# Converge Technology Solutions Corp.

Management Discussion and Analysis

For the three and six months ended June 30, 2020 and 2019

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# Management Discussion and Analysis

(expressed in thousands of Canadian dollars)

## General Information

The following management discussion and analysis ("MD&A") of the financial condition, changes in financial condition and results of operations of Converge Technology Solutions Corp. (formerly Norwick Capital Corp.) (the "Company" or "Converge") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months ended June 30, 2020 and 2019. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes thereto for the three and six months ended June 30, 2020, as well as the Company's audited annual consolidated financial statements and accompanying notes thereto for the year ended December 31, 2019 and annual MD&A for the year ended December 31, 2019.

The condensed interim consolidated financial statements have been prepared in accordance with the requirements of IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). The condensed interim consolidated financial statements can be found at **www.sedar.com** and **www.convergetp.com**.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A is dated as at August 10, 2020 and was approved by the Board of Directors on that date. Results are reported in thousands of Canadian dollars unless otherwise stated.

The Company was incorporated under the provisions of the *Business Corporations Act* (British Columbia) on January 4, 2018 under the name "Norwick Capital Corp." and on November 7, 2018, the Company's name was changed to "Converge Technology Solutions Corp." The Company's head office is located at 161 Bay Street Suite 2325, Toronto, ON M5J 2S1.

## About Forward-Looking Information

Certain information and statements within the MD&A and documents incorporated by reference may constitute "forward-looking information" (as defined in applicable Canadian securities legislation) which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which the Company operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or expansion and growth achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized above under the heading "Risks and Uncertainties". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

## Non-IFRS Financial Measures

This MD&A refers to certain performance indicators including EBITDA and Adjusted EBITDA that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management believes that these measures are useful to most shareholders, creditors and other stakeholders in analyzing the Company's results. These non-IFRS financial measures should not be considered as an alternative to the consolidated income (loss) or any other measure of performance under IFRS. See section "Non-IFRS Financial Measures".

## Overview of the Business

Converge is a North American platform of regionally focused IT solution providers ("ITSP") in the United States of America ("US") and Canada connecting best of breed services and solutions to clients. Converge provides high quality hardware, software, and managed services solutions to corporate and government institutions.

Companies increasingly rely on the expertise and experience of an IT solutions provider to design their IT infrastructure and to procure and integrate the appropriate hardware and software for an integrated IT solution. This trend is largely driven by limited in-house capacity, higher costs and challenges related to internal development, deployment and maintenance of complex and rapidly changing IT infrastructure. Furthermore, clients are increasingly looking to consolidate their vendors and minimize the number of providers they interact with for their IT needs. Companies are looking for providers who offer a broad portfolio of end-to-end capabilities including next generation technologies and new delivery models. Converge offers an extensive range of products, services and solutions to meet these needs.

With significant increases in the amount of information and the abundance of data in today's market environment, companies are increasingly demanding a more agile, responsive technology infrastructure system that helps meet their strategic business objectives. These needs are increasingly under pressure with the desire to create virtual environments that can further leverage this growing dataset, including cloud computing. Cloud computing heavily leverages resource pools in a variety of different technologies – storage and networking, virtualization and the data center. Converge believes that these technologies are not only central aspects of a company's IT strategy, but also central to a company's broader business strategy.

(expressed in thousands of Canadian dollars)

As a buyer of Information Technology Service Providers ("ITSPs"), Converge tends to seek out sellers that have digital transformation, cloud, compliance, security, vertical market and regional expertise. With a focus on these areas, Converge believes it is well positioned to become a solutions leader within these segments.

The following table presents further details on the acquired subsidiaries of Converge:

| Company | Location | Ownership percentage |
|---|---|---|
| Northern Micro Inc. ("Northern Micro") | Ottawa, ON | 100% |
| Corus Group, LLC ("Corus360") | Atlanta, GA | 100% |
| BlueChip Tek, Inc. ("BCT") | Santa Clara, CA | 100% |
| Key Information Systems, Inc. ("KeyInfo") | Agoura Hills, CA | 100% |
| 10084182 Canada Inc. o/a Becker-Carroll ("Becker-Carroll") | Ottawa, ON | 100% |
| Lighthouse Computer Services, Inc., Creative Computing LLC, Lighthouse Middleware, LLC, Acumetrics Business Intelligence Inc. ("Lighthouse") | Providence, RI | 100% |
| SIS Holding Company, LLC, Software Information Systems, LLC ("SIS") | Lexington, KY | 100% (1) |
| Nordisk Systems, Inc. ("Nordisk") | Portland, OR | 100% |
| Essextec Acquisition, LLC, Essex Technology Group, Inc., Essex Commercial Finance LLC ("Essextec") | New York, NY | 100% |
| Datatrend Technologies, Inc. ("Datatrend") | Minneapolis, MN | 100% |
| VSS Holdings, LLC, VSS, LLC, Information Insights, LLC ("VSS") | Madison, MS | 100% (2) |
| Solutions P.C.D. Inc, P.C.D. Consultation Inc. ("PCD") | Montreal, QC | 100% |

Notes:

(1) The Company indirectly holds all of the issued and outstanding Class A membership units of SIS, which represent 100% of the economic and voting interests in SIS. As of the date of this MD&A, there are also 5,000,000 Class B membership units of SIS (which have no right to economic or voting participation in SIS) issued and outstanding, held by the vendors of SIS and exchangeable into common shares of the Company.

(2) The Company indirectly holds all of the issued and outstanding Class A membership units of VSS, which represents 100% of the economic interests in VSS. As of the date of this MD&A, there are also 60 Class B membership units of VSS (which have no right to economic participation in VSS) issued and outstanding, held by the vendors of VSS and exchangeable into common shares of the Company

## Strategy

*Identify and Acquire.* Converge's strategy is to identify and acquire ITSPs that offer a multi-vendor technology solution for clients. Selecting the right companies for acquisition is essential to creating market momentum and is pivotal in delivering lasting value for the company's stakeholders. Converge selects ITSPs with proven business, technical, enterprise client and industry experience that are known and recognized for the business value they create for its clients and partners.

