Consolidated Financial Statements

Pivot Technology Solutions, Inc.

(formerly Acme Capital Corporation)

December 31, 2013 and 2012

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, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pivot Technology Solutions, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
April 24, 2014.

Pivot Technology Solutions, Inc.

(formerly Acme Capital Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

As at December 31,	2013	2012
ASSETS		
Current		
Cash and cash equivalents	**22,020**	16,553
Restricted cash	**-**	2,000
Accounts receivable (note 5)	**196,724**	210,982
Income taxes recoverable	**2,652**	1,347
Inventories	**61,754**	32,874
Other current assets	**17,240**	5,630
Total current assets	**300,390**	**269,386**
Property, plant and equipment, net (note 6)	**6,394**	6,123
Goodwill (note 7)	**29,733**	40,733
Intangible assets (note 8)	**61,417**	69,891
Deferred income taxes (note 15)	**13,008**	14,814
Other non-current assets	**3,107**	1,123
Total assets	**414,049**	**402,070**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Bank overdraft	**10,842**	10,930
Accounts payable and accrued liabilities (note 9)	**222,355**	197,070
Deferred revenue and customer deposits	**21,870**	3,251
Other financial liabilities (note 10)	**112,666**	211,867
Total current liabilities	**367,733**	**423,118**
Other financial liabilities (note 10)	**9,852**	23,928
Other non-current liabilities	**755**	664
Total liabilities	**378,340**	**447,710**
Shareholders' equity (deficiency)		
Share capital (note 13)	**86,125**	60
Warrants and options (note 13)	**3,103**	3,000
Accumulated deficit	**(53,519)**	(48,700)
Total shareholders' equity (deficiency)	**35,709**	**(45,640)**
Total liabilities and shareholders’ equity (deficiency)	**414,049**	**402,070**

See accompanying notes

On behalf of the Board:

"John Anderson"

John Anderson
Director

"John Sculley"

John Sculley
Director

Pivot Technology Solutions, Inc.

(formerly Acme Capital Corporation)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[in thousands of U.S. dollars]

For the years ended December 31,		**2013**		2012
Revenues				
Product sales		**1,112,314**		1,333,197
Service revenues		**116,872**		78,180
Other revenues		**11,036**		18,202
		1,240,222		**1,429,579**
Cost of sales		**1,100,354**		1,289,179
Gross profit		**139,868**		**140,400**
Operating expenses				
Selling and administrative		**112,580**		102,577
Depreciation and amortization		**11,375**		10,550
Interest expense (note 17)		**9,190**		21,011
Change in fair value of liabilities (note 18)		**(9,394)**		32,383
Goodwill impairment (note 4)		**11,000**		-
Transaction costs (note 20)		**2,229**		784
Other (income) expense		**6**		(234)
		136,986		**167,071**
Income (loss) before income taxes		**2,882**		(26,671)
Provision for (recovery of) income taxes (note 15)		**4,639**		(4,569)
Net and comprehensive loss for the year		**(1,757)**		**(22,102)**
Net loss per share (note 13)**:**				
Net loss available to common shareholders:				
Net and comprehensive loss for the year		**(1,757)**		(22,102)
Deduct preferred dividends declared		**(3,062)**		-
Net loss available to common shareholders		**(4,819)**		(22,102)
Basic	**$**	**(0.07)**	$	(0.42)
Diluted	**$**	**(0.07)**	$	(0.42)

See accompanying notes

Pivot Technology Solutions, Inc.

(formerly Acme Capital Corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

[in thousands of U.S. dollars]

	Share Capital			Warrants	Accumulated	
	Preferred	Common	Total	/Options	Deficit	Total
Balance, December 31, 2011	**-**	**-**	**-**	**3,000**	**(26,598)**	**(23,598)**
Proceeds from issuance of shares	-	60	**60**	-	-	**60**
Net and comprehensive loss for the year	-	-	**-**	-	(22,102)	**(22,102)**
Balance, December 31, 2012	**-**	**60**	**60**	**3,000**	**(48,700)**	**(45,640)**
Common shares issued on subscription receipts (note 12)	-	1,897	**1,897**	-	-	**1,897**
Capital movement pursuant to reverse acquisition (note 12)	-	783	**783**	21	-	**804**
Shares issued on debenture conversion (note 12)	80,216	3,169	**83,385**	-	-	**83,385**
Warrants issued pursuant to private placement (notes 12 and 13)	-	-	**-**	82	-	**82**
Preferred share conversion to common shares	(28,425)	28,425	**-**	-	-	**-**
Preferred share dividends declared (note 13)	-	-	-	-	(3,062)	**(3,062)**
Net and comprehensive loss for the year	-	-	**-**	-	(1,757)	**(1,757)**
Balance, December 31, 2013	**51,791**	**34,334**	**86,125**	**3,103**	**(53,519)**	**35,709**

See accompanying notes

Pivot Technology Solutions, Inc.

