

Condensed consolidated interim financial statements

Converge Technology Solutions Corp.

For the three and nine months ended September 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	September 30, 2023	December 31, 2022
Assets			
Current			
Cash		\$ 105,221	\$ 159,890
Restricted cash		3,103	5,230
Trade and other receivables		803,673	781,683
Inventories		165,788	158,430
Prepaid expenses and other assets		22,224	23,046
		1,100,009	1,128,279
Non-current			
Other assets		17,460	4,646
Property, equipment, and right-of-use assets, net		73,592	88,352
Intangible assets, net		400,536	463,751
Goodwill		568,188	563,848
Total assets		\$ 2,159,785	\$ 2,248,876
Liabilities			
Current			
Trade and other payables		\$ 898,423	\$ 824,924
Other financial liabilities	7	52,625	123,932
Deferred revenue		48,633	60,210
Borrowings	5	109	421,728
Income taxes payable		10,971	7,112
		1,010,761	1,437,906
Non-current			
Other financial liabilities	7	47,206	77,183
Borrowings	5	412,644	-
Deferred tax liabilities		77,034	102,977
Total liabilities		\$ 1,547,645	\$ 1,618,066
Shareholders' equity			
Common shares		603,716	595,019
Contributed surplus		10,016	7,919
Exchange rights		-	1,705
Accumulated other comprehensive income		3,047	13,708
Deficit		(31,674)	(18,441)
Total equity attributable to shareholders of Converge		585,105	599,910
Non-controlling interest		27,035	30,900
		612,140	630,810
Total liabilities and shareholders' equity		\$ 2,159,785	\$ 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 September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Revenue					
Product	2[a]	\$ 559,646	\$ 385,285	\$ 1,607,932	\$ 1,193,038
Service		150,460	129,200	446,185	330,683
Total revenue	8,2[a]	710,106	514,485	2,054,117	1,523,721
Cost of sales		536,016	374,831	1,532,766	1,141,870
Gross profit		174,090	139,654	521,351	381,851
Selling, general and administrative expenses	13	134,935	111,032	403,667	287,267
Income before the following		39,155	28,622	117,684	94,584
Depreciation and amortization		29,456	23,094	82,239	54,751
Finance expense, net		10,867	5,886	30,870	10,798
Acquisition, integration, restructuring and other	10	2,601	8,211	10,969	19,492
Change in fair value of contingent consideration	7[c]	-	-	9,209	-
Share-based compensation	6[b],6[c]	774	1,275	2,738	4,172
Other (income) expenses	11	(170)	(25,570)	(4,230)	(22,432)
(Loss) income before income taxes		(4,373)	15,726	(14,111)	27,803
Income tax (recovery) expense		(1,057)	(2,502)	(2,937)	304
Net (loss) income		\$ (3,316)	\$ 18,228	\$ (11,174)	\$ 27,499
Net (loss) income attributable to:					
Shareholders of Converge		(1,802)	20,595	(7,309)	30,819
Non-controlling interest		(1,514)	(2,367)	(3,865)	(3,320)
		\$ (3,316)	\$ 18,228	\$ (11,174)	\$ 27,499
Other comprehensive (loss) income					
Item that may be reclassified subsequently to (loss) income:					
Exchange differences on translation of foreign operations		2,891	5,352	(10,661)	(859)
		2,891	5,352	(10,661)	(859)
Comprehensive (loss) income		\$ (425)	\$ 23,580	\$ (21,835)	\$ 26,640
Comprehensive (loss) income attributable to:					
Shareholders of Converge		1,089	25,947	(17,970)	29,960
Non-controlling interest		(1,514)	(2,367)	(3,865)	(3,320)
		(425)	23,580	(21,835)	26,640
Net (loss) income per share – basic and diluted		\$ (0.01)	\$ 0.10	\$ (0.04)	\$ 0.14
Weighted average number of shares outstanding – basic		205,075,959	210,724,039	207,450,863	214,479,805
Weighted average number of shares outstanding – diluted		205,075,959	214,468,177	207,450,863	217,015,653

