Converge Technology Solutions Corp.

Management Discussion and Analysis

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

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Management Discussion and Analysis

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

General Information

As used in this management's discussion and analysis ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "Converge", "we", "us" or "our" refer to Converge Technology Solutions Corp. together with our subsidiaries, on a consolidated basis as constituted on June 30, 2023.

This MD&A for the three and six months ended June 30, 2023 and 2022 should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the accompanying notes for the three and six months ended June 30, 2023 and 2022 ("Financial Statements") as well as with the Company's audited annual consolidated financial statements and the related notes thereto for the year ended December 31, 2022. The financial information presented in this MD&A is derived from the Financial Statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All references in this MD&A to: (a) "Q2 2023" are to the three-months ended June 30, 2023; and (b) "Q2 2022" are to the three-months ended June 30, 2022. All references in this MD&A to "YTD 2023" are to the six months ended June 30, 2023 and "YTD 2022" are to the six months ended June 30, 2022. All references in this MD&A to "Fiscal 2022" are to the twelve months ended December 31, 2022. All amounts are in thousands of Canadian dollars, except where otherwise indicated. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Additional information relating to Converge, including our most recent Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com.

This MD&A is dated as of August 8, 2023 and was prepared with information available at that date.

The registered office of the Company is located at 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.

About Forward-Looking Information

Certain information and statements within the MD&A and documents incorporated by reference may constitute “forward-looking information” within the meaning of applicable securities laws (“forward-looking statements”). Such forward-looking statements, if and when made, include projections or estimates made by the Company and its management as to the Company’s future objectives, business operations, plans or expectations with respect to business strategies, expected growth of the Company’s platform of IT Solutions Providers (“ITSPs”), expectations regarding the pipeline of investment opportunities available to the Company, the impact of the coronavirus disease (“COVID-19”) on the Company’s business and the markets in which it operates, expectations regarding future competitive conditions and the Company’s competitive position, expectations regarding the Company’s differentiated and competitive skill set, the Company’s expectations regarding operating in large and transformative markets, the Company’s expectations regarding customers and customer contracting, the Company’s expectations regarding vendor and distributor relationships and the Company’s expectations to expand its client base. Forward-looking statements include all disclosures regarding possible events, conditions or results of operations that are based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. The Company cautions the reader not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Often, but not always, forward-looking statements can be identified by the use of words or phrases such as “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, and may be based on management’s current assumptions and expectations related to all aspects of the Company’s business, industry and the global economy.

Non-IFRS Financial & Supplementary Financial Measures

This MD&A refers to certain performance indicators including Adjusted EBITDA, Adjusted Free Cash Flow, Adjusted Free Cash Flow Conversion, Adjusted Net Income, Adjusted Earnings per Share (“EPS”), Annual Recurring Revenue (“ARR”), Gross Sales, and Organic Growth that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management believes that these measures are useful to most shareholders, creditors, and other stakeholders in analyzing the Company’s operating results, and can highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the ability to meet capital expenditure and working capital requirements. These non-IFRS financial measures should not be considered as an alternative to the consolidated income (loss) or any other measure of performance under IFRS. Investors are encouraged to review the Company’s financial statements and disclosures in their entirety and are cautioned not to put undue reliance on non-IFRS measures and view them in conjunction with the most comparable IFRS financial measures.

Adjusted EBITDA

Adjusted EBITDA represents net income adjusted to exclude amortization, depreciation, interest expense and finance costs, foreign exchange gains and losses, share-based compensation expense, income tax expense, and special charges. Special charges consist primarily of restructuring related expenses for employee terminations, lease terminations, and restructuring of acquired companies, as well as certain legal fees or provisions related to acquired companies. From time to time, it may also include adjustments in the fair value of contingent consideration, and other such non-recurring costs related to restructuring, financing, and acquisitions.

Adjusted EBITDA is not a recognized, defined, or standardized measure under IFRS. The Company’s definition of Adjusted EBITDA will likely differ from that used by other companies and therefore comparability may be limited.

Adjusted EBITDA should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS.

Adjusted EBITDA as a % of Gross Profit

The Company believes that Adjusted EBITDA as a % of Gross Profit is a useful measure of the Company's operating efficiency and profitability. This is calculated by dividing Adjusted EBITDA by gross profit.

Adjusted EBITDA as a % of Revenue

The Company believes that Adjusted EBITDA as a % of Revenue is a useful measure of the Company's operating efficiency and profitability. This is calculated by dividing Adjusted EBITDA by revenue.

Adjusted Net Income and Adjusted Earnings per Share ("EPS")

Adjusted Net Income represents net income adjusted to exclude special charges, amortization of acquired intangible assets, unrealized foreign exchange gain/loss, and share-based compensation. The Company believes that Adjusted Net Income is a more useful measure than net income as it excludes the impact of one-time, non-cash and/or non-recurring items that are not reflective of Converge's underlying business performance. Adjusted EPS is calculated by dividing Adjusted Net Income by the total weighted average shares outstanding on a basic and diluted basis.

Gross sales

Gross sales, which is a non-IFRS measurement, reflects the gross amount billed to customers, adjusted for amounts deferred or accrued. The Company believes gross sales is a useful alternative financial metric to revenue, the IFRS measure, as it better reflects volume fluctuations as compared to revenue. Under the applicable IFRS 15 'principal vs agent' guidance, the principal records revenue on a gross basis and the agent records commission on a net basis. In transactions where Converge is acting as an agent between the customer and the vendor, revenue is calculated by reducing gross sales by the cost of sale amount.

Organic Growth

The Company measures organic growth on a quarterly and year-to-date basis, at the gross sales and gross profit levels, and includes the contributions under Converge ownership in the current and comparative period(s). In calculating organic growth, the Company therefore deducts gross sales and gross profit generated from companies that were acquired in the current reporting period(s).

