Condensed interim consolidated financial statements

Converge Technology Solutions Corp.

For the three months ended March 31, 2022 and 2021

(Unaudited)

Converge Technology Solutions Corp.

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

	Note	March 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		**$ 216,664**	$ 248,193
Restricted cash	13	**63,493**	-
Trade and other receivables		**468,512**	416,499
Inventories		**120,193**	104,254
Prepaid expenses and other assets		**13,369**	11,762
		882,231	780,708
Long-term assets			
Property, equipment, and right-of-use assets, net		**40,096**	30,642
Intangible assets, net		**277,438**	233,586
Goodwill		**340,784**	323,284
Other non-current assets		**674**	617
Total assets		**$ 1,541,223**	$ 1,368,837
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables	12	**$ 528,325**	$ 519,434
Borrowings	5	**162,780**	816
Other financial liabilities	7	**26,920**	29,407
Deferred revenue		**36,623**	27,581
Income taxes payable		**16,790**	13,977
		771,438	591,215
Long-term liabilities			
Other financial liabilities	7	**74,090**	85,296
Borrowings	5	**242**	412
Deferred tax liability		**54,409**	43,086
Total liabilities		**$ 900,179**	$ 720,009
Shareholders' equity			
Common shares	6	**633,809**	633,489
Contributed surplus		**3,537**	2,325
Exchange rights		**2,076**	2,396
Accumulated other comprehensive income (loss)		**(6,259)**	329
Deficit		**(26,844)**	(25,050)
Total equity attributable to shareholders of Converge		**606,319**	613,489
Non-controlling interest		**34,725**	35,339
		641,044	648,828
Total liabilities and shareholders' equity		**$ 1,541,223**	$ 1,368,837

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

On behalf of the Board:

"Signed"
Director - Shaun Maine

"Signed"
Director - Brian Phillips

Converge Technology Solutions Corp.

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

(unaudited)

For the three months ended March 31,	Notes	**2022**	2021
Revenues			
Product		**$ 453,389**	$ 252,507
Service		**96,648**	57,695
Total revenue	9	**550,037**	310,202
Cost of sales		**440,992**	242,405
Gross profit		**109,045**	67,797
Selling, general and administrative expenses		**80,412**	49,643
Income before the following		**28,633**	18,154
Depreciation and amortization		**14,480**	6,488
Finance expense, net	5,7	**1,818**	2,420
Special charges	11	**5,722**	3,051
Share-based compensation expense	6	**1,212**	-
Other expenses		**6,403**	1,093
Income (loss) before income taxes		**(1,002)**	5,102
Income tax expense		**1,406**	1,436
Net Income (loss)		**$ (2,408)**	$ 3,666
Net income (loss) attributable to:			
Shareholders of Converge		**(1,794)**	3,666
Non-controlling interest		**(614)**	-
		(2,408)	3,666
Other comprehensive income (loss)			
Item that may be reclassified subsequently to income:			
Exchange differences on translation of foreign operations		**(6,587)**	(203)
		(6,587)	(203)
Comprehensive income (loss)		**$ (8,995)**	$ 3,463
Comprehensive income (loss) attributable to:			
Shareholders of Converge		**(8,381)**	3,463
Non-controlling interest		**(614)**	-
		(8,995)	3,463
Net income (loss) per share - basic		**$ (0.01)**	$ 0.02
Net income (loss) per share - diluted		**$ (0.01)**	$ 0.02
Weighted average number of shares outstanding – basic		**214,796,369**	159,793,770
Weighted average number of shares outstanding – diluted		**217,333,456**	164,290,454

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' Equity
(expressed in thousands of Canadian dollars, except share amounts and share prices)
(unaudited)