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		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	-	-	4,172	-	-	-	-	4,172
Exercise of exchange rights	(i), (ii)	978,567	755	-	(755)	-	-	-	-
Share repurchase commitment under normal course issuer bid "NCIB"	6	-	(9,432)	-	-	-	-	-	(9,432)
Shares repurchased under NCIB	6	(5,058,200)	(14,896)	-	-	-	(15,643)	-	(30,539)
Net income and comprehensive income		-	-	-	-	(859)	30,819	(3,320)	26,640
Balance, September 30, 2022		210,316,736	609,916	6,497	1,641	(530)	(9,874)	32,019	639,669
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	-	-	2,738	-	-	-	-	2,738
Exercise of exchange rights	(iii)	321,685	1,705	-	(1,705)	-	-	-	-
Exercise of restricted stock units		69,675	641	(641)	-	-	-	-	-
Share purchase commitment under NCIB	7	-	19,835	-	-	-	-	-	19,835
Shares repurchased and cancelled	6	(4,447,594)	(12,876)	-	-	-	(1,810)	-	(14,686)
Shares repurchased to be cancelled	6	(221,800)	(608)	-	-	-	-	-	(608)
Dividends paid	6	-	-	-	-	-	(4,114)	-	(4,114)
Net loss and comprehensive loss		-	-	-	-	(10,661)	(7,309)	(3,865)	(21,835)
Balance, September 30, 2023		204,534,184	603,716	10,016	-	3,047	(31,674)	27,035	612,140

- (i) Purchase consideration for Software Information Systems LLC "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 nine months ended September 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 September 30, 2023, all Class B membership interests of SIS have been exchanged for common shares and nil are issued and outstanding.
- (ii) Purchase consideration for VSS included the issuance of a right to exchange 2,871,400 Class B membership interests for 2,871,400 common shares of the Company. During the nine months ended September 30, 2022, 478,567 Class B membership interests were exchanged for 478,567 common shares at \$0.91 per share for a value of \$435. As of September 30, 2023, all Class B membership interests of VSS have been exchanged for common shares and nil are issued and outstanding.
- (iii) Purchase consideration for CarpeDatum included the issuance of a right to exchange 367,344 Class B membership interests for 367,644 common shares of the Company. During the nine months ended September 30, 2023, 321,685 Class B membership interests (2022 – nil) were exchanged for 321,685 common shares (2022 – nil) at \$5.30 per share for a value of \$1,705 (2022 – nil). As of September 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		For the nine months ended	
		September 30,	2022	September 30,	2022
		2023	2022	2023	2022
Cash flows (used in) from operating activities					
Net (loss) income		\$ (3,316)	\$ 18,228	\$ (11,174)	\$ 27,499
Adjustments to reconcile net (loss) income to net cash from operating activities					
Depreciation and amortization		31,559	24,101	88,344	58,071
Unrealized foreign exchange gains		-	(24,233)	(2,818)	(20,532)
Share-based compensation expense	6	774	1,275	2,738	4,172
Finance expense, net		10,867	5,886	30,870	10,798
Gain on sale of property and equipment		-	-	(598)	-
Change in fair value of contingent consideration		-	-	9,209	-
Income tax (recovery) expense		(1,057)	(2,502)	(2,937)	304
		38,827	22,755	113,634	80,312
Changes in non-cash working capital items	12	63,102	(5,904)	18,858	(50,195)
		101,929	16,851	132,492	30,117
Income taxes paid		(5,987)	(1,901)	(17,433)	(18,926)
Cash from operating activities		95,942	14,950	115,059	11,191
Cash flows (used in) from investing activities					
Purchase of property and equipment		(1,593)	(4,332)	(8,790)	(18,812)
Proceeds on disposal of property and equipment		-	-	3,749	(6)
Payment of contingent consideration	7	(10,899)	-	(20,834)	(10,135)
Payment of deferred consideration		(14,095)	(121)	(43,815)	(7,069)
Payment of NCI liability	7	(973)	-	(30,967)	-
Business combinations, net of cash acquired	4	-	(154,212)	-	(353,683)
Cash used in investing activities		(27,560)	(158,665)	(100,657)	(389,705)
Cash flows (used in) from financing activities					
Transfers (to) from restricted cash		(519)	141	2,068	(4,372)
Interest paid		(10,544)	(1,229)	(25,786)	(4,287)
Dividends paid	6	(2,047)	-	(4,114)	(1,080)
Payments of lease liabilities		(4,975)	(3,462)	(15,199)	(8,494)
Repurchase of common shares	6	(1,064)	(30,539)	(15,294)	(30,539)
Repayment of notes payable		(39)	(37)	(119)	(196)
Net (repayment to) proceeds from borrowings		(21,977)	173,084	(10,593)	357,901
Cash (used in) from financing activities		(41,165)	137,958	(69,037)	308,933
Net change in cash during the period		27,217	(5,757)	(54,635)	(69,581)
Effect of foreign exchange on cash		(439)	(6,189)	(34)	(6,383)
Cash, beginning of period		78,443	184,175	159,890	248,193
Cash, end of period		\$ 105,221	\$ 172,229	\$ 105,221	\$ 172,229

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

Converge Technology Solutions Corp.

