Converge Technology Solutions Corp.

Condensed consolidated interim financial statements

For the three and six months ended June 30, 2023 and 2022
(Expressed in thousands of Canadian dollars)
(Unaudited)

Converge Technology Solutions Corp.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(expressed in thousands of Canadian dollars)

	Notes	June 30, 2023	December 31, 2022
Assets			
Current			
Cash		$ **78,443**	$ 159,890
Restricted cash		**2,611**	5,230
Trade and other receivables		**781,330**	781,683
Inventories		**160,411**	158,430
Prepaid expenses and other assets		**23,337**	23,046
		1,046,132	1,128,279
Non-current			
Other assets		**17,943**	4,646
Property, equipment, and right-of-use assets, net		**73,659**	88,352
Intangible assets, net		**419,403**	463,751
Goodwill		**561,283**	563,848
Total assets		$ **2,118,420**	$ 2,248,876
Liabilities			
Current			
Trade and other payables	11	$ **814,855**	$ 824,924
Other financial liabilities	7	**63,082**	123,932
Deferred revenue		**47,475**	60,210
Borrowings	5	**398**	421,728
Income taxes payable		**7,816**	7,112
		933,626	1,437,906
Non-current			
Other financial liabilities	7	**51,701**	77,183
Borrowings	5	**429,909**	-
Deferred tax liabilities		**88,278**	102,977
Total liabilities		$ **1,503,514**	$ 1,618,066
Shareholders' equity			
Common shares	6	**604,144**	595,019
Contributed surplus		**9,243**	7,919
Exchange rights		**-**	1,705
Accumulated other comprehensive income		**156**	13,708
Deficit		**(27,186)**	(18,441)
Total equity attributable to shareholders of Converge		**586,357**	599,910
Non-controlling interest		**28,549**	30,900
		614,906	630,810
Total liabilities and shareholders' equity		$ **2,118,420**	$ 2,248,876

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

On behalf of the Board:

"Signed"
Director - Shaun Maine

"Signed"
Director – Darlene Kelly

Converge Technology Solutions Corp.

Condensed Consolidated Interim Statements of (Loss) Income and Comprehensive (Loss) Income (unaudited)

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

	Notes	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue					
Product	2[a]	**$ 511,597**	$ 410,361	**$ 1,048,286**	$ 807,753
Service		**154,216**	104,835	**295,725**	201,483
Total revenue	8,2[a]	**665,813**	515,196	**1,344,011**	1,009,236
Cost of sales		**490,141**	382,044	**996,751**	767,040
Gross profit		**175,672**	133,152	**347,260**	242,196
Selling, general and administrative expenses		**136,699**	95,823	**268,732**	176,235
Income before the following		**38,973**	37,329	**78,528**	65,961
Depreciation and amortization		**26,893**	17,178	**52,783**	31,657
Finance expense, net	5,7	**10,652**	3,094	**20,002**	4,912
Special charges	10	**13,292**	5,559	**17,576**	11,280
Share-based compensation	6	**1,117**	1,685	**1,965**	2,897
Other (income) expenses	12	**(6,529)**	(3,265)	**(4,060)**	3,138
(Loss) Income before income taxes		**(6,452)**	13,078	**(9,738)**	12,077
Income tax (recovery) expense		**(1,957)**	1,400	**(1,882)**	2,807
Net (loss) income		**$ (4,495)**	$ 11,678	**$ (7,856)**	$ 9,270
Net (loss) income attributable to:					
Shareholders of Converge		**(3,548)**	12,017	**(5,505)**	10,223
Non-controlling interest		**(947)**	(339)	**(2,351)**	(953)
		$ (4,495)	$ 11,678	**$ (7,856)**	$ 9,270
Other comprehensive (loss) income					
Item that may be reclassified subsequently to (loss) income:					
Exchange differences on translation of foreign operations		**(15,725)**	5,554	**(13,552)**	(1,034)
		(15,725)	5,554	**(13,552)**	(1,034)
Comprehensive (loss) income		**$ (20,220)**	$ 17,232	**$ (21,408)**	$ 8,236
Comprehensive (loss) income attributable to:					
Shareholders of Converge		**(19,273)**	17,571	**(19,057)**	9,189
Non-controlling interest		**(947)**	(339)	**(2,351)**	(953)
		(20,220)	17,232	**(21,408)**	8,236
Net (loss) income per share – basic and diluted		**$ (0.02)**	$ 0.05	**$ (0.03)**	$ 0.05
Weighted average number of shares outstanding – basic		**208,331,122**	215,291,973	**208,649,302**	214,846,645
Weighted average number of shares outstanding – diluted		**208,331,122**	218,597,232	**208,649,302**	217,701,902