	Notes	Common shares #	Common shares $	Contributed surplus $	Exchange rights $	Accumulated other comprehensive income (loss) $	Deficit $	NCI $	Total $
Balance, December 31, 2020		**143,580,081**	**135,354**	**-**	**4,853**	**817**	**(39,277)**	**-**	**101,747**
Issuance of exchange rights		-	-	-	1,875	-	-	-	1,875
Exercise of exchange rights		2,217,850	1,613	-	(1,613)	-	-	-	-
Shares issued from treasury for public offering		17,825,000	80,940	-	-	-	-	-	80,940
Net income and comprehensive income		-	-	-	-	(203)	3,666	-	3,463
Balance, March 31, 2021		**163,622,931**	**217,907**	**-**	**5,115**	**614**	**(35,611)**	**-**	**188,025**
Balance, December 31, 2021		**214,396,369**	**633,489**	**2,325**	**2,396**	**329**	**(25,050)**	**35,339**	**648,828**
Share-based compensation	6	-	-	1,212	-	-	-	-	1,212
Exercise of exchange rights	(i), (ii), (iii)	500,000	320	-	(320)	-	-	-	-
Net income (loss) and comprehensive income (loss)		-	-	-	-	(6,587)	(1,794)	(614)	(8,995)
Balance, March 31, 2022		**214,896,369**	**633,809**	**3,537**	**2,076**	**(6,258)**	**(26,844)**	**34,725**	**641,045**

(i) Purchase consideration for SIS included the issuance of a right to exchange 8,000,000 Class B membership interests for 8,000,000 common shares of the Company. During the three months ended March 31, 2022, 500,000 Class B membership interests (March 31, 2021 – 1,500,000) were exchanged to 500,000 common shares (March 31, 2021 – 1,500,000) at $0.64 per share for a value of $320 (March 31, 2021 - $960). As of March 31, 2022, all Class B membership interests of SIS have been exchanged for common shares and nil are issued and outstanding (December 31, 2021 – 500,000).

(ii) Purchase consideration for VSS included the issuance of a right to exchange 2,871,400 Class B membership interests for 2,871,400 common shares of the Company. During the three months ended March 31, 2022, nil Class B membership interest (March 31, 2021 – 717,850) were exchanged to nil common shares (March 31, 2021 – 717,850) at $0.91 per share for a value of nil (March 31, 2021 - $653). As of March 31, 2022, 478,567 Class B membership interests of VSS are issued and outstanding (December 31, 2021 – 478,567).

(iii) Purchase consideration for CarpeDatum included the issuance of a right to exchange 367,344 Class B membership interests for 367,644 common shares of the Company. As of March 31, 2022, 321,689 Class B membership interests of CarpeDatum are issued and outstanding (December 31, 2021 – 321,689).

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 and share prices)
(unaudited)

For the three months ended March 31,	Notes		2022		2021
Cash flows used in operating activities					
Net income (loss)		$	(2,408)	$	3,666
Adjustments to reconcile net income (loss) to net cash from operating activities					
Depreciation and amortization			15,340		7,240
Unrealized foreign exchange losses			6,669		1,012
Share-based compensation expense			1,212		-
Finance expense, net	5,7		1,818		2,420
Change in fair value of contingent consideration	7		-		597
Income tax expense			1,406		1,436
			24,037		16,371
Changes in non-cash working capital items					
Trade and other receivables			(27,773)		22,796
Inventories			6,549		(12,167)
Prepaid expenses and other assets			(1,429)		(565)
Trade and other payables			(29,383)		(35,139)
Income taxes payable			(753)		496
Other financial liabilities			1,917		-
Deferred revenue and customer deposits			(3,385)		3,680
Cash used in operating activities			(30,220)		(4,528)
Cash flows used in investing activities					
Purchase of property and equipment			(11,356)		(1,765)
Proceeds on disposal of property and equipment			177		89
Repayment of contingent consideration	7		(10,134)		(3,420)
Repayment of deferred consideration	7		(1,740)		(3,205)
Business combinations, net of cash acquired	4		(67,926)		(10,194)
Cash used in investing activities			(90,979)		(18,495)
Cash flows from financing activities					
Transfers to restricted cash			(63,493)		(49,671)
Interest paid			(956)		(2,460)
Payments of lease liabilities			(2,728)		(2,285)
Net proceeds from issuance of common shares and warrants	6		-		80,940
Repayment of notes payable	7		(121)		(2,691)
Net proceeds from borrowings	5		162,468		4,242
Cash from financing activities			95,170		28,075
Net change in cash during the period			(26,029)		4,040
Effect of foreign exchange on cash			(5,500)		(1,387)
Cash, beginning of period			248,193		64,767
Cash, end of period		$	216,664	$	68,432

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 and share prices)
(Unaudited)

For the three months ended March 31, 2022 and 2021

1. Nature of business

Converge Technology Solutions Corporation, which includes its global subsidiaries (the “Company” or “Converge”), is a Hybrid IT solution provider with operations in North America and Europe, focused on delivering advanced analytics, cloud, cybersecurity, and managed services offerings as well as the provision of hardware and software products and solutions to clients across various industries and organizations.

