

Interim Condensed Consolidated Financial Statements

Pivot Technology Solutions, Inc.

For the Three and Six Months Ended
June 30, 2016 and 2015

(Unaudited)

(Expressed in Thousands of U.S. Dollars)

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	.June 30, 2016	December 31, 2015
	<i>[unaudited]</i>	
ASSETS		
Current		
Cash and cash equivalents	18,851	7,978
Accounts receivable	254,467	266,285
Income taxes recoverable	939	-
Inventories	85,071	83,321
Other current assets	39,407	34,151
Total current assets	398,735	391,735
Property, plant and equipment, net	7,422	7,866
Goodwill (note 4)	28,395	29,733
Intangible assets, net (note 4)	37,199	43,955
Deferred income taxes (note 10)	16,481	15,982
Other non-current assets	13,643	11,379
Total assets	501,875	500,650
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	25,045	33,195
Accounts payable and accrued liabilities	236,898	254,168
Income taxes payable	-	500
Deferred revenue and customer deposits	39,454	38,434
Other financial liabilities (note 6)	152,685	123,373
Total current liabilities	454,082	449,670
Other non-current liabilities	14,932	11,960
Total liabilities	469,014	461,630
Shareholders' equity		
Share capital (note 8)	88,150	88,096
Warrants and options (note 8)	-	2,015
Contributed capital	2,136	103
Accumulated deficit	(57,425)	(51,194)
Total shareholders' equity	32,861	39,020
Total liabilities and shareholders' equity	501,875	500,650

See accompanying notes

On behalf of the Board:

"John Anderson"

"Kevin Shank"

John Anderson
Director

Kevin Shank
President, CEO and Director

Pivot Technology Solutions, Inc.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET AND COMPREHENSIVE INCOME (LOSS)***[in thousands of U.S. dollars, except per share amounts]**[unaudited]*

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Product sales	331,147	314,196	622,885	569,830
Service revenues	39,894	40,785	79,214	79,409
Other revenues	2,667	2,901	4,396	5,016
	373,708	357,882	706,495	654,255
Cost of sales	327,072	312,580	621,856	576,757
Gross profit	46,636	45,302	84,639	77,498
Operating expenses				
Selling and administrative	37,513	35,382	74,065	66,269
Depreciation and amortization	2,979	3,200	5,858	6,285
Interest expense	1,147	1,831	2,185	3,668
Change in fair value of liabilities (note 11)	22	113	705	838
Impairment (note 4)	3,838	-	3,838	-
Transaction costs	164	125	355	142
Other expense (income)	(430)	112	1,013	113
	45,233	40,763	88,019	77,315
Income (loss) before income taxes	1,403	4,539	(3,380)	183
Provision for income taxes (note 10)	1,618	1,876	590	627
Net and comprehensive income (loss) for the period	(215)	2,663	(3,970)	(444)
Net income (loss) per share (note 8):				
Net income (loss) available to common shareholders:				
Net and comprehensive income (loss) for the period	(215)	2,663	(3,970)	(444)
Deduct preferred dividends declared	-	-	-	(461)
Net income (loss) available to common shareholders	(215)	2,663	(3,970)	(905)
Basic	\$ 0.00	\$ 0.02	\$ (0.02)	\$ (0.01)
Diluted	\$ 0.00	\$ 0.02	\$ (0.02)	\$ (0.01)

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of U.S. dollars]

[unaudited]

	Preferred	Share Capital Common	Total	Contributed Capital	Warrants/ Options	Accumulated Deficit	Total
Balance, December 31, 2014	48,080	38,045	86,125	21	3,082	(51,990)	37,238
Preferred share conversion to common shares	(48,080)	48,080	-	-	-	-	-
Exercise of broker compensation options	-	66	66	-	(33)	-	33
Broker compensation options expired and unexercised	-	-	-	82	(82)	-	-
Preferred share dividends declared (note 8)	-	-	-	-	-	(461)	(461)
Net and comprehensive loss for the Period	-	-	-	-	-	(444)	(444)
Balance, June 30, 2015	-	86,191	86,191	103	2,967	(52,895)	36,366
Balance, December 31, 2015	-	88,096	88,096	103	2,015	(51,194)	39,020
Share-based compensation (note 9)	-	-	-	406	-	-	406
Share repurchases (note 8)	-	(725)	(725)	-	-	-	(725)
Exercise of broker compensation options	-	779	779	-	(388)	-	391
Broker compensation options expired and unexercised	-	-	-	1,627	(1,627)	-	-
Common share dividends declared (note 8)	-	-	-	-	-	(2,261)	(2,261)
Net and comprehensive loss for the Period	-	-	-	-	-	(3,970)	(3,970)
Balance, June 30, 2016	-	88,150	88,150	2,136	-	(57,425)	32,861

