Condensed interim consolidated financial statements

Converge Technology Solutions Corp.

For the three months ended March 31, 2020 and 2019
(Unaudited)

Converge Technology Solutions Corp.

Condensed Interim Consolidated Statements of Financial Position
(expressed in thousands of Canadian dollars, except share amounts)
(unaudited)

	Note	March 31, 2020	December 31, 2019
Assets			
Current assets			
Cash		**$ 26,749**	$ 20,590
Restricted cash	5	**8,145**	7,848
Trade and other receivables		**251,585**	220,138
Inventories		**45,393**	23,376
Prepaid expenses and other assets		**13,483**	15,232
		345,355	287,184
Long-term assets			
Property, equipment, and right-of-use assets, net		**27,494**	27,428
Intangible assets, net		**101,035**	92,047
Goodwill		**97,382**	80,271
Other non-current assets		**1,940**	1,954
		$ 573,206	$ 488,884
Liabilities			
Current liabilities			
Trade and other payables		**$ 314,964**	$ 248,218
Borrowings	5	**137,971**	142,123
Other financial liabilities	9	**40,147**	35,734
Convertible debenture	7	**5,155**	5,114
Debentures	6	**3,807**	3,629
Deferred revenue and other liabilities		**15,456**	9,737
Income taxes payable		**409**	660
		517,909	445,215
Long-term liabilities			
Other financial liabilities	9	**33,787**	33,111
Borrowings	5	**18,779**	14,573
Deferred tax liability		**6,103**	5,862
		$ 576,578	$ 498,761
Shareholders' deficiency			
Common shares	8	**31,429**	20,612
Warrants	8	**6**	243
Contributed surplus		**307**	307
Exchange rights	4	**5,813**	6,773
Foreign exchange translation reserve		**(1,630)**	69
Deficit		**(39,297)**	(37,881)
		(3,372)	(9,877)
		$ 573,206	$ 488,884

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

On behalf of the Board:

"Signed"	*"Signed"*
Director - Shaun Maine	Director - Brian Phillips

Converge Technology Solutions Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(expressed in thousands of Canadian dollars, except share amounts)
(unaudited)

For the three months ended March 31,	Note		2020		2019
Revenues		$	**241,525**	$	170,601
Cost of sales			**186,690**		133,394
Gross profit			**54,835**		37,207
Selling, general and administrative expenses			**46,741**		29,646
Income before the following			**8,094**		7,561
Depreciation and amortization			**5,401**		2,608
Finance expense, net	5,9		**5,499**		3,381
Transaction costs			**402**		3,178
Other expenses (income)			**(1,619)**		234
Loss before income taxes			**(1,589)**		(1,840)
Income tax expense (recovery)			**(173)**		1,055
Net loss		$	**(1,416)**	$	(2,895)
Other comprehensive loss					
Exchange loss on translation of foreign operations			**1,699**		33
			1,699		33
Comprehensive loss		$	**(3,115)**	$	(2,928)
Net loss per share - basic		$	**(0.02)**	$	(0.04)
Net loss per share - diluted		$	**(0.02)**	$	(0.04)
Weighted average number of shares outstanding - basic (in 000's)			**87,409**		75,731
Weighted average number of shares outstanding - diluted (in 000's)			**87,409**		75,731

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Converge Technology Solutions Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
(expressed in thousands of Canadian dollars, except share amounts)
(unaudited)

	Notes	Common shares		Warrants		Contributed surplus	Exchange rights	Foreign exchange transaction reserve	Deficit	Total
		#	$	#	$	$	$	$	$	$
Balance, December 31, 2018		**75,683,159**	**17,826**	**7,908,365**	**493**	319	**-**	**(715)**	**(22,427)**	**(4,504)**
Broker warrants exercised		12,500	6	(12,500)	(5)	-	-	-	-	1
Shares issued from treasury		160,000	102	-	-	-	-	-	-	102
Expiry of the right to repurchase shares		-	244	-	-	-	-	-	-	244
Issuance of exchange rights	4	-	-	-	-	-	5,120	-	-	5,120
Net loss and comprehensive loss		-	-	-	-	-	-	(33)	(2,895)	(2,928)
Balance, March 31, 2019		**75,855,659**	**18,178**	**7,895,865**	**488**	**319**	**5,120**	**(748)**	**(25,322)**	**(1,965)**
Balance, December 31, 2019		**81,257,474**	**20,612**	**4,040,925**	**243**	**307**	**6,773**	**69**	**(37,881)**	**(9,877)**
Warrants exercised	8	3,991,030	2,563	(3,948,055)	(237)	-	-	-	-	2,326
Exercise of exchange rights	4	1,500,000	960	-	-	-	(960)	-	-	-
Shares issued from treasury for public offering	8	6,361,315	7,294	-	-	-	-	-	-	7,294
Share repurchase commitment under normal course issuer bid	8	(964,500)	-	-	-	-	-	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	-	(1,699)	(1,416)	(3,115)
Balance, March 31, 2020		**92,145,319**	**31,429**	**92,870**	**6**	**307**	**5,813**	**(1,630)**	**(39,297)**	**(3,372)**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Converge Technology Solutions Corp.