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 nine months ended September 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, United Kingdom, 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.

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 September 30, 2023:

- OHC International, LLC, Corus 360 Limited (“Corus”)
- Essex Acquisition, LLC, Essex Technology Group, Inc., Essex Commercial Finance LLC (“Essex”)
- Converge Technology Hybrid IT Solutions Europe Ltd. (“Converge Europe”)
- Solutions P.C.D. Inc., P.C.D. Consultation Inc. (“PCD”)
- Infinity Systems Software, Inc. (“Infinity Systems”)
- Accudata Systems LLC (“Accudata”)
- ExactlyIT Inc., ExactlyIT, S. de R.L. de C.V. (“ExactlyIT”)
- Creative Breakthroughs, Inc. (“CBI”)
- IDX Systems Corp., 1176524 Alberta Ltd., 1190422 Alberta Ltd., 1245720 Alberta Ltd. (“IDX”)
- Gesellschaft für digitale Bildung GmbH, DEQSTER GmbH (“GfdB”)
- PC Specialists, Inc., Itex, Inc., TIG Asia Limited, Technology Integration Group Hong Kong Limited, TIG (Shanghai) Co., Ltd. (“TIG”)
- Rednet AG (“Rednet”)
- Stone Technologies Group Ltd., Granite One Hundred Holdings Ltd., Stone Computers Ltd., Stone Technologies Ltd., Compusys Ltd. (“Stone”)
- Acumetrics Business Intelligence Inc. (“Lighthouse”)
- 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 Solutions US, LLC
- Newcomp Analytics Inc., Newcomp Solutions (USA), Inc. (“Newcomp”)
- Converge Technology Partners Inc.
- Northern Micro Inc. (“Northern Micro”)
- VSS Holdings, LLC, VSS, LLC, Information Insights, LLC (“VSS”)
- Unique Digital, Inc. (“Unique Digital”)
- CarpeDatum LLC (“CarpeDatum”)
- Dasher Technologies, Inc. (“Dasher”)
- Vicom Infinity, Inc. (“Vicom Infinity”)
- PDS Holding Company, Paragon Development Systems Inc., Works Computing, LLC, Paragon Staffing, LLC (“PDS”)

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

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 nine months ended September 30, 2022 has been reclassified as follows:

Three months ended September 30, 2022	Balances pre-accounting policy change and as previously reported	Impact of adoption	Reclassified
Revenue			
Product	\$ 474,006	\$ 88,721	\$ 385,285
Service	129,200	-	129,200
Total revenue	603,206	88,721	514,485
Cost of sales	463,552	88,721	374,831
Gross profit	\$ 139,654	\$ -	\$ 139,654

Nine months ended September 30, 2022	Balances pre-accounting policy change and as previously reported	Impact of adoption	Reclassified
Revenue			
Product	\$ 1,419,216	\$ 226,178	\$ 1,193,038
Service	330,683	-	330,683
Total revenue	1,749,899	226,178	1,523,721
Cost of sales	1,368,048	226,178	1,141,870
Gross profit	\$ 381,851	\$ -	\$ 381,851

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 13, 2023.

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

[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 conflicts in Middle East and between Russia and Ukraine, may disrupt supply chains and caused instability in the global economy, which has and may affect 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. 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.

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Notes to the condensed consolidated interim financial statements

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

The following new and amended standards and interpretations will become effective next fiscal year. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective and are not expected to have a significant impact on these condensed consolidated interim financial statements:

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1 – Presentation of Financial Statements)*
- *Lease Liability in a Sale and Leaseback – Amendments to IFRS 16*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7 – Financial Instruments: Disclosure)*

4. Business combinations

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	\$ 497,346
Contingent consideration	17,354
Deferred consideration	6,985
NCI liability	8,403
Total	530,088
Cash	80,104
Trade and other receivables	200,444
Prepaid expenses and other current assets	5,518
Inventories	79,905
Property and equipment	10,968
Right-of-use asset	19,113
Intangible assets	263,098
Trade and other payables	(228,487)
Deferred revenue	(31,471)
Deferred tax liability	(68,065)
Lease liabilities	(19,342)
Goodwill	\$ 218,303

Converge Technology Solutions Corp.