Gross profit organic growth is calculated by deducting prior period gross profit, as reported in the Companies public filings, from current period gross profit for the same portfolio of companies. Gross profit organic growth percentage is calculated by dividing organic growth by prior period reported gross profit.

Annual Recurring Revenue ("ARR")

Annual recurring revenue represents annualized revenue from managed services, which are long-term recurring contracts. This is calculated by multiplying quarterly net managed services revenues by four.

Gross Profit Margin

Gross profit margin represents the percentage of total revenue in excess of costs of goods sold and is an indicator of the Company's profitability on sales before operating expenses. This is calculated by dividing gross profit by revenue.

Overview of the Business

Converge Technology Solutions Corporation is a services-led, software-enabled IT & 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.

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 multi-faceted approach enables Converge to address the unique business and technology requirements for all clients in the public and private sectors. 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, which is comprised of the operations of the Company's majority-owned subsidiary, Portage CyberTech, 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. On a standalone basis, as an early-stage company investing in research and development to scale its operations, this segment may not be accretive to the Company's reported net income (loss) in the next twelve-month period.

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

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

As a buyer of ITSPs, Converge tends to seek out acquisitions that have digital transformation, cloud, compliance, security, vertical market, and regional expertise. With a focus on these areas, Converge believes it is well positioned to become an international solutions leader within these segments.

Global Strategy - Converge's strategy is to become the leading ITSP to mid-market customers in North America, Europe and United Kingdom.

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

Cross-sell - Converge is the only scaled services-led, software-enabled, IT & Cloud Solutions provider that can package a full suite of advisory, implementation, and managed services and cross sell these services across multiple companies and customer solutions to provide full suite of end-to-end services.

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

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

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

Talent - Converge continues to build its talent pool of highly qualified engineers and software professionals in its key practice areas in order to provide value-added IT solutions to the Company's customers.

Consolidated Highlights

Select financial highlights:

- Gross Sales[1] for the three months ended June 30, 2023 was $957.2 million, an increase of $227.5 million or 31%, compared to the three months ended June 30, 2022. For the six months ended June 30, 2023 and 2022, Gross Sales was $1.92 billion and $1.40 billion, respectively, an increase of $0.52 billion or 37%.

- Revenue for the three months ended June 30, 2023 was $665.8 million, an increase of $150.6 million or 29%, compared to the three months ended June 30, 2022. For the six months ended June 30, 2023 and 2022, revenue was $1.34 billion and $1.01 billion, respectively, an increase of $0.33 billion or 33%

- Gross profit for the three months ended June 30, 2023 was $175.7 million, an increase of $42.5 million or 32%, compared to the three months ended June 30, 2022. For the six months ended June 30, 2023 and 2022, gross profit was $347.3 million and $242.2 million, respectively, an increase of $105.1 million or 43%.

- Net loss for the three months ended June 30, 2023 was $4.5 million, compared to the net income of $11.7 million for the three months ended June 30, 2022. For the six months ended June 30, 2023 and 2022, net loss was $7.9 million and net income of $9.3 million, respectively, a decrease of $17.1 million or 185%.

- Adjusted EBITDA[1] for the three months ended June 30, 2023 was $41.5 million, an increase of $2.3 million or 6%, compared to the three months ended June 30, 2022. For the six months ended June 30, 2023 and 2022, Adjusted EBITDA was $82.7 million and $68.8 million, respectively, an increase of $13.9 million or 20%.

- For the three months ended June 30, 2023 and 2022, cash used in operating activities was $9.6 million and cash flow from operating activities was $26.6 million, respectively, a decrease of $36.2 million or 136%. For the six months ended June 30, 2023 and 2022, cash from operating activities was $19.1 million and cash used in operating activities was $3.7 million, respectively, an increase of $22.8 million or 616%.

[1] This is a Non-IFRS measure (including non-IFRS ratio or supplementary financial measure) and not a recognized, defined or standardized measure under IFRS. See the Non-IFRS Financial & Supplementary Financial Measures section of this MD&A.

Other highlights

- On December 31, 2022, the Company signed a definitive agreement with the sellers of Rednet which 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.
- During the three and six months ended June 30, 2023, the Company repurchased 4,280,695 common shares under the Normal Course Issuer Bid ("NCIB") for an aggregate purchase price of $14.2 million. As at June 30, 2023, 2,553,552 common shares had been canceled and the remainder were cancelled in July 2023.
- 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. Pursuant to the NCIB, the Company may purchase for cancellation up to an aggregate of 19,427,276 common shares. All common shares acquired by the Company under the NCIB will be cancelled.

Factors Affecting the Company's Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors present significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the "Risk Factors" section of our AIF.

Ability to integrate acquired companies

The Company is of the view that the ability to realize synergies and integrate acquired companies is critical for the future success of the Company. The Company has successfully acquired and integrated numerous companies over the years and must undertake such integration activities with each new company that it acquires. Our inability to effectively integrate the companies we acquire in the future could have adverse effects on our business and results of operations.

Foreign currency

The Company's functional and presentation currency is Canadian dollars. The functional currency for our subsidiaries is the local currency of the country in which the foreign operation is located. Our results of operations are converted into our functional currency using the average foreign exchange rates for each period presented. As a result, our results of operations may be adversely impacted by an increase in the value of the Canadian dollar relative to the United States Dollar, Euros and Pound Sterling.

Economic Activity

General economic conditions may affect our results of operations and financial condition. Demand for our products and services depends in large part upon the level of capital and operating IT expenditure by many of our customers. Decreased capital and operational IT spending could have a material adverse effect on the demand for our products and services and our business, results of operations, cash flow and overall financial condition. Decreased IT capital and operational spending or disruptions in the markets could be caused by, without limitation, the outbreak of a contagious illness, such as the recent outbreak of COVID-19, acts of war, terrorism and catastrophes. Any of these conditions may reduce the ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase.