Condensed Interim Consolidated Statements of Cash Flows
(expressed in thousands of Canadian dollars, except share amounts)
(unaudited)

For the three months ended March 31,	Notes	2020	2019
Cash flows from (used in) operating activities			
Net loss		**$ (1,416)**	$ (2,895)
Adjustments to reconcile net loss to net cash from operating activities			
Depreciation and amortization		**6,779**	3,471
Finance expense, net	5,9	**5,499**	3,381
Income tax expense (recovery)		**(173)**	1,055
		10,689	5,012
Changes in non-cash working capital items			
Trade and other receivables		**(7,403)**	(10,816)
Inventories		**(19,735)**	(3,025)
Prepaid expenses and other assets		**3,115**	651
Trade and other payables		**38,926**	4,638
Other financial liabilities		**246**	-
Deferred revenue and customer deposits		**4,234**	3,175
Cash from (used in) operating activities		**30,072**	(365)
Cash flows used in investing activities			
Purchase of property and equipment		**(356)**	(1,175)
Proceeds on disposal of property and equipment		**-**	128
Repayment of contingent consideration		**-**	(9,742)
Repayment of deferred consideration	9	**(4,117)**	-
Business combinations, net of cash acquired	4	**(6,699)**	(14,476)
Cash used in investing activities		**(11,172)**	(25,265)
Cash flows from (used in) financing activities			
Transfers to restricted cash	5	**(250)**	(1,297)
Interest paid		**(4,432)**	(2,247)
Income tax installments paid		**(794)**	(517)
Payments of lease liabilities		**(2,527)**	(1,303)
Proceeds from issuance of common shares and warrants	8	**9,653**	103
Repurchase of common shares	8	**(1,246)**	**-**
Repayment of notes payable	9	**-**	(1,994)
Repayment of borrowings		**(284,606)**	(169,499)
Proceeds from borrowings		**272,214**	200,691
Cash from (used in) financing activities		**(11,988)**	23,937
Net change in cash during the period		**6,912**	(1,693)
Effect of foreign exchange on cash		**(753)**	257
Cash, beginning of period		**20,590**	10,482
Cash, end of period		**$ 26,749**	$ 9,046

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Notes to the condensed interim consolidated financial statements

(expressed in thousands of Canadian dollars, except share amounts)
(Unaudited)

For the three months ended March 31, 2020 and 2019

1. Nature of business

Converge Technology Solutions Corp. (the "Company" or "Converge") is a North American platform of regional-focused hybrid IT infrastructure firms in the United States of America ("US") and Canada, connecting services and solutions to clients.

The Company was incorporated on November 29, 2016. The Company's registered head office is located at 161 Bay Street, Suite 2325, Toronto, Ontario, M5J 2S1.

The Company has the following wholly owned subsidiaries as at March 31, 2020:

Corus Commercial Finance, LLC, Corus Group, LLC Corus Managed Services, LLC, Corus Careers, LLC OHC International, LLC, Corus 360 Limited	Lighthouse Computer Services, Inc., Acumetrics Business Intelligence Inc.
Northern Micro Inc.	10084182 Canada Inc. o/a Becker-Carroll
Key Information Systems, Inc.	BlueChip Tek, Inc.
Converge Acquisition, LLC	SIS Holding Company, LLC, Software Information Systems, LLC
Converge Canada Finance Corp.	Converge Technology Partners Inc.
Converge NE Commercial Finance, LLC	Converge West Commercial Finance, LLC
Nordisk Systems, Inc.	Essextec Acquisition, LLC, Essex Technology Group, Inc., Essex Commercial Finance LLC
Datatrend Technologies, Inc.	VSS Holdings, LLC, VSS, LLC, Information Insights, LLC
Solutions P.C.D. Inc, P.C.D. Consultation Inc.	

