Condensed interim consolidated financial statements

Converge Technology Solutions Corp.

For the three months ended March 31, 2023 and 2022
(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, 2023	December 31, 2022
Assets			
Current assets			
Cash		**$ 139,028**	$ 159,890
Restricted cash		**5,105**	5,230
Trade and other receivables		**784,096**	781,683
Inventories		**157,608**	158,430
Prepaid expenses and other assets		**25,139**	23,046
		1,110,976	1,128,279
Long-term assets			
Property, equipment, and right-of-use assets, net		**79,897**	88,352
Intangible assets, net		**446,961**	463,751
Goodwill		**566,996**	563,848
Other non-current assets		**12,061**	4,646
Total assets		**$ 2,216,891**	$ 2,248,876
Liabilities			
Current liabilities			
Trade and other payables	12	**$ 828,000**	$ 824,924
Borrowings	5	**460,221**	421,728
Other financial liabilities	7	**66,741**	123,932
Deferred revenue		**60,484**	60,210
Income taxes payable		**5,402**	7,112
		1,420,848	1,437,906
Long-term liabilities			
Other financial liabilities	7	**64,551**	77,183
Deferred tax liability		**98,513**	102,977
Total liabilities		**$ 1,583,912**	$ 1,618,066
Shareholders' equity			
Common shares	6	**599,233**	595,019
Contributed surplus		**8,767**	7,919
Exchange rights		**-**	1,705
Accumulated other comprehensive income		**15,881**	13,708
Deficit		**(20,398)**	(18,441)
Total equity attributable to shareholders of Converge		**603,483**	599,910
Non-controlling interest		**29,496**	30,900
		632,979	630,810
Total liabilities and shareholders' equity		**$ 2,216,891**	$ 2,248,876

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 – Darlene Kelly

Converge Technology Solutions Corp.

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

For the three months ended March 31,	Notes		2023		2022*
Revenues					
Product	2[a]	$	536,689	$	397,392
Service			141,509		96,648
Total revenue	9,2[a]		678,198		494,040
Cost of sales			506,610		384,995
Gross profit			171,588		109,045
Selling, general and administrative expenses			132,033		80,412
Income before the following			39,555		28,633
Depreciation and amortization			25,890		14,480
Finance expense, net	5,7		9,350		1,818
Special charges	11		4,284		5,722
Share-based compensation	6		848		1,212
Other expense	13		2,469		6,403
Loss before income taxes			(3,286)		(1,002)
Income tax expense			75		1,406
Net loss		$	(3,361)	$	(2,408)
Net loss attributable to:					
Shareholders of Converge			(1,957)		(1,794)
Non-controlling interest			(1,404)		(614)
			(3,361)		(2,408)
Other comprehensive loss					
Item that may be reclassified subsequently to income:					
Exchange (gain) loss on translation of foreign operations			(2,173)		6,587
Comprehensive loss		$	(1,188)	$	(8,995)
Comprehensive loss attributable to:					
Shareholders of Converge			216		(8,381)
Non-controlling interest			(1,404)		(614)
			(1,188)		(8,995)
Net loss per share – basic and diluted		$	(0.01)	$	(0.01)
Weighted average number of shares outstanding – basic			208,971,019		214,796,369
Weighted average number of shares outstanding – diluted			211,369,406		217,333,456

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, 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)	500,000	320	-	(320)	-	-	-	-
Net loss and comprehensive 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**
Balance, December 31, 2022		**208,812,218**	**595,019**	**7,919**	**1,705**	**13,708**	**(18,441)**	**30,900**	**630,810**
Share-based compensation	6	-	-	848	-	-	-	-	848
Exercise of exchange rights	(i), (ii)	321,685	1,705	-	(1,705)	-	-	-	-
Share purchase commitment under normal course issuer bid (NCIB)	6	-	2,509	-	-	-	-	-	2,509
Net income (loss) and comprehensive income (loss)		-	-	-	-	2,173	(1,957)	(1,404)	(1,188)
Balance, March 31, 2023		**209,133,903**	**599,233**	**8,767**	**-**	**15,881**	**(20,398)**	**29,496**	**632,979**

(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. As of December 31, 2022, all Class B membership interests of SIS have been exchanged for common shares and nil are issued and outstanding. During the three months ended March 31, 2022, 500,000 Class B membership interests were exchanged for 500,000 common shares at $0.64 per share for a value of $320.