Natural disasters

Natural disasters, such as earthquakes, hurricanes, tornadoes, floods, and other adverse weather and climate conditions; unforeseen public health crises, such as the recent global outbreak of COVID-19 and other pandemics and epidemics; political crises, such as terrorist attacks, war, and other political instability; or other catastrophic events could disrupt our operations, or the operations of our customers. To the extent any of these events occur, our business and results of operations could be adversely affected.

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

Cross selling

Our ability to expand by cross selling more goods and services to our current clients is crucial to our success. As our emphasis areas expand, we want to serve a wide spectrum of public and private sector customers with a high potential for IT solution spending. We think the fragmented market for IT solutions gives us a great chance to increase our portion of IT spenders' wallets. Despite a very competitive environment, we feel that Converge's sophisticated skills and IT solutions set us apart from our rivals and will help us grow our market share over time.

Partnerships

The quality of our connections with our technology partners will have an impact on how quickly we grow in the future. Despite the variety of technological collaborations, we now have, we continually look for new emerging technology partners and expand existing alliances to find better IT solutions for consumers. In order to advance our technical proficiency, we also keep our attention on improving the technology partner certifications we now possess. In-depth certification status has been attained with top technology partners. We think it's more likely that customers and technology partners would view us as their preferred source of IT solutions as a result of our success in creating lasting connections with them.

Summary of Consolidated Financial Results

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Revenues				
Product	**$ 511,597**	$ 410,361	**$ 1,048,286**	$ 807,753
Service	**154,216**	104,835	**295,725**	201,483
Total revenue	**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	**10,652**	3,094	**20,002**	4,912
Special charges	**13,292**	5,559	**17,576**	11,280
Share-based compensation	**1,117**	1,685	**1,965**	2,897
Other (income) expenses	**(6,529)**	(3,265)	**(4,060)**	3,138
Income (loss) before income taxes	**(6,452)**	13,078	**(9,738)**	12,077
Income tax 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

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

Adjusted EBITDA[1]	**$ 41,527**	$ 39,187	**$ 82,735**	$ 68,836
Adjusted EBITDA as a % of Gross Profit[1]	**23.6%**	29.4%	**23.8%**	28.4%
Adjusted EBITDA as a % of Revenue[1]	**6.2%**	7.6%	**6.2%**	6.8%

Adjusted EBITDA

The Company has reconciled Adjusted EBITDA to the most comparable IFRS financial measure as follows:

	For the three months ended June 30,		**For the six months ended June 30,**	
	2023	2022	**2023**	2022
Net income (loss) before taxes	**$ (6,452)**	$ 13,078	**$ (9,738)**	$ 12,077
Finance expense	**10,652**	3,094	**20,002**	4,912
Share-based compensation expense	**1,117**	1,685	**1,965**	2,897
Depreciation and amortization	**26,893**	17,178	**52,783**	31,657
Depreciation included in cost of sales	**2,342**	1,561	**4,002**	2,312
Foreign exchange loss (gain)	**(6,317)**	(2,968)	**(3,855)**	3,701
Special charges	**13,292**	5,559	**17,576**	11,280
Adjusted EBITDA	**$ 41,527**	$ 39,187	**$ 82,735**	$ 68,836

For the three months ended June 30, 2023, special charges are primarily due to $1,629 of acquisition-related transaction costs including acquisition earn-out bonuses, contingent consideration fees and fees related to strategic review process, $304 of legal provisions and other costs related to acquired companies, $46 in financing related costs, $2,104 of restructuring severance costs related to the integration of acquired companies, and $9,209 due to changes in fair value of other financial liabilities. During the same period in the prior year, special charges are primarily related to $4,998 of acquisition-related transaction costs, $164 of legal provisions and other costs related to acquired companies, $269 in financing related costs, and $128 of restructuring costs related to the integration of acquired companies.

For the six months ended June 30, 2023, special charges are primarily due to $3,444 of acquisition-related transaction costs, $770 of legal provisions and other costs related to acquired companies, $744 in financing related costs, and $3,409 of restructuring costs related to the integration of acquired companies, and $9,209 due to changes in fair value of other financial liabilities. During the same period in the prior year, special charges are primarily due to $9,966 of acquisition-related transaction costs, $334 of legal provisions and other costs related to acquired companies, $852 in financing related costs, and $128 of restructuring costs related to the integration of acquired companies.

Overall Company Performance and Key Changes in Financial Results

Segment Performance

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”).

[1] This is a Non-IFRS measure (including non-IFRS ratio or supplementary financial measure) and not a recognized, defined or standardized measure under IFRS. See the Non-IFRS Financial & Supplementary Financial Measures section of this MD&A.

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

The following table provides a condensed summary of the operating performance of each operating segment:

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**
Gross profit	**172,379**	**3,293**	**175,672**	**131,197**	**1,955**	**133,152**
Income (loss) before income taxes	**(3,205)**	**(3,247)**	**(6,452)**	**14,087**	**(1,009)**	**13,078**
Finance expense	10,342	310	**10,652**	3,061	33	**3,094**
Share-based compensation expense	1,117	-	**1,117**	1,685	-	**1,685**
Depreciation and amortization	25,587	1,306	**26,893**	16,872	306	**17,178**
Depreciation included in cost of sales	2,342	-	**2,342**	1,561	-	**1,561**
Foreign exchange loss	(6,317)	-	**(6,317)**	(2,967)	-	**(2,967)**
Special charges	12,840	452	**13,292**	5,249	310	**5,559**
Adjusted EBITDA	42,706	(1,179)	**41,527**	39,548	(360)	**39,188**

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**
Gross profit	**340,598**	**6,662**	**347,260**	**239,455**	**2,741**	**242,196**
Income (loss) before income taxes	**(3,492)**	**(6,246)**	**(9,738)**	**14,319**	**(2,242)**	**12,077**
Finance expense	19,131	871	**20,002**	4,869	43	**4,912**
Share-based compensation expense	1,965	-	**1,965**	2,897	-	**2,897**
Depreciation and amortization	50,240	2,543	**52,783**	31,113	544	**31,657**
Depreciation included in cost of sales	4,002	-	**4,002**	2,312	-	**2,312**
Foreign exchange loss	(3,855)	-	**(3,855)**	3,702	-	**3,702**
Special charges	16,804	772	**17,576**	10,743	537	**11,280**
Adjusted EBITDA	84,795	(2,060)	**82,735**	69,955	(1,118)	**68,837**