2. Basis of preparation

The unaudited condensed interim consolidated financial statements ("financial statements") were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2019, except as disclosed below. These condensed interim consolidated financial statements have been prepared in compliance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019. The comparative condensed interim consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the current condensed interim consolidated financial statements.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements, and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim consolidated financial statements.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19," has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 13, 2020.

3. New standards, amendments and interpretations

Amendments to IFRS 3, Business Combinations ("IFRS 3") – Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its condensed interim consolidated financial statements.

4. Business combinations

Essextec Acquisition, LLC and Datatrend Technologies, Inc.

As at March 31, 2020, the acquisition accounting for Essextec and Datatrend transactions have been finalized with no changes to the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition, as disclosed in the audited consolidated financial statements for the year ended December 31, 2019.

VSS Holdings, LLC

On November 1, 2019, the Company acquired all of the issued and outstanding Class A membership interests, which represents 100% control of VSS Holdings, LLC, a Nevada limited liability company and owner of all of the equity securities of VSS, LLC, a Virginia limited liability company and Information Insights, LLC, a Nevada limited liability company (collectively "VSS"). There were 60 Class B membership interests of VSS Holdings, LLC issued, which have no dividends or equity participation.

(expressed in thousands of Canadian dollars, except share amounts)

VSS is a leading technology solutions provider specializing in managed services, technology solutions, IT portfolio management and consulting services. The purpose of the acquisition was to enhance the Company's highly skilled team and to provide a platform to grow in the US with local expertise.

The acquisition of VSS qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of VSS have been included in the condensed interim consolidated financial statements of the Company from the date of the acquisition. The acquisition accounting for this transaction has not yet been finalized and requires the Company to complete its determination of the fair values of identifiable intangible assets.

The total consideration for the purchase of VSS was $33,977 ($25,815 USD). Purchase consideration consisted of $20,559 in cash, $3,422 in seller subordinated promissory note, $1,974 in three promissory notes, $4,982 in contingent consideration, $428 working capital adjustment, and $2,613 for the issuance of a right to exchange 2,930,000 Class B membership interests less 58,600 common shares issued as broker fees by the seller for an aggregate of 2,871,400 common shares of the Company. Under the terms of the agreement, no exchange will be permitted until at least six months from the acquisition date, at which point 717,850 common shares will become eligible for issuance pursuant to the agreement. An additional 717,850 common shares will become eligible for exchange on each six-month anniversary of the completion of the transaction thereafter, such that all 2,871,400 common shares will only be available for exchange following the two-year anniversary of the acquisition. The fair value of the exchange right consideration issued is $2,613 calculated as 2,871,400 common shares at $0.91 per share as at the date of acquisition.

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

	Fair value recognized on acquisition $
Cash	162
Trade and other receivables	18,051
Prepaid expenses and other assets	2,412
Property and equipment	2,807
Right-of-use asset	1,999
Customer relationships	15,271
Trade name	1,711
Goodwill	11,978
Trade and other payables	(15,956)
Deferred revenue	(1,612)
Short-terms loans	(847)
Lease liability	(1,999)
Purchase consideration transferred	**33,977**

Goodwill arising on the acquisition reflects the benefits attributable to synergies, revenue growth, future market development and the estimated fair value of an assembled workforce. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. This goodwill is not deductible for income tax purposes.

As part of consideration for the acquisition, VSS issued $3,422 ($2,600 USD) of promissory note. The promissory note bears interest at a rate of 7% per annum and is payable quarterly. The Company was required to fully repay the promissory note on January 31, 2020, which was fully repaid (December 31, 2019 - $3,377) (note 9).

As part of consideration for the acquisition, VSS issued three promissory notes of $500 USD each. The promissory notes bear interest at a rate of 7% per annum and are payable quarterly. The Company was required to repay each promissory note on January 30, 2020, April 29, 2020, and May 1, 2021. The first promissory note was fully repaid on January 31, 2020. The promissory note payable balance of $1,419 has been included in deferred consideration as of March 31, 2020 (December 31, 2019 - $1,948) (note 9).

Contingent consideration comprises earn-out payments due to sellers for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $4,982 as at the date of acquisition.

Total transaction costs for the acquisition of VSS were $1,268. All transaction costs were expensed as incurred.

PCD

On February 1, 2020, the Company acquired all of the issued and outstanding shares of PCD, a Montreal, Canada based partner focused on solutions in enterprise system architecture, storage and information management, virtualization and cloud, and business continuity and disaster recovery. The transaction will be accounted for as a business combination. Consideration for the purchase consisted of (i) $7,000 in cash; (ii) promissory notes in the total amount of $4,860 in favor of the sellers due over the three years following closing of the acquisition; and (iii) up to an aggregate of $4,500 in earn-out payments for the three years following closing of the acquisition based on the achievement of certain milestones.