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5. Borrowings

Borrowings outstanding as at September 30, 2023 and December 31, 2022 were as follows:

Facility	Notes	September 30, 2023	December 31, 2022
Revolver Credit Facility	[a]	\$ 412,644	\$ 420,439
Other third-party facilities	[b]	109	1,289
Total		412,753	421,728
Current liabilities		109	421,728
Non-current liabilities		412,644	-
Total		\$ 412,753	\$ 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 nine months ended September 30, 2023 was 7.4% (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 September 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 nine months ended September 30, 2023 was \$8,461 and \$24,243, respectively (2022 – \$4,579 and \$8,193).

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 September 30, 2023 or December 31, 2022.

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

[b] Stock option plans

During the nine months ended September 30, 2023, 1,900,000 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 12 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 nine months ended September 30, 2023, the Company recognized share-based compensation expense related to stock options of \$774 and \$2,609, respectively (2022 – \$1,115 and \$3,826).

[c] Restricted stock units (“RSUs”)

During the three and nine months ended September 30, 2023, the Company recognized share-based compensation expense of \$nil and \$129 from RSUs issued in fiscal 2022, respectively (2022 – \$160 and \$346).

[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 terminated once the maximum number of common shares under the NCIB had been purchased in June 2023. As at December 31, 2022, 6,464,124 common shares were repurchased and cancelled. During the three and nine months ended September 30, 2023, nil and 4,280,694 common shares were repurchased under the NCIB for an aggregate purchase price of \$nil and \$14,229, respectively. All common shares acquired by the Company under the NCIB were cancelled during the nine months ended September 30, 2023.

On August 9, 2023, the Company announced that the Toronto Stock Exchange approved the Company’s Notice of Intention to make a 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.

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. The surplus paid over the carrying value of the common shares was charged to deficit. During the three and nine months ended September 30, 2023, 388,700 common shares were repurchased under the NCIB for an aggregate purchase price of \$1,065. As at September 30, 2023, 166,900 common shares had been cancelled and the remainder were cancelled in October 2023.

[e] Dividends

The Company paid dividends to shareholders during the three and nine months ended September 30, 2023 of \$2,047 and \$4,114, respectively, based on a dividend of \$0.01 per share (2022 – \$nil and \$nil).

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

7. Other financial liabilities

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

	Notes	September 30, 2023 \$	December 31, 2022 \$
Notes payable	[a]	1,774	1,842
Deferred consideration	[b]	19,278	43,492
Contingent consideration	[c]	22,205	36,614
Lease liabilities		48,451	53,642
NCI liability	[d]	8,123	45,690
NCIB liability		-	19,835
		99,831	201,115
Current liabilities		52,625	123,932
Non-current liabilities		47,206	77,183
		99,831	201,115

[a] Notes payable

As at September 30, 2023, the Company had a note payable to a third party of \$78 (December 31, 2022 – \$194). Interest on the note payable is 5.57% per annum and the maturity date is March 16, 2024.

As at September 30, 2023, Portage had a note payable to a third party of \$1,696 (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 September 30, 2023 and December 31, 2022:

Acquisition	Maturity date	Interest rate per annum	Principal \$ USD	Principal € EUR	Principal \$ CDN	September 30,	December 31,
						2023 \$	2022 \$
PCD	February 6, 2023	3.7%	-	-	-	-	1,633
Rednet	March 15, 2023	5%	-	-	-	-	24,814
Unique Digital	October 1, 2023	7%	800	-	1,082	1,116	1,219
Dasher	April 1, 2024	5%	1,856	-	2,509	2,780	5,630
Dasher	April 1, 2024	-	1,144	-	1,547	1,547	2,771
ExactlyIT	Note (i)	-	500	-	676	1,014	1,354
Notarius	December 17, 2023	5%	-	-	5,000	5,184	5,129
Newcomp	September 9, 2024	5%	-	-	508	485	942
Rednet	December 31, 2023	-	-	5,000	7,152	7,152	-
Total			4,300	5,000	18,474	19,278	43,492

Converge Technology Solutions Corp.