*Invest and Transform.* Building on the capabilities, relationships and value of acquired companies, Converge invests in resources, education, tools and relationships to deepen domain level expertise in specific technology practice areas and industry sectors. Converge has acquired and built public and private cloud capabilities that transform ITSPs into Hybrid IT providers.

*Consolidate Certain Back-Office Functions.* Starting with back office and support functions, Converge creates significant financial and operating efficiencies and service level gains by leveraging its best-of-breed systems, purchasing power, staff and processes across acquired companies.

*Volume Rebates.* Converge provides value to clients and the market by identifying and expanding business, industry and technical solutions competencies across acquired businesses, including leveraging vendor certifications and hardware volumes across groups to receive increased pricing incentives and rebates.

With its first acquisitions in 2017, Corus360 and Northern Micro, Converge was able to establish an acquisition platform that closely aligned with its stated strategy. During the first quarter of 2018, Converge acquired Becker-Carroll, a company specialized in delivering powerful blockchain solutions. During the second quarter of 2018, Converge expanded its offerings with the acquisition of Key Information Systems, Inc. (“KeyInfo”), an infrastructure company that simplifies complex technology challenges, and BlueChip Tek Inc. (“BCT”), an information technology professional services organization specialized in data center infrastructure integration, cloud optimization, and data center infrastructure solutioning. In the fourth quarter of 2018, Converge acquired Lighthouse Computer Services, Inc., Creative Computing, LLC, Lighthouse Middleware, LLC, and Acumetrics Business Intelligence Inc. (collectively “Lighthouse”), a highly skilled company experienced in analytics, hybrid cloud, infrastructure, and cybersecurity. During the first quarter of 2019, Converge acquired SIS Holding Company, LLC and Software Information Systems, LLC (collectively “SIS”), a strategic company focused on managed cloud delivery, compute efficiency, network optimization, and IT spend optimization. During the third quarter of 2019, Converge acquired Nordisk Systems, Inc. (“Nordisk”), a professional services organization specialized in infrastructure, cloud, security, analytics, business continuity and managed services solutions. During the fourth quarter of 2019, Converge acquired Essextec Acquisition, LLC. (“Essextec”), a leading Wall Street-based cloud, cognitive, and cybersecurity solution provider, Datatrend Technologies, Inc. (“Datatrend”), a leading technology solutions provider focused on Next Gen Data Center, hybrid cloud, infrastructure, multi-site IT deployments, and ISV/OEM solutions, and VSS Holdings, LLC (“VSS”), a leading technology solutions provider specializing in managed services, technology solutions, IT portfolio management and consulting services. On February 1, 2020, the Company acquired all of the issued and outstanding shares of Solutions P.C.D. Inc. and P.C.D. Consultation Inc. (collectively “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.

## COVID-19

The recent global outbreak of 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 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.

As of the date of this MD&A, Converge has experienced increased demand for solutions that allow employees to work remotely and to date, the Company has been able to fulfil this demand. However, if the Company or its vendors and suppliers are unable to keep up with such increasing demands stemming from the recent outbreak of COVID-19, customers may experience delays or interruptions in service, which may be detrimental to the Company's reputation and business. The Company cautions that it is impossible to fully anticipate or quantify the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving. The extent to which COVID-19 impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken by governments to contain it or treat its impact, including shelter in place directives, which, if extended, may impact the economies in which the Company now, or may in the future, operate, key markets into which the Company sells and markets through which the Company's key suppliers source their products.

## Business And Financial Highlights For The Three and Six Months Ended June 30, 2020

Financial results:

- The Company earned revenue of $227,842, gross profit of $54,849, and adjusted EBITDA of $11,654 for the three months ended June 30, 2020 (three months ended June 30, 2019 – revenue of $157,985, gross profit of $36,138, and adjusted EBITDA of $5,510).
- The Company earned revenue of $469,367, gross profit of $109,684, and adjusted EBITDA of $22,500 for the six months ended June 30, 2020 (six months ended June 30, 2019 – revenue of $328,586, gross profit of $73,345, and adjusted EBITDA of $13,963).

*Financing*

- On July 23, 2020, the Company announced that it had entered into an agreement with a syndicate of underwriters, pursuant to which the Underwriters have agreed to purchase, on a bought deal basis, 9,260,000 common shares of the Company ("Offered Shares") at a price of $1.62 per Offered Share (the "Issue Price") for gross proceeds to the Company of $15,000 (the "Offering"), before deducting the underwriters' fees and estimated offering expenses. On July 24, 2020, the Company announced that it amended the agreement to increase the Offered Shares to 10,800,000, for a total Offering of $17,500. 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, to purchase 1,620,000 additional common shares to cover over-allotments and for market stabilization purposes. On August 7, 2020, the over-allotment option was exercised in full, increasing the aggregate gross proceeds of the Offering to $20,100.

- On February 20, 2020, the Company announced that it had entered into an agreement with a syndicate of underwriters, pursuant to which the Underwriters have agreed to purchase, on a bought deal basis, 5,769,231 common shares of the Company ("February Offered Shares") at a price of $1.30 per Offered Share (the "Issue Price") for gross proceeds to the Company of $7,500 (the "February Offering"), 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, to purchase 865,384 additional common shares to cover over-allotments and for market stabilization purposes. On March 3, 2020, the underwriters partially 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.

- 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.

- 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 $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 $4,000 USD with an interest rate of 8.5% per annum.

*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 June 30, 2020, the Company reversed an accrual of $3,844 that was set up in the prior year when the term of the instructions provided to the broker expired.