(ii) 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. During the three months ended March 31, 2023, 321,685 Class B membership interests (March 31, 2022 – nil) were exchanged for 321,685 common shares (March 31, 2022 – nil) at $4.35 per share for a value of $1,400 (March 31, 2022 – nil). As of March 31, 2023, all Class B membership interests of CarpeDatum have been exchanged for common shares and nil are issued and outstanding.

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	2023	2022
Cash flows from (used in) operating activities			
Net loss		**$ (3,361)**	$ (2,408)
Adjustments to reconcile net loss to net cash from operating activities			
Depreciation and amortization		**27,549**	15,340
Unrealized foreign exchange losses	13	**2,463**	6,669
Share-based compensation expense	6	**848**	1,212
Finance expense, net	5,7	**9,350**	1,818
Income tax expense		**75**	1,406
		36,924	24,037
Changes in non-cash working capital items	14	**(8,161)**	(54,257)
Cash from (used in) operating activities		**28,763**	(30,220)
Cash flows used in investing activities			
Purchase of property and equipment		**(5,106)**	(11,356)
Proceeds on disposal of property and equipment		**68**	177
Repayment of contingent consideration	7	**(8,960)**	(10,134)
Repayment of deferred consideration	7	**(25,654)**	(1,740)
Repayment of NCI liability	7	**(29,994)**	-
Business combinations, net of cash acquired	4	**-**	(67,926)
Cash used in investing activities		**(69,646)**	(90,979)
Cash flows from financing activities			
Transfers from (to) restricted cash		**216**	(63,493)
Interest paid		**(7,877)**	(956)
Payments of lease liabilities		**(5,135)**	(2,728)
Repayment of notes payable	7	**(40)**	(121)
Net proceeds from borrowings	5	**34,199**	162,468
Cash from financing activities		**21,363**	95,170
Net change in cash during the period		**(19,520)**	(26,029)
Effect of foreign exchange on cash		**(1,342)**	(5,500)
Cash, beginning of period		**159,890**	248,193
Cash, end of period		**$ 139,028**	$ 216,664

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

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

1. Nature of business

Converge Technology Solutions Corporation, which includes its global subsidiaries (the "Company"), is a services-led, software-enabled, IT and cloud solutions provider with operations in North America and Europe. The Company is organized around two operating segments: Converge Hybrid IT Solutions, and Portage Software-as-a-Solution ("SaaS") Solutions (Note 9).

Converge Hybrid IT Solutions is focused on delivering advanced analytics, application modernization, cloud, cybersecurity, digital infrastructure, digital workplace and managed services offerings as well as the provision of hardware and software products and solutions to clients across various industries and organizations. This operating segment is primarily made up of mature companies that sell complimentary products and services, and their operations have been fully integrated within the Company's consolidated operations.

Portage SaaS Solutions, the Company's 51% owned subsidiary, is focused on powering trusted digital transactions between individuals, businesses, and government organizations. Portage customers use its SaaS solutions and expert services to power digital signatures with legal reliability, and to improve experiences for trusted transactions.

The Company's common shares are listed on the Toronto Stock Exchange under the symbol "CTS".

The Company was incorporated on November 29, 2016. The Company's registered head office is 85 Rue Victoria, Gatineau, Quebec, J8X 2A3 and the head office of the Company is located at 161 Bay Street, Suite 2325, Toronto, Ontario, M5J 2T6.

The Company has the following wholly owned subsidiaries as at March 31, 2023:

OHC International, LLC, Corus 360 Limited ("Corus")	Acumetrics Business Intelligence Inc. ("Lighthouse")
Essextec Acquisition, LLC, Essex Technology Group, Inc., Essex Commercial Finance LLC ("Essex")	Portage CyberTech Inc., 10084182 Canada Inc. o/a Becker-Carroll, Vivvo Application Studios, OPIN Digital Inc., OPIN Digital Corp., 1CRM Systems Corp., Solutions Notarius Inc. ("Portage")
Converge Technology Hybrid IT Solutions Europe Ltd. ("Converge Europe")	Converge Technology Solutions US, LLC
Solutions P.C.D. Inc, P.C.D. Consultation Inc. ("PCD")	Newcomp Analytics Inc., Newcomp Analytics Inc, Newcomp Solutions (USA), Inc ("Newcomp")
Infinity Systems Software, Inc. ("Infinity Systems")	Converge Technology Partners Inc.
Accudata Systems LLC ("Accudata")	Northern Micro Inc. ("Northern Micro")
ExactlyIT Inc., ExactlyIT, S. de R.L. de C.V ("ExactlyIT")	VSS Holdings, LLC, VSS, LLC, Information Insights, LLC ("VSS")
Creative Breakthroughs, Inc. ("CBI")	Unique Digital, Inc. ("Unique Digital")
IDX Systems Corp., 1176524 Alberta Ltd., 1190422 Alberta Ltd., 1245720 Alberta Ltd. ("IDX")	CarpeDatum LLC ("CarpeDatum")
Gesellschaft für digitale Bildung GmbH. Institut für modern Bildung GmbH, DEQSTER GmbH ("GfdB")	Dasher Technologies, Inc. ("Dasher")
PC Specialists, Inc., Itex, Inc., TIG Asia Limited, Technology Integration Group Hong Kong Limited, TIG (Shanghai) Co., Ltd. ("TIG")	Vicom Infinity, Inc ("Vicom Infinity")

Rednet AG ("Rednet")	PDS Holding Company, Paragon Development Systems Inc., Works Computing, LLC., Paragon Staffing, LLC. ("PDS")
Stone Technologies Group Ltd., Granite One Hundred Holdings Ltd., Stone Computers Ltd., Stone Technologies Ltd., Compusys Ltd. ("Stone")	Visucom GmbH ("Visucom")

2. Basis of preparation

[a] Statement of compliance

The unaudited condensed interim consolidated financial statements have been prepared in compliance with IAS 34 – Interim Financial Reporting ("IAS 34") and using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2022, except as disclosed below. 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, 2022.

The comparative information has been updated to reflect the accounting policy change as adopted effective December 31, 2022 related to the treatment of revenue from the resale of standard software licenses on principal or agent recognition basis under IFRS 15. As a result, the comparative information for the three months ended March 31, 2022 has been reclassified as follows:

March 31, 2022	Balances pre-accounting policy change and as previously reported	Impact of adoption	Reclassified
Revenues			
Product	$ 453,389	55,997	$ 397,392
Service	96,648	-	96,648
Total revenue	550,037	55,997	494,040
Cost of sales	440,992	55,997	384,995
Gross profit	$ 109,045	-	$ 109,045

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 9, 2023.

[b] Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis, using historical cost, except for certain assets and liabilities initially recognized in connection with business combinations, and contingent consideration related to business combinations, which are measured at their estimated fair value.

[c] Use of estimates and judgements

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 condensed interim consolidated financial statements, and the reported amounts of revenue and expenses during the period.

Estimates and underlying assumptions are reviewed on an ongoing basis. 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.

The residual impacts of COVID-19, and the recent escalation in conflict between Russia and Ukraine, have disrupted supply chains and caused instability in the global economy, which has 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 available for delivery to Converge's customers. As a result, the Company is experiencing higher than normal product backlog in its pipeline. In response, from time to time, Converge may proactively increase its inventory levels where possible to alleviate supply chain pressures. The Company continues to work closely with key vendors and proactively manages inventory levels to mitigate the impact of industry wide supply constraints. In addition, businesses are experiencing economic uncertainty driven by market volatility in commodity prices high inflation, high interest rates and increasing energy cost. The impact of these events could include increase in expenses and financing costs.

3. New standards, amendments and interpretations

The following new accounting standards were applied or adopted by the Company during the quarter ended March 31, 2022:

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 adoption of this amendment did not have a material impact on the 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 adoption of this amendment did not have a material impact on the consolidated financial statements.

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

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 their 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, 2024 and are to be applied prospectively. The adoption of this amendment did not have a material impact on the consolidated financial statements.

There have been no new accounting standards issued in the current period from those previously disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2022.