Notes to the condensed consolidated interim financial statements

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(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

During the nine months ended September 30, 2023, the Company paid the deferred consideration to the sellers of PCD of \$1,680, to the sellers of Rednet of \$24,474 (€17,110), to the sellers of Dasher for \$4,294 (\$3,187 USD), and to the sellers of ExactlyIT of \$4,056 (\$3,000 USD).

During the three and nine months ended September 30, 2023, the Company recognized interest expense on deferred consideration of \$104 and \$370, respectively (2022 – \$303 and \$1,227).

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 nine months ended September 30, 2023, \$350 and \$1,061 remuneration expense has been recognized, presented within acquisition, integration, restructuring and other costs, respectively (2022 – \$327 and \$962).

[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 September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	\$	\$
PCD	-	1,500
VSS	1,913	6,230
Unique Digital	500	502
Accudata	5,357	5,079
CarpeDatum	1,027	2,158
LPA	1,879	3,914
OPIN	350	350
1CRM	700	1,700
CBI	6,460	7,530
GfdB	4,019	7,651
Total	22,205	36,614

During the three and nine months ended September 30, 2023, the Company recognized an expense of \$nil and \$9,209, respectively, in the condensed consolidated interim statements of (loss) income and comprehensive (loss) income (2022 – \$nil), which is presented under change in fair value of contingent consideration.

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

During the nine months ended September 30, 2023, the Company paid earn-outs to sellers of \$20,834.

	\$ USD	€ EUR	\$ CDN
VSS	3,185	-	4,336
LPA	1,500	-	2,014
CarpeDatum	833	-	1,135
PCD	-	-	1,500
1CRM	-	-	1,000
CBI	5,500	-	7,220
GfdB	-	2,483	3,629
Total	11,018	2,483	20,834

[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 \$36,322 (25,393 €), which is payable in two installments. On March 15, 2023, the Company made the first payment of \$29,170 (20,393 €), with the remaining \$7,152 (5,000 €) owed to the seller on December 31, 2023, which has been included in deferred consideration above (Note 7[b]).

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. During the three and nine months ended September 30, 2023, the Company paid \$973 (589 £) to the sellers of Stone (2022 – \$nil).

Converge Technology Solutions Corp.

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For the three and nine months ended September 30, 2023 and 2022

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 2[a]).

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

For the three months ended September 30,	2023			2022		
	Converge	Portage	Total	Converge	Portage	Total
	\$	\$	\$	\$	\$	\$
Total revenue	705,289	4,817	710,106	510,353	4,132	514,485
Cost of sales	534,650	1,366	536,016	373,959	872	374,831
Gross profit	170,639	3,451	174,090	136,394	3,260	139,654
Selling, general and administrative expenses	131,005	3,930	134,935	107,770	3,262	111,032
Segment profit (loss)	39,634	(479)	39,155	28,624	(2)	28,622
Depreciation and amortization	28,081	1,375	29,456	21,720	1,374	23,094
Finance expense, net	10,469	398	10,867	5,865	21	5,886
Acquisition, integration, restructuring and other	2,388	213	2,601	8,209	2	8,211
Share-based compensation	774	-	774	1,275	-	1,275
Other (income) expenses	(177)	7	(170)	(25,583)	13	(25,570)
(Loss) income before income taxes	(1,901)	(2,472)	(4,373)	17,138	(1,412)	15,726

For the nine months ended September 30,	2023			2022		
	Converge	Portage	Total	Converge	Portage	Total
	\$	\$	\$	\$	\$	\$
Total revenue	2,039,520	14,597	2,054,117	1,515,628	8,093	1,523,721
Cost of sales	1,528,283	4,483	1,532,766	1,139,778	2,092	1,141,870
Gross profit	511,237	10,114	521,351	375,850	6,001	381,851
Selling, general and administrative expenses	391,023	12,644	403,667	280,147	7,120	287,267
Segment profit (loss)	120,214	(2,530)	117,684	95,703	(1,119)	94,584
Depreciation and amortization	78,321	3,918	82,239	52,833	1,918	54,751
Finance expense, net	29,600	1,270	30,870	10,734	64	10,798
Acquisition, integration, restructuring and other	9,983	986	10,969	18,953	539	19,492
Change in fair value of contingent consideration	9,209	-	9,209	-	-	-
Share-based compensation	2,738	-	2,738	4,172	-	4,172
Other (income) expenses	(4,245)	15	(4,230)	(22,447)	15	(22,432)
(Loss) income before income taxes	(5,392)	(8,719)	(14,111)	31,458	(3,655)	27,803

Converge Technology Solutions Corp.