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

Converge Technology Solutions Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

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

	Notes	**Common shares** #	**Common shares** $	**Contributed surplus** $	**Exchange rights** $	**Accumulated other comprehensive income (loss)** $	**Deficit** $	**Non-controlling interest** $	**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	-	-	2,897	-	-	-	-	2,897
Exercise of exchange rights	(i)	500,000	320	-	(320)	-	-	-	-
Net income and comprehensive income		-	-	-	-	(1,034)	10,223	(953)	8,236
Balance, June 30, 2022		**214,896,369**	**633,809**	**5,222**	**2,076**	**(705)**	**(14,827)**	**34,386**	**659,961**
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	-	-	1,965	-	-	-	-	**1,965**
Exercise of exchange rights	(i), (ii)	321,685	1,705	-	(1,705)	-	-	-	-
Exercise of restricted share units	6	69,675	641	(641)	-	-	-	-	-
Share purchase commitment under normal course issuer bid (NCIB)	6	-	19,835	-	-	-	-	-	**19,835**
Shares repurchased and cancelled	6	(2,553,552)	(7,286)	-	-	-	(1,173)	-	**(8,459)**
Shares repurchased to be cancelled	6	(1,727,142)	(5,770)	-	-	-	-	-	**(5,770)**
Dividends paid	6	-	-	-	-	-	(2,067)	-	**(2,067)**
Net loss and comprehensive loss		-	-	-	-	(13,552)	(5,505)	(2,351)	**(21,408)**
Balance, June 30, 2023		**204,922,884**	**604,144**	**9,243**	**-**	**156**	**(27,186)**	**28,549**	**614,906**

(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 six months ended June 30, 2022, 500,000 Class B membership interests were exchanged for 500,000 common shares at $0.64 per share for a value of $320. As of June 30, 2022, all Class B membership interests of SIS have been exchanged for common shares and nil are issued and outstanding.

(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 six months ended June 30, 2023, 321,685 Class B membership interests (June 30, 2022 – nil) were exchanged for 321,685 common shares (June 30, 2022 – nil) at $4.35 per share for a value of $1,400 (June 30, 2022 – nil). As of June 30, 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 consolidated interim financial statements.

Converge Technology Solutions Corp.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(expressed in thousands of Canadian dollars)

	Notes	For the three months ended June 30, 2023	2022	For the six months ended June 30, 2023	2022
Cash flows (used in) from operating activities					
Net (loss) income		**$ (4,495)**	$ 11,678	**$ (7,856)**	$ 9,270
Adjustments to reconcile net (loss) income to net cash from operating activities					
Depreciation and amortization		**29,235**	18,739	**56,785**	33,969
Unrealized foreign exchange (gains) losses	12	**(5,281)**	(2,968)	**(2,818)**	3,701
Share-based compensation expense	6	**1,117**	1,685	**1,965**	2,897
Finance expense, net	5,7	**10,652**	3,094	**20,002**	4,912
Gain on sale of property and equipment		**(598)**	-	**(598)**	-
Change in fair value of contingent consideration		**6,551**	-	**6,551**	-
Income tax (recovery) expense		**(1,957)**	1,400	**(1,882)**	2,807
		35,224	33,628	**72,149**	57,556
Changes in non-cash working capital items	13	**(40,349)**	9,214	**(41,585)**	(44,290)
		(5,125)	42,842	**30,564**	13,266
Income taxes paid		**(4,520)**	(16,272)	**(11,446)**	(17,025)
Cash (used in) from operating activities		**(9,645)**	26,570	**19,118**	(3,759)
Cash flows used in investing activities					
Purchase of property and equipment		**(2,091)**	(3,123)	**(7,197)**	(14,479)
Proceeds on disposal of property and equipment		**3,681**	-	**3,749**	178
Payment of contingent consideration	7	**(975)**	-	**(9,935)**	(10,168)
Payment of deferred consideration	7	**(4,066)**	(5,208)	**(29,720)**	(6,948)
Payment of NCI liability	7	**-**	-	**(29,994)**	-
Business combinations, net of cash acquired	4	**-**	(131,545)	**-**	(199,471)
Cash used in investing activities		**(3,451)**	(139,876)	**(73,097)**	(230,888)
Cash flows (used in) from financing activities					
Transfers from (to) restricted cash		**2,371**	58,980	**2,587**	(4,513)
Interest paid		**(7,365)**	(2,102)	**(15,242)**	(3,058)
Dividend paid		**(2,067)**	(1,100)	**(2,067)**	(1,100)
Payments of lease liabilities		**(5,089)**	(2,304)	**(10,224)**	(5,032)
Repurchase of common shares		**(14,230)**	-	**(14,230)**	-
Repayment of notes payable	7	**(40)**	(38)	**(80)**	(159)
Net (repayment to) proceeds from borrowings	5	**(22,815)**	22,351	**11,384**	184,819
Cash (used in) from financing activities		**(49,235)**	75,787	**(27,872)**	170,957
Net change in cash during the period		**(62,331)**	(37,519)	**(81,851)**	(63,690)
Effect of foreign exchange on cash		**1,746**	4,526	**404**	(328)
Cash, beginning of period		**139,028**	217,168	**159,890**	248,193
Cash, end of period		**$ 78,443**	$ 184,175	**$ 78,443**	$ 184,175