PCD is a provider of consulting and integration services for Hybrid IT infrastructure environments in Quebec and the rest of Canada. PCD specializes in system architecture, infrastructure virtualization and protection mechanisms related to critical applications. PCD expands the Company's presence in Quebec and strengthens the Company's consulting and integrations services.

The acquisition of PCD qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of PCD have been included in the condensed interim consolidated financial statements of the Company from the date of the acquisition. The acquisition accounting for this transaction has not yet been finalized and the Company expects to complete its determination of the fair values of identifiable intangible assets and contingent consideration in 2020.

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

(expressed in thousands of Canadian dollars, except share amounts)

	Fair value recognized on acquisition **$**
Cash	301
Trade and other receivables	6,260
Inventories	42
Prepaid expenses and other assets	71
Property and equipment, net	139
Right-of-use asset, net	359
Intangible assets	5,225
Goodwill	10,268
Trade and other payables	(6,379)
Deferred revenue	(374)
Deferred tax liability	(1,393)
Lease liability	(359)
Purchase consideration transferred	**14,160**

Goodwill arising on the acquisition reflects the benefits attributable to synergies, revenue growth, future market development and the estimated fair value of an assembled workforce. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. This goodwill is not deductible for income tax purposes.

Total transaction costs for the acquisition of PCD were $307. All transaction costs were expensed as incurred.

Pro forma results of operations

The following pro forma results of operations assume PCD was acquired by the Company on January 1, 2020:

	For the three months ended March 31, 2020 $
Revenue	**7,048**
Net income (loss)	**(378)**

The pro forma results of operations are not intended to reflect the results that would have actually occurred had the acquisition closed on January 1, 2020. Further, the pro forma results of operations are not necessarily indicative of the results that may be generated by the Company in the future or reflect future events that may occur following the acquisition in a subsequent period or periods.

(expressed in thousands of Canadian dollars, except share amounts)

The net cash outflow related to the acquisition of PCD was as follows:

	$
Consideration paid in cash	**7,000**
Less: cash balance acquired	**301**
	6,699

5. Borrowings

The borrowings outstanding as at March 31, 2020 was as follows:

Facility	**Notes**	**March 31, 2020**	December 31, 2019
Canadian lender			
Corus Commercial Finance, LLC	5a, 5b	**18,053**	14,604
Northern Micro	5a, 5b	**7,558**	7,112
Converge West Commercial Finance, LLC	5a, 5b	**6,540**	7,221
Converge NE Commercial Finance, LLC	5a, 5b	**27,930**	19,375
Converge Canada Finance Corp.	5a, 5b	**47,447**	72,757
Essex Commercial Finance, LLC	5a, 5b	**3,736**	4,014
Other Borrowings	5b	**45,486**	31,613
Total		**156,750**	156,696
Current liabilities		**137,971**	142,123
Non-current liabilities		**18,779**	14,573
Total		**156,750**	156,696

a) The Company has entered into revolving credit agreements with a Canadian lender. These agreements, which are ABL facilities, provide lines of credit secured by the assets of the Company. The ABL facilities can be drawn to a certain percentage of the eligible trade receivables to a maximum of $160,000. Interest is payable monthly at rates that vary from the higher of 8.50% - 9.25% or the published TD Bank prime rate plus 5.3% - 5.8%, with an expansion rate of an additional 3% based on the advance rate of the trade receivables.

From time to time, the maximum amount of the ABL facilities may be increased to $170,000 at the discretion of the lender. As at March 31, 2020, the total balance owing to the lender under these facilities was $111,264 (December 31, 2019 – $125,083).

For all the revolving credit facilities with a Canadian lender, in addition to general security over all assets of the Company, the Company is required to deposit 5% of the facilities limit, into a cash reserve account controlled by the lender. The $8,145 (December 31, 2019 - $7,848) deposited into the cash reserve account has been classified as restricted cash in the condensed interim consolidated statements of financial position and was in excess of the minimum deposit requirement.

b) The Company has entered into various credit agreements with a third party, the details of which are disclosed below:

On May 18, 2018, the Company, entered into a three-year credit agreement with a third party. Under the agreement, monthly repayments of blended principal and interest of $194 USD are required. The lender advanced cash of $8,164 ($6,200 USD) with an interest rate of 7% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $4,041 (December 31, 2019 – $4,385).