4. Business combinations

As at March 31, 2023, the acquisition accounting for Notarius, TIG, and GfdB 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 cumulative allocation of the fair value to the acquired identifiable assets acquired and liabilities assumed as at the date of acquisition for the Company's acquisitions completed during the year ended December 31, 2022:

	December 31, 2022
Cash consideration	$ 497,738
Contingent consideration	17,354
Deferred consideration	5,935
NCI liability	8,403
Total	**529,430**
Cash	80,104
Trade and other receivables	202,133
Prepaid expenses and other current assets	8,225
Inventory	82,497
Property and equipment	10,968
Right-of-use-asset	18,358
Intangible assets	263,098
Trade and other payables	(229,247)
Deferred revenue	(31,370)
Deferred tax liability	(69,346)
Lease liability	(18,642)
Goodwill	**$ 212,622**

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

5. Borrowings

The borrowings outstanding as at March 31, 2023 and December 31, 2022 were as follows:

Facility	Notes	March 31, 2023	December 31, 2022
Revolved Credit Facility	[a]	**$ 459,262**	$ 420,439
Other third-party facilities	[b]	**959**	1,289
Total		**460,221**	421,728
Current liabilities		**460,221**	421,728
Non-current liabilities		**-**	-
Total		**$ 460,221**	$ 421,728

[a] On July 28, 2022, the Company entered into a multi-currency, global revolving credit agreement (the “Revolver Credit Facility”) with a syndicate of Canadian and US lenders, led by J.P. Morgan and the Canadian Imperial Bank of Commerce (“CIBC”). The Revolver Credit Facility can be drawn to a maximum of $500,000 and included an uncommitted accordion feature of $100,000. On February 9, 2023, the Company exercised the accordion feature, increasing the total borrowing capacity to $600,000. Interest is payable monthly at an interest rate that generally approximates the Secured Overnight Financing Rate (“SOFR”), plus applicable bank margin ranging from 1.25% to 2.25%. The effective interest rate for the three months ended March 31, 2023 was 5.1% (December 31, 2022 – 5.1%). As at March 31, 2023, the Company was in compliance with the lenders’ primary financial covenants under the Revolver Credit Facility, however the Company’s lease liability (Note 7) was in excess of the maximum permitted as per the applicable conditional under the credit agreement. On April 19, 2023, the Company received a waiver from the lenders for the breach and increased the available lease liability threshold, and the Company was in compliance with all covenants under the Revolver Credit Facility as at the date of these interim condensed consolidated financial statements.

[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, 2023 was $7,073 (three months ended March 31, 2022 – $1,051).

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, 2023 and December 31, 2022.

b) Stock option plans

During the three months ended March 31, 2023, the Company recognized share-based compensation expense of $719 from stock option plans (three months ended March 31, 2022 – $1,184). As at March 31, 2023, 2,328,712 (December 31, 2022 – 2,828,712) options were outstanding and 575,000 (December 31, 2022 – 400,000) were exercisable, at a weighted average exercise price of $9.14 (December 31, 2022 – $8.56) 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, 2023, the Company recognized share-based compensation expense of $129 from RSUs (three months ended March 31, 2022 – $28).

d) Share repurchase

On August 8, 2022, the Company announced that the Toronto Stock Exchange ("TSX") approved the Company's Notice of Intention to make a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may purchase for cancellation up to an aggregate of 10,744,818 of the Company's common shares representing 5% of the issued and outstanding common shares as at July 31, 2022. The NCIB commenced on August 11, 2022 and terminates one year after its commencement, or earlier if the maximum number of common shares under the NCIB have been purchased or the NCIB is terminated at the option of the Company. All common shares acquired by the Company under the NCIB will be cancelled.

The Company also entered into an automatic purchase plan agreement ("ASPP") with a broker upon commencement of the NCIB to allow for purchases of common shares during certain pre-determined blackout periods when the Company ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise. As of March 31, 2023, 6,464,124 common shares were repurchased and cancelled under the NCIB.

As at March 31, 2023, an obligation for the repurchase of shares of $17,326 (December 31, 2022 – $19,835) was recognized under the ASPP (Note 7).

7. Other financial liabilities

Other financial liabilities as at March 31, 2023 and December 31, 2022 are comprised of the following:

	Notes	**March 31, 2023** **$**	December 31, 2022 $
Notes payable	**[a]**	**1,820**	1,842
Deferred consideration	**[b]**	**24,654**	43,492
Contingent consideration	**[c]**	**27,759**	36,614
Lease liability		**50,534**	53,642
NCI liability	**[d]**	**9,199**	45,690
NCIB liability		**17,326**	19,835
		131,292	201,115
Current liabilities		**66,741**	123,932
Non-current liabilities		**64,551**	77,183
		131,292	201,115

[a] Notes payable

As at March 31, 2023, the Company had a note payable to a third party of $156 (December 31, 2022 – $194). Interest on the note payable is 5.57% per annum and the maturity date is March 16, 2024.