During the three months ended June 30, 2020, 726,900 common shares have been repurchased for cancellation for an aggregate purchase price of $879 under the NCIB, of which 826,000 common shares were cancelled (three months ended June 30, 2019 – nil), which included share amounts repurchased but not cancelled during three months ended Mach 31, 2020. For the six months ended June 30, 2020, 1,793,400 common shares have been repurchased for cancellation for an aggregate purchase price of $2,125 under the NCIB, of which 1,790,500 common shares have been cancelled as at June 30, 2020 (six months ended June 30, 2019 – nil).

*Acquisitions*

- 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.

## Outlook for fiscal 2020

As a result of government actions such as social distancing and requiring some non-essential business to temporarily close or curtail their operations in response to the COVID-19 pandemic, Converge has experienced increased demand for solutions that allow employees to work remotely. Converge anticipates that companies may increase the use of cloud and hybrid cloud computing and remote access will likely gain additional traction in the foreseeable future. The Company also expects that in the longer term companies may continue to increase investment spending on cybersecurity, artificial intelligence and digital transformation. Converge's national footprint and partnerships with several of the leading hardware and software companies, positions the Company well to support these trends.

In the near term, COVID-19 has resulted in opportunities, such as increased demand to support remote workers and challenges, and supply of some hardware and fulfillment of some orders. Converge continues to work closely with suppliers and customers to meet their requirements during this period of uncertainty; however, there can be no assurance that the Company will continue to see increased demand, or be able to fully supply that demand.

### Enterprise IT Priorities

According to the Enterprise Strategy Group ("ESG") Technology Spending Intentions Survey 2020, the top five technology focus areas for IT leaders are:

- Advanced Analytics - Artificial Intelligence ("AI")
- Cybersecurity tools and processes
- Digital Transformation
- Public Cloud – Applications & Infrastructure
- Hybrid Cloud Infrastructure

### Advanced Analytics - AI

In quickly recognizing the growing importance of AI and advanced analytics, Converge has secured cognitive applications as a core component of its solutions portfolio. With more organizations increasing spend on AI, Converge is prepared to meet increased needs and provide sales, service, support, managed services, managed projects, and talent solutions in this sector.

Harnessing the Company's experience and skills in data warehousing, business intelligence, planning, and predicting, Converge's wide analytic reach provides clear differentiation, most specifically in regard to the company's core area of Cognitive Computing. In an increasingly analytical world, Converge's early adoption of and deep breadth of skills in AI yields a distinctive advantage over many of our competitors.

### Cybersecurity

According to ESG, over 60 percent of companies in the previous year fell victim to a ransomware attack, and ESG forecasts organizations will increase their security spending to address this risk. This, along with a 44 percent security skills shortage, allows Converge a value proposition in combining its core competencies of Cybersecurity and Talent Solutions (ESG, 2020).

Converge has developed solutions, including managed services, across the continuum of cybersecurity. Converge's cybersecurity foundation assesses IT environments & risk, identifies gaps, builds a roadmap, develops strategies & policies, and designs & implements security solutions and recommendations. Each step of this foundation builds towards the company's ability to monitor and adjust for an organization's specific needs throughout the managed security lifecycle. In a digital environment that necessitates security, Converge's ability to add security from core architecture, the network, the edge, and the endpoint while staying ahead of the threats and providing fast remediation options, is an invaluable business advantage to combatting the growing number of cyberattacks.

### Talent Solutions for IT Skills Gaps

In addition to a shortage of cybersecurity skills, more than half (52 percent) of organizations have a shortage of employees with hybrid IT architecture skills according to ESG. Converge is able to address this skills deficit with deep technical domain expertise and coordination of vendor networks in a one-stop solution. Broad knowledge of customers' systems and infrastructure allows for a consultative, solutions-oriented approach that helps to offset any lack of internal expertise.

Additionally, Converge can leverage its vast network of IT professionals and vendor partnerships to power its Talent Solutions practice. The Company delivers custom staffing and recruiting solutions to fit the needs of any modern enterprise.

### Digital Transformation

ESG's report recognizes a continued emphasis on digital transformation. Three-quarters of organizations surveyed reported having a digital transformation initiative planned, in progress, or ready to launch, with 19 percent classified as "mature". Only five percent of businesses reported no digital transformation plans.

Converge's Digital Transformation practice is focused on Customer Experience (CX) technologies, including cognitive applications that optimize business processes across the customer journey. With recent Okta reports listing blockchain as a top 3 digital transformation technology, Converge's early investments in this solution has strengthened its solutions offering for logistics, financial services, and other sectors.

Converge's Digital Infrastructure practice remains a core component of the company's digital transformation solutions. Organizations continue to grapple with aging infrastructure and monolithic applications that must be modernized to enable digital transformation.

Cloud is also key, as ESG cites institutions in the most mature stages of digital transformation as aggressive in their use of public cloud infrastructure and applications. Converge's Cloud practice fulfills this business demand for cloud migration services.

### Cloud Infrastructure

Through its acquisitions and investments, Converge has assembled an experienced team of leaders and experts dedicated to solving customers' cloud challenges and building a hybrid IT infrastructure that seamlessly combines hardware, software and services. The Company's multi-faceted cloud practice is built on a team of Solution Architects ready to enable organizations to adopt new strategies and approaches that embrace Cloud technologies.

The movement from on-premises IT infrastructure continues unabated. ESG finds that nine percent of enterprises maintain an "on-premises-first" policy, down from 24 percent in 2018. Almost half (42 percent) of workloads are considered strong candidates to move to the cloud, with another 32 percent as potential candidates. As such, Converge continues to build upon its partnerships with cloud technology leaders, including VMware, Red Hat, Microsoft Azure, Amazon Web Services, and Google. The Company believes there is significant market opportunity in cloud-enabling on-premises infrastructure and optimizing applications through containers, microservices, and related technologies.