The Company was incorporated on November 29, 2016. The Company’s registered head office is located 85 Rue Victoria, Gatineau, Quebec, J8X 2A3.

The Company has the following wholly owned subsidiaries as at March 31, 2022:

Corus Commercial Finance, LLC, Corus Group, LLC Corus Managed Services, LLC, Corus Careers, LLC OHC International, LLC, Corus 360 Limited (“Corus”)	Lighthouse Computer Services, Inc., Acumetrics Business Intelligence Inc. (“Lighthouse”)
Northern Micro Inc. (“Northern Micro”)	Portage CyberTech Inc., 10084182 Canada Inc. o/a Becker-Carroll, Vivvo Application Studios, OPIN Digital Inc., OPIN Digital Corp., 1CRM Systems Corp., (“Portage”)
Key Information Systems, Inc. (“KeyInfo”)	BlueChip Tek, Inc. (“BlueChip Tek”)
Converge Technology Solutions US, LLC	SIS Holding Company, LLC, Software Information Systems, LLC (“SIS”)
Converge Canada Finance Corp.	Converge Technology Partners Inc.
Converge NE Commercial Finance, LLC	Converge West Commercial Finance, LLC
Nordisk Systems, Inc. (“Nordisk”)	Essextec Acquisition, LLC, Essex Technology Group, Inc., Essex Commercial Finance LLC (“Essex”)
Datatrend Technologies, Inc. (“Datatrend”)	VSS Holdings, LLC, VSS, LLC, Information Insights, LLC (“VSS”)
Solutions P.C.D. Inc, P.C.D. Consultation Inc. (“PCD”)	Unique Digital, Inc. (“Unique Digital”)
Workgroup Connections, Inc. (“Workgroup”)	CarpeDatum LLC (“CarpeDatum”)
Vicom Computer Services, Inc. (“Vicom”)	Dasher Technologies, Inc. (“Dasher”)
Accudata Systems LLC (“Accudata”)	Vicom Infinity, Inc (”Vicom Infinity”)
ExactlyIT Inc., ExactlyIT, S. de R.L. de C.V (“ExactlyIT”)	Rednet AG (”Rednet”)
Infinity Systems Software Inc (”Infinity Systems”)	Converge Technology Hybrid IT Solutions Europe Ltd. (“Converge Europe”)
LPA Software Solutions (“LPA”)	PDS Holding Company, Paragon Development Systems Inc., Works Computing, LLC., Paragon Staffing, LLC. (“PDS”)
Visucom GmbH, School Supplies 4.0 GmbH (“Visucom”)	

2. Basis of preparation

The unaudited condensed interim consolidated financial statements (the “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, 2021, 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, 2021. 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 interim consolidated 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.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 10, 2022.

COVID-19

The COVID-19 pandemic continues to present a source of economic uncertainty to the Company. These uncertain economic conditions may adversely impact operations and the financial performance of the Company and its customers, negatively impact demand for the Company's products and services or the equity markets, which could adversely affect the Company's financial performance. As of the date of these condensed interim consolidated financial statements, Converge has experienced increased demand for solutions that allow employees to work remotely. As a result, the Company has experienced increased revenue in some of its product and service offerings that support remote work and cloud enablement as companies and organizations invest in solutions that allow their employees to work remotely and access information and systems by way of cloud infrastructure. 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.

Operationally, Converge has implemented technology and procedures that enable the majority of its employees to work remotely with minimal disruption to the Company's operations. To the extent that employees are required to be in the office or warehouse to fulfill orders, the Company has followed guidelines and rules put in place by local, state, provincial and federal governments. The Company has good relations with its suppliers and is in regular contact with them and to date, has not experienced any meaningful disruptions in its supply chain that have negatively impacted the Company's ability to meet its demand and fulfill customer orders.

Pandemics, epidemics and other systemic or widespread health and safety risks could occur, any of which could adversely affect the Company's ability to maintain operations or meet revenue or expense targets or plans and may also adversely affect the ability of suppliers to provide products and services needed to operate the business. Pandemics, epidemics and other health and safety risks could also have an adverse effect on the economy and financial markets resulting in a declining level of activity, which could have a negative impact on the demand for, and prices of, the Company's products and services.