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

Notes to the condensed consolidated interim financial statements

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

For the three and six months ended June 30, 2023 and 2022

1. Nature of business

Converge Technology Solutions Corp., 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 8).

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 June 30, 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 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")	

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

2. Basis of preparation

[a] Statement of compliance

These condensed consolidated interim 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 consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022. Certain comparative figures have been reclassified to conform to the financial presentation adopted for the current period.

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 and six months ended June 30, 2022 has been reclassified as follows:

Three months ended June 30, 2022	Balances pre-accounting policy change and as previously reported	Impact of adoption	Reclassified
Revenue			
Product	$ 491,821	$ 81,460	$ 410,361
Service	104,835	-	104,835
Total revenue	596,656	81,460	515,196
Cost of sales	463,504	81,460	382,044
Gross profit	$ 133,152	$ -	$ 133,152

Six months ended June 30, 2022	Balances pre-accounting policy change and as previously reported	Impact of adoption	Reclassified
Revenue			
Product	$ 945,210	$ 137,457	$ 807,753
Service	201,483	-	201,483
Total revenue	1,146,693	137,457	1,009,236
Cost of sales	904,497	137,457	767,040
Gross profit	$ 242,196	$ -	$ 242,196

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 8, 2023.

[b] Basis of measurement

These condensed consolidated interim 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 judgments

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of condensed consolidated interim financial statements, and the reported amounts of revenue and expenses during the periods.

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 consolidated interim 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 decrease in revenue, increase in expenses and financing costs.

3. New standards, amendments and interpretations

The following new accounting standards were applied or adopted by the Company on January 1, 2023:

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 adoption of this amendment resulted in no significant impact on the Company's condensed consolidated interim 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 adoption of this amendment resulted in no significant impact on the Company's condensed consolidated interim financial statements.

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

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 adoption of this amendment resulted in no significant impact on the Company's condensed consolidated interim financial statements.

4. Business combinations

As at June 30, 2023, the acquisition accounting for TIG, GfdB, and Stone 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 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	6,985
NCI liability	8,403
Total	**530,480**
Cash	80,104
Trade and other receivables	201,768
Prepaid expenses and other current assets	5,832
Inventories	80,830
Property and equipment	10,968
Right-of-use asset	18,358
Intangible assets	263,098
Trade and other payables	(229,247)
Deferred revenue	(29,050)
Deferred tax liability	(69,346)
Lease liabilities	(18,642)
Goodwill	**$ 215,807**

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

5. Borrowings

The borrowings outstanding as at June 30, 2023 and December 31, 2022 were as follows:

Facility	Notes	June 30, 2023	December 31, 2022
Revolver Credit Facility	[a]	**$ 429,909**	$ 420,439
Other third-party facilities	[b]	**398**	1,289
Total		**430,307**	421,728
Current liabilities		**398**	421,728
Non-current liabilities		**429,909**	-
Total		**$ 430,307**	$ 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 six months ended June 30, 2023 was 7.0% (December 31, 2022 – 5.1%). The Revolver Credit Facility matures on July 27, 2027.

The Revolver Credit Facility has certain financial and non-financial covenants including a leverage ratio and interest coverage ratio. The Revolver Credit Facility is secured by a first-ranking security over all present and after-acquired properties in the form of a general security agreement. As at June 30, 2023, the Company was in compliance with its covenants.

The Revolver Credit Facility contains provisions that limit certain restricted payments including dividends and share repurchases to a total of $40,000 per fiscal year.