With some workloads needing to remain on-premises, an emerging trend of "distributed cloud" is coming into focus, defined as "the distribution of public cloud services to different physical locations, while operation, governance, updates and the evolution of those services are the responsibility of the originating public cloud provider." (Gartner). Major cloud providers and Converge partners are leading the way, with solutions such as AWS Outposts, Google Anthos, and Microsoft Azure Stack.

Distributed cloud has been identified by Gartner as one of the Top 10 trends impacting infrastructure and operations in 2020. Converge is skilled in helping customers take advantage of this model due to its deep roots in design, implementation, and support of enterprise-class infrastructure, as well as its extensive knowledge of public cloud platforms, providing a competitive advantage in public cloud market.

### Converge's Competitive Positioning

With a suite of hybrid IT solutions backed by industry-leading managed services, software, security, AI, transformation, and cloud offerings, Converge has strategically positioned itself as a valued supplier for customers and as a leader in this industry. The Company continues to rapidly move forward towards a services-oriented model in line with large IT vendors and consulting firms.

Execution of this strategy includes Converge's continued focus on its approach to growth through selective acquisitions and development of recurring revenue offerings. Converge's consolidation strategy provides customers with the resources and technical capabilities of a scaled platform, while maintaining the brand, reputation, and dedicated resources of a regional provider. An emphasis on hybrid IT solutions also facilitates entry into new markets and verticals, as well as cross-selling opportunities with existing customers.

In 2020, Converge will endeavor to strengthen its managed services, software, and other recurring revenue offerings across acquired businesses. This will bring the organization into the next phase of the Company's strategy, which focuses on larger acquisitions, back-office integration, and cost reduction opportunities. Such synergies are expected to drive the efficiency and scale needed to capture significant market share in the upcoming year and beyond.

(expressed in thousands of Canadian dollars)

## Summary of Consolidated Financial Results

The following table provides consolidated financial results for the Company as indicated below:

| | For the three months ended June 30, 2020 | For the three months ended June 30, 2019 | For the six months ended June 30, 2020 | For the six months ended June 30, 2019 |
|---|---|---|---|---|
| Revenues | | | | |
| Product | **$ 175,307** | $ 125,724 | **$ 365,691** | $ 260,518 |
| Service | **52,535** | 32,261 | **103,676** | 68,068 |
| Total revenue | **227,842** | 157,985 | **469,367** | 328,586 |
| Cost of sales | **172,993** | 121,847 | **359,683** | 255,241 |
| **Gross profit** | **54,849** | 36,138 | **109,684** | 73,345 |
| Selling, general and administrative expenses | **44,174** | 31,618 | **89,576** | 61,264 |
| **Income before the following** | **10,675** | 4,520 | **20,108** | 12,081 |
| Depreciation and amortization | **5,623** | 2,575 | **11,024** | 5,183 |
| Finance expense, net | **5,316** | 3,221 | **10,815** | 6,602 |
| Special charges | **4,307** | 438 | **6,049** | 3,616 |
| Other expense | **999** | 244 | **(620)** | 478 |
| **Loss before income taxes** | **(5,570)** | (1,958) | **(7,160)** | (3,798) |
| Income tax expense (recovery) | **(1,169)** | 400 | **(1,342)** | 1,455 |
| **Net loss** | **$ (4,401)** | $ (2,358) | **$ (5,818)** | $ (5,253) |
| **Other comprehensive loss** | | | | |
| Exchange loss (gain) on translation of foreign operations | **(951)** | (233) | **748** | (200) |
| **Net comprehensive loss** | **$ (3,450)** | $ (2,125) | **$ (6,566)** | $ (5,053) |
| **Adjusted EBITDA(i)** | **$ 11,654** | $ 5,510 | **$ 22,500** | $ 13,963 |

*(i) See the "Adjusted EBITDA (Non-IFRS Financial Measurement)" for a reconciliation of this measurement to IFRS.*

### Adjusted EBITDA (Non-IFRS Financial Measurement)

Adjusted EBITDA represents net loss or income adjusted to exclude amortization, depreciation, interest expense and finance costs, foreign exchange gains and losses, income tax expense, and special charges. Special charges consist primarily of restructuring related expenses for employee terminations, lease terminations, and restructuring of acquired companies, as well as certain legal fees or provisions related to acquired companies. From time to time, it may also include adjustments in the fair value of contingent consideration, and other such non-recurring costs related to restructuring, financing, and acquisitions. The Company uses Adjusted EBITDA to provide investors with a supplemental measure of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the ability to meet capital expenditure and working capital requirements.

(expressed in thousands of Canadian dollars)

Adjusted EBITDA is not a recognized, defined or standardized measure under IFRS. The Company's definition of Adjusted EBITDA will likely differ from that used by other companies and therefore comparability may be limited. Adjusted EBITDA should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS. Investors are encouraged to review the Company's financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-IFRS measures and view them in conjunction with the most comparable IFRS financial measures. The Company has reconciled Adjusted EBITDA to the most comparable IFRS financial measure as follows:

| | **For the three months ended June 30,** | | **For the six months ended June 30,** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Net loss before taxes** | **$ (5,570)** | $ (1,958) | **$ (7,160)** | $ (3,798) |
| Finance expense | **5,316** | 3,221 | **10,815** | 6,602 |
| Depreciation and amortization | **5,623** | 2,575 | **11,024** | 5,183 |
| Depreciation included in cost of sales | **1,346** | 1,234 | **2,780** | 2,140 |
| Foreign exchange loss (gain) | **632** | - | **(1,008)** | 220 |
| Special charges | **4,307** | 438 | **6,049** | 3,616 |
| **Adjusted EBITDA** | **$ 11,654** | $ 5,510 | **$ 22,500** | $ 13,963 |

For the three months ended June 30, 2020, special charges are primarily due to $471 of acquisition transaction costs, $2,307 of restructuring charges related to the integration of acquired companies, and $1,529 of legal provisions and costs related to acquired companies. During the same period in the prior year, special charges were primarily due to $438 of acquisition transaction costs.