The COVID-19 pandemic continues to impact the well-being of individuals as well as the Canadian and global economies. The Company, informed by measures recommended by public health agencies, continues to provide its essential services and support to customers while safeguarding the health and safety of employees.

Supply chain impacts

The impact of COVID-19 and measures to prevent its spread have affected the Company in a number of ways. To date, some of the Company's key vendors have experienced supply shortages as it relates to product levels available for delivery to Converge's customers. As a result, the Company is experiencing higher than normal product backlog in its pipeline. In response, during the year Converge has proactively increased its inventory levels where possible to alleviate supply chain pressures. The Company continues to work closely with key vendors and proactively manage its inventory levels to mitigate the impact of industry-wide supply constraints.

There have also been industry-wide disruptions. However, overall, given the constantly evolving nature, extent, and sentiments about the COVID-19 pandemic, it is difficult to predict with certainty medium or long-term impacts of the pandemic to the Company. Key unknowns which may affect the Company and its business and financial positions include the duration, severity, and the impact of a resurgence of the outbreaks, imposition of new or reintroduction of emergency measures, timing and extent of border closures or reopening timing, changes to travel restrictions, and fluctuations in financial and commodity markets. In addition, labour shortages due to illness or, restrictions on the movement of personnel as well as supply chain disruptions could result in a material reduction or even cessation of all or a portion of the Company's operations. Further spread or severity of COVID-19 in Canada and globally could also have a material adverse effect on the regional economies in which the Company operates, could negatively impact stock markets, including the trading price of its Shares, adversely impact the Company's ability to raise capital, cause continued interest rate volatility or make obtaining financing or renegotiating the terms of its existing financing more challenging or more expensive.

In addition, the recent escalation in conflict between Russia and Ukraine ("Conflict") and the resulting imposition of sanctions and counter sanctions have disrupted supply chains and caused instability in the global economy. The short and long-term implications of the conflict are difficult to predict at this time. The ongoing conflict could result in the imposition of future economic sanctions, which may have a greater adverse effect on economic markets and could result in an even greater impact related to global supply and pricing of electricity and materials.

Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic and Conflict may materially and adversely affect the Company's operations, financial results as condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Company's consolidated financial statements related to potential impacts of the COVID-19 pandemic and Conflict on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

3. New standards, amendments and interpretations

The following new accounting standards were applied or adopted by the Company as at March 31, 2022:

Amendments to IFRS 9

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The adoption of this amendment did not have a material impact on the consolidated financial statements.

The following new accounting standards have been issued but not yet adopted by the Company as at March 31, 2022:

Amendments to IAS 1 In January 2020, IASB issued Classification of Liabilities as "Current" or "Non-current", which amends IAS 1.

The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 8 In February 2021, IASB issued Definition of Accounting Estimates, which amends IAS 8.

The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 12 In May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12.

The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is currently analyzing the impact these amendments will have on its consolidated financial statements.

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

4. Business combinations

Acquisitions completed during the three months ended March 31, 2022

The following table details the allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition for each of the Company's acquisitions completed during the three months ended March 31, 2022:

March 31, 2022	Visucom [a] $	PDS [b] $	1CRM [c] $	Total $
Cash consideration	8,203	71,737	2,969	82,909
Contingent consideration	-	-	1,190	1,190
Total purchase price	**8,203**	**71,737**	**4,159**	**84,099**
Cash	2,377	12,494	120	14,991
Trade and other receivables	1,087	28,989	294	30,370
Prepaid expenses and other current assets	24	1,179	-	1,203
Inventory	1,569	22,624	-	24,193
Property and equipment	800	2,734	13	3,547
Right-of-use-asset	393	313	-	706
Intangible assets	4,453	51,767	2,330	58,550
Trade and other payables	(3,570)	(42,411)	(20)	(46,001)
Deferred revenue	-	(12,654)	(350)	(13,004)
Deferred tax liability	(1,335)	(9,701)	(606)	(11,662)
Lease liability	(393)	(313)	-	(706)
Goodwill	**2,798**	**16,716**	**2,378**	**21,892**

Goodwill arising on the acquisitions 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.

[a] Visucom

On January 1, 2022, the Company acquired a 100% interest in Visucom GmbH ("Visucom") and its subsidiary, School Supplies 4.0 GmbH, a Walzbachtal, Germany based supplier of hardware for education and public sector clients, offering on-site installations, training, neutral advice, planning, and equipment for market-leading manufacturers of media devices.