Portage segment performance

Portage's revenue increased from $2,550 to $5,085 or 99% for the three months ended June 30, 2023 compared to the equivalent period in the prior year and by $5,819 to $9,780, or 147% for the six months ended June 30, 2023 compared to the equivalent period in the prior year. In both periods, the increase was primarily due to SaaS and recurring revenue growth and includes the impact of the acquisitions of Notarius and 1CRM completed in the intervening period, both of which are higher margin solutions based on proprietary software. Gross margin improved led by its SaaS business making up proportionally more of its overall revenue mix.

Portage's Adjusted EBITDA loss increased from $360 to $1,179, or 228% for the three months ended June 30, 2023 compared to the equivalent period in the prior year and by $942 to $2,060, or 84% for the six months ended June 30, 2023 compared to the equivalent period in the prior year. In both periods the increase is primarily due to investments in research and development (R&D) and sales and marketing.

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

Overall Company Performance and Key Changes in Financial Results

Revenue

Gross sales

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022(1)	**2023**	2022(1)
Product	**$ 639,996**	$ 491,821	**$ 1,305,306**	$ 945,210
Managed services	**45,182**	32,268	**85,818**	66,251
Third party and professional services	**272,041**	205,589	**531,353**	392,146
Gross sales	**$ 957,219**	$ 729,678	**$ 1,922,477**	$ 1,403,607
Adjustment for sales transacted as agent	**(291,406)**	(214,482)	**(578,466)**	(394,371)
Revenue	**$ 665,813**	$ 515,196	**$ 1,344,011**	$ 1,009,236

(1) Includes an adjustment of $81,460 and $137,457 for the three and six months ended June 30, 2022, respectively, for the impact of a software revenue accounting policy change adopted by the Company in Q4 2022 that is applied retrospectively to the comparative reporting period. These adjustments only impact the Converge operating segment.

Gross sales organic growth

Gross sales organic growth was $13,314 or 1.8% for the three months ended June 30, 2023, compared to $61,810 or 13.7% in the equivalent period in the prior year. Gross sales organic growth was $59,013 or 4.2% for the six months ended June 30, 2023, compared to $138,954 or 16.2% in the equivalent period in the prior year. In both periods, the decrease in organic growth was primarily due to lower product (primarily hardware) sales to government and public sector customers including the Canadian government which reflects the timing of customers' hardware refresh cycles, increased demand due to COVID, partially offset by stronger gross sales growth across the Company's non-government and non-public sector customers.

This continued organic growth is attributable to the Company's strong integration engine, whereby the Company can seamlessly integrate acquired companies and grow revenues organically through expanding customers' digital infrastructure.

The following table calculates organic growth for the three months ended June 30, 2023:

	Q2 2023	Q2 2022
Gross sales	**957,219**	729,678
Less: gross sales from companies not owned in comparative period	**214,227**	215,748
Gross sales of companies owned in comparative period	**742,992**	513,930
Prior period pro forma gross sales	**729,678**	452,120
Organic Growth - $	**13,314**	61,810
Organic Growth - %	**1.8%**	13.7%

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

The following table calculates organic growth for the six months ended June 30, 2023:

	Q2 2023 YTD	Q2 2022 YTD
Gross sales	**1,922,477**	1,403,607
Less: gross sales from companies not owned in comparative period	**459,857**	404,433
Gross sales of companies owned in comparative period	**1,462,620**	999,174
Prior period pro forma gross sales	**1,403,607**	860,220
Organic Growth - $	**59,013**	138,954
Organic Growth - %	**4.2%**	16.2%

Revenue

The following table presents the Company's revenues by product and service 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
Product	**$ 511,597**	$ 410,361	**$ 1,048,286**	$ 807,753
Managed Services	**38,123**	28,866	**73,518**	55,313
Third party and professional services	**116,093**	75,969	**222,207**	146,170
Total	**$ 665,813**	$ 515,196	**$ 1,344,011**	$ 1,009,236

Product revenue includes hardware and software sales. Product revenue increased from $410,361 to $511,597, or 25% for the three months ended June 30, 2023 compared to the equivalent period in the prior year and by $240,533 to $1,048,286 or 30% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to the impact of the acquisitions of CBI, IDX, Notarius, GfdB, TIG, Newcomp, and Stone that were completed subsequent to June 30, 2022.

Managed services revenue includes recurring revenue from long-term contracts. Managed services revenue increased from $28,866 to $38,123 or 32% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $18,205 to $73,518, or 33% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to the impact of recent acquisitions that sell cloud and managed services, and organic growth from existing customers. As of June 30, 2023, ARR from managed services increased from $115,464 to $152,492, or 32%, compared to prior year.

Third party and professional services revenue includes the net revenue from public cloud resell and software support. Third party and professional services revenue increased from $75,969 to $116,093, or 53% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $76,037 to $222,207 or 52% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to the impact of acquisitions completed subsequent to June 30, 2022.

For the three months ended June 30, 2023, revenue by industry[1] was approximately 23% (2022 - 20%) from healthcare, 16% (2022 - 2%) from automotive companies, 13% (2022 - 26%) from financial services companies, 11% (2022 - 17%) from technology companies, 11% (2022 – 18%) from government, and 26% (2022 – 17%) from other companies.

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

For the six months ended June 30, 2023, revenue by industry(1) was approximately 21% (2022 - 19%) from healthcare, 15% (2022 - 22%) from government, 13% (2022 - 18%) from technology companies, 12% (2022 - 20%) from financial services companies, and 39% from other companies (2022 - 21%).