For the six months ended June 30, 2020, special charges are primarily due to $873 of acquisition transaction costs, $3,367 of restructuring charges related to the integration of acquired companies, and $1,809 of legal provisions and costs related to acquired companies. During the same period in the prior year, special charges were primarily due to $3,616 of acquisition transaction costs.

## Overall Company Performance and Key Changes in Financial Results

### *Revenue*

Revenue for the three months ended June 30, 2020 increased 44% to $227,842 from $157,985 for the three months ended June 30, 2019. The increase was primarily due to the acquisitions of Nordisk, Datatrend, Essextec, VSS and PCD that were completed during the period subsequent to June 30, 2019. For the three months ended June 30, 2020 revenue by industry was approximately 20% from banking and financial services companies, 19% from technology companies, 18% from government and 14% from healthcare.

Revenue for the six months ended June 30, 2020 increased 43% to $469,367 from $328,586 for the six months ended June 30, 2019. The increase was primarily due to the acquisitions of Nordisk, Datatrend, Essextec, VSS and PCD that were completed during the period subsequent to June 30, 2019. For the six months ended June 30, 2020 revenue by industry was approximately 22% from banking and financial services companies, 20% from government, 20% from technology companies and 12% from healthcare.

### *Gross profit and gross profit margin*

For the three months ended June 30, 2020, gross profit increased 52% to $54,849 from $36,138 last year and gross profit margin increased to 24.1% of revenue, compared to a gross profit margin of 22.9% in the same period last year. The increase in gross profit margin is due primarily to the Company's focus on selling higher margin software and cloud services.

(expressed in thousands of Canadian dollars)

For the six months ended June 30, 2020, gross profit increased 50% to $109,684 from $73,345 last year and gross profit margin increased to 23.4% of revenue, compared to a gross profit margin of 22.3% in the same period last year. The increase in gross profit margin is due primarily to the Company's focus on selling higher margin software and cloud services.

***Selling, general, and administrative expenses***

Selling, general, and administrative expenses comprised of the following expenses for the periods indicated below:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Salaries and benefits | **$ 21,123** | $ 14,657 | **$ 43,245** | $ 29,578 |
| Variable compensation | **17,414** | 12,060 | **32,323** | 22,054 |
| Professional fees | **1,411** | 1,270 | **2,505** | 2,452 |
| Office and travel | **3,943** | 3,027 | **10,529** | 5,856 |
| Marketing events | **283** | 515 | **774** | 1,207 |
| Other expenses | **-** | 89 | **200** | 117 |
| Total | **$ 44,174** | $ 31,618 | **$ 89,576** | $ 61,264 |

Employee compensation and benefits for the three months ended June 30, 2020 increased to $38,537 from $26,717 last year primarily due to increased headcount related to the acquisitions of companies purchased subsequent to June 30, 2019. Professional fees increased insignificantly to $1,411 for the three months ended June 30, 2020 from $1,211 last year. Office and travel increased to $3,943 for the three months ended June 30, 2020 from $3,027 last year due to increased activity related to companies acquired subsequent to June 30, 2019. Marketing events decreased to $283 in the second quarter from $515 last year primarily due to reduced marketing programs and activities as a result of COVID-19. Other expenses decreased to nil for the three months ended June 30, 2020 compared to $89 last year.

Employee compensation and benefits for the six months ended June 30, 2020 increased to $75,568 from $51,632 last year primarily due to increased headcount related to the acquisitions of companies purchased subsequent to June 30, 2019. Professional fees increased insignificantly to $2,505 in the first six months of 2020 from $2,452 last year. Office and travel increased to $10,529 for the six months ended June 30, 2020 from $5,856 last year due to increased activity related to companies acquired subsequent to June 30, 2019. Marketing events decreased to $774 in the first six months from $1,207 last year primarily due to reduced marketing programs and activities as a result of COVID-19. Other expenses increased to $200 for the three months ended June 30, 2020 compared to $117 last year.

*Depreciation and amortization*

Depreciation and amortization for the three months ended June 30, 2020 increased to $5,623 from $2,575 last year. For the six months ended June 30, 2020, depreciation and amortization increased to $11,024 from $5,183 in the same six-month period last year. The increases are primarily due to intangible assets related to the acquisitions of companies purchased subsequent to June 30, 2019.

*Finance expense*

Finance expense for the three months ended June 30, 2020 of $5,316 consisted of interest expense related to (i) receivable backed financing of $4,125; (ii) notes payable of $497; (iii) debentures of $285 and; (iv) right-of-use assets of $409. Finance expense for the three months ended June 30, 2019 of $3,221 consisted of interest expense related to (i) receivable backed financing of $2,381; (ii) notes payable of $19; (iii) debentures of $380; and (iv) right-of-use assets of $441. The increase in finance expense is due to the Company's growth in revenues and related accounts receivable, notes payable related to acquisitions and increased right-of-use assets from the acquisition of companies subsequent to June 30, 2019.

Finance expense for the six months ended June 30, 2020 of $10,815 consisted of interest expense related to (i) receivable backed financing of $8,406; (ii) notes payable of $872; (iii) debentures of $659 and; (iv) right-of-use assets of $878. Finance expense for the six months ended June 30, 2019 of $6,602 consisted of interest expense related to (i) receivable backed financing of $5,153; (ii) notes payable of $78; (iii) debentures of $711; and (iv) right-of-use assets of $660. The increase in finance expense is due to the Company's growth in revenues and related accounts receivable, notes payable related to acquisitions and increased right-of-use assets from the acquisition of companies subsequent to June 30, 2019.

*Special charges*

Special charges for the three months ended June 30, 2020 increased to $4,307 from $438 last year. For the six months ended June 30, 2020, special charges increased to $6,049 from $3,616 in the same period in 2019. Refer to "Adjusted EBITDA (Non-IFRS Financial Measurement)" for a breakdown of special charges.