On March 1, 2019, the Company entered into a three-year credit agreement with a third party, which was secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $124 USD are required. The lender advanced cash of $5,457 ($4,000 USD) with an interest rate of 7% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $4,019 (December 31, 2019 – $4,096).

On June 11, 2019, the Company entered into a two-year credit agreement with a third party, which is secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $453 USD are required. The lender advanced cash of $13,287 ($10,000 USD) with an interest rate of 8% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $9,320 (December 31, 2019 – $10,142).

On October 1, 2019, the Company entered into a two-year credit agreement with a third party, which is secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $228 USD are required. The lender advanced cash of $6,622 ($5,000 USD) with an interest rate of 8.5% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $5,497 (December 31, 2019 – $5,783).

On November 1, 2019, the Company acquired VSS. VSS had existing credit agreements with a third party, which are secured by certain customer contracts. The lender advanced cash of $4,245 USD with interest rates ranging from 4.5% to 5.5% per annum. The balance owing to the lender under the facility as at the acquisition date was $847. As at March 31, 2020, the balance owing to the lender under the facility is nil (December 31, 2019 – $836).

On November 15, 2019, the Company entered into a three-year credit agreement with a third party, which is secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $158 USD are required. The lender advanced cash of $6,616 ($5,000 USD) with an interest rate of 8.5% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $6,443 (December 31, 2019 – $6,371).

On February 1, 2020, the Company entered into a 46-month credit agreement with a third party, which is secured by certain customer contracts. Under the agreement, quarterly repayments of blended principal and interest of $138 USD are required. The lender advanced cash of $2,635 ($1,992 USD) with an interest rate of 8.5% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $2,635 (December 31, 2019 – nil).

On March 18, 2020, the Company entered into a credit agreement with a third party, which was secured by certain customer contracts. Under the agreement, the first tranche with a three-year term requires monthly repayments of blended principal and interest of $190 USD. The lender advanced cash of $8,505 ($6,000 USD) with an interest rate of 8.5% per annum. The second tranche with a one-year term requires monthly repayments of blended principal and interest of $350 USD. The lender advanced cash of $5,670 ($4,000 USD) with an interest rate of 8.5% per annum. As at March 31, 2020, the balance owing to the lender under the facility is $13,531 (December 31, 2019 – nil).

The consolidated interest expense for all borrowings for the three months ended March 31, 2020 was $4,220 (three months ended March 31, 2019 - $2,991).

6. Debentures

On September 30, 2017 (“Closing Date”), the Company issued 3,896,450 unsecured debentures with face value of $3,896 and 3,896,450 common shares for total cash proceeds of $3,896 cash and the issuance of 60,323 common share warrants to the brokers. On November 7, 2018, 3,896,450 additional common shares were issued to holders who elected not to exercise their redemption rights upon a liquidity event not completed at a stipulated valuation. Debentures bear an interest rate of 12% per annum and interest is payable quarterly in arrears within 10 days of each quarter end. The debentures have a maturity date of September 2020 and can be extended to September 2021 at the option of the Company. If the maturity date is extended to September 2021, the interest rate for the extension term will be increased to 18% per annum.

The Company recognized an interest and accretion expense of $295 during the three months ended March 31, 2020 (three months ended March 31, 2019 - $189) with a corresponding increase in the carrying value of the debentures using the effective interest rate method.

7. Convertible debenture

On October 30, 2018, the Company issued a $5,250 principal amount secured convertible debenture due October 30, 2020 and bearing interest at 8% per annum to a third party. The principal amount of the debenture is convertible into common shares at a conversion price of $1.00 per common share. Pursuant the terms of the debenture, on October 30, 2018, the Company loaned $5,250 to another third-party borrower, which was payable on demand by the Company and earned interest of 10% per annum. On October 1, 2019, the loan was set-off against the Company’s purchase consideration upon acquisition of Essextec from the third-party borrower.

The Company calculated the fair value of the liability portion of the convertible debenture, using a discount rate of 11.75% with the difference between the fair value and the proceeds being ascribed to the conversion feature. The fair value of the liability portion was calculated to be $4,943, resulting in $307 being allocated to the conversion feature, which was recognized in contributed surplus. Interest and accretion expense of $79 was recognized during the three months ended March 31, 2020 (three months ended March 31, 2019 – $140) with a corresponding increase in convertible debenture using the effective interest rate method.