(formerly Acme Capital Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

For the years ended December 31,	2013	2012
OPERATING ACTIVITIES		
Net and comprehensive loss for the year	**(1,757)**	(22,102)
Add (deduct) items not involving cash		
Depreciation and amortization	**11,375**	10,550
Bad debt expense	**42**	318
Loss (gain) on disposals of property, plant and equipment	**78**	(20)
Goodwill impairment (note 4)	**11,000**	-
Deferred income taxes (note 15)	**1,806**	(10,882)
Non cash transaction costs (note 12)	**736**	-
Change in fair value of liabilities (note 18)	**(9,394)**	32,383
Changes in non-cash working capital balances (note 21)	**14,123**	(13,558)
Cash provided by (used in) operating activities	**28,009**	**(3,311)**
INVESTING ACTIVITIES		
Change in restricted cash	**2,000**	(2,000)
Payments made on contingent consideration	**(18,290)**	(14,574)
Net cash acquired from reverse acquisition	**126**	-
Business combinations	**-**	(16,181)
Proceeds from sales of property, plant and equipment	**192**	169
Capital expenditures	**(2,412)**	(2,273)
Other intangible assets	**(1,030)**	(656)
Cash used in investing activities	**(19,414)**	**(35,515)**
FINANCING ACTIVITIES		
Net change in debt facilities	**(2,208)**	30,728
Change in bank overdraft	**(88)**	5,225
Preferred share dividends paid	**(2,811)**	-
Issuance of common shares, net of costs	**1,979**	60
Convertible debenture retirement, net of costs	**-**	(1,000)
Cash provided by (used in) financing activities	**(3,128)**	**35,013**
Net increase (decrease) in cash and cash equivalents during the year	**5,467**	(3,813)
Cash and cash equivalents, beginning of year	**16,553**	20,366
Cash and cash equivalents, end of year	**22,020**	**16,553**

See accompanying notes

1. CORPORATE INFORMATION

Pivot Acquisition Corp. ("Pivot Acquisition") completed a reverse takeover ("RTO") of Pivot Technology Solutions, Inc. ("Pivot" or the "Company"), formerly known as Acme Capital Corporation ("Acme"), on March 25, 2013. The Company is publicly listed on the TSX Venture Exchange and trades under the symbol "PTG". Acme was incorporated under the Business Corporations Act (Alberta) on January 25, 2011. It was classified as a Capital Pool Company, as defined in Policy 2.4 of the TSX Venture Exchange Inc. and, accordingly, had no significant assets other than cash and no commercial operations. Acme changed its fiscal year end to December 31 on March 25, 2013.

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

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

The consolidated financial statements of the Company for the year ended December 31, 2013 were authorized for issue in accordance with a resolution of the Company's Board of Directors on April 24, 2014.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2013 and 2012.

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

Critical judgments and estimates

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

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

- Revenue recognition where, on a limited number of bundled contracts, an estimate of the relative fair value of separate elements is required. As described in the revenue recognition policy, the Company assesses the criteria for the recognition of revenue related to arrangements that have multiple components. These assessments require judgment by management to determine if there are separately identifiable components as well as how to allocate the total price among the components. Deliverables are accounted for as separately identifiable components if they can be understood without reference to the series of

transactions as a whole. In concluding whether components are separately identifiable, management considers the transaction from the customer's perspective. Among other factors, management assesses whether the service or good is sold separately by the Company in the normal course of business or whether the customer could purchase the service or good separately.

- The business combinations in 2012 and 2011 allow for future additional cash payments to the sellers over three years. In management's judgment, these amounts are contingent consideration related to the asset purchase rather than separate transactions. The payments are dependent on the business acquired achieving certain performance targets. Contingent consideration is valued at fair value at the acquisition date as part of the business combination, and is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Contingent consideration has been classified as a financial liability on the consolidated statements of financial position.
- The convertible debentures issued by the Company in 2011 and retired in 2013 contain more than one embedded derivative and, therefore, the Company has designated the entire hybrid financial liability at fair value through profit or loss. The Company values the convertible debentures using a discounted cash flow analysis.
- 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 4.
- 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.

Business combinations

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

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

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

Goodwill

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

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

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

Intangible assets, other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized

development costs, are not capitalized and expenditures are reflected in the consolidated statements of comprehensive loss in the period in which the expenditure is incurred.

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

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

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

The Company has no indefinite lived intangible assets.

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

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

Secured borrowings

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

Foreign currency

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

Transactions

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

Translation

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

Financial assets and liabilities

Classification

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

The Company has classified its financial instruments as follows:

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

Financial assets and liabilities at fair value through profit or loss

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

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

Loans and receivables

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

Other financial liabilities

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

Derecognition

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

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

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.

Restricted cash

Restricted cash, as at December 31, 2012, consisted of an escrow account deposit that secured $100,000 of available credit with a major supplier.

Inventories

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

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

Property, plant and equipment

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

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

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

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

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

Borrowing costs

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

Revenues

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

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

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

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

Product sales

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

Service revenues

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

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

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

Vendor rebates

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

Accounts receivable and allowance for doubtful accounts

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

Leases

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

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

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

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

Income taxes

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

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

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

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

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

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

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

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

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

Pension plan

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

Impairment

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

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

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

Standards effective January 1, 2013

The Company has adopted the following new standards, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12 *Consolidations – Special Purpose Entities* and replaces parts of IAS 27, *Consolidated and Separate Financial Statements*. This new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power and variable returns before control is present. The Company conducted a review of its wholly and non-wholly owned entities and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IAS 19 Employee Benefits

The new standard introduces a measure of 'net interest income (expense)' computed on the net pension asset (obligation) that will replace separate measurement of the expected return on plan assets and interest expense on the benefit obligation. The new standard also requires immediate recognition of past service costs associated with benefit plan changes. Under the current standard, past service costs are recognized over the vesting period. The adoption of this amendment did not have an effect on the consolidated financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures

The IASB also amended IAS 28, an existing standard, to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. The adoption of this amendment did not have an effect on the consolidated financial statements of the Company.

IFRS 11 Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31 *Joint Ventures*. The adoption of this amendment did not have an effect on the consolidated financial statements of the Company.