As at March 31, 2023, Portage had a note payable to a third party of $1,664 (December 31, 2022 – $1,648). Interest on the note payable is 4% per annum and the maturity date is March 22, 2032.

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

[b] Deferred consideration

The following table details the Company's deferred consideration outstanding as at March 31, 2023, and December 31, 2022:

	Maturity Date	Interest rate per annum	Principal $ USD	Principal € EUR	Principal $ CDN	March 31, 2023 $	December 31, 2022 $
PCD	February 6, 2023	3.7%	-	-	-	**-**	1,633
Rednet	March 15, 2023	5%	-	-	-	**-**	24,814
Unique Digital	October 1, 2023	7%	800	-	1,083	**1,217**	1,219
Dasher	April 1, 2024	5%	3,654	-	4,945	**5,625**	5,630
Dasher	April 1, 2024	-	2,046	-	2,769	**2,769**	2,771
ExactlyIT	Note (i)	-	1,250	-	1,690	**1,690**	1,354
Notarius	December 17, 2023	5%	-	-	5,000	**5,056**	5,129
Newcomp	September 9, 2024	5%	-	-	1,016	**943**	942
Rednet	December 31, 2023	-	-	5,000	7,354	**7,354**	-
Total			7,750	5,000	23,857	**24,654**	43,492

During the three months ended March 31, 2023, the Company paid the deferred consideration to the sellers of PCD of $1,680, and to the sellers of Rednet of $23,974 (€17,110).

During the three months ended March 31, 2023, the Company recognized interest expensed on deferred consideration of $110 (three months ended March 31, 2022 – $499).

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 over time, as it becomes earned, in the condensed interim consolidated statements of loss and comprehensive loss. For the three months ended March 31, 2023, $338 remuneration expense has been recognized (three months ended March 31, 2023 – $312).

[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 2.5% and 7.5%, and a volatility factor ranging between 30% and 65%.

The following table details the fair values of the Company's contingent consideration outstanding as at March 31, 2023, and December 31, 2022:

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

	March 31, 2023 **$**	December 31, 2022 $
VSS	**1,915**	6,230
PCD	**-**	1,500
Unique Digital	**502**	502
Accudata	**5,075**	5,079
CarpeDatum	**1,029**	2,158
LPA	**1,881**	3,914
OPIN	**350**	350
1CRM	**1,700**	1,700
CBI	**7,524**	7,530
GfdB	**7,783**	7,651
Total	**27,759**	36,614

During the three months ended March 31, 2023, the Company paid the year 3 earn-out to the sellers of VSS of $4,304 ($3,184 USD), the year 1 earn-out to the sellers of LPA of $2,028 ($1,500 USD), the year 2 earn-out to the sellers of CarpeDatum of $1,126 ($833 USD), and the year 3 earn-out to the sellers of PCD of $1,500.

[d] NCI liability

Rednet

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 loss and comprehensive loss.

At December 31, 2022, the Company signed a definitive agreement with the seller which modified the original purchase agreement to allow the Company to acquire the remaining 25% interest in Rednet for $36,713 (25,393 €), which is payable in two installments. On March 15, 2023, the Company made the first payment of $29,994 (20,393 €), with the remaining $6,719 (5,000 €) owed to the seller on December 31, 2023, which has been included in deferred consideration above (Note 7b).

Stone

Under the terms of the Stone acquisition, the seller has the right to exercise a put option that would require the Company to purchase the seller's remaining 11% 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 11% ownership interest to the Company. Both the call and put options would be exercised for consideration based on the future EBITDA of Stone at the time of exercise. The put option becomes exercisable between the periods February 1, 2026 to February 28, 2026; February 1, 2027 to February 28, 2027; and indefinitely after February 1, 2028. The call option becomes exercisable between the periods January 1, 2026 to January 31, 2026; January 1, 2027 to January 31, 2027; January 1, 2028 to January 31, 2028; and indefinitely after March 1, 2028. The NCI liability is a financial instrument classified as Level 3 in the fair value hierarchy 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 loss and comprehensive 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, 2023, 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, 2023 or during fiscal 2022. 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.