(1) The above revenue by industry metrics excludes Portage and companies in Europe and UK along with recent acquisitions of TIG, and PDS, Vicom.

Gross profit and gross profit margin

Gross profit increased from $133,152 to $175,672 or 32% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $105,064 to $347,260 or 43% for the six months ended June 30, 2023, compared to the equivalent period in the prior year.

Gross profit margin increased from 25.8% to 26.4% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and from 24.0% to 25.8% for the six months ended June 30, 2023, compared to the equivalent period in the prior year.

In the short-term, gross profit margin reflects the impact of acquired companies, whereby recent acquisitions tend to sell primarily lower margin hardware, paired with high volume but lower margin end-user device sales. As Converge begins to achieve scale in its higher margin cloud and managed services, and cross-sell these services to customers of recently acquired companies, the Company expects gross margins to increase.

Gross profit organic growth

Gross profit organic growth was $3,281 or 2.5% for the three months ended June 30, 2023, compared to $14,171 or 18.1% in the equivalent period in the prior year. Gross profit organic growth was $21,227 or 8.8% for the six months ended June 30, 2023, compared to $23,611 (16.2%) in the equivalent period in the prior year.

Converge's ability to grow its gross profit organically is attributable to the Company's strong integration engine and illustrates the Company's success in cross-selling higher margin software and services across the Company's various practice areas, including cyber security, analytics, and cloud and managed services.

The following table calculates organic growth for the three months ended June 30, 2023 and 2022:

	Q2 2023	Q2 2022
Gross profit	**175,672**	133,152
Less: gross profit from companies not owned in comparative period	**39,239**	40,737
Gross profit of companies owned in comparative period	**136,433**	92,415
Prior period gross profit	**133,152**	78,244
Organic Growth - $	**3,281**	14,171
Organic Growth - %	**2.5%**	18.1%

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

The following table calculates organic growth for the six months ended June 30, 2023 and 2022:

	Q2 2023 YTD	Q2 2022 YTD
Gross profit	**347,260**	242,196
Less: gross profit from companies not owned in comparative period	**83,836**	72,545
Gross profit of companies owned in comparative period	**263,424**	169,651
Prior period gross profit	**242,197**	146,041
Organic Growth - $	**21,227**	23,610
Organic Growth - %	**8.8%**	16.2%

Selling, general, and administrative expenses

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

	For the three months ended June 30,		**For the six months ended June 30,**	
	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

Salaries and benefits expense increased from $80,305 to $110,024 or 37% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $72,772 to $221,359 or 49% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to higher headcount from acquisitions. Professional fees increased from $3,500 to $5,239 or 50% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $3,500 to $9,872 or 55% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to advisory services for tax and planning for the Company's expansion into Europe. Office, travel and events expense increased from $10,055 to $18,902 or 88% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $16,353 to $34,038 or 92% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to the new acquisitions and greater employee travel now that COVID-19-related restrictions have lessened, and more in-person events have resumed. Other expenses increased from $1,963 to $2,534 or 29% for the three months period ended June 30, 2023, compared to the equivalent period in the prior year and decreased by $128 to $3,463 or 4% for the six months period ended June 30, 2023, compared to the equivalent period in the prior year.

Depreciation and amortization

Amortization of intangibles increased from $13,946 to $21,527 or 54% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $16,473 to $41,735 or 65% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to amortization of intangible assets acquired from the acquisitions.

Depreciation expense increased from $3,232 to $5,366 or 66% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $4,653 to $11,048 or 73% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to depreciation on right-of-use assets and equipment acquired from the acquisitions.

Finance expense

Finance expense for the three months ended June 30, 2023 of $10,652 consisted of interest expense related to (i) borrowings under the Company's revolving credit facility of $8,709; (ii) lease liabilities of $346; and (iii) partner financing programs of $1,597. Finance expense for the three months ended June 30, 2022 of $3,094 consisted of interest expense related to (i) borrowings under the Company's credit facility of $1,970; (ii) right-of-use assets of $647; (iii) deferred consideration and other interest of $439; and (iv) partner financing programs of $38.

Finance expense for the six months ended June 30, 2023 of $20,002 consisted of interest expense related to (i) borrowings under the Company's credit facility of $15,782; (ii) lease liabilities of $951; (iii) deferred consideration and other interest of $302, and (iv) partner financing programs of $2,967. Finance expense for the six months ended June 30, 2022 of $4,912 consisted of interest expense related to (i) borrowings under the Company's credit facility of $3,011; (ii) right-of-use assets of $929; (iii) deferred consideration and other interest of $924; and (iv) partner financing programs of $48.

In both periods, the increase in finance expense is primarily due to higher average balances drawn on the Company's revolving credit facility.

Special charges

Special charges increased from $5,559 to $13,292 or 139% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $6,296 to $17,576 or 56% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. Refer to the Adjusted EBITDA section of this MD&A for a breakdown of special charges.

Other (income) expenses

Other income increased from $3,265 to $6,529 or 100% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $7,198 to $4,060 or 229% for the six months ended June 30, 2023, compared to the equivalent period in the prior year. In both periods, the increase is primarily due to the impact of foreign exchange gains and losses from the translation of certain foreign currency denominated monetary net asset balances denominated in a currency different from the functional currency of the related entity.

Income tax (recovery) expense

Income tax increased from a recovery of $1,400 to an expense of $1,957 or 240% for the three months ended June 30, 2023, compared to the equivalent period in the prior year and by $4,689 to $1,882 or 167% for the six months ended June 30, 2023, compared to the equivalent period in the prior year.

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

Quarterly Financial Results

The following table summarizes select financial information from the Company's results of operations for the eight most recently completed quarters. In general, the business tends to fluctuate quarter over quarter based on a variety of factors. The spending of key customers is seasonal and heavily dependent on budgeted capital to be used before the end of their respective fiscal periods. The financial results shown below may not be indicative of the Company's financial performance in a future comparative period.