See accompanying notes

Pivot Technology Solutions, Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

[unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
OPERATING ACTIVITIES				
Net and comprehensive income (loss) for the period	(215)	2,663	(3,970)	(444)
Add (deduct) items not involving cash				
Depreciation and amortization	2,979	3,200	5,858	6,285
Share-based compensation (note 9)	406	-	406	-
Impairment (note 4)	3,838	-	3,838	-
Loss on disposals of property, plant and equipment	9	168	14	167
Provision for receivables	-	66	15	66
Deferred income taxes (note 10)	(1,513)	(508)	(499)	(156)
Amortization of loan fees	74	194	148	372
Change in fair value of liabilities (note 11)	22	113	705	838
Changes in non-cash working capital balances (note 12)	(15,034)	(8,480)	(4,376)	10,255
Cash provided by (used in) operating activities	(9,434)	(2,584)	2,139	17,383
INVESTING ACTIVITIES				
Proceeds from sales of property, plant and equipment	3	49	3	50
Capital expenditures	(258)	(270)	(949)	(2,811)
Intangible assets	(42)	(292)	(226)	(542)
Cash used in investing activities	(297)	(513)	(1,172)	(3,303)
FINANCING ACTIVITIES				
Net change in debt facilities	8,219	(1,742)	28,607	(2,080)
Net change in flooring arrangements	(801)	2,855	(7,956)	6,537
Change in bank overdraft	8,525	4,922	(8,150)	(14,783)
Issuance of common shares, net of cost	178	33	391	33
Common share dividends paid	(1,312)	-	(2,261)	-
Preferred share dividends paid	-	(91)	-	(676)
Common share repurchases	(725)	-	(725)	-
Cash provided by (used in) financing activities	14,084	5,977	9,906	(10,969)
Net increase in cash and cash equivalents during the period	4,353	2,880	10,873	3,111
Cash and cash equivalents, beginning of period	14,498	8,758	7,978	8,527
Cash and cash equivalents, end of period	18,851	11,638	18,851	11,638

See accompanying notes

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

Three and six month periods ended June 30, 2016 and 2015

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

1. CORPORATE INFORMATION

Pivot Technology Solutions, Inc. ("Pivot" or the "Company") is located in Ontario Canada, and is publicly listed on the TSX Venture Exchange and trades under the symbol "PTG". The registered office is located at 40 King Street, Suite 4400, Toronto, Ontario.

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

The unaudited interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2016 and 2015 were authorized for issue in accordance with a resolution of the Company's Board of Directors on August 24, 2016.

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

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

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

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

Certain amounts have been reclassified from the unaudited interim condensed consolidated financial statements previously presented to conform to the presentation of these unaudited interim condensed consolidated financial statements in accordance with IFRS.

Management has determined that the Company operates as a single operating segment, and the Company undertakes its operations in the U.S. Therefore, no segment reporting is included in these unaudited interim condensed consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation are followed in the unaudited interim condensed consolidated financial statements as compared with the Company's most recent audited consolidated financial statements, including the notes, for the year ended December 31, 2015, with the exception of the following which was applied upon the granting of stock options during the three month period ended June 30, 2016:

Share-based payments

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

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments: Classification and Measurement

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9"), as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by

changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its unaudited interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

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

Property, Plant and Equipment ("IAS 16"), and Intangible Assets ("IAS 38")

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company is currently assessing the impact of this standard on its unaudited interim condensed consolidated financial statements.

IFRS 16, Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. The Company has not yet determined the impact on its unaudited interim condensed consolidated financial statements.