IFRS 12 Disclosure of Interests in Other Entities

The standard combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. The change in disclosure requirements relates to the degree of judgment that is now required to determine whether an entity is controlled and, therefore, consolidated. The amendment affects disclosure only and has no impact on the Company's financial position or results of operations.

IFRS 13 Fair Value Measurement

A new standard was created to establish a single source of guidance under IFRS for all fair value measurements. This standard does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. When measuring fair value, an entity is required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The adoption of this amendment did not have an effect on the consolidated financial statements of the Company.

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

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

IAS 36 Impairment of Assets

In May 2013, the IASB released an amendment to this standard that requires entities to disclose the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed. This standard is required to be applied for accounting periods beginning on or after January 1, 2014. The Company has early adopted this amendment. The adoption of this amendment affected disclosure only and has no impact on the consolidated financial statements of the Company.

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

In October 2010, the IASB published amendments to IFRS 9 which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 will replace IAS 39 and will be completed in three phases: classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. This was the first phase of the project on classification and measurement of financial assets and liabilities. The IASB is discussing proposed limited amendments related to this phase of the project. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The accounting for macro hedging is expected to be issued as a separate standard outside of IFRS 9. The impairment of financial assets phase of the project is currently in development. In November 2013, the mandatory effective date of IFRS 9 of January 1, 2015 was removed and the effective date will be determined when the remaining phases of IFRS 9 are finalized. The Company is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the consolidated financial statements

Amendments to IAS 32 Financial Instruments: Presentation

Amendments to IAS 32 were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments apply to investment entities, which are entities that evaluate the performance of their investments on a fair value basis and whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The amendments provide an exemption to the consolidation requirements in IFRS 10 for investment entities and require investment entities to measure certain subsidiaries at fair value through profit or loss rather than consolidate them. The amendments are effective from January 1, 2014 with early adoption permitted. The exemption from consolidation for investment entities is not available for the Company as it is not an investment entity. As a result, the adoption of this standard is not expected to have an impact on the consolidated financial statements.

International Financial Reporting Standards Interpretations Committee Interpretation (“IFRIC”) 21, *Levies*

IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact the adoption of this interpretation may have on the consolidated financial statements.

Amendments to IAS 39, Financial Instruments Recognition and Measurement

In June 2013, Novation of Derivatives and Continuation of Hedge Accounting was issued, which amends IAS 39, Financial Instruments Recognition and Measurement. Under these narrow scope amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company does not expect the adoption of these amendments to have a material impact on its consolidated financial statements.

Amendments to IAS 19, Employee Benefits

Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, Employee Benefits. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Company does not offer a defined benefit plan to its

employees. As a result, the adoption of this standard is not expected to have an impact on the consolidated financial statements.

3. BUSINESS COMBINATIONS

Sigma Technology Solutions, Inc.

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

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

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

Purchase consideration transferred on acquisition consists of:

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

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

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

Transaction costs of $728 have been expensed in 2012 in relation to this acquisition. These transaction costs consist primarily of payments made to companies controlled by shareholders and management of the Company for advisory services related to the acquisition of the Sigma assets and the related financing (note 20).

A contingent liability has been determined at the acquisition date resulting from additional cash amounts payable to Sigma of up to $16,000 over the three years following the date of acquisition. The payments are dependent on the business achieving certain performance targets over the three-year period. The fair value of the contingent consideration was $5,719 as at the date of acquisition. The fair value of the contingent consideration was $4,880 and $5,931 as at December 31, 2013 and 2012, respectively.

4. GOODWILL IMPAIRMENT

The Company performed its annual test for goodwill impairment in the fourth quarters of 2013 and 2012 in accordance with its policy described in note 2. The recoverable amount exceeded the carrying value for both 2013 and 2012. 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 value in use approach utilizing a discounted cash flow model for the ACS CGU, and a market approach for ProSys, ARC and Sigma CGU's.

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 4.8 and 6.1 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.

Discounted cash flow - The discounted cash flow approach is most sensitive to the following key assumptions:

- Projected cash flows
- Market assumptions
- Discount rate
- Terminal value growth rate

Projected cash flows

The projected cash flows are derived from the most recently completed business forecasts, which are projected out for a future time period of three years based on management's best estimates. Projected cash flows are estimated by adjusting forecasted annual net income for non-cash items (such as amortization and depreciation), estimated changes in working capital and investments in capital assets. Estimating future earnings requires judgment, consideration of past and actual performance, as well as expected developments in the CGU's respective markets, and in the overall macroeconomic environment.

Market assumptions

Forecasted revenue for each of the individual CGU's is based on securing an estimated number of projects. The gross margin in the business forecast is also dependent on assumptions made about the price of labor and materials in the future. A change in the assumptions of these key inputs can have a material impact on projected future cash flows.

Discount rate

The discount rate represents the current market assessment of the risks specific to the CGU's, regarding the time value of money and the individual risks of the underlying assets, which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the CGU's and is derived from the weighted average cost of capital ("WACC") for the consolidated Company. The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. Specific risk is incorporated by applying individual specific risk factors; these specific risk factors are evaluated at least annually. The discounted cash flow model was established using a discount rate of 21%, and a pre-tax discount rate of 35%.

Terminal value growth rate

The terminal value growth rate is used to calculate the terminal value at the end of the projected free cash flow period of three years. A terminal value growth rate of 3.0% was used reflecting an expectation of long term growth in technology investment; this figure also reflects the Company's best estimate of the set of economic conditions that are expected to exist over the forecast period.