For the three months ended	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Revenues(1)	665,813	678,198	640,927	514,485	515,196	494,039	445,951	301,801
Gross Profit	175,672	171,588	168,916	139,654	133,152	109,045	115,893	83,771
Gross Margin, adjusted	26%	25%	26%	27%	26%	22%	26%	28%
Adjusted EBITDA	41,527	41,208	43,064	30,967	39,188	29,649	34,685	18,862
Net (loss) income	(4,495)	(3,361)	(4,656)	18,228	11,678	(2,408)	7,080	4,596
Earnings per								
Basic	(0.02)	(0.01)	(0.02)	0.10	0.05	(0.01)	0.03	0.02
Diluted	(0.02)	(0.01)	(0.02)	0.10	0.05	(0.01)	0.03	0.02
Net (loss) income	(4,495)	(3,361)	(4,656)	18,228	11,678	(2,408)	7,080	4,596
Special charges	13,292	4,284	18,654	8,211	5,559	5,721	2,595	8,702
Amortization on intangibles	21,527	20,208	16,502	17,785	13,946	11,316	9,021	7,315
Foreign exchange loss (gain)	(6,317)	2,462	951	(24,233)	(2,968)	6,669	5,669	(7,991)
Share-based compensation	1,117	848	1,422	1,275	1,685	1,212	1,132	1,193
Adjusted Net Income	25,124	24,441	32,873	21,266	29,900	22,510	25,497	13,815
Adjusted EPS:								
Basic	0.12	0.12	0.16	0.10	0.14	0.10	0.12	0.07

(1) Reflects quarterly impact of software revenue net-down on a retrospective basis as per the IFRS 15 accounting policy adopted by the Company in Q4 2022.

Overview of Financial Position

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

As at		**June 30, 2023**		December 31, 2022
Assets				
Current assets	$	**1,046,132**	$	1,128,279
Non-current assets		**1,072,288**		1,120,597
Total assets	$	**2,118,420**	$	2,248,876
Current liabilities		**933,626**		1,437,906
Long-term liabilities		**569,888**		180,160
Total liabilities	$	**1,503,514**	$	1,618,066
Shareholders' equity				
Common shares		**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)
Non-controlling interest		**28,549**		30,900
Total shareholders' equity	$	**614,906**	$	630,810
Total liabilities and shareholders' equity	$	**2,118,420**	$	2,248,876

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

Current Assets

Current assets are mainly comprised of cash of $78,443 (December 31, 2022 - $159,890), trade and other receivables of $781,330 (December 31, 2022 - $781,683), and inventories of $160,411 (December 31, 2022 - $158,430).

Non-current assets

Long-term assets are mainly comprised of goodwill of $561,283 (December 31, 2022 - $563,848) and intangible assets of $419,403 (December 31, 2022 - $463,751). As at June 30, 2023, intangible assets consisted of $368,192 (December 31, 2022 - $405,790) in customer relationships, $36,105 (December 31, 2022 - $43,065) in trade name and trademarks, $11,137 (December 31, 2022 - $11,900) in developed technology, $3,262 in computer software (December 31, 2022 – $2,154), and $707 (December 31, 2022 – $842) in backlog.

Current Liabilities

Current liabilities are mainly comprised of $814,855 (December 31, 2022 - $824,924) in trade and other payables, $398 (December 31, 2022 - $421,728) in borrowings, $47,475 (December 31, 2022 - $60,210) in deferred revenue, and $63,082 (December 31, 2022 - $123,932) in other financial liabilities. Borrowings are mainly comprised of the amount drawn on the Company's external revolving credit facility ("Revolver Credit Facility"). See "Credit Facilities" section below.

The following table provides a summary of borrowings, debt and lease liabilities:

As at	**June 30, 2023**	December 31, 2022
Revolver Credit Facility	**$ 429,909**	$ 420,439
Contract financing facilities	**398**	1,289
Deferred and contingent consideration related to acquisitions	**56,014**	80,106
Notes payable relating to operations	**1,794**	1,842
Lease liabilities	**47,726**	53,642
	535,841	557,318
Long-term portion	**472,361**	70,978
Current portion	**$ 63,480**	$ 486,340

Long-term liabilities

Long-term liabilities are comprised of $429,909 in borrowings (December 31, 2022 – nil), $51,701 (December 31, 2022 - $77,183) in other financial liabilities and deferred tax liability of $88,278 (December 31, 2022 - $102,977). The increase in long-term liabilities is primarily due to borrowings classified as long term at June 30, 2023 that were previously classified as current in the comparative period.

Liquidity and Capital Resources

The Company manages its liquidity to ensure that it has sufficient liquidity to meet its short term and long-term commitments as they become due, while maintaining financial flexibility to pursue its strategy of organic and acquisition growth. To date, the Company has effectively managed liquidity through issuance of common shares, proceeds from debt, and cashflow from operations.

The Company anticipates that it will have sufficient liquidity from cash generation to fund its current cash requirements for working capital and contractual commitments, and if required, believes that it has the ability to raise additional capital or debt to help fund its acquisition strategy and to achieve planned organic and inorganic growth targets.