The total consideration for the purchase of Visucom was $8,203 (€5,700) in cash.

The acquisition of Visucom qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of Visucom have been included in the consolidated financial statements of the Company from the date of the acquisition. As at March 31, 2022, 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.

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

Total transaction costs for the acquisition of Visucom were $201. All transaction costs were expensed as incurred.

[b] PDS

On January 7, 2022, the Company acquired a 100% interest in PDS Holding Company ("PDS") and its wholly owned subsidiaries, including Paragon Development Systems Inc., a corporation headquartered in Milwaukee, WI, that offers solutions ranging from cloud and security to servers and infrastructure to virtualized work environment and remote work.

The total consideration for the purchase of PDS was $71,737 ($56,638 USD). Purchase consideration consisted of (i) $69,305 in cash; and (ii) working capital and other adjustments of $2,432.

The acquisition of PDS qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of PDS have been included in the consolidated financial statements of the Company from the date of the acquisition. As at March 31, 2022, 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.

Total transaction costs for the acquisition of PDS were $1,559. All transaction costs were expensed as incurred.

[c] 1CRM

On March 1, 2022, Portage, the Company's 53% owned cyber security-focused SaaS entity, acquired a 100% interest in 1CRM Systems Corp. ("1CRM"), a SaaS-based software corporation headquartered in Victoria, Canada, that operates in the cloud and on premise, with the ability to handle daily task management, marketing automation, sales and opportunities, order management, client service and project management in a single system.

The total consideration for the purchase of 1CRM was $4,159. Purchase consideration consisted of (i) $3,000 in cash; (ii) negative working capital adjustment of $31; and (iii) an estimated aggregate of $1,190 in earn-out payments for the two years following closing of the acquisition based on the achievement of certain milestones.

The acquisition of 1CRM qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of 1CRM have been included in the consolidated financial statements of the Company from the date of the acquisition. As at March 31, 2022, 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.

Total transaction costs for the acquisition of 1CRM were $58. All transaction costs were expensed as incurred.

Pro forma results of operations

The following pro forma results of operations assume 1CRM was acquired by the Company on January 1, 2022:

	For the three months ended March 31, 2022
	$
Revenue	364
Net loss	172

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

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, 2022. 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.

Acquisitions completed during the year ended December 31, 2021

As at March 31, 2022, the acquisition accounting for ExactlyIT, Vicom Infinity, Infinity Systems, Rednet, LPA, and OPIN have not yet been finalized and requires the Company to complete its determination of the fair values of identifiable intangible assets.

The following table details the allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition for each of the Company's acquisitions completed during the year ended December 31, 2021:

December 31, 2021	CarpeDatum $	Accudata $	Dasher $	ExactlyIT $	Vicom Infinity $	Infinity Systems $	Rednet $	LPA $	OPIN $	Total $
Cash consideration	1,681	14,750	49,782	34,271	18,368	3,783	145,049	12,595	4,542	284,821
Payment to company participants	-	-	13,829	-	-	-	-	-	-	13,829
Deferred consideration	-	-	11,031	-	-	-	-	-	-	11,031
Contingent consideration	2,519	6,076	-	-	-	-	-	1,731	926	11,252
Common shares	1,875	-	-	-	-	-	-	-	-	1,875
Loan payable	-	-	-	-	-	-	24,392	-	-	24,392
NCI liability	-	-	-	-	-	-	28,099	-	-	28,099
Promissory note	-	-	-	-	-	-	-	-	(615)	(615)
Total purchase price	**6,075**	**20,826**	**74,642**	**34,271**	**18,368**	**3,783**	**197,540**	**14,326**	**4,853**	**374,684**
Cash	429	4,873	8,044	3,410	4,379	367	11,024	303	129	32,958
Trade and other receivables	926	6,232	47,368	2,658	2,680	2,066	26,065	2,304	785	91,083
Prepaid expenses and other current assets	-	362	55	214	74	-	19	97	311	1,132
Deferred tax asset	-	-	-	537	-	-	-	-	-	537
Inventory	-	-	738	-	-	-	9,087	-	-	9,824
Property and equipment	-	998	413	389	242	-	751	119	21	2,934
Right-of-use-asset	-	2,388	1,062	273	183	-	2,550	222	-	6,678
Intangible assets	2,446	7,438	32,374	10,239	8,090	1,146	85,415	5,077	2,175	154,400
Trade and other payables	(1,006)	(6,755)	(42,055)	(2,320)	(4,215)	(289)	(33,253)	(526)	(995)	(91,414)
Deferred revenue	-	(46)	(244)	-	-	-	(3,601)	(340)	(720)	(4,950)
Deferred tax liability	(636)	(1,937)	(8,417)	(2,662)	(2,104)	(297)	(25,601)	-	(565)	(42,219)
Lease liability	-	(2,388)	(988)	(273)	(183)	-	(2,550)	(222)	-	(6,604)
Goodwill	**3,916**	**9,661**	**36,292**	**21,806**	**9,222**	**790**	**127,634**	**7,292**	**3,712**	**220,325**