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

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

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

5. ACCOUNTS RECEIVABLE

	2013	2012
Trade accounts receivable		
Current	**153,827**	143,180
One to three months	**38,494**	56,480
Over three months	**2,431**	7,838
	194,752	207,498
Other receivables	**2,353**	3,853
	197,105	211,351
Less allowance for doubtful accounts	**381**	369
As at December 31,	**196,724**	210,982

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

Provision for doubtful accounts	**2013**	2012
Balance at the beginning of year	**369**	534
Provision for doubtful accounts	**42**	318
Business combination	**-**	250
Write off bad debts	**(53)**	(733)
Recoveries	**23**	-
As at December 31,	**381**	369

6. PROPERTY, PLANT AND EQUIPMENT, NET

	Leasehold improvements	Furniture and fixtures	Computer and other equipment	Total
Cost				
As at December 31, 2011	1,853	737	3,964	6,554
Business combination	27	381	56	464
Additions	134	78	2,061	2,273
Disposals	(2)	(2)	(544)	(548)
As at December 31, 2012	2,012	1,194	5,537	8,743
Additions	433	406	1,573	2,412
Disposals	(197)	(44)	(813)	(1,054)
As at December 31, 2013	2,248	1,556	6,297	10,101
Accumulated depreciation				
As at December 31, 2011	226	146	931	1,303
Depreciation	267	197	1,252	1,716
Disposals	(2)	(6)	(391)	(399)
As at December 31, 2012	491	337	1,792	2,620
Depreciation	255	301	1,315	1,871
Disposals	(215)	(44)	(525)	(784)
As at December 31, 2013	531	594	2,582	3,707
Net book value				
December 31, 2013	1,717	962	3,715	6,394
December 31, 2012	1,521	857	3,745	6,123

The Company has no outstanding purchase commitments to purchase property, plant and equipment as at December 31, 2013 and 2012.

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

7. GOODWILL

Cost and net book value	
As at December 31, 2011	34,280
Business combination (note 3)	6,453
As at December 31, 2012	40,733
Impairment (note 4)	(11,000)
As at December 31, 2013	29,733

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

	2013	2012
ACS	**15,026**	26,026
ProSys	**6,916**	6,916
ARC	**1,338**	1,338
Sigma	**6,453**	6,453
As at December 31,	**29,733**	40,733

8. INTANGIBLE ASSETS

	Customer and vendor relationships	**Purchased Technology**	**Internally Developed Technology**	**Other**	**Total**
Cost					
As at December 31, 2011	63,600	9,000	-	-	72,600
Business combination	12,700	-	-	610	13,310
Additions	-	-	656	-	656
As at December 31, 2012	76,300	9,000	656	610	86,566
Additions	-	-	1,030	-	1,030
As at December 31, 2013	76,300	9,000	1,686	610	87,596
Accumulated amortization					
As at December 31, 2011	6,038	1,803	-	-	7,841
Amortization	6,995	1,800	-	39	8,834
As at December 31, 2012	13,033	3,603	-	39	16,675
Amortization	7,630	1,796	-	78	9,504
As at December 31, 2013	20,663	5,399	-	117	26,179
Net book value					
December 31, 2013	55,637	3,601	656	493	61,417
December 31, 2012	63,267	5,397	1,686	571	69,891

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Accounts payable	**198,350**	185,496
Accrued liabilities	**24,005**	11,574
As at December 31,	**222,355**	197,070

10. OTHER FINANCIAL LIABILITIES

	2013	2012
Current		
Secured borrowings	**103,624**	113,833
Contingent consideration	**9,042**	19,204
Convertible debentures	**-**	78,830
	112,666	211,867
Non-current		
Secured borrowings	**8,000**	-
Contingent consideration	**1,852**	23,928
	9,852	23,928
As at December 31,	**122,518**	235,795

Secured borrowings

On December 30, 2010, the Company entered into an accounts receivable purchase agreement ("ARPA") with Wells Fargo Bank ("Wells Fargo"). This agreement did not meet the derecognition criteria of IAS 39 as the Company had not transferred all risks and rewards of accounts receivable to Wells Fargo. The balance owing to Wells Fargo was nil and $40,283 as at December 31, 2013 and 2012, respectively.

Under the terms of the agreement, Wells Fargo agreed to purchase the related rights of certain accounts receivable of ACS at a price of 90% of the face value of the receivable. The excess of payment made by customers as compared to the purchase price was remitted to the Company, net of applicable charges. The maximum amount available under the facility was $80,000. Interest was payable monthly at a rate of LIBOR plus 3.5%. The ARPA was subject to certain financial covenants as a condition to continued borrowing. The Company was not subject to these covenants at December 31, 2013, and was in compliance with these covenants at December 31, 2012. The agreement was scheduled to expire on December 30, 2015, however was terminated on November 13, 2013, as part of a refinancing of the Company's existing credit facilities. The Company paid $1,600 in termination fees, and wrote off $307 of unamortized loan origination fees on the Wells Fargo facility.

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

On April 4, 2012, the terms of the ABL between ProSys and PNC were amended such that the Company could draw the lesser of $75,000 and 85% of eligible accounts receivable plus 60% of eligible inventory balances, to a maximum of $15,000. The term of the ABL was extended until April 6, 2015, however was terminated on November 13, 2013, as part of a refinancing of the Company’s existing credit facilities. The balance owing to PNC under this facility was nil and $53,889 as at December 31, 2013 and 2012, respectively.