8. Share capital

a) Authorized

The authorized share capital of the Company consists of an unlimited number of Class A common shares (“common shares”), Class B common shares and preference shares. No Class B common shares and preference shares have been issued as at March 31, 2020 and December 31, 2019.

b) Share Repurchase

On December 10, 2019 the TSX Venture Exchange ("TSXV") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may purchase for cancellation through the facilities of the TSXV and/or permitted alternative trading systems, from time to time, up to an aggregate of 4,025,120 of its issued and outstanding Common Shares, being 5% of the issued and outstanding Common Shares as at December 3, 2019. The program commenced on December 16, 2019 and will remain in effect until the earlier of (i) December 16, 2020, (ii) the date upon which the Company acquires the maximum number of Common Shares permitted under the NCIB, or (iii) the date upon which the Company provides written notice of the termination of the NCIB to the TSXV. On December 16, 2019, the Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker that allows the purchase of Common Shares for cancellation under the NCIB at any time during predetermined trading blackout periods. During the three months ended March 31, 2020, 1,066,500 common shares have been repurchased for cancellation for an aggregate purchase price of $1,246 under the NCIB, of which 964,500 common shares have been cancelled as at March 31, 2020 (three months ended March 31, 2019 – nil). As at March 31, 2020, an obligation for the repurchase of shares of $4,389 was recognized under the ASPP (December 31, 2019 - $5,635).

Subsequent Event

As at May 12, 2020, 1,457,800 common shares have been repurchased for cancellation for an aggregate purchase price of $1,693 under the NCIB.

c) Warrants

During the three months ended March 31, 2020, purchase warrants of 3,861,555 have been exercised and 70,875 broker warrants have been exercised for total proceeds of $2,326. As at March 31, 2020, 92,870 broker warrants remain to be exercised and no unexercised purchase warrants remain outstanding.

During the period ended March 31, 2020, 58,600 common shares were issued as broker commissions for the acquisition of VSS.

d) Public Offering

On February 20, 2020, the Company closed an underwritten public offering (the “Offering”) of 5,769,231 common shares of the Company (the “Offered Shares”) at a price to the public of $1.30 per share for gross proceeds to the Company of $7,500, before deducting the underwriters’ fees and estimated offering expenses. The Company also granted the underwriters an option, exercisable at any time, in whole or in part, until the date that is 30 days following closing to purchase, at the offering price, 865,384 additional common shares to cover over-allotments and for market stabilization purposes. On March 3, 2020, the underwriters exercised their over-allotment option to purchase an additional 592,084 common shares of the Company at a price of $1.30 per share, for additional gross proceeds to the Company of $770. As a result, the total gross proceeds of the Offering were $8,270 before transaction related costs of $976, which were recorded in the condensed interim consolidated statements of changes in shareholders’ deficiency.

(expressed in thousands of Canadian dollars, except share amounts)

9. Other financial liabilities

Other financial liabilities as at March 31, 2020 and December 31, 2019 comprise of the following:

	March 31, 2020	December 31, 2019
	$	$
Notes payable	**9,168**	8,595
Deferred consideration	**23,036**	21,189
Contingent consideration	**17,580**	13,826
NCIB Liability (note 8)	**4,389**	5,635
Lease liability	**19,761**	19,600
	73,934	68,845
Current liabilities	**40,147**	35,734
Non-current liabilities	**33,787**	33,111
	73,934	68,845

Notes payable

As part of the consideration to acquire Northern Micro, the Company issued $6,000 of notes. The notes bear interest at a rate of 8% per annum and are payable quarterly. The Company was required to make partial repayments of $1,500 on or before May 9, 2018, and $1,500 on or before November 9, 2018. The remaining $3,000 is due on November 9, 2020. As general and continuing security for the notes and contingent consideration, the Company has pledged all the equity instruments of Northern Micro to the sellers.

During the three months ended March 31, 2020, the Company recognized interest expense of $60 (three months ended March 31, 2019 - $59).

As at March 31, 2020, Lighthouse had notes payable to third parties for the purchase of equipment in aggregate of $69 (December 31, 2019 – nil).

As at March 31, 2020, SIS had three notes payable to third party for the purchase of equipment in aggregate of $1,198 (December 31, 2019 – $1,177). Interest on the notes payable range from 1.58% to 5.57% per annum and maturity dates are May 21, 2021, November 1, 2021, and March 16, 2024.

As at March 31, 2020, Essextec had a line of credit of $2,241 bearing a variable interest rate of 3.25% and $2,660 in notes payable to a third party due September 30, 2022 with an interest rate of 10% per annum payable quarterly, which existed prior to the acquisition by the Company (December 31, 2019 – line of credit of $2,047 and notes payable of $2,371).