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

5. Borrowings

The borrowings outstanding as at March 31, 2022 and December 31, 2021 were as follows:

Facility	Notes	March 31, 2022	December 31, 2021
Canadian lender – ABL facilities	[a]	**$ 161,976**	$ -
Other third-party facilities	[b]	**1,046**	1,228
Total		**163,022**	1,228
Current liabilities		**162,780**	816
Non-current liabilities		**242**	412
Total		**$ 163,022**	$ 1,228

[a] The Company has entered into revolving credit agreements with a syndicate of Canadian and US lenders, led by CIBC. These agreements, which are asset-based lending (“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 and inventory balances, to a maximum of $300,000 (on December 8, 2021, the Company increased the credit limit from $190,000 to $300,000). Interest is payable monthly at the published CIBC Bank prime rate plus 0% to 2%. As at March 31, 2022, the Company was in compliance with the lender’s financial covenants under the ABL.

[b] The Company has a credit agreement with a third party that is secured by a long-term customer contract which requires quarterly blended payments and matures in November 2023.

The consolidated interest expense for all borrowings for the three months ended March 31, 2022 was $1,051 (three months ended March 31, 2021 – $1,872).

6. 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, 2022 and December 31, 2021.

b) Stock option plans

During the three months ended March 31, 2022, 700,000 options (the “Options”) for common shares were granted under the Company’s long-term incentive plan. The Options vest over a four-year period with one quarter of the Options vesting every twelve months from the grant date. The Company uses the Black-Scholes option pricing model to value the Options at the time of grant. Management periodically reviews the estimates used for calculating the fair value of options; volatility is calculated at the time of option grant using historical share price trading activity; the risk-free interest rate is based on the government of Canada bond rate; the dividend yield is nil%; the expected annualized volatility is 52%; and the expected life of each option is 6.25 years after vesting.

During the three months ended March 31, 2022, the Company recognized share-based compensation expense of $1,184 from stock option plans (three months ended March 31, 2021 – nil). As at March 31, 2022, 2,300,000 options were outstanding and nil were exercisable, at a weighted average exercise price of $9.20 per share.

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

c) Restricted stock units

During the three months ended March 31, 2022, 69,675 restricted stock units (the “RSUs”) were granted under the Company’s long-term incentive plan. The RSUs fully vest over a one-year period from the grant date. The Company valued the RSUs at fair value based upon the closing stock price on the date of the grant.

During the three months ended March 31, 2022, the Company recognized share-based compensation expense of $28 from RSUs (three months ended March 31, 2021 – nil).

7. Other financial liabilities

Other financial liabilities as at March 31, 2022 and December 31, 2021 are comprised of the following:

	Notes	March 31, 2022 $	December 31, 2021 $
Notes payable	[a]	**1,881**	318
Deferred consideration	[b]	**43,007**	45,769
Contingent consideration	[c]	**14,495**	23,609
Lease liability		**16,541**	17,809
NCI liability	[d]	**25,086**	27,198
		101,010	114,703
Current liabilities		**26,920**	29,407
Non-current liabilities		**74,090**	85,296
		101,010	114,703

[a] Notes payable

As at March 31, 2022, SIS had one note payable to a third party for the purchase of equipment in aggregate of $281 (December 31, 2021 – $318). Interest on the note payable is 5.57% per annum and the maturity date is March 16, 2024.

As at March 31, 2022, Portage had one note payable to a third party in aggregate of $1,600 (December 31, 2021 – nil). Interest on the note payable is 4% per annum and the maturity date is March 22, 2032.