4. IMPAIRMENT (see note 13)

On June 1, 2016, the Company was informed by Austin Ribbon & Computer Supplies ("Old ARC"), that Old ARC intended to terminate its distribution, licensing and administrative services agreements with Pivot. The termination of the agreements indicates the Company will experience significant decreases in expected future revenues and gross profit, due to a lower volumes of sales. As such, the Company reviewed its business forecast, and performed an interim impairment test on the ARC cash generating unit ("ARC CGU"). The Company concluded that the recoverable amount based on a value in use impairment test was less than the carrying amount of the ARC CGU and accordingly, recorded an impairment charge of \$3,838, consisting of a write off of goodwill of \$1,338, and a reduction to other intangibles of \$2,500 during the three month period ended June 30, 2016. The impact of the impairment charge net of tax was \$2,932. The recoverable amount was determined based on the

Pivot Technology Solutions, Inc.

Notes to the unaudited interim condensed consolidated financial statements

Three and six month periods ended June 30, 2016 and 2015

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

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

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A subsidiary of the Company entered into a secured flooring agreement with IBM Global Finance ("IBM") on August 10, 2011, which provides short-term financing. The IBM secured flooring agreement allows up to \$15,000 in advances on purchases from approved vendors. Approved vendors send invoices directly for payment and IBM bills the Company monthly for vendor invoices received. After 60 days, the Company incurs interest on the outstanding balance at LIBOR plus 4.5%. \$12,827 and \$13,710 were due to IBM as at June 30, 2016 and December 31, 2015, respectively. The Company is required to maintain certain financial ratios and was in compliance as at June 30, 2016 and December 31, 2015. This amount is included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position.

On August 26, 2014, another subsidiary executed a purchase finance agreement with Macquarie Equipment Finance ("Macquarie") that allowed up to \$10,000 in unsecured advances on purchases from approved suppliers. On March 24, 2015, the agreement with Macquarie was amended to allow up to \$15,000 on 60-day unsecured advances from approved suppliers. Interest of LIBOR plus 1.58% will be applied. Nil and \$7,073 was outstanding under the Macquarie purchase finance agreement as at June 30, 2016 and December 31, 2015. This amount is included in accounts payable and accrued liabilities in the unaudited interim condensed consolidated statements of financial position.

6. OTHER FINANCIAL LIABILITIES

	June 30, 2016	December 31, 2015
Current		
Secured borrowings	149,993	121,386
Interest rate swap	2,692	1,987
	152,685	123,373

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

Secured borrowings

On November 13, 2013 ("PNC Closing Date"), Pivot Technology Solutions Ltd., a wholly owned subsidiary of the Company, along with certain of its subsidiaries, ACS, ProSys and Sigma (collectively the "PNC Borrowing Group"), entered into an agreement with PNC Bank ("PNC") for the provision of \$185,000 of senior secured asset-based credit facilities ("PNC Credit Facility"). The PNC Credit Facility originally consisted of a \$10,000 term loan ("PNC Term Loan") and a senior secured revolving credit facility ("PNC Revolving Credit Facility") that allowed the PNC Borrowing Group to draw up to \$175,000, subject to borrowing base limitations, a portion of which could be used for letters of credit or swing line loans.

The PNC Term Loan principal was due in four consecutive quarterly installments of \$500 commencing on 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 was arranged by PNC, a 2% premium applied to any portion of the PNC Term Loan that was prepaid on or before the one-year anniversary of the PNC Closing Date and a 1% premium applied to any prepayment after the first anniversary of the PNC Closing Date and on or before the third anniversary of the PNC Closing Date.

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

A 1% fee of \$58 was charged for the termination of the PNC Term Loan prior to the third anniversary of the PNC Closing Date.

The PNC Borrowing Group was able to use up to \$10,000 of its available borrowing under the PNC Credit Facility for letters of credit which were charged a fronting fee of 0.25% and bore interest at Prime plus 1.5%. The PNC Borrowing Group could also use up to \$17,500 of its available borrowing under the PNC Credit Facility for swing loans which charged a fee of Prime plus 1.5% per annum. A letter of credit for \$250 was outstanding under the PNC Credit Facility at June 30, 2016 and December 31, 2015.