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

The consolidated interest expense for all borrowings for the three and six months ended June 30, 2023 was $8,709 and $15,782, respectively (2022 – $2,008 and $3,059).

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 June 30, 2023 or December 31, 2022.

[b] Stock option plans

During the six months ended June 30, 2023, 1,200,000 stock options (the "Options") 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 fair value of the Options was calculated using the Black-Scholes option pricing model on the grant date.

During the three and six months ended June 30, 2023, the Company recognized share-based compensation expense related to stock options of $1,117 and $1,836, respectively (2022 – $1,527 and $2,711).

[c] Restricted stock units ("RSUs")

During the three and six months ended June 30, 2023, the Company recognized share-based compensation expense of nil and $129 from RSUs, respectively (2022 – $158 and $186).

[d] Share purchase plan

On August 8, 2022, the Company announced that the Toronto Stock Exchange 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 had also entered into an automatic purchase plan agreement 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 at December 31, 2022, 6,464,124 common shares were repurchased and cancelled. During the three and six months ended June 30, 2023, 4,280,694 common shares were repurchased under the NCIB for an aggregate purchase price of $14,230. The surplus paid over the carrying value of the common shares was charged to deficit. As at June 30, 2023, 2,553,552 common shares had been canceled and the remainder were cancelled in July 2023.

As at June 30, 2023, the maximum number of common shares were repurchased under the NCIB.

[e] Dividends

The Company paid $2,067 of dividends to shareholders during the three and six months ended June 30, 2023, based on a dividend of $0.01 per share (2022 – $nil and $nil).

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

7. Other financial liabilities

Other financial liabilities as at June 30, 2023 and December 31, 2022 consist of the following:

	Notes	**June 30, 2023** **$**	December 31, 2022 $
Notes payable	**[a]**	**1,794**	1,842
Deferred consideration	**[b]**	**23,256**	43,492
Contingent consideration	**[c]**	**32,758**	36,614
Lease liabilities		**47,726**	53,642
NCI liability	**[d]**	**9,249**	45,690
NCIB liability		**-**	19,835
		114,783	201,115
Current liabilities		**63,082**	123,932
Non-current liabilities		**51,701**	77,183
		114,783	201,115

[a] Notes payable

As at June 30, 2023, the Company had a note payable to a third party of $114 (December 31, 2022 – $194). Interest on the note payable is 5.57% per annum and the maturity date is March 16, 2024.

As at June 30, 2023, Portage had a note payable to a third party of $1,680 (December 31, 2022 – $1,648). 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 June 30, 2023, and December 31, 2022:

Acquisition	**Maturity date**	**Interest rate per annum**	**Principal $ USD**	**Principal € EUR**	**Principal $ CDN**	**June 30, 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	-	1,059	**1,087**	1,219
Dasher	April 1, 2024	5%	1,856	-	2,457	**2,677**	5,630
Dasher	April 1, 2024	-	1,144	-	1,515	**1,515**	2,771
ExactlyIT	Note (i)	-	3,500	-	4,633	**4,633**	1,354
Notarius	December 17, 2023	5%	-	-	5,000	**5,140**	5,129
Newcomp	September 9, 2024	5%	-	-	1,016	**981**	942
Rednet	December 31, 2023	-	-	5,000	7,223	**7,223**	-
Total			7,300	5,000	22,903	**23,256**	43,492

During the six months ended June 30, 2023, the Company paid the deferred consideration to the sellers of PCD of $1,680, to the sellers of Rednet of $23,746 (€17,110), and to the sellers of Dasher for $4,294 ($3,187 USD).
During the three and six months ended June 30, 2023, the Company recognized interest expensed on deferred consideration of $156 and $266, respectively (2022 – $439 and $938).

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

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 consolidated interim statements of (loss) income and comprehensive (loss) income. For the three and six months ended June 30, 2023, $3,057 and $3,369 remuneration expense has been recognized, presented within special charges, respectively (2022 – $320 and $632).

[c] Contingent consideration

Contingent consideration consists 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.

The following table details the fair values of the Company's contingent consideration outstanding as at June 30, 2023 and December 31, 2022:

	June 30, 2023 **$**	December 31, 2022 $
PCD	**-**	1,500
VSS	**1,873**	6,230
Unique Digital	**490**	502
Accudata	**5,247**	5,079
CarpeDatum	**1,006**	2,158
LPA	**1,840**	3,914
OPIN	**350**	350
1CRM	**700**	1,700
CBI	**13,608**	7,530
GfdB	**7,644**	7,651
Total	**32,758**	36,614

During the three and six months ended June 30, 2023, the Company recognized an expense of $6,551 in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income (three and six months ended June 30, 2022 – nil), which is presented within Special Charges (note 10) and included under change in fair value of other financial liabilities.