*Other expenses (income)*

Other expenses for the three months ended June 30, 2020 was $999 compared to $244 last year. Other income and expenses are primarily the impact of realized and unrealized foreign exchange gains and losses from foreign currency transactions translated into Canadian dollars.

Other income for the six months ended June 30, 2020 was $620 compared to expenses of $478 last year. The significant swing year over year is due to the significant weakness of the Canadian dollar experienced since January 1, 2020 due in part to COVID-19.

*Income tax expense (recovery)*

Income tax recovery for the three months ended June 30, 2020 was $1,169 compared to an expense of $400 for the comparative period last year. For the six months ended June 30, 2020, income tax recovery was $1,342 compared to an expense of $1,455 last year. The recoveries in the three and six month periods were primarily related to some of the Company's US subsidiaries that operated at a loss in the quarter due in part to seasonality and in part to COVID-19, offset by Canadian operations and some US subsidiaries that have seasonally strong sales in the first half of the year.

(expressed in thousands of Canadian dollars)

## Quarterly Financial Results

| | Three months ended (*unaudited*) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 30, 2020 | Mar 31, 2020 | Dec 31, 2019 | Sep 30, 2019 | Jun 30, 2019** | Mar 31, 2019** | Dec 31, 2018 | Sep 30, 2018* |
| Revenues | 227,842 | 241,525 | 214,705 | 144,504 | 157,985 | 170,601 | 136,088 | 100,044 |
| Gross Profit* | 54,849 | 54,835 | 53,355 | 34,889 | 36,138 | 37,207 | 30,322 | 20,232 |
| Gross Profit Margin | 24% | 23% | 25% | 24% | 23% | 22% | 22% | 20% |
| Adjusted EBITDA | 11,654 | 11,044 | 11,832 | 5,827 | 5,510 | 8,453 | 5,759 | (189) |
| Net income (loss) | (4,401) | (1,416) | 1,593 | (7,077) | (2,358) | (2,895) | (4,197) | (6,776) |
| Loss per share: | | | | | | | | |
| Basic | (0.05) | (0.02) | 0.02 | (0.09) | (0.03) | (0.04) | (0.05) | (0.11) |
| Diluted | (0.05) | (0.02) | 0.02 | (0.09) | (0.03) | (0.04) | (0.05) | (0.11) |
| Total assets | 502,946 | 573,206 | 488,884 | 303,788 | 303,932 | 326,354 | 256,298 | 176,436 |
| Total current liabilities | 457,632 | 517,909 | 445,215 | 265,275 | 259,785 | 287,363 | 236,710 | 162,978 |

The Company's quarterly financial results above show selected financial information from the results of operations and financial position for the periods indicated. In general, the business tends to fluctuate quarter over quarter based on a variety of factors. The spending of key customers is seasonal and heavily dependent on budgeted capital to be used before the end of their respective fiscal periods. The financial results shown above may not be indicative of the Company's financial performance in a future comparative period.

* Certain costs have been reclassified from selling, general and administrative to cost of sales for the three months ended September 30, 2018 having an insignificant impact on gross margin.

** Certain amounts within revenues, cost of sales and selling, general and administrative have been revised for the three months ended June 30 and March 31, 2019. Revisions to revenue of $8,700 and $5,800 was recognized for the 3 months ended June 30 and March 31, 2019, respectively, with a corresponding amount recognized to cost of sales in the amount of $6,600 and $5,800 for the 3 months ended June 30 and March 31, 2019, respectively. Selling, general and administrative costs of $2,100 were reclassified from cost of sales for the 3 months ended June 30, 2019. The revised amounts have an insignificant impact on the gross profit amount and margin previously disclosed.

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(expressed in thousands of Canadian dollars)

## Overview of Financial Position

The following table provides the financial position of the Company as indicated below:

| As at | | **June 30, 2020** | | December 31, 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | **$** | **289,665** | $ | 287,184 |
| Long-term assets | | **213,281** | | 201,700 |
| **Total assets** | **$** | **502,946** | $ | 488,884 |
| Current liabilities | | **457,632** | | 445,215 |
| Long-term liabilities | | **48,793** | | 53,546 |
| **Total liabilities** | **$** | **506,425** | $ | 498,761 |
| **Shareholders' equity** | | | | |
| Common Shares | | **31,994** | | 20,612 |
| Warrants | | **6** | | 243 |
| Contributed surplus | | **307** | | 307 |
| Exchange rights | | **5,813** | | 6,773 |
| Foreign exchange translation reserve | | **(679)** | | 69 |
| Deficit | | **(40,920)** | | (37,881) |
| **Total shareholders' deficiency** | **$** | **(3,479)** | $ | (9,877) |
| **Total liabilities and shareholders' equity** | **$** | **502,946** | $ | 488,884 |

### *Current Assets*

Current assets are mainly comprised of trade and other receivables of $206,153 (December 31, 2019 - $220,138), inventories of $28,049 (December 31, 2019 - $23,376), and cash of $36,372 (December 31, 2019 - $20,590). Trade and other receivables decreased 13,985 due to timing of cash collection from customers. Inventory increased $4,673 primarily due to the seasonality of the Company's operations.

### *Long-term assets*

Long-term assets are mainly comprised of goodwill of $91,500 (December 31, 2019 - $80,271) and intangible assets of $94,786 (December 31, 2019 - $92,047). Goodwill increased for the three months ended June 30, 2020 due to the acquisition of PCD, reflecting the benefits attributable to synergies, revenue growth, future market development, and the estimated fair value of an assembled workforce. As at June 30, 2020, intangible assets consisted of $74,457 (December 31, 2019 - $71,961) in customer relationships, $19,698 (December 31, 2019 - $19,282) in trade name and trademarks, $490 (December 31, 2019 - $600) in managed service contracts and $141 in computer software (December 31, 2019 – $204).