On September 21, 2015, the Company entered into a credit agreement with certain institutional lenders, represented by JPMorgan Chase Bank, N.A. ("JPMC"), that provides for a \$200,000 secured asset-based revolving credit facility, subject to borrowing base limitations, a portion of which could be used for letters of credit or swing line loans ("JPMC ABL Credit Facility"). The JPMC ABL Credit Facility is scheduled to expire on September 21, 2020. Any advances under the credit agreement will accrue interest at rates that are equal to, based on certain conditions, either (a) JPMC's "prime rate" as announced from time to time plus 0.0% to 0.25%, or (b) LIBOR, or a comparable or successor rate

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

that is approved by the Administrative Agent, for an interest period of one month plus 1.50% to 1.75%, at the Company's election. The credit agreement requires that the Company comply with certain covenants as defined in the agreement.

The Company may also, upon the agreement of either the then-existing lenders or additional lenders not currently parties to the agreement, increase the commitments under the JPMC ABL Credit Facility by up to an additional \$75,000. The lenders under the JPMC ABL Credit Facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to several conditions precedent and limitations. On January 14, 2016, the JPMC ABL Credit Facility agreement was amended, increasing the overall facility to \$225,000.

In connection with the JPMC ABL Credit Facility, the Company incurred finance costs which have been capitalized and are being amortized over the life of the credit agreement. As at June 30, 2016, \$151,340 was outstanding under the JPMC ABL Credit Facility and the Company was in compliance with the required covenants. The outstanding balance is shown net of deferred loan costs of \$1,347, at June 30, 2016, in current other financial liabilities in the unaudited interim condensed consolidated statements of financial position.

This credit facility replaces the PNC Credit Facility that was entered into on November 13, 2013, which was terminated, at the Company's election, in connection with its entering into the new credit facility.

As a result of the transactions described above, the Company incurred a loss on the derecognition of the PNC Credit Facility. This loss consisted of (1) \$2,553 for the write-off of deferred costs associated with the repayment of the PNC Credit Facility and (2) a \$58 termination fee required to prepay the Company's PNC Term Loan.

Interest rate swap

On April 3, 2014, the Company entered into an interest rate forward swap agreement ("Swap") with PNC to mitigate the risk of fluctuating interest rates. Under the terms of the Swap, the interest rate varied between 4.655% and 5.155% on \$50,000 of the amount outstanding under the PNC Credit Facility. This range of rates is in effect from April 7, 2016 through November 13, 2018. As part of the Novation Agreement noted below, the interest rate will now vary between 4.305% and 4.555% on \$50,000 of the amount outstanding under the JPMC ABL Credit Facility. The changes in the fair value of this instrument were recorded as a change in fair value of liabilities in the unaudited interim condensed consolidated statements of net and comprehensive income (loss). Interest incurred under the Swap totaled \$276 for the three months ended June 30, 2016. As at June 30, 2016 and December 31, 2015, the fair value of the Swap was determined to be \$2,692 and \$1,987, respectively, which represents the cost that would be incurred by the Company to exit the Swap, due to fluctuations in future interest rate expectations.

On September 21, 2015, in connection with the commencement of the new JPMC ABL Credit Facility, the Company novated the Swap and transferred to JPMC of all the rights, liabilities, duties and

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****Three and six month periods ended June 30, 2016 and 2015***(unless otherwise noted, all amounts are in thousands of U.S. dollars)*

obligations of the Interest Rate Swap Provider (PNC). The transactions between the Company and JPMC will be subject to the same terms and with the same provisions as set forth in the Interest Rate Swap Agreement but with the modifications as set forth in the Novation Agreement.