Deferred consideration – Northern Micro

Deferred consideration comprises of earn-out payments due to sellers of Northern Micro for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $4,446 as at the date of acquisition.

On November 22, 2019, Northern Micro had attained the three year maximum EBITDA conditions and the Company amended the share purchase agreement to guarantee the second year payment of $3,750 by January 10, 2020 and third year payment of $1,500 by January 8, 2021. The payments can be further extended for a period of up to six months with interest payable monthly at an annual rate of 8%. As at March 31, 2020, the remaining deferred consideration was $5,518 (December 31, 2019 - $5,518). Interest expense of $50 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

Deferred consideration – Nordisk

As part of the consideration to acquire Nordisk, deferred consideration of $2,837 ($2,000 USD) is payable to the selling shareholders of Nordisk (December 31, 2019 – $2,598). The promissory note bears interest at a rate of 8% per annum payable quarterly. The Company is required to make partial repayments of $1,000 USD on December 31, 2021 and $1,000 USD on September 30, 2022. Interest expense of $56 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

Deferred consideration – Datatrend

As part of the consideration for the acquisition, Datatrend issued a $3,310 ($2,500 USD) promissory note. The promissory note bears interest at a rate of 7% per annum and is payable quarterly. The Company is required to fully repay the promissory note on September 30, 2022. The promissory note payable balance as at March 31, 2020 was $3,547 (December 31, 2019 – $3,049) (note 4). Interest expense of $60 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

As part of the consideration for the acquisition, Datatrend issued a $4,790 ($3,618 USD) working capital promissory note. The promissory note bears interest at a rate of 5.25% per annum and is payable quarterly. The Company is required to fully repay the promissory note on October 1, 2020. The promissory note payable balance as at March 31, 2020 was $4,855 (December 31, 2019 – $4,699) (note 4). Interest expense of $65 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

Deferred consideration – VSS

As part of the consideration for the acquisition, VSS issued a $3,422 ($2,600 USD) promissory note. The promissory note bears interest at a rate of 7% per annum and is payable quarterly. The Company was required to repay the promissory note on January 31, 2020, which was fully repaid (December 31, 2019 – $3,377) (note 4). Interest expense of $20 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

As part of the consideration for the acquisition, VSS issued three promissory notes of $500 USD each. The promissory notes bear interest at a rate of 7% per annum and are payable quarterly. The Company was required to repay each promissory note on January 30, 2020, April 29, 2020, and May 1, 2021. The first promissory note was fully repaid on January 31, 2020. The promissory note payable balance of $1,419 has been included in deferred consideration as of March 31, 2020 (December 31, 2019 - $1,948) (note 4). Interest expense of $3 was recognized for the three months ended March 31, 2020 (three months ended March 31, 2019 - nil).

Deferred consideration – PCD

As part of the consideration for the acquisition, PCD issued a $4,860 promissory note. The promissory note bears interest at a rate of 3.7% per annum and is payable quarterly. The Company is required to repay $1,620 of the promissory note on February 6, 2021, February 6, 2022, and February 6, 2023. The promissory note payable balance as at March 31, 2020 was $4,860 (December 31, 2019 – nil) (note 4).

Contingent consideration – KeyInfo

Contingent consideration is comprised of earn-out payments due to sellers of KeyInfo for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $1,848 as at the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 27.5% and a volatility factor of 45%.

As at March 31, 2020, the fair value of contingent consideration was nil (December 31, 2019 – nil) with reversal of $841 recognized in the condensed interim consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 (for the three months ended March 31, 2019 – nil).

As part of the purchase consideration for the acquisition of KeyInfo, the Company entered into a post-closing employee retention bonus agreement, which was paid on March 1, 2019 to employees of KeyInfo. The total bonus payments were $7,242 ($5,500 USD). The Company has recognized in the condensed interim consolidated statements of operations and comprehensive loss $1,246 for the three months ended March 31, 2019.

Contingent consideration – BlueChip Tek

Contingent consideration is comprised of earn-out payments due to key employees of BCT for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 25.1% and a volatility factor of 45.0%.

The contingent consideration of nil was recognized in the condensed interim consolidated statements of operations and comprehensive loss for the three months ended March 31, 2020 (three months ended March 31, 2019 – nil). An employee retention bonus of $214 was expensed for the three months ended March 31, 2020 (three months ended March 31, 2019 - $166). As at March 31, 2020, $616 remains as the fair value of the contingent consideration (December 31, 2019 - $401).