During the six months ended June 30, 2023, the Company paid the year 3 earn-out to the sellers of VSS of $4,292 ($3,185 USD), the year 1 earn-out to the sellers of LPA of $2,021 ($1,500 USD), the year 2 earn-out to the sellers of CarpeDatum of $1,122 ($833 USD), the year 3 earn-out to the sellers of PCD of $1,500, and the year 1 earn-out to the sellers of 1CRM of $1,000.

[d] NCI liability

Rednet

Under the terms of the Rednet acquisition, the seller had the right to exercise a put option that 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 included 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 would have become 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 would have become 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 was a financial instrument that was measured at fair value, which was equal to the present value of the future estimated redemption amount. The fair value was reviewed on an ongoing basis, with the impact of any subsequent remeasurement of the valuation of the liability recognized in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income.

As at December 31, 2022, the Company signed a definitive agreement with the seller that modified the original purchase agreement to allow the Company to acquire the remaining 25% interest in Rednet for $37,217 (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 $7,223 (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 include 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 consolidated interim statements of (loss) income and comprehensive (loss) income.

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

8. 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 allocates 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 composed 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).

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 June 30,		**2023**			**2022**	
	Converge	**Portage**	**Total**	**Converge**	**Portage**	**Total**
	$	**$**	**$**	$	$	$
Total revenue	**660,728**	**5,085**	**665,813**	**512,646**	**2,550**	**515,196**
Cost of sales	488,349	1,792	490,141	381,449	595	382,044
Gross profit	**172,379**	**3,293**	**175,672**	**131,197**	**1,955**	**133,152**
Selling, general and administrative expenses	132,231	4,468	136,699	93,506	2,317	95,823
Segment profit (loss)	**40,148**	**(1,175)**	**38,973**	**37,691**	**(362)**	**37,329**
Depreciation and amortization	25,587	1,306	26,893	16,872	306	17,178
Finance expense, net	10,342	310	10,652	3,061	33	3,094
Special charges	12,840	452	13,292	5,250	310	5,559
Share-based compensation	1,117	-	1,117	1,685	-	1,685
Other (income) expense	(6,533)	4	(6,529)	(3,263)	(2)	(3,265)
(Loss) income before income taxes	**(3,205)**	**(3,247)**	**(6,452)**	**14,087**	**(1,009)**	**13,078**

For the six months ended June 30,		**2023**			**2022**	
	Converge	**Portage**	**Total**	**Converge**	**Portage**	**Total**
	$	**$**	**$**	$	$	$
Total revenue	**1,334,231**	**9,780**	**1,344,011**	**1,005,275**	**3,961**	**1,009,236**
Cost of sales	993,633	3,118	996,751	765,580	1,220	767,040
Gross profit	**340,598**	**6,662**	**347,260**	**239,455**	**2,741**	**242,196**
Selling, general and administrative expenses	260,018	8,714	268,732	172,378	3,857	176,235
Segment profit (loss)	**80,580**	**(2,052)**	**78,528**	**67,077**	**(1,116)**	**65,961**
Depreciation and amortization	50,240	2,543	52,783	31,113	544	31,657
Finance expense, net	19,131	871	20,002	4,869	43	4,912
Special charges	16,804	772	17,576	10,744	537	11,280
Share-based compensation	1,965	-	1,965	2,897	-	2,897
Other (income) expense	(4,068)	8	(4,060)	3,136	2	3,138
(Loss) income before income taxes	**(3,492)**	**(6,246)**	**(9,738)**	**14,319**	**(2,242)**	**12,077**

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

The Company has three geographic segments, being Canada, USA, Europe and UK. The following tables present details on revenue derived and details on property and equipment and intangible assets domiciled in the following geographical locations.