9. Segmented information

The Company's Group Chief Executive Officer ("CEO") has been identified as the chief operation decision maker ("CODM"). The CODM evaluates the performance of the Company and allocate resources primarily based on revenue and gross profit as provided by the Company's internal management system at a consolidated level. The CODM may also consider industry trends and other externally available financial information when evaluating the performance of the Company. As a result of significant business operation and internal reporting changes undertaken by the Company in the first quarter of 2023 that affect how the Company views and monitors the performance of its majority-owned Portage subsidiary, the Company has determined that it is now comprised of two operating segments: i) Converge Hybrid IT Solutions ("Converge"), and ii) Portage SaaS Solutions ("Portage"). A description of the Company's operating segments is provided in Note 1. The prior year data for the new operating segments has been reclassified for comparative purposes consistent with the Company's accounting policy change (Note 2a).

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

The CODM evaluates the performance of each segment based on revenue less cost of sales, and sales, general and administration expenses ("Segment Profit"). Segment profit (loss) excludes depreciation and amortization, special charges, finance expense, share-based compensation, and other income or expense.

For the three months ended March 31,		**2023**			**2022**	
	Converge	**Portage**	**Total**	**Converge**	**Portage**	**Total**
Total revenue	**$ 673,503**	**4,695**	**678,198**	**$ 492,629**	**1,411**	**494,040**
Cost of sales	505,284	1,326	506,610	384,371	624	384,995
Gross profit	**168,219**	**3,369**	**171,588**	**108,258**	**787**	**109,045**
Selling, general and administrative expenses	127,787	4,246	132,033	78,872	1,540	80,412
Segment profit (loss)	**40,432**	**(877)**	**39,555**	**29,386**	**(753)**	**28,633**
Depreciation and amortization			25,890			14,480
Finance expense, net			9,350			1,818
Special charges			4,284			5,722
Share-based compensation			848			1,212
Other expense			2,469			6,403
Income (loss) before income taxes			**(3,286)**			**(1,002)**

Revenue from US operations for the three months ended March 31, 2023 was $415,646 (three months ended March 31, 2022 – $288,561). Revenue from Canadian operations for the three months ended March 31, 2023 was $124,272 (three months ended March 31, 2022 – $142,337). Revenue from European operations for the three months ended March 31, 2023 was $138,280 (three months ended March 31, 2022 – $63,142).

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

March 31, 2023	**Property and equipment**	**Intangible assets**	**Goodwill**	**Total**
	$	**$**	**$**	**$**
United States	**49,803**	**245,960**	**304,469**	**600,232**
Canada	**10,835**	**68,467**	**83,116**	**162,418**
Europe	**19,259**	**132,534**	**179,411**	**331,204**
	79,897	**446,961**	**566,996**	**1,093,854**

December 31, 2022	Property and equipment	Intangible assets	Goodwill	Total
	$	$	$	$
United States	57,347	257,955	304,716	620,018
Canada	11,513	70,580	82,966	165,059
Europe	19,492	135,216	176,166	330,874
	88,352	463,751	563,848	1,115,951

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

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.

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, 2023 and 2022 are detailed in the following table:

	For the three months ended March 31,	
	2023	2022
Transaction costs	**$ 1,666**	$ 4,969
Financing related costs	**846**	583
Legal and advisory costs	**466**	170
Restructuring related costs	**1,305**	-
Special charges	**$ 4,284**	$ 5,722

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, 2023:

	$
At December 31, 2022	**$ 2,031**
Provisions expensed	1,134
Utilized during the period	(1,141)
Effect of foreign exchange	(1)
At March 31, 2023	**$ 2,023**

13. Other expense

Other expense is comprised primarily of foreign exchange gains or loss, interest income, and other income and expenses. Unrealized foreign exchange gains and losses mainly relate to the translation of certain foreign currency denominated monetary net asset balances denominated in a currency different from the functional currency of the related entity.

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

Other expense for the three months ended March 31, 2023 and 2022 is detailed in the following table:

	For the three months ended March 31,	
	2023	2022
Unrealized foreign exchange loss	**2,463**	6,669
Other expense (income)	**6**	(264)
Other expense	**2,469**	6,403

14. Changes in non-cash working capital

	For the three months ended March 31,	
	2023	2022
Trade and other receivables	**(2,441)**	(27,773)
Inventories	**1,328**	6,549
Prepaid expenses and other assets	**(1,426)**	(1,429)
Trade and other payables	**781**	(29,383)
Income taxes payable	**(6,925)**	(753)
Other financial liabilities	**356**	1,917
Deferred revenue and customer deposits	**166**	(3,385)
Changes in non-cash working capital items	**(8,161)**	(54,257)