On June 30, 2012, Sigma entered into a revolving credit security agreement with PNC. This agreement, which was an ABL, provided a line of credit secured by the assets of Sigma. The terms of the ABL allowed the Company to draw the lesser of $30,000 and 85% of eligible accounts receivable. Interest was payable monthly at a rate of the higher of prime plus 1.75%, the Federal Funds Rate plus 2.25% or LIBOR plus 2.75%. The agreement was scheduled to expire on June 30, 2015, however was terminated on November 13, 2013, as part of a refinancing of the Company’s existing credit facilities. The balance owing to PNC under this facility was nil and $19,661 as at December 31, 2013 and 2012, respectively.

Under the terms of the credit agreements with PNC, the Company was subject to certain restrictive covenants.

The covenants required that the Company maintain a fixed charge ratio of at least 1.10 to 1 and placed restrictions on investments, additional indebtedness, dividends and distributions, capital expenditures and leases. The Company was not subject to these covenants at December 31, 2013, and was in compliance with these covenants at December 31, 2012.

On November 13, 2013 (“Closing Date”), the Company entered into an agreement with PNC for the provision of $185,000 of senior secured asset based credit facilities (“ABL Credit Facility”). The ABL Credit Facility replaced the separate facilities held by ACS, ProSys and Sigma with PNC and Wells Fargo. The ABL Credit Facility consists of a $10,000 term loan (“ABL Term Loan”) and a senior secured revolving credit facility (“ABL Revolving Credit Facility”) that allows the Company to draw up to $175,000, subject to borrowing base limitations, a portion of which may be used for letters of credit or swing line loans. Financing fees of $3,261 were incurred during the year ended December 31, 2013, which are being amortized over the term of the ABL Revolving Credit Facility.

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

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

As at December 31, 2013, $101,624 was outstanding under the ABL Revolving Credit Facility. As at December 31, 2013, the ABL Term Loan had an outstanding balance of $10,000.

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

Under the terms of the ABL Credit Facility, the Company is subject to certain restrictive covenants. The covenants require that the Company maintain a fixed charge ratio of at least 1.15 to 1, a senior leverage ratio of 4.25 to 1 and adjusted EBITDA greater than $8,000 for the three months ended December 31, 2013. The covenants also place restriction on investments, additional indebtedness, distributions, capital expenditures and leases. The Company was in compliance with these covenants as at December 31, 2013.

Contingent consideration

On December 30, 2010, the Company acquired substantially all of the net assets of Applied Computer Solutions ("Old ACS"). As part of the asset purchase agreement with Old ACS, contingent consideration has been agreed. This consideration is dependent on the profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. At the date of acquisition, the fair value of the contingent liability was determined to be $33,291. As at December 31, 2013 and 2012, the fair value of the contingent liability was determined to be $3,800

and $31,741, respectively. The Company recorded a recovery of $15,293 and $5,656 related to the change in fair value of the contingent consideration in 2013 and 2012, respectively. The consideration is paid over three years and is due for final measurement and payment to the shareholders of Old ACS on May 1, 2014. Payments of $12,648 and $13,330 were made during 2013 and 2012, respectively. The undiscounted value of the remaining consideration to be paid is $4,000. On August 19, 2013, the Company reached an agreement with the shareholders of Old ACS to allow up to $4,000 of the contingent consideration liability to be deferred into 2014. All amounts unpaid after December 31, 2013 will bear interest at 8% per annum. The amounts deferred plus any accumulated interest must be repaid in full no later than June 30, 2014.

On January 4, 2011, the Company acquired all of the issued and outstanding share capital of ProSys Information Systems, Inc. (“Old ProSys”), a wholly-owned subsidiary of Avnet, Inc. As part of the purchase agreement with the shareholders of Old ProSys, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. The fair value at the acquisition date was $4,707 and was determined to be $2,213 and $3,838 as at December 31, 2013 and 2012, respectively. The Company recorded a (charge) recovery of $(17) and $472 related to the change in fair value of the contingent consideration in 2013 and 2012, respectively. Payments of $1,642 and nil were made during 2013 and 2012, respectively. The undiscounted value of the remaining consideration to be paid is $2,338.

On August 12, 2011, the Company acquired substantially all of the assets and liabilities of Austin Ribbon & Computer Supplies, Inc. (“Old ARC”). As part of the asset purchase agreement with the shareholders of Old ARC, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending August 12, 2014. The fair value at the acquisition date was $3,060 and was determined to be nil and $1,622 as at December 31, 2013 and 2012, respectively. The Company recorded a recovery of $1,622 and $1,820 related to the change in fair value of the contingent consideration in 2013 and 2012, respectively. No payments were made during 2013 or 2012. The possible range of undiscounted values of the remaining consideration to be paid is between nil and $4,500.

On July 1, 2012, the Company acquired substantially all of the net operating assets of Sigma Solutions, LP (“Old Sigma”). As part of the asset purchase agreement with the partners of Old Sigma, contingent consideration has been agreed. This consideration is dependent on a measure of operating profit before tax of the business acquired from Old Sigma during the three consecutive 12-month periods ending July 1, 2015. The fair value at the acquisition date was estimated to be $5,719 and was determined to be $4,880 and $5,931 as at December 31, 2013 and 2012, respectively. The Company recorded a charge of $2,949 and nil related to the change in fair value of the contingent consideration in 2013 and 2012, respectively. Payments of $4,000 and nil were made

during 2013 and 2012, respectively. The possible range of undiscounted values of the remaining consideration to be paid is between nil and $12,000.