[b] Deferred consideration

The following table details the Company’s deferred consideration outstanding as at March 31, 2022, and December 31, 2021:

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

	Maturity Date	Interest rate per annum	Principal $ USD	Principal € EUR	Principal $ CDN	March 31, 2022 $	December 31, 2021 $
Nordisk	July 1, 2022	8%	1,000	-	1,258	**1,250**	1,268
Datatrend	September 30, 2022	7%	2,500	-	3,144	**3,219**	3,266
PCD	February 6, 2023	3.7%	-	-	1,440	**1,561**	3,362
Unique Digital	October 1, 2023	7%	1,600	-	1,999	**2,358**	2,414
Dasher	April 1, 2024	5%	5,548	-	6,933	**7,331**	7,318
Dasher	April 1, 2024	-	3,232	-	4,039	**4,039**	4,098
Rednet	August 4, 2031	5%	-	15,616	21,633	**22,937**	24,043
ExactlyIT	Note (i)	-	250	-	312	**312**	-
Total					40,758	**43,007**	45,769

Note (i)

As part of the acquisition of ExactlyIT, the sellers are entitled to future remuneration that becomes payable over a five year period commencing on January 1, 2022. Remuneration is based on the achievement of certain milestones and is expensed in the condensed interim consolidated statements of income (loss) and comprehensive income (loss). For the three months ended March 31, 2022, $312 remuneration expense has been recognized (three months ended March 31, 2022 – nil).

During the three months ended March 31, 2022, the Company recognized interest expensed on deferred consideration of $499 (three months ended March 31, 2021 – $268).

[c] Contingent consideration

Contingent consideration is comprised of earn-out payments due to sellers of acquired companies 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 with a ranging between 0.3% and 4.8%, and a volatility factor ranging between 25% and 65%.

The following table details the fair values of the Company's contingent consideration outstanding as at March 31, 2022, and December 31, 2021:

	March 31, 2022 $	December 31, 2021 $
Lighthouse	**-**	3,550
VSS	**3,700**	7,792
PCD	**1,419**	2,919
Unique Digital	**684**	694
Accudata	**3,716**	3,769
CarpeDatum	**1,152**	2,225
LPA	**1,708**	1,734
OPIN	**926**	926
1CRM	**1,190**	-
Total	**14,495**	23,609

During the three months ended March 31, 2022, the Company recognized an expense of nil in the condensed interim consolidated statements of income (loss) and comprehensive income (loss) (three months ended March 31, 2021 – $597).

During the three months ended March 31, 2022, the Company paid the year 3 earn-out to the sellers of Lighthouse of $3,546 ($2,800 USD), the year 2 earn-out to the sellers of VSS of $4,034 ($3,185 USD), the year 1 earn-out to the sellers of CarpeDatum of $1,055 ($833 USD), and the year 2 earn-out to the sellers of PCD of $1,500.

[d] NCI liability

Under the terms of the Rednet acquisition, the seller has the right to exercise a put option which would require the Company to purchase the seller's remaining 25% NCI, resulting in the recognition of an NCI liability. The terms of the acquisition also includes a reciprocal call option, which would require the sellers to sell their 25% ownership interest to the Company. Both the call and put options would be exercised for consideration based on the future EBITDA of Rednet at the time of exercise. The put option becomes exercisable between the periods August 1, 2024 to October 31, 2024; July 1, 2025 to September 30, 2025; and July 1, 2026 to September 30, 2026. The call option becomes exercisable between the periods January 1, 2025 to June 30, 2025; January 1, 2026 to June 30, 2026; and indefinitely after October 1, 2027. The NCI liability is a financial instrument that is measured at fair value, which is equal to the present value of the future estimated redemption amount. The fair value is reviewed on an ongoing basis, with the impact of any subsequent remeasurement of the valuation of the liability recognized in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

8. Fair value of financial instruments and risk management

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, lease payable, and notes payable approximate fair values due to the initial recognition at fair value near March 31, 2022, short-term nature of these items or being carried at fair value. The carrying amounts of the Company's borrowings approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period. The Company does not use derivative financial instruments to manage this risk.

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 three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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.

Contingent consideration is classified as a Level 3 financial instruments. The valuation method and significant assumptions used to determine the fair value of contingent consideration has been disclosed in Note 7. During the year, there were no transfers of amounts between levels.

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, 2022 or during fiscal 2021. There were also no changes in the purpose of any financial liability that subsequently resulted in a different classification of that liability.