7. FINANCIAL INSTRUMENTS

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

As at June 30, 2016	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	18,851	-	-	-	18,851
Accounts receivable	-	254,467	-	-	254,467
Other non-financial assets	-	-	-	228,557	228,557
Total assets	18,851	254,467	-	228,557	501,875
Bank overdraft	25,045	-	-	-	25,045
Accounts payable and accrued liabilities	-	-	236,898	-	236,898
Other financial liabilities	2,692	-	149,993	-	152,685
Other non-financial liabilities	-	-	-	54,386	54,386
Total liabilities	27,737	-	386,891	54,386	469,014

As at December 31, 2015	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non- financial	Total carrying amount
Cash and cash equivalents	7,978	-	-	-	7,978
Accounts receivable	-	266,285	-	-	266,285
Other non-financial assets	-	-	-	226,387	226,387
Total assets	7,978	266,285	-	226,387	500,650
Bank overdraft	33,195	-	-	-	33,195
Accounts payable and accrued liabilities	-	-	254,168	-	254,168
Other financial liabilities	1,987	-	121,386	-	123,373
Other non-financial liabilities	-	-	-	50,894	50,894
Total liabilities	35,182	-	375,554	50,894	461,630

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Notes to the unaudited interim condensed consolidated financial statements

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

Fair values

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

The following table presents information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the guidance hierarchy in which the fair value measurements fall as at June 30, 2016 and December 31, 2015:

Fair value as at June 30, 2016				
Description	Level 1	Level 2	Level 3	Total
Interest rate swap	-	2,692	-	2,692
	-	2,692	-	2,692

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

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

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

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****Three and six month periods ended June 30, 2016 and 2015***(unless otherwise noted, all amounts are in thousands of U.S. dollars)***8. SHARE CAPITAL**

As at June 30, 2016, the issued share capital amounted to \$88,150. An unlimited number of both common and preferred shares, with no par value, are authorized for issuance. The changes in issued share capital for the six-month period ended June 30, 2016 were as follows:

	Common Shares
	#
As at January 1, 2016	170,901,626
Share repurchases	(2,500,000)
Cancellation of shares	(180,000)
Exercise of broker compensation options	1,274,000
As at June 30, 2016	169,495,626

Note: Share amounts are not rounded

As at June 30, 2015, the issued share capital amounted to \$86,191. An unlimited number of both common and preferred shares, with no par value, were authorized for issuance. The changes in issued share capital for the six-month period ended June 30, 2015 were as follows:

	Series A Preferred	Common Shares
	#	#
As at January 1, 2015	60,163,380	107,623,246
Cancellation of shares	-	(67,500)
Exercise of broker compensation options	-	100,000
Preferred shares converted to common shares	(60,163,380)	60,163,380
As at June 30, 2015	-	167,819,126

Note: Share amounts are not rounded

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

Normal course issuer bid

On March 30, 2016, the Company obtained the approval of the TSX Venture Exchange to implement a Normal Course Issuer Bid ("NCIB") for its common shares. Under the NCIB, the Company may acquire up to approximately 5% of the Company's issued and outstanding common shares. Subject to renewal of the NCIB, the NCIB for the common shares of the Company will terminate on the earlier of March 31, 2017 and the date on which the Company has acquired the maximum number of common shares permitted under the NCIB. All common shares acquired under the NCIB will be acquired at the market price of the securities at the time of acquisition. The common shares so acquired will be cancelled. As at June 30, 2016, no common shares had been acquired under the NCIB.

Series A preferred shares

The holders of Series A Preferred Shares were entitled to receive, on a monthly basis, in cash, out of any funds legally available therefore, a fixed cumulative preferential dividend at the rate of 6% per annum, when declared by the Board of Directors. The holders of the Series A Preferred Shares were permitted to require the Company to redeem the Series A Preferred Shares for cash at a price per share that is equal to C\$0.48 following the completion of any transaction where the Company had raised C\$75,000 in capital. The Series A Preferred Shares carried an optional conversion right where each Series A Preferred Share could, at the option of the holders, be converted into one common share of the Company. The Series A Preferred Shares also carried a conversion right, whereby at any time after June 30, 2013, the Company was permitted to require the holders to convert the Series A Preferred Shares into common shares of the Company. On March 16, 2015, the Company converted all of the outstanding Series A Preferred Shares into common shares.