Convertible debentures and Series A Preferred Shares

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

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

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

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

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

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

On March 25, 2013, immediately prior to the completion of the RTO, Debentures in the amount of C$40,981 were converted into 102,452,501 Series A Preferred Shares (note 12) and Debentures in the amount of C$1,619 were converted into 4,047,500 common shares (note 12) of the Company in accordance with the terms of the Debentures.

11. OBLIGATIONS UNDER LEASES

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

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

As at December 31, 2013	Related parties	Unrelated parties	Total
Years ending December 31,			
2014	1,469	2,783	4,252
2015	634	2,338	2,972
2016	207	1,903	2,110
2017	-	1,761	1,761
2018	-	1,551	1,551
Thereafter	-	1,979	1,979
	2,310	12,315	14,625

Rent expense was $4,830 and $4,212 for 2013 and 2012, respectively.

12. PRIVATE PLACEMENT AND REVERSE ACQUISITION

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

- The Company changed its name from Acme Capital Corporation to Pivot Technology Solutions, Inc., effective March 21, 2013, and now trades under the symbol “PTG” on the TSX Venture Exchange.
- 8,000,000 outstanding shares of Pivot were consolidated on the basis of one post-consolidation share for each previously outstanding 8 common shares of the Company effective March 21, 2013.
- 800,000 outstanding employee options issued by Pivot were consolidated on the basis of one post-consolidation option for each previously outstanding 8 issued options. The options can be exercised for C$0.80 per share, and expire 12 months from the date of the Qualifying Transaction.
- 200,000 agent compensation options of Pivot granted to the IPO Agent were consolidated on the basis of one post-consolidation option for each previously outstanding 8 issued options. The options were exercisable for C$0.80 per share. The options expired on September 29, 2013.

- 56,000,000 common shares owned by the former shareholders of Pivot Acquisition were issued common shares of Pivot on a one for one basis.
- The subscription receipts issued by Pivot Acquisition (the "Subscription Receipts") at a price of C$0.80 per Subscription Receipt in connection with its brokered private placement was completed on March 11, 2013, resulting in the issue of 4,421,625 Subscription Receipts and raising gross proceeds of C$3,537. The Subscription Receipts were subsequently converted into common shares of Pivot on a one for one basis. 309,514 agent compensation options issued by Pivot Acquisition in connection with the private placement were replaced with 309,514 agent compensation options under Pivot, entitling the holder to purchase one Pivot share at C$0.80 per share until March 11, 2015.
- Following the Qualifying Transaction, Pivot Acquisition converted Debentures in the amounts of C$40,981 and C$1,619 into 102,452,501 Series A Preferred Shares and 4,047,500 common shares, respectively. These shares were exchanged on a one for one basis into 102,452,501 preferred shares and 4,047,500 common shares of Pivot. Broker compensation options of 7,455,000 issued in relation to this transaction were exchanged on a one for one basis into Pivot options. The options can be exercised for C$0.40 per share, and expire March 25, 2015.
- The Company changed its financial year end to December 31, beginning with the financial year ended December 31, 2013.
- On March 25, 2013, the Company issued 166,921,626 of common and preferred shares to the former shareholders of Pivot Acquisition in exchange for 100% interest in Pivot Acquisition.

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

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

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

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

The percentage of ownership the legal parent's shareholders had in the combined entity is 0.60% after the issue of 166,921,626 common and preferred shares of the Company to Pivot Acquisition shareholders. The warrants granted prior to the RTO remain exercisable after the completion of the amalgamation, and as such, the fair value of the warrants at the date of amalgamation is also included as part of the consideration transferred (note 13).

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

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

13. SHARE CAPITAL

As at December 31, 2013, the issued share capital amounted to $86,125. An unlimited number of both common and Series A Preferred Shares, with no par value, are authorized for issuance. The changes in issued share capital for the year ended December 31, 2013 were as follows:

	Series A Preferred #	Class A Preference #	Class A Common #	Class B Common #	Class C Common #	Common Shares #
As at January 1, 2013	-	-	3,000,000	2,000,000	51,000,000	-
Common shares issued on subscription receipts	-	4,421,625	-	-	-	-
Shares issued on debenture conversion	102,452,501	-	-	-	4,047,500	-
Issuance pursuant to RTO	-	-	-	-	1,000,000	-
Capital movement pursuant to reverse acquisition	-	(4,421,625)	(3,000,000)	(2,000,000)	(56,047,500)	65,469,125
Preferred shares converted to common shares	(37,190,021)	-	-	-	-	37,190,021
As at December 31, 2013	**65,262,480**	-	-	-	-	**102,659,146**

Note: Share amounts are not rounded

Series A Preferred Shares

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

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. Fully diluted loss per share is calculated by giving effect to all common share equivalents outstanding during the year applied to the net loss available to common shareholders. Common share equivalents represent potentially dilutive stock options, warrants, and dilutive shares related to the Company's Series A Preferred Shares. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect.

Basic and fully diluted loss per share was the same for each year presented, as the effect of any outstanding options or warrants would be anti-dilutive because the Company was in a loss position. The weighted average number of common shares issued and outstanding for the years ended December 31, 2013 and 2012 was 117,543,088 and 52,941,940, respectively. The anti-dilutive options totalled 7,889,514 shares for the year ended December 31, 2013.

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.

On March 11, 2013, Pivot Acquisition granted to its agents non-transferable warrants to purchase up to an aggregate of 309,514 common shares at a price of C$0.80 per share exercisable for a period of two years. The relative fair value of the warrants included in the private placement units (note 12) was valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield of 0%, volatility rate of 60%, expected life of two years and risk-free interest rate of 0.98%. The fair value allocated to the warrants was C$83.