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

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

Cash Flow Analysis

As at June 30, 2023, total cash was $78,443 (December 31, 2022 - $159,890); a decrease of $81,447 since the beginning of the year. The decrease was primarily due to the repayment of debt, and short-term working capital impacts on cash.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Cash (used in) from operating activities	**$ (9,645)**	$ 26,570	**$ 19,118**	$ (3,759)
Cash used in investing activities	**(3,451)**	(139,876)	**(73,097)**	(230,888)
Cash (used in) from financing activities	**(49,235)**	75,787	**(27,872)**	170,957
Net change in cash	**(62,331)**	(37,519)	**(81,851)**	(63,690)
Cash at the beginning of period year	**139,028**	217,168	**159,890**	248,193
Effect of foreign exchange fluctuations on cash	**1,746**	4,526	**404**	(328)
Cash at the end of the period	**$ 78,443**	$ 184,175	**$ 78,443**	$ 184,175

Cash (used in) from operating activities

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
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	**(5,281)**	(2,968)	**(2,818)**	3,701
Share-based compensation expense	**1,117**	1,685	**1,965**	2,897
Finance expense, net	**10,652**	3,094	**20,002**	4,912
Gain on sale of property and equipment	**(598)**	-	**(598)**	-
Change in fair value of contingent	**6,551**	-	**6,551**	-
Income tax expense	**(1,957)**	1,400	**(1,882)**	2,807
	35,224	33,628	**72,149**	57,556
Changes in non-cash working capital items				
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
	(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 used in operating activities was $9,645 for the three months ended June 30, 2023, compared to cash from operating activities of $26,570 for the three months ended June 30, 2022. The decrease in cash flows was primarily due to non-cash working capital changes of negative $40,349, compared to a changes of $9,214 in the prior year. Cash from operating activities was $19,118 for the six months ended June 30, 2023, compared to cash used in operating activities of $3,759 for the six months ended June 30, 2022. The increase in cash flows was primarily due to Adjusted EBITDA growth, and from a decrease in changes in non-cash working capital items.

Cash used in investing activities

Cash used in investing activities was $3,451 for the three months ended June 30, 2023, primarily due to the payment of deferred consideration of $4,066. In comparison, cash used in investing activities was $139,876 for the three months ended June 2022, primarily due to cash used for acquisitions of $131,545 and payment of deferred consideration of $5,208.

Cash used in investing activities was $73,097 for the six months ended June 30, 2023, primarily due to payment of deferred consideration of $29,720, payment of NCI liability of $29,994 and payment of contingent consideration of $9,935. In comparison, cash used in investing activities was $230,888 for the six months ended June 30, 2022, primarily due to cash used for acquisitions of $199,471, purchases of property and equipment of $14,479, payment of contingent consideration of $10,168 and the payment of deferred consideration of $6,948.

Cash (used in) from financing activities

Cash used in financing activities was $49,235 for the three months ended June 30, 2023, primarily due to Company's net repayment of borrowings of $22,815, repurchase of common shares of $14,230, interest paid of $7,365, and lease payments of $5,089. In comparison, cash from financing activities was $75,787 for the three months ended June 30, 2022, primarily due to the Company's proceeds from borrowings of $22,351 and transfers from restricted cash of $58,980, offset by payments of interest of $2,102 and lease payments of $2,304.

Cash used in financing activities was $27,872 for the six months ended June 30, 2023, primarily due to Company's net borrowings of $11,384, offset by interest paid of $15,242, lease payments of $10,224, and repurchase of common shares of $14,230. In comparison, cash provided by financing activities was $170,957 for the six months ended June 30, 2022, primarily due to the Company's proceeds from borrowings of $184,819, offset by transfers to restricted cash of $4,513, interest paid of $3,058, and lease payments of $5,032.

Credit Facilities

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. As at June 30, 2023, the total balance drawn on the Revolver Credit Facility was $429,909.

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, excluding any proceeds from sale of Portage shares.

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

Commitments and Contingencies

Commitments

As at June 30, 2023, the Company is committed under office building, vehicle, and computer equipment leases, for the following minimum annual rentals:

	June 30, 2023	December 31, 2022
Minimum lease payments		
2023	**$ 8,837**	$ 17,330
2024	**14,182**	13,450
2025	**10,443**	9,837
2026	**6,099**	5,847
2027 and onwards	**13,557**	13,237
	53,118	59,701
Less: future finance charges	**(5,392)**	(6,059)
Present value of minimum lease payments	**47,726**	53,642
Current liabilities	**13,167**	15,800
Non-current liabilities	**34,559**	37,842
	$ 47,726	$ 53,642

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.

Off-Balance Sheet Arrangements

As at June 30, 2023, the Company does not have any off-balance sheet arrangements other than the commitments and contingencies noted above.

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.

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

Outstanding Share Capital

The table below provides a summary of the outstanding share capital of the Company.

Capital	Authorized	Outstanding as at August 9, 2023	Outstanding as at June 30, 2023
Common shares	Unlimited	204,922,884	204,922,884
Exchange rights	Not applicable	-	-
Stock options		3,528,712	3,528,712
RSUs		-	-

Critical Accounting Policies

Please see the Company's audited consolidated financial statements for the year ended December 31, 2022 for a discussion of the accounting policies that are critical to the understanding of the Company's business operations and the results of its operations.

New or Pending Accounting 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.

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.

Financial Instruments and Other Instruments

We are exposed to a variety of financial risks in the normal course of operations including credit, liquidity, interest rate and foreign exchange. Our overall risk management program and business practices seek to minimize any potential adverse effects on our ability to achieve our strategic objectives and consolidated financial performance. Risk management is carried out under practices approved by our Board. This includes identifying, evaluating, monitoring and managing financial risks based on the requirements of our organization. Our Board provides guidance for overall risk management, covering many areas of risk including, but not limited to credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Critical Accounting Estimates

The preparation of the Company's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time. Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on net income.

Significant assumptions about the future and other sources of estimation uncertainty that management has made, relate to, but are not limited to the following:

Business Combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. In the event any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company determines the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied. The estimate of fair value of customer relationships includes the estimated revenue growth and attrition of acquired customer relationships. In determining the fair value of customer relationships, the Company estimates revenue growth including price adjustments based on a market participant model. Changes in these assumptions could result in a change to the net assets acquired as part of the business combination.

Goodwill and Indefinite-Lived Intangible Assets

The Company performs asset impairment assessments for indefinite-lived intangible assets and goodwill on an annual basis or on a more frequent basis when circumstances indicate impairment may have occurred.