### *Current Liabilities*

Current liabilities are mainly comprised of $265,133 (December 31, 2019 - $248,218) in trade and other payables from the Company's operations, $137,298 (December 31, 2019 - $142,123) in borrowings and $31,326 (December 31, 2019 - $35,734) in other financial liabilities. Convertible debenture of $5,299 (December 31, 2019 - $5,114) and debentures of $3,790 (December 31, 2019 - $3,629) mature in October 30, 2020 and September 30, 2020, respectively.

The Company has entered into revolving credit agreements, secured by certain accounts receivable and inventory, with a Canadian lender. The ABL facilities can be drawn to a certain percentage of the Company's eligible trade receivables and inventory balances, to a maximum of $160,000 and to $170,000 at the discretion of the lender. Interest is payable monthly at rates that vary between the greater of 8.75% - 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. As at June 30, 2020, the total balance owing to the lender under these facilities was $113,043 (December 31, 2019 – $125,083).

(expressed in thousands of Canadian dollars)

The Company also has a number of credit agreements with a US based third party. As at June 30, 2020, the total balance owing to the lender under these facilities was $38,192 (December 31, 2019 – $31,613).

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 June 30, 2020, the balance owing to the lender under the facility is $2,349 (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 June 30, 2020, the balance owing to the lender under the facility is $11,861 (December 31, 2019 – nil).

During the three months ended June 30, 2020, 726,900 common shares have been repurchased for cancellation for an aggregate purchase price of $879 under the NCIB, of which 826,000 common shares were cancelled (three months ended June 30, 2019 – nil), which included share amounts repurchased but not cancelled during three months ended Mach 31, 2020. For the six months ended June 30, 2020, 1,793,400 common shares have been repurchased for cancellation for an aggregate purchase price of $2,125 under the NCIB, of which 1,790,500 common shares have been cancelled as at June 30, 2020 (six months ended June 30, 2019 – nil).

The following table provides a summary of borrowings and debt:

| **As at** | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| Receivable backed financing | **$ 151,235** | $ 156,696 |
| Notes payable and contingent consideration related to acquisitions | **37,234** | 38,015 |
| Notes payable relating to operations | **5,546** | 5,595 |
| Debentures | **9,089** | 8,743 |
| | **203,104** | 209,049 |
| Long-term portion | **48,793** | 53,546 |
| Current portion | **$ 154,311** | $ 155,503 |

***Long-term liabilities***

Long-term liabilities are mainly comprised of $29,973 (December 31, 2019 - $33,111) in other financial liabilities, $13,937 in borrowings (December 31, 2019 – $14,573), and deferred tax liability of $4,883 (December 31, 2019 - $5,862). As a result of the acquisition of PCD, other financial liabilities increased by $2,300 (December 31, 2019 – nil).

(expressed in thousands of Canadian dollars)

## Liquidity and Capital Resources

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic and acquisition growth and to provide returns to its shareholders. The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements.

As at June 30, 2020, total cash on hand was $36,372 (December 31, 2019 - $20,590). As at June 30, 2020, amounts borrowed under existing credit facilities were $151,235 (December 31, 2019 – $156,696).

## Cash Flow Analysis

The following table provides a summary of the Company's cash flows for the periods indicated below:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Cash from operating activities | **$ 22,899** | $ 16,918 | **$ 52,970** | $ 16,603 |
| Cash used in investing activities | **(4,748)** | (3,295) | **(15,920)** | (28,567) |
| Cash from (used in) financing activities | **(8,759)** | (10,349) | **(20,747)** | 13,588 |
| **Net increase in cash and cash equivalents** | **9,392** | 3,274 | **16,303** | 1,624 |
| Cash and cash equivalents at the beginning of period | **26,749** | 9,046 | **20,590** | 10,482 |
| Effect of foreign exchange fluctuations on cash held | **231** | 488 | **(521)** | 702 |
| **Cash and cash equivalents at the end of the period** | **$ 36,372** | $ 12,808 | **$ 36,372** | $ 12,808 |

Cash provided by operating activities increased by $5,981 for the three months ended June 30, 2020. The increase is primarily attributable to decreases in inventory of $16,075, and trade and other receivables of $37,463 for the three months ended June 30, 2020, as compared to an increase in inventory of $1,049 and a decrease in trade and other receivables of $28,566 in the same period in 2019. The overall increase was partially offset by a decrease in trade and other payables of $38,293 in comparison to the prior year comparative decrease of $9,969 which is due to the higher vendor payments from acquisitions completed subsequent to June 30, 2019. For the six months ended June 30, 2020, cash provided by operating activities increased by $36,367 primarily due to a decrease in trade and other receivables of $30,060 as compared to $17,757 in the year prior as a result of higher sales and cash collection from acquisitions completed subsequent to June 30, 2019.

Cash used in investing activities for the three months ended June 30, 2020 was mainly due to earn-out payments made to the previous shareholders of acquired companies, compared to the three months ended June 30, 2019 which was mainly due to purchases of property and equipment of $2,940. For the six months ended June 30, 2020, cash used in investing activities was mainly due to the acquisition of PCD of $6,699 and earn-out payments made to the previous shareholders of acquired companies, compared to the six months ended June 30, 2019 acquisition of SIS of $14,483, earn-out payments made to the previous shareholders of acquired companies of $2,500, retention bonuses paid of $7,242, and purchases of property and equipment of $4,115.

Cash used from financing activities was mainly driven by the proceeds and repayments from the ABL credit facilities for the three months ended June 30, 2020. The increase in proceeds of $310,211 and repayment of $(311,141) for the three months ended June 30, 2020 compared to proceeds of $213,576 and repayment of $(217,162) for the comparative period in 2019 was due to increased sales revenue and collection of receivables. For the six months ended June 30, 2020, the increase in proceeds of $582,425 and repayment of $(595,747) for the six months ended June 30, 2020, compared to proceeds of $414,267 and repayment of $(386,661) for the comparative period in 2019 was also due to increased sales revenue and collection of receivables. On February 20, 2020, the Company closed an underwritten public offering of common shares, which raised total gross proceeds of $8,270 before transaction related costs of $976.