During 2011, Pivot Acquisition issued 7,455,000 broker compensation options in relation to the Company's Debenture issue. The options can be exercised for C$0.40 per share and expire on March 25, 2015. The fair value allocated to the warrants was $3,000, which was recognized as an expense in fiscal 2011.

Options issued to directors and officers

On June 29, 2011, the Company granted share options to its directors and officers to acquire an aggregate of 100,000 common shares (after consolidation of 8 to 1) at a price of C$0.80 per share exercisable until June 29, 2021. Upon the completion of the RTO on March 25, 2013 which qualified as a qualifying transaction, the expiry date of the options has been changed to March 25, 2014. As the options remain exercisable after the completion of the RTO, the fair value of the options at the date of the RTO was included as part of the consideration transferred by Pivot Acquisition in the RTO. On March 25, 2013, the fair value of the options was estimated at C$19 using the Black-Scholes option pricing model. The assumptions used were as follows: risk-free interest rate of 1.03%, dividend yield of 0%, volatility rate of 60% and expected life of one year.

Options issued to agents

On June 29, 2011, the Company granted share options to agents (non-employees) to acquire an aggregate of 25,000 common shares (after consolidation of 8 to 1) at a price of C$0.80 per share exercisable until June 29, 2013. As the options remain exercisable after the completion of the RTO, the fair value of the options at the date of the RTO was included as part of the consideration transferred by Pivot Acquisition in the RTO. On March 25, 2013, the fair value of the options was estimated at C$3 using the Black-Scholes option pricing model. The assumptions used were as follows: risk-free interest rate of 0.96%, dividend yield of 0%, volatility rate of 60% and expected life of 0.29 year.

Dividends declared and paid

On April 25, 2013, the Board of Directors declared a dividend of C$0.005 per Series A Preferred Share. Total dividends of approximately C$452 were distributed on May 1, 2013 to shareholders of record at the close of business on April 30, 2013.

On April 25, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Preferred Share. Total dividends of approximately C$364 were distributed on June 3, 2013 to shareholders of record at the close of business on May 27, 2013.

On June 13, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Preferred Share. Total dividends of approximately C$351 were distributed on July 2, 2013 to shareholders of record at the close of business on June 25, 2013.

On July 12, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Preferred Share. Total dividends of approximately C$363 were distributed on August 1, 2013 to shareholders of record at the close of business on July 25, 2013.

On August 8, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Share. Total dividends of approximately C$363 were distributed on September 3, 2013 to shareholders of record at the close of business on August 27, 2013.

On September 13, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Share. Total dividends of approximately C$351 were distributed on October 1, 2013 to shareholders of record at the close of business on September 24, 2013.

On October 9, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Share. Total dividends of approximately C$363 were distributed on November 1, 2013 to shareholders of record at the close of business on October 25, 2013.

On November 18, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Share. Total dividends of approximately C$346 were distributed on December 3, 2013 to shareholders of record at the close of business on November 29, 2013.

On December 10, 2013, the Board of Directors declared a dividend of C$0.004 per Series A Share. Total dividends of approximately C$266 were distributed on January 3, 2014 to shareholders of record at the close of business on December 24, 2013.

14. 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 (deficiency) and non-cash working capital financial liabilities.

Total managed capital is as follows:

	2013	2012
Other financial liabilities (note 10)	**122,518**	235,795
Shareholders' equity (deficiency)	**35,709**	(45,640)
As at December 31,	**158,227**	190,155

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.

15. INCOME TAXES

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

	2013	2012
Current tax expense	**2,835**	6,313
Deferred tax (benefit) expense	**1,804**	(10,882)
	4,639	(4,569)

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.

	2013	2012
Expected income tax at combined statutory rate	**764**	(7,068)
Unrecognized temporary differences	**1,536**	1,064
Permanent differences	**485**	226
Differences in income tax rates of foreign jurisdictions	**1,222**	2,147
Change in future statutory income tax rates	**-**	(521)
True ups/adjustments in respect to income tax of previous years	**101**	(546)
Tax credits	**(171)**	-
Part VI.1 tax	**702**	-
Other	-	129
Income tax expense (benefit)	**4,639**	(4,569)

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

	2013	2012
Intangible assets	**13,958**	10,094
Contingent consideration	**4,335**	4,729
Reserves and provisions	**1,278**	1,016
Property, plant and equipment	**(980)**	(1,093)
Loss carry forwards	**334**	(835)
Other	**(5,917)**	903
	13,008	14,814

As of December 31, 2013 the Company has tax losses of $16,668 which arose in Canada that are available for off-set against future taxable profits. These losses begin to expire in 2030.

Deferred tax assets of $4,478 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, 2013, there are other deferred tax assets which have been recognized on the consolidated statements of financial position which total $13,008. During 2012, the Company reversed the valuations against certain deferred tax assets, as it determined there were tax planning opportunities available that could support the recognition of these items as deferred tax assets.

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

At December 31, 2013 and 2012, there was no recognized deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The Company's tax expense includes $702 related to the dividends paid to its preferred shareholders during 2013.

16. FINANCIAL INSTRUMENTS

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

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

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

Fair values

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

The following 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, 2013			
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	10,894	10,894
Secured borrowings	-	-	111,624	111,624
	-	-	122,518	122,518

	Fair value as at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Contingent consideration	-	-	43,132	43,132
Debentures	-	-	78,830	78,830
Secured borrowings	-	-	113,833	113,833
	-	-	235,795	235,795

As highlighted in the table above, the fair value methodology for the Company's contingent consideration is considered level 3 as significant unobservable inputs are required to determine fair value.