Income (loss) per share

Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the Company's basic income per share. Common share equivalents represent potentially dilutive stock options and warrants. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Income (loss) for the period - basic	(215)	2,663	(3,970)	444
Preferred share dividends declared	-	-	-	(461)
Income (loss) for the period - diluted	(215)	2,663	(3,970)	(905)
Weighted average number of common shares outstanding – basic	171,324,615	167,765,280	171,180,044	143,304,933
Effect of dilutive potential common shares	-	1,557,955	-	-
Weighted average number of common shares outstanding – diluted	171,324,615	169,323,235	171,180,044	143,304,933
Income (loss) per share				
Basic	\$0.00	\$0.02	\$(0.02)	\$(0.01)
Diluted	\$0.00	\$0.02	\$(0.02)	\$(0.01)

Note: Share and per share amounts are not rounded

For the three month period ended June 30, 2016 and the six month periods ended June 30, 2016 and 2015, the basic loss per share calculated amount is the same as the fully diluted loss per share amount as the effect of any outstanding options or warrants would be anti-dilutive as the amount available to common shareholders was a net loss.

Share repurchases

On June 15, 2016, the Company repurchased, and subsequently cancelled 2,500,000 of its common shares from a director at a price of C\$0.38 per share for a total cost of C\$950,000.

Warrants and options*Broker compensation options*

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

Subsequent to issue, broker options were not revalued. The options were re-classified to share capital when they were exercised or contributed capital, if expired and unexercised.

On March 11, 2013, PAC granted to its private placement agents non-transferable options to purchase up to an aggregate of 309,514 common shares at a price of C\$0.80 per share exercisable for a period

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****Three and six month periods ended June 30, 2016 and 2015***(unless otherwise noted, all amounts are in thousands of U.S. dollars)*

of two years. The relative fair value of the options were valued using the Black-Scholes option pricing model using the following fair value assumptions: dividend yield of 0%, volatility rate of 60%, expected life of two years and risk-free interest rate of 0.98%. The fair value allocated to the options was C\$83. On March 11, 2015, the options had not been exercised, and have expired accordingly.

In connection with the brokered private placement of debentures in 2011, PAC granted broker compensation options, entitling the agent to purchase 7% of the aggregate number of shares issuable on conversion of the debentures. Upon completion of the Qualifying Transaction on March 25, 2013, the agent was entitled to 7,455,000 broker compensation options at a price of C\$0.40 per share, expiring April 14, 2016. The fair value allocated to the options was \$3,000, which was recognized as an expense in fiscal 2011. On April 14, 2016, 2,931,000 broker compensation options expired.

A total of 4,524,000 broker compensation options were exercised as follows:

Date	# of Options Exercised	# of Shares Issued	Price per Share	Proceeds
May 19, 2015	100,000	100,000	C\$0.40	C\$40
September 18, 2015	300,000	300,000	C\$0.40	C\$120
September 28, 2015	400,000	400,000	C\$0.40	C\$160
October 16, 2015	500,000	500,000	C\$0.40	C\$200
October 22, 2015	700,000	700,000	C\$0.40	C\$280
November 27, 2015	450,000	450,000	C\$0.40	C\$180
December 8, 2015	800,000	800,000	C\$0.40	C\$320
February 22, 2016	300,000	300,000	C\$0.40	C\$120
March 28, 2016	400,000	400,000	C\$0.40	C\$160
April 1, 2016	300,000	300,000	C\$0.40	C\$120
April 14, 2016	274,000	274,000	C\$0.40	C\$110
Total Options Exercised	4,524,000	4,524,000		C\$1,810

Note: Share and per share amounts are not rounded

Cancellation of shares

Greg Gallagher, the Company's former CEO, was granted 750,000 shares, which were placed into escrow following the completion of the Qualifying Transaction as described in the Company's filing statement dated March 8, 2013. On July 3, 2013, the Company announced the resignation of Mr. Gallagher. Pursuant to the terms of Mr. Gallagher's service agreement, 40% (or 300,000) of the 750,000 shares previously granted had vested, and as such, 60% or 450,000 shares are required to be cancelled upon release from escrow. During 2014, the Company cancelled a total of 135,000 shares. The Company cancelled 67,500 common shares each on March 30, 2015 and September 28, 2015. On March 28, 2016, 180,000 shares were cancelled, satisfying the requirement to cancel 450,000 shares.