Revenue for the three and six months ended June 30, 2023 and 2022:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
USA	**$ 493,616**	$ 388,766	**$ 909,262**	$ 677,327
Canada	**42,709**	70,082	**166,981**	212,419
Europe and UK	**129,488**	56,348	**267,768**	119,490
	$ 665,813	$ 515,196	**$ 1,344,011**	$ 1,009,236

Property, equipment, right-of-use assets, intangible assets and goodwill as at June 30, 2023 and December 31, 2022:

June 30, 2023	**Property, equipment, right-of-use assets $**	**Intangible assets $**	**Goodwill $**	**Total $**
USA	**44,528**	**228,715**	**297,876**	**571,119**
Canada	**10,380**	**65,222**	**86,351**	**161,953**
Europe and UK	**18,751**	**125,466**	**177,056**	**321,273**
	73,659	**419,403**	**561,283**	**1,054,345**
December 31, 2022	Property, equipment, right-of-use assets $	Intangible assets $	Goodwill $	Total $
USA	57,347	257,955	304,716	620,018
Canada	11,513	70,580	82,966	165,059
Europe and UK	19,492	135,216	176,166	330,874
	88,352	463,751	563,848	1,115,951

9. 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.

10. 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.

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

Special charges for the three and six months ended June 30, 2023 and 2022 are detailed in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Transaction costs	**$ 1,629**	$ 4,998	**$ 3,444**	$ 9,966
Financing related costs	**46**	269	**744**	852
Legal and advisory costs	**304**	164	**770**	334
Restructuring related costs	**2,104**	128	**3,409**	128
Change in fair value of contingent consideration	**9,209**	-	**9,209**	-
Special charges	**$ 13,292**	$ 5,559	**$ 17,576**	$ 11,280

11. 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 are included in trade and other payables on the condensed consolidated interim statements of financial position as at June 30, 2023:

	$
As at December 31, 2022	2,031
Provisions expensed	3,238
Utilized during the period	(2,622)
Effect of foreign exchange	(40)
As at June 30, 2023	**2,607**

12. Other (income) expenses

Other (income) expenses consist primarily of foreign exchange gains or losses, interest income, and other income and expenses. 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.

Other (income) expenses for the three and six months ended June 30, 2023 and 2022 are detailed in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Foreign exchange (gain) loss	**$ (6,317)**	$ (2,968)	**$ (3,855)**	$ 3,701
Other	**(212)**	(297)	**(205)**	(563)
Other (income) expenses	**$ (6,529)**	$ (3,265)	**$ (4,060)**	$ 3,138

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

13. Changes in non-cash working capital

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Trade and other receivables	**$ (20,597)**	$ (48,366)	**$ (23,038)**	$ (76,139)
Inventories	**(7,447)**	4,709	**(6,119)**	11,258
Prepaid expenses and other assets	**(1,662)**	(3,186)	**(3,088)**	(4,615)
Trade and other payables	**(3,881)**	45,753	**(3,100)**	16,370
Other financial liabilities	**3,013**	319	**3,369**	2,236
Deferred revenue and customer deposits	**(9,775)**	9,985	**(9,609)**	6,600
Changes in non-cash working capital items	**$ (40,349)**	$ 9,214	**$ (41,585)**	$ (44,290)

14. Selling, general and administrative expenses

Selling, general and administrative expenses for the three and six months ended June 30, 2023 and 2022 are detailed in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Salaries and benefits	**$ 110,024**	$ 80,305	**$ 221,359**	$ 148,587
Professional fees	**5,239**	3,500	**9,872**	6,372
Office, travel and events	**18,902**	10,055	**34,038**	17,685
Other expenses	**2,534**	1,963	**3,463**	3,591
Total	**$ 136,699**	$ 95,823	**$ 268,732**	$ 176,235

15. Fair value measurement

The fair values of cash, receivables, other assets, trade and other payables, deferred considerations and other financial liabilities approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of borrowings approximates their carrying value due to the variable interest rates on these instruments. The Company measures its contingent consideration on acquisitions at fair value.

All assets and liabilities for which fair value is measured or disclosed in these financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

Contingent consideration on acquisitions are classified as Level 3 financial instruments. During the three and six months ended June 30, 2023 and 2022, there were no transfers of amounts between levels.

Change in interest or discount rate by 1% would have nominal impact on the fair value of contingent consideration.

16. Related Party Transactions

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

Total amounts expensed for the Company's key management personnel was $2,282 and $4,597 for the three and six months ended June 30, 2023 (three and six months ended June 30, 2022 - $1,522 and $3,311) and includes salaries, bonuses, advisory fees, short-term employment benefits and other personnel costs.

17. Subsequent events

On August 9, 2023, the Company announced that the Toronto Stock Exchange 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 19,427,276 common shares of the company representing 10% of the issued and outstanding common shares as at July 28, 2023. The NCIB commenced on August 9, 2023, 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.

On August 8, 2023, the Board declared a quarterly dividend of $0.01 per common share to be paid on September 22, 2023 to shareholders of record at the close of business on September 8, 2023.