Corporate

The Corporate segment consists of the Company's head office activities, including strategic leadership, finance and information systems.

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

Revenues and segment profit

Year ended December 31, 2016	ACS	ARC	ProSys	Sigma	TeraMach	Corporate	Total
Revenue	601,839	54,821	605,568	189,422	18,053	1,138	1,470,841
Cost of sales	535,903	48,047	540,406	153,583	16,097	851	1,294,887
Gross profit	65,936	6,774	65,162	35,839	1,956	287	175,954
Employee compensation and benefits	29,898	5,176	39,340	23,307	1,510	18,116	117,347
Other selling, general and administrative expenses, net	5,143	807	12,810	5,009	301	9,189	33,259
Income (loss) before the following:	30,895	791	13,012	7,523	145	(27,018)	25,348
Depreciation and amortization							10,965
Finance expense							4,566
Change in fair value of liabilities							(265)
Other expense							14,253
Income (loss) before income taxes							(4,171)



Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
(unless otherwise noted all amounts are in thousands of U.S. dollars)

Year ended December 31, 2015	ACS	ARC	ProSys	Sigma	TeraMach	Corporate	Total
Revenue	507,473	127,605	651,464	202,418	-	-	1,488,960
Cost of sales	458,470	111,964	580,735	167,384	-	-	1,318,553
Gross profit	49,003	15,641	70,729	35,034	-	-	170,407
Employee compensation and benefits	25,765	9,964	36,898	24,892	-	15,208	112,727
Other selling, general and administrative expenses, net	3,666	2,075	12,840	6,334	-	1,317	26,232
Income (loss) before the following:	19,572	3,602	21,005	3,808	-	(16,539)	31,448
Depreciation and amortization							13,141
Finance expense							6,780
Change in fair value of liabilities							1,479
Other expense							3,593
Income (loss) before income taxes							6,455

The following table presents details on revenues derived from the following geographical sources, by location of segment:

	2016	2015
United States	1,427,618	1,480,019
Canada	18,567	1,187
International	24,656	7,754
	1,470,841	1,488,960

Segment assets and liabilities

	2016	2015
<hr/>		
Assets		
ACS	164,314	163,773
ARC	8,525	32,690
ProSys	194,446	221,663
Sigma	95,657	76,359
TeraMach	23,514	-
Corporate	9,723	6,165
	<hr/>	<hr/>
	496,179	500,650
<hr/>		
Liabilities		
ACS	110,407	118,289
ARC	11,955	27,357
ProSys	175,595	201,674
Sigma	95,193	75,866
TeraMach	23,571	-
Corporate	50,367	38,444
	<hr/>	<hr/>
	467,088	461,630
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## 25. RELATED PARTY DISCLOSURES

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

The contractual arrangements with Applied, GTS and Old Prosys as described above, and in *Note 4 Interest in Other Entities* accounted in aggregate for 34.0% and 33.3% of the overall Pivot revenues for the years ended December 31, 2016 and 2015, respectively. The contractual arrangements with Applied may be terminated by either party on notice to the other.

A former key member of management of ACS had significant influence over Applied, resulting in a related-party relationship until March 31, 2016. In addition to the asset purchase agreement with Applied, ACS entered into an administrative services agreement, a license agreement and a distribution agreement with Applied commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Applied. The total amount charged to Applied for shared administrative

Pivot Technology Solutions, Inc.  
Notes to the consolidated financial statements  
December 31, 2016 and 2015  
*(unless otherwise noted all amounts are in thousands of U.S. dollars)*

services in 2016 through the termination of the related-party relationship was \$395 for the three months ended March 31, 2016. The total amount charged to Applied for shared administrative services was \$3,379 for year ended December 31, 2015. The license agreement permits Applied to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. The total amount charged for licensing fees was \$575 for the three months ended March 31, 2016, and \$2,300 for the year ended December 31, 2015, respectively.

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

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

ACS incurred \$3,012 and \$1,800 for the years ended December 31, 2016 and 2015, respectively, for research and development provided by a related entity over which the subsidiary's president has significant influence. \$1,292 was payable as at December 31, 2016.

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

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

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