Pivot Technology Solutions, Inc.**Notes to the unaudited interim condensed consolidated financial statements****Three and six month periods ended June 30, 2016 and 2015***(unless otherwise noted, all amounts are in thousands of U.S. dollars)***Dividends declared and paid**

Series A Dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
January 13, 2015	January 26, 2015	February 3, 2015	C\$0.00407671	C\$245
February 11, 2015	February 23, 2015	March 4, 2015	C\$0.00368219	C\$221
March 6, 2015	March 15, 2015	April 3, 2015	C\$0.00197260	C\$115

Note: Per share amounts are not rounded

Common share dividends declared and paid were as follows:

Declaration Date	Record Date	Distribution Date	Per share amount	Total dividend
August 19, 2015	August 31, 2015	September 15, 2015	C\$0.0075	C\$1,259
November 20, 2015	December 2, 2015	December 15, 2015	C\$0.0075	C\$1,276
February 4, 2016	February 29, 2016	March 15, 2016	C\$0.0075	C\$1,284
May 4, 2016	May 31, 2016	June 15, 2016	C\$0.0100	C\$1,720

*Note: Per share amounts are not rounded***9. SHARE BASED PAYMENTS**

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

During the six month period ended June 30, 2016, the following equity-settled stock options were granted:

On June 21, 2016, 7,550,000 options were granted to directors, officers, employees and consultants of the Company with an exercise price of C\$0.40 and an exercise period of 10 years. 5,250,000 of the options vest in one third increments beginning on the grant date and annually for the following two years. The remaining 2,300,000 options vest over two years with half of the options vesting on the grant date and in equal increments annually thereafter. Conditions for vesting of the stock options require that those who receive the stock options continue to be employed by the Company

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or its subsidiaries from the grant date to the vesting date. The fair value of the common share options was C\$1,284 or C\$0.17 per option. As at June 30, 2016, the remaining weighted average contractual life of these stock option grants was 9.97 years.

On June 30, 2016, 400,000 options were granted to employees of the Company with an exercise price of C\$0.40 and an exercise period of 10 years. One third of the options vest immediately and the remainder vest annually in equal increments over the next two years. Conditions for vesting of the stock options require that those who receive the stock options continue to be employed by the Company or its subsidiaries from the grant date to the vesting date. The fair value of the common share options was C\$68 or C\$0.17 per option. As at June 30, 2016, the remaining weighted average contractual life of these stock option grants was 9.97 years.

A summary of the status of the Company's stock option plan as at June 30, 2016 and during the period then ended follow:

	Number of Options	Weighted Average Exercise Price
Options Outstanding at January 1, 2016	-	-
Options Granted	7,950,000	C\$0.40
Options Outstanding at June 30, 2016	7,950,000	C\$0.40
Options Exercisable at June 30, 2016	3,033,038	C\$0.40

Note: Share and per share amounts are not rounded

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

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

Total share based compensation expense recognized in the unaudited interim condensed consolidated statements of net and comprehensive income (loss) for the three and six month periods ended June 30, 2016 was \$406.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Current tax expense	3,131	2,384	1,089	783
Deferred tax benefit	(1,513)	(508)	(499)	(156)
	1,618	1,876	590	627

11. CHANGE IN FAIR VALUE OF LIABILITIES

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest rate swap	22	(41)	705	532
Fixed consideration	-	154	-	306
	22	113	705	838

12. CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Accounts receivable	(51,699)	(40,123)	11,803	3,505
Income taxes recoverable	2,892	2,053	(1,439)	(527)
Inventories	7,774	(9,417)	(1,750)	(20,125)
Other assets	(8,396)	2,483	(7,943)	1,253
Accounts payable and accrued liabilities	32,590	37,000	(8,019)	27,252
Other liabilities	1,805	(476)	2,972	(1,103)
	(15,034)	(8,480)	(4,376)	10,255

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest paid	1,021	1,505	1,915	3,162
Income taxes paid	96	265	2,574	1,325

13. RELATED PARTY DISCLOSURES

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Old ACS to its third-party customers, and thus the Company is the principal and Old ACS is the agent of the Company with respect to such sales. The Company recognizes this revenue on a gross basis. Total gross sales through the agent were approximately \$27,838 and \$23,008 for the three months ended June 30, 2016 and 2015, respectively. Total gross sales through the agent were approximately \$63,955 and \$40,697 for the six months ended June 30, 2016 and 2015, respectively. Amounts due from Old ACS totalled \$31,641 and \$29,691 as at June 30, 2016 and 2015, respectively.