(expressed in thousands of Canadian dollars)

## Commitments and Contingencies

*Commitments*

As at June 30, 2020, the Company is committed under office building and computer equipment leases, for the following minimum annual rentals:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | $ | $ |
| **Minimum lease payments** | | |
| 2020 | 4,118 | 7,980 |
| 2021 | 7,277 | 6,582 |
| 2022 | 4,353 | 3,793 |
| 2023 | 2,124 | 1,681 |
| 2024 and onwards | 2,851 | 2,643 |
| | 20,723 | 22,679 |
| Less: future finance charges | (2,369) | (3,079) |
| Present value of minimum lease payments | 18,354 | 19,600 |
| Current liabilities | 6,896 | 6,710 |
| Non-current liabilities | 11,458 | 12,890 |
| | 18,354 | 19,600 |

*Contingencies*

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 impact on the Company.

## Off-Balance Sheet Arrangements

As at June 30, 2020, the Company does not have any off-balance sheet arrangements other than the commitments and contingencies noted above.

## Related Party Transactions

During the year ended December 31, 2017, the Company entered into a lease arrangement with an executive employee of the Company for a period of five years ending on October 31, 2022. The Company is obligated to make payments of $262 on an annual basis under the lease arrangement. For the three months and six months ended June 30, 2020, the Company paid lease expense of $66 and $132, respectively (for the three and six months ended June 30, 2019 - $66 and $132) under this arrangement.

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly, including the Company's directors and officers.

(expressed in thousands of Canadian dollars)

Total amounts expensed for the Company's key management personnel was $1,056 and $2,362 for the three and six months ended June 30, 2020, respectively (for the three and six months ended June 30, 2019 - $503 and $1,184) and includes salaries, bonuses, advisory fees, short-term employment benefits and other personnel costs. On September 4, 2019, the Company entered into a loan agreement with a key management employee, advancing principal of $250 with interest on the unpaid principal balance at the rate of 2.48% per annum. The outstanding principal and interest are due on the earlier of September 3, 2022, or the date on which the individual resigns from or is terminated by the Company. As at June 30, 2020, $255 remains outstanding on the loan receivable (June 30, 2019 – nil).

Subsequent to the quarter, on July 31, 2020 The Company provided certain of its executive officers with loans ("Loans") totaling $1,000 from the Company with the proceeds of the Loans to be applied by the executive officer to purchase common shares of the Company (the "Loan Shares") in the market at the prevailing market price or pursuant to an offering of common shares of the Company. The Loans will have a 7-year term and bear interest at a rate of 1% per annum. Each Loan will be evidenced by a promissory note representing the principal amount of the Loan and the Loan Shares will be pledged to the Company as security for the Loan. Proceeds from any disposition of the Loan Shares will be used to reduce the amount of the Loan then outstanding, first reducing accrued interest and the balance to reduce the principal amount of the Loan. In the event an executive officer ceases to be employed by the Company prior to the date that is three years from the date of the Loan (the "Vesting Date"), the Company may repurchase the Loan Shares (at the lower of the original cost and current market price) to satisfy a pro-rated portion of the Loan, equal to the quotient of the number of months from the date of termination to the Vesting Date and 36, multiplied by the aggregate principal amount of the Loan.

## Outstanding Share Capital

The table below provides a summary of the outstanding share capital of the Company as at June 30, 2020.

| Capital | Authorized | Outstanding as at June 30, 2020 | Common shares underlying convertible securities |
|---|---|---|---|
| Common shares | Unlimited | 91,322,844 | 91,322,844 |
| Warrants | Not applicable | 89,345 | 89,345 |
| Convertible Debenture | Not applicable | 5,250,000 | 5,250,000 |
| Exchange rights | Not applicable | 7,871,400 | 7,871,400 |

*Common shares*

On February 20, 2020, the Company closed an underwritten public offering (the "Offering"). The Offering consisted of 5,769,231 common shares of the Company (the "Offered Shares"). 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

During the three months ended June 30, 2020, 726,900 common shares have been repurchased for cancellation for an aggregate purchase price of $879 under the NCIB, of which 826,000 common shares were cancelled (three months ended June 30, 2019 – nil), which included share amounts repurchased but not cancelled during three months ended Mach 31, 2020. For the six months ended June 30, 2020, 1,793,400 common shares have been repurchased for cancellation for an aggregate purchase price of $2,125 under the NCIB, of which 1,790,500 common shares have been cancelled as at June 30, 2020 (six months ended June 30, 2019 – nil).

*Warrants*

During the three and six months ended June 30, 2020, purchase warrants of 3,865,080 have been exercised and 70,875 broker warrants have been exercised for total proceeds of $2,563. As at June 30, 2020, 89,345 broker warrants remain to be exercised and no unexercised purchase warrants remain outstanding.

During the six months period ended June 30, 2020, 58,600 common shares were issued as broker commissions for the acquisition of VSS.

## Critical Accounting Policies and Estimates

Please see the Company's audited consolidated financial statements for the year ended December 31, 2019 for a discussion of the accounting policies and estimates that are critical to the understanding of the Company's business operations and the results of its operations.

## Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in its annual information form ("AIF") for the year ended December 31, 2019 and 2018 and its annual MD&A for the years ended December 31, 2019 and 2018, including a discussion of risk as a result of COVID-19, all available at **www.sedar.com** under the Company's profile. The risks presented in the Company's filings should not be considered to be exhaustive and may not be all of the risks that Converge may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. If any of the noted risks occur, it may negatively affect the financial results of the Company and adversely affect the market price of Converge.

## Further Information

Additional information relating to the Company is available on the Company's website at www.convergetp.com.