Goodwill is allocated to a cash generating unit ["CGU"] or group of CGUs for the purposes of impairment testing based on the level at which senior management monitors it, which is not larger than an operating segment. The testing for impairment of either an intangible asset or goodwill compares the recoverable amount of the asset, CGU or group of CGUs to the carrying amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets, in which case the asset is assessed as part of the CGU or group of CGUs to which it belongs. Changes in certain assumptions could result in an impairment loss being charged in future periods.

Impairment of Long-Lived Assets

Long-lived assets primarily include property and equipment and intangible assets. An impairment loss is recognized when the carrying value of the CGU, which is defined as the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups, exceeds the CGU's recoverable amount, which is determined using a discounted cash flow method. The Company tests the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. While the Company believes that no impairment is required, management must make certain estimates regarding the Company's cash flow projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in an impairment loss being charged in future period.

Income Taxes

The determination of income tax expense and deferred tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred taxes or the timing of tax payments.

Fair Value of Stock-Based Compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rates and making assumptions about them.

Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the 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. Volatility has been determined by calculating the degree of variation of trading prices over time of peers in the market. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in its annual information form ("AIF") for the year ended December 31, 2022 and its annual MD&A for the years ended December 31, 2022, all of which are available at www.sedar.com under the Company's profile. The risks presented in the Company's filings should not be considered to be exhaustive and may not be all of the risks that Converge may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. If any of the noted risks occur, it may negatively affect the financial results of the Company and adversely affect the market price of Converge.

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. In response, during the period Converge has proactively increased its inventory levels where possible to alleviate supply chain pressures. The Company continues to work closely with key vendor and proactively manage its inventory levels to mitigate the impact of industry wide supply constraints.

As of June 30, 2023, the Company's product bookings backlog, which is calculated as purchase orders received from customers that are not yet delivered at the end of the fiscal period, was approximately $448 million as compared to approximately $479 million as at December 31, 2022. The Company continues to work closely with its vendors and customers to ensure fulfillment of orders as soon as possible and expects to see these orders fulfilled in the coming quarters.

Credit Risk

Credit risk is risk of financial loss to the Company if any counterparty to a financial asset fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company has assessed the credit risk on its cash and cash equivalents as low as its funds are held in highly rated Canadian and U.K., European and United States financial institutions. Due to the Company's diversified customer base, there is no particular concentration of credit risk related to the Company's receivables. Trade and other receivables are monitored on an ongoing basis to ensure timely collection of amounts. As at June 30, 2023, one customer receivable represented approximately 12% of total trade and other receivables.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk for the credit facility for which the interest rate is adjusted with future fluctuations in secured overnight financing rate.

Market Risk

The Company is exposed to market risk primarily in terms of revenue generation. The Company's revenue is driven by transaction volumes, which fluctuates based on the United States, Canada, Europe and UK economy. The Company monitors the market conditions in an effort to capture fluctuations that may affect the ongoing revenue.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's cash resources are managed based on financial forecasts and anticipated cash flows. Contractual maturities such as borrowings, notes payable, deferred consideration, contingent consideration, NCI liability, trade and other payables and lease liabilities are exposed to liquidity risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign subsidiaries. If deemed necessary, the Company may, from time to time, enter into foreign currency derivative contracts to reduce its exposure to foreign currency risk. No foreign currency derivative contract has been entered into for the six months ended June 30, 2023.

Contingencies

In the ordinary course of business, from time to time, the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at June 30, 2023.

Evaluation of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's President and CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements. Management concluded that the Company's internal controls over financial reporting were effectively designed and operating as at June 30, 2023. There were no significant changes to the Company's internal controls over financial reporting for the period ended June 30, 2023.

Limitation on Scope of Design

The scope of design of internal controls over financial reporting and disclosure controls and procedures excluded the controls, policies, and procedures of PC Specialists, Inc., Itex, Inc., TIG Asia Limited, Technology Integration Group Hong Kong Limited, and TIG (Shanghai) Co., Ltd. (collectively, "TIG"), which was acquired on July 29, 2022, Newcomp Analytics Inc. ("Newcomp"), which was acquired on September 9, 2022, Stone Technologies Group Limited ("Stone"), which was acquired on November 4, 2022 and Gesellschaft für digitale Bildung, Institur für modern Bildung, and DEQSTER (collectively, "GfdB"), which was acquired on July 29, 2022.

TIG's contribution to our consolidated statements of operations for the three and six months ended June 30, 2023, was less than 15% and 14% of total revenue, respectively. Additionally, as at June 30, 2023, TIG's current assets and current liabilities were below 15% of consolidated current assets and current liabilities, and its non-current assets and non-current liabilities were below 1% of consolidated non-current assets and non-current liabilities, respectively.

Newcomp's contribution to our consolidated statements of operations for the three and six months ended June 30, 2023, was less than 1% of total revenues for both periods, respectively. Additionally, as at June 30, 2023, Newcomp's current assets and current liabilities were below 1% of consolidated current assets and current liabilities, and its non-current assets and non-current liabilities were below 1% of consolidated non-current assets and non-current liabilities, respectively.

Stone's contribution to our consolidated statements of operations for the three and six months ended June 30, 2023, was less than 10% and 9% of total revenues, respectively. Additionally, as at June 30, 2023, Stone's current assets and current liabilities were below 6% of consolidated current assets and current liabilities, and its non-current assets and non-current liabilities were below 2% of consolidated noncurrent assets and non-current liabilities, respectively.

GfdB's contribution to our consolidated statements of operations for the three and six months ended June 30, 2023, was less than 4% and 3% of total revenues, respectively. Additionally, as at June 30, 2023, GfdB's current assets and current liabilities were below 2% of consolidated current assets and current liabilities, and its non-current assets and non-current liabilities were below 1% of consolidated noncurrent assets and non-current liabilities, respectively.

The amounts recognized for the assets acquired and liabilities assumed at the date of acquisition for TIG, Newcomp, Stone and GfdB are described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2022.

Further Information

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