The Company has similar contractual arrangements with Old ARC where the Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Old ARC to its third-party customers. The Company received notification from Old ARC that it wished to terminate the existing arrangement effective August 31, 2016. Until the termination date of the contractual arrangements, the Company is considered to be the principal, while Old ARC is considered an agent of the Company with respect to such sales. Total gross sales through the agent were approximately \$23,095 and \$30,819 for the three months ended June 30, 2016 and 2015, respectively. Total gross sales through the agent were approximately \$47,225 and \$55,798 for the six months ended June 30, 2016 and 2015, respectively. Amounts due from Old ARC were \$6,991 and \$19,873 as at June 30, 2016 and 2015, respectively. *(See note 4).*

The Company has certain contractual arrangements with ProSys Information Systems, Inc., ("Old ProSys"), an associate of the Company, where the Company is deemed to have primary exposure for the significant risks and rewards associated with sales by Old ProSys to its third-party customers. As such, the Company is considered to be the principal, while Old ProSys is considered an agent of the Company with respect to such sales. Total gross sales through the agent were approximately \$71,168 and \$59,498 for the three months ended June 30, 2016 and 2015, respectively. Total gross sales through the agent were approximately \$127,149 and \$102,717 for the six months ended June 30, 2016 and 2015, respectively. Amounts due from Old ProSys were \$27,936 and \$37,864 as at June 30, 2016 and 2015, respectively.

The contractual arrangements with Old ACS, Old ARC and Old ProSys as described above accounted for 32.7% and 31.7% of the overall Pivot revenues for the three months ended June 30, 2016 and 2015, respectively, and 33.7% and 30.4% for the six months ended June 30, 2016 and 2015, respectively. The contractual arrangements with Old ACS and Old ARC may be terminated by either party on notice to the other.

A former key member of ACS (US) Inc., ("ACS"), a subsidiary of the Company had significant influence over Old ACS, resulting in a related party relationship until March 31, 2016. In addition to the asset purchase agreement with Applied Computer Solutions ("Old ACS"), ACS 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

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the Company to performing certain administrative functions on behalf of Old ACS. The total amount charged to Old ACS for shared administrative services in 2016 through the termination of the related party relationship was \$395 for the three months ended March 31, 2016. The total amount charged to Old ACS for shared administrative services was \$658 and \$1,441, for six months ended June 30, 2015. The license agreement permits Old ACS to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. The total amount charged for licensing fees was \$575 for the three months ended June 30, 2016, and \$575 and \$1,150 for the three and six months ended June 30, 2015.

ACS leases two of its offices from a related entity controlled by a former key member of its management team. The Company is obligated for repairs, maintenance, insurance and property tax on these leases. Rents paid on these leases through the termination of the related party relationship were \$407 for the three months ended March 31, 2016. Rents paid on these leases were \$385 and \$687 for the six months ended June 30, 2015.

ACS incurred expenses for the use of aircraft owned by a related entity controlled by a former key member of that subsidiary's management team through the termination of the related party relationship on March 31, 2016. Amounts paid were nil for the three months ended March 31, 2016, and nil and \$20 in for the three and six months ended June 30, 2015.

A subsidiary of the Company incurred \$512 and \$306 for the three-month periods ended June 30, 2016 and 2015, respectively, and \$1,025 and \$806 for the six-month periods ended June 30, 2016 and 2015, respectively, for research and development provided by a related entity where the subsidiary's president has significant influence. Amounts payable were \$220 and nil as at June 30, 2016 and 2015, respectively.

A subsidiary of the Company incurred \$32 and \$92 during the three months ended June 30, 2016 and 2015, respectively, and \$96 and \$92 during the six months ended June 30, 2016 and 2015, respectively, for sales and marketing support provided by a related entity during which time a former Company director had significant influence until May 25, 2016. The amount payable at June 30, 2015 was \$61. Nil was owed on May 25, 2016, the last day of the related party relationship.

The following table sets out the compensation of the Company's directors and officers:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Compensation	1,033	574	1,471	1,013
Share-based compensation	144	-	144	-
Termination benefits	105	-	105	-
Short-term employee benefits	15	9	24	18
	1,297	583	1,744	1,031