Contingent consideration – Lighthouse

Contingent consideration is comprised of earn-out payments due to key employees of Lighthouse for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on a Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 18.0% and a volatility factor of 30.0%. As at March 31, 2020, the fair value of contingent consideration was $9,294 (December 31, 2019 - $8,509).

Contingent consideration – VSS

Contingent consideration is comprised of earn-out payments due to sellers of VSS for meeting certain EBITDA conditions over the three years following the date of acquisition (see note 4). The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on a Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 12.2% and a volatility factor of 25.0%. As at March 31, 2020, the fair value of contingent consideration was $5,370 (December 31, 2019 - $4,916).

Contingent consideration – PCD

Contingent consideration is comprised of earn-out payments due to sellers of PCD for meeting certain EBITDA conditions over the three years following the date of acquisition (see note 4). The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on a Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 15.5% and a volatility factor of 40.0%. As at March 31, 2020, the fair value of contingent consideration was $2,300 (December 31, 2019 - nil).

10. Financial instruments and risk management

Financial instruments recorded at fair value on the condensed interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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 fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. When the fair value of financial assets and financial liabilities, including contingent consideration, recorded in the condensed interim consolidated statements of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

There have been no transfers between any levels of the fair value hierarchy during the three months ended March 31, 2020 or during fiscal 2019. There were also no changes in the purpose of any financial liability that subsequently resulted in a different classification of that liability.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

In the preparation of interim financial statements, management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, 12 months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The Company's objective in managing liquidity risk is to ensure that there are sufficient committed borrowings in order to meet its liquidity requirements. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its borrowing capacity. The Company's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the availability under the Company's borrowings, the Company's ability to renew its borrowings and its ability to generate positive cash flows from operating activities. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses, if the Company experiences a significant decrease in revenue or if the Company's borrowings are called, it may be required to seek additional capital in the form of debt or equity or a combination of both. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

(expressed in thousands of Canadian dollars, except share amounts)

11. Segmented information

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. The following table presents details on revenue derived for the three month periods ended March 31, 2020 and 2019 from the following geographical locations:

March 31, 2020	**United States**	**Canada**	**Total**
	$	**$**	**$**
Product revenue	**144,740**	**44,907**	**189,647**
Service revenue	**47,865**	**3,024**	**50,889**
Other revenue	**947**	**42**	**989**
Total revenue	**193,552**	**47,973**	**241,525**
Cost of sales	**146,806**	**39,884**	**186,690**
Gross profit	**46,746**	**8,089**	**54,835**
Selling, general and administrative expenses	**40,817**	**5,924**	**46,741**
Income before the following	**5,929**	**2,165**	**8,094**
Depreciation and amortization			**5,401**
Finance expense, net			**5,499**
Transaction costs			**402**
Other income			**(1,619)**
Loss before income taxes			**(1,589)**

(expressed in thousands of Canadian dollars, except share amounts)

March 31, 2019	**United States**	**Canada**	**Total**
	$	**$**	**$**
Product revenue	78,024	56,405	134,429
Service revenue	34,372	1,379	35,751
Other revenue	421	-	421
Total revenue	112,817	57,784	170,601
Cost of sales	83,839	49,555	133,394
Gross profit	28,978	8,229	37,207
Selling, general and administrative expenses	23,727	5,919	29,646
Income before the following	5,251	2,310	7,561
Depreciation and amortization			2,608
Finance expense, net			3,381
Transaction costs			3,178
Other expense			234
Loss before income taxes			(1,840)

March 31, 2020	**Property and equipment**	**Intangible assets**	**Goodwill**	**Total**
	$	**$**	**$**	**$**
United States	**25,717**	**84,930**	**80,975**	**191,622**
Canada	**1,777**	**16,105**	**16,407**	**34,289**
	27,494	**101,035**	**97,382**	**225,911**

December 31, 2019	Property and equipment	Intangible assets	Goodwill	Total
	$	$	$	$
United States	25,651	80,810	74,132	180,593
Canada	1,777	11,237	6,139	19,153
	27,428	92,047	80,271	199,746

12. Contingencies

On July 2, 2019, SIS was served with a statement of claim by a vendor alleging breach of contract and breach of good faith and fair dealing. The amount claimed is $2,400 USD plus costs and the Company believes the claim is without merit.

On December 4, 2019, Key was served with a letter from the Los Angeles City Attorney's Office regarding an investigation into certain transactions relating to goods and services provided by or through Key to the City's Department of Building and Safety from the time period January 2012 to November 2017, prior to its indirect acquisition by the Company. The Company is in the preliminary stages of evaluating the City's allegations and believes there would be no material impact on the Company.