Liquidity risk and going concern

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 and share prices)

9. Segmented information

The Company's Chief Executive Officer ("CEO") has been identified as the chief operation decision maker. The CEO evaluates the performance of the Company and allocates resources primarily based on revenue and gross profit as provided by the Company's internal management system at a consolidated level. The CEO may also consider industry trends and other externally available financial information when evaluating the performance of the Company. The Company has determined that it is a single operating segment: hybrid IT solutions. This segment engages in business activities from which it earns product and service revenues and incurs expenses.

Revenue from US operations for the three months ended March 31, 2022 was $341,615 (three months ended March 31, 2021 – $191,867). Revenue from Canadian operations for the three months ended March 31, 2022 was $145,280 (three months ended March 31, 2021 – $118,335). Revenue from German operations for the three months ended March 31, 2022 was $63,142 (three months ended March 31, 2021 – nil).

The following sets forth long-lived assets attributable to Canada (the Company's country of domicile), the United States, and Germany. The three regions hold all of the Company's long-lived assets.

March 31, 2022	**Property and equipment**	**Intangible assets**	**Goodwill**	**Total**
	$	**$**	**$**	**$**
United States	**33,009**	**182,269**	**196,650**	**411,928**
Canada	**2,281**	**17,777**	**23,873**	**43,931**
Germany	**4,806**	**77,392**	**120,261**	**202,459**
	40,096	**277,438**	**340,784**	**658,318**

December 31, 2021	Property and equipment	Intangible assets	Goodwill	Total
	$	$	$	$
United States	23,762	138,750	182,958	345,470
Canada	2,370	16,268	21,496	40,134
Germany	4,510	78,568	118,830	201,908
	30,642	233,586	323,284	587,512

10. Contingencies

In the normal course of operations, the Company is party to legal claims and contingencies. Accruals are made in instances where it is probable that liabilities have been incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its financial position.

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

11. Special charges

The Company has presented certain costs by nature under *Special charges*, to present separately expenses of the Company that are generally non-recurring and highly variable and may differ in amount and frequency from the Company's ongoing operating costs. Special charges consist primarily of restructuring-related expenses for employee 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.

Special charges for the three months ended March 31, 2022 and 2021 are detailed in the following table:

	For the three months ended March 31,	
	2022	2021
Transaction costs	**$ 4,969**	$ 958
Financing related costs	**583**	128
Legal and advisory costs	**170**	196
Restructuring related costs	**-**	1,172
Change in fair value of contingent consideration	**-**	597
Special charges	**$ 5,722**	$ 3,051

12. Provisions

Provisions include accruals for legal claims, restructuring and special charges, and are measured based on the Company's best estimate of the expenditure required to settle the obligation at the end of the reporting period. The following table details the Company's provisions, which is included in trade and other payables on the condensed interim consolidated statement of financial position, as at March 31, 2022:

	$
At December 31, 2021	**$ 2,085**
Utilized during the period	(202)
Adjustments to provision	636
Effect of foreign exchange	(23)
At March 31, 2022	**$ 2,496**

	$
At December 31, 2020	$ 3,283
Utilized during the period	(2,499)
Provisions expensed	999
Effect of foreign exchange	(264)
At March 31, 2021	$ 1,519

13. Subsequent events

Acquisition of CBI

On April 1, 2022, the Company acquired a 100% interest in Creative Breakthroughs, Inc. (“CBI”), a corporation headquartered in Ferndale, Michigan, focused on cybersecurity solutions that make the world a safer place. CBI’s main focus areas of threat-detection and obstruction lie in helping defend and secure networks and endpoints, testing and monitoring areas of operational risk, and protecting data. The transaction will be accounted for as a business combination. The total consideration for the purchase was $83,830 ($67,000 USD), consisting of (i) $58,806 ($47,000 USD) in cash which is presented as restricted cash on the condensed interim consolidated statement of financial position; (ii) working capital adjustment of $3,754 ($3,000 USD); and (iii) an estimated aggregate of $21,270 ($17,000 USD) in earn-out payments for the three years following closing of the acquisition based on the achievement of certain milestones.

Acquisition of IDX

On April 29, 2022, the Company announced that it completed the acquisition to acquire a 100% interest in Interdynamix Systems (“IDX”), a corporation headquartered in Edmonton, Alberta, focused on cloud computing, infrastructure and open-source consulting. The transaction will be accounted for as a business combination. The total consideration for the purchase was $31,172 in cash.