Management estimates the fair value of contingent consideration internally based on a discounted cash flow methodology. The fair value is determined by applying an 18% discount rate. The discount rate is a key unobservable input. There is an inverse relationship between the discount rate and the fair value, the higher the discount rate, the lower the estimated fair value. If the discount rate used in the fair value determination of the contingent consideration was 1% higher or lower, this would result in a recovery (charge) of $79K and $79K, respectively.

Significant increases (decreases) in estimated annual revenue or changes in product margin in isolation would result in a significantly higher (lower) fair value of contingent consideration. If the net sales revenue forecast used in the fair value determination of the contingent consideration was 5% higher or lower, this would result in a charge (recovery) of $915K and $2,222K, respectively.

The fair value of the contingent consideration was calculated using forecasts based on financial plans prepared by management covering the periods under agreement, using a discount rate of 18%. The Company recorded a (recovery) charge of ($13,949) and $3,576 related to the change in fair value of the contingent consideration in 2013 and 2012, respectively.

The fair value of the Debentures was calculated using discounted cash flows. The Company recorded a charge of $4,555 and $28,807 related to the change in fair value of the Debentures in 2013 and 2012, respectively.

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

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, 2013, one customer represented 12% of the outstanding accounts receivable balance. As at December 31, 2012, one customer represented 28% 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 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	10,842	-	-	-	-	10,842
Secured borrowings	101,624	2,000	3,000	5,000	-	111,624
Accounts payable and accrued liabilities	-	222,355	-	-	-	222,355
Contingent consideration	-	9,719	2,641	-	-	12,360
As at December 31, 2013	112,466	234,074	5,641	5,000	-	357,181

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

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

Other risks

The Company was exposed to foreign exchange risk through its Canadian dollar denominated Debentures. Included in the fair value adjustment of $28,807 for 2012 is a foreign exchange loss of $1,131. Included in the fair value adjustment of $4,555 for 2013 is a foreign exchange loss of $395.

The Company is exposed to interest rate risk through its secured borrowing agreements; however, a fluctuation in interest rates would not have had a significant impact on the net loss of the Company for 2013 or 2012.

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

17. INTEREST EXPENSE

	2013	2012
Debentures	**1,151**	13,908
Secured borrowings	**8,039**	7,103
	9,190	21,011

18. CHANGE IN FAIR VALUE OF LIABILITIES

	2013	2012
Convertible debentures	**4,555**	28,807
Contingent consideration	**(13,949)**	3,576
	(9,394)	32,383

19. EMPLOYEE SALARIES AND BENEFITS EXPENSE

	2013	2012
Cost of sales	**28,035**	12,764
Selling and administrative expenses	**93,766**	65,679
	121,801	78,443

20. TRANSACTION COSTS

	2013	2012
Reverse takeover costs	**1,238**	-
Reverse acquisition transaction costs	**851**	-
Proposed Series A preferred shares exchange offer	**140**	-
Advisory services provided by related parties	**-**	668
Bank fees	**-**	50
Other	**-**	66
	2,229	784

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2013	2012
Accounts receivable	**14,216**	(29,646)
Income taxes recoverable and payable	**(1,289)**	1,640
Inventories	**(28,880)**	10,256
Other assets	**(13,594)**	(1,399)
Accounts payable and accrued liabilities	**25,211**	7,577
Other liabilities	**18,710**	(1,986)
	14,374	(13,558)

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

	2013	2012
Interest paid	**8,112**	21,385
Income taxes paid	**3,176**	2,250

22. MAJOR CUSTOMERS

The Company had two customers that represented 29% and 13%, and 36% and 30% of gross revenues for 2013 and 2012, respectively.

23. RELATED PARTY DISCLOSURES

In addition to the asset purchase agreement with Old ACS, a subsidiary of the Company has entered into an administrative services agreement, a license agreement and a distribution agreement with Old ACS commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Old ACS. Total amounts collected from Old ACS for these shared administrative services for each of the years ended December 31, 2013 and 2012 amounted to $1,580. The license agreement permits Old ACS to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. A member of key management of the Company has significant influence over Old ACS, resulting in a related party relationship.

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by ACS to its third party customers, and thus the Company is the principal and ACS is the agent of the Company with respect to such sales. The Company recognizes these revenues on a gross basis. Total gross sales through the agent are approximately $114,287 and $199,718 for the year ended December 31, 2013 and 2012, respectively. The Company's effective cost to the agent in respect of these revenues was approximately $4,466 and $5,389 for the year ended December 31, 2013 and 2012, respectively, which is included in the Company's cost of sales.

The Company has a similar contractual arrangement with Old ARC, whereby Old ARC is an agent of the Company. Total gross sales through the agent are approximately $65,758 and $28,740 for the year ended December 31, 2013 and 2012, respectively.

A subsidiary of the Company leases two of its offices from a related entity controlled by that subsidiary's chief executive officer. The Company is obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease was $1,571 and $1,439 for the year ended December 31, 2013 and 2012, respectively.

A subsidiary of the Company incurred $612 and $994 for the years ended December 31, 2013 and 2012, respectively, for marketing services provided by related entities controlled by that subsidiary's chief executive officer and $21 and $80 in expenses for the use of aircraft owned by a related entity controlled by that subsidiary's chief executive officer for the year ended December 31, 2013 and 2012, respectively.

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

	2013	2012
Compensation	**3,267**	2,619
Termination benefits	**500**	-
Short-term employee benefits	**54**	24
Other long term benefits	**-**	1
	3,821	2,644