Notes to the condensed consolidated interim financial statements

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(Unaudited)

For the three and nine months ended September 30, 2023 and 2022

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 nine months ended September 30, 2023 and 2022:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
USA	\$ 519,693	\$ 350,650	\$ 1,428,955	\$ 1,027,802
Canada	50,645	76,726	217,626	289,389
Europe and UK	139,768	87,109	407,536	206,530
	\$ 710,106	\$ 514,485	\$ 2,054,117	\$ 1,523,721

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

September 30, 2023	Property, equipment, right-of-use assets	Intangible assets	Goodwill	Total
	\$	\$	\$	\$
USA	45,187	221,242	305,450	571,879
Canada	9,885	62,049	86,139	158,073
Europe and UK	18,520	117,245	176,599	312,364
	73,592	400,536	568,188	1,042,316

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.

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

10. Acquisition, integration, restructuring and other

Acquisition, integration, restructuring and other costs for the three and nine months ended September 30, 2023 and 2022 are detailed as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Acquisition and transaction-related costs	\$ 933	\$ 5,909	\$ 3,817	\$ 15,341
Integration costs	126	278	525	789
Restructuring costs	1,207	-	4,564	128
Other costs	335	2,024	2,063	3,234
	\$ 2,601	\$ 8,211	\$ 10,969	\$ 19,492

Acquisition and transaction-related costs primarily consist of acquisition-related compensation tied to continued employment of pre-existing shareholders of the acquiree not included in the total purchase consideration and professional fees. Integration costs primarily consist of professional fees incurred related to integration of acquisitions completed. Restructuring costs mainly represent employee exit costs as a result of synergies created from acquisitions and organizational changes.

11. 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 nine months ended September 30, 2023 and 2022 are detailed in the following table:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Foreign exchange gain	\$ (493)	\$ (24,233)	\$ (4,348)	\$ (20,532)
Other	323	(1,337)	118	(1,900)
Other (income) expenses	\$ (170)	\$ (25,570)	\$ (4,230)	\$ (22,432)

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

12. Changes in non-cash working capital

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Trade and other receivables	\$ (13,363)	\$ 71,898	\$ (36,401)	\$ (4,241)
Inventories	(4,103)	6,511	(10,222)	17,769
Prepaid expenses and other assets	1,055	835	(2,033)	(3,781)
Trade and other payables	84,129	(86,206)	78,370	(69,836)
Other financial liabilities	(2,360)	(338)	1,009	1,898
Deferred revenue	(2,256)	1,396	(11,865)	7,996
Changes in non-cash working capital items	\$ 63,102	\$ (5,904)	\$ 18,858	\$ (50,195)

13. Selling, general and administrative expenses

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Salaries and benefits	\$ 108,168	\$ 94,125	\$ 329,527	\$ 242,712
Office, travel and events	14,879	12,073	48,917	29,758
Professional fees	6,000	3,663	15,872	10,035
Other expenses	5,888	1,171	9,351	4,762
Total	\$ 134,935	\$ 111,032	\$ 403,667	\$ 287,267

14. 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 condensed consolidated interim 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.

Converge Technology Solutions Corp.

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 nine months ended September 30, 2023 and 2022

- 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 nine months ended September 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.

15. 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.

The Company defines key management personnel as being the Board of Directors, the CEO and the executive leadership team. The remuneration of key management personnel during the year was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Salaries and benefits ^[a]	\$ 2,254	\$ 1,788	\$ 6,851	\$ 5,099
Stock-based compensation	774	1,275	2,738	4,172
Total	\$ 3,028	\$ 3,063	\$ 9,589	\$ 9,271

[a] Includes salaries, bonuses, advisory fees, short-term employment benefits and other personnel costs.

As at September 30, 2023, \$174 (December 31, 2022 – \$nil) was included in trade and other payables for consulting fees, salaries and benefits, directors' fees and reimbursement of expenses. The amounts due are unsecured, bear no interest and are payable on demand.

16. Subsequent events

On November 13, 2023, the Board declared a quarterly dividend of \$0.01 per common share to be paid on December 28, 2023 to shareholders of record at the close of business on December 13, 2023.