Condensed interim consolidated financial statements

Converge Technology Solutions Corp.

For the three and six months ended June 30, 2019 and 2018
(Unaudited)

Converge Technology Solutions Corp.

Condensed interim consolidated statements of financial position

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

(unaudited)

As at	Note	June 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		**$ 12,808**	$ 10,482
Restricted cash	8	**5,464**	4,240
Trade and other receivables		**129,483**	129,979
Inventories		**16,429**	12,392
Prepaid expenses and other assets		**11,435**	5,758
		175,619	162,851
Long-term assets			
Property and equipment, net	5	**20,578**	7,357
Intangible assets, net	6	**52,502**	46,033
Goodwill	7	**49,071**	32,614
Other non-current assets		**6,162**	7,443
		$ 303,932	$ 256,298
Liabilities			
Current liabilities			
Trade and other payables		**$ 151,218**	$ 136,208
Borrowings	8	**87,552**	75,993
Other financial liabilities	12	**13,201**	19,487
Deferred revenue and other liabilities		**6,637**	4,632
Income taxes payable		**1,177**	390
		259,785	236,710
Long-term liabilities			
Other financial liabilities	12	**20,585**	7,864
Borrowings	8	**15,925**	4,382
Debentures	9	**3,348**	3,151
Convertible debenture	10	**5,040**	4,966
Deferred tax liability		**3,170**	3,729
		$ 307,853	$ 260,802
Shareholders' deficiency			
Common shares	11	**18,542**	17,826
Warrants	11	**305**	493
Contributed surplus		**307**	319
Exchange rights	4	**5,120**	-
Foreign exchange translation reserve		**(515)**	(715)
Deficit		**(27,680)**	(22,427)
		(3,921)	(4,504)
		$ 303,932	$ 256,298

Subsequent events (*note 15)*

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

On behalf of the Board:

"Signed"
Director - Shaun Maine

"Signed"
Director - Brian Phillips

Converge Technology Solutions Corp.

Condensed interim consolidated statements of loss and comprehensive loss

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

(unaudited)

	Notes	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Revenues	14	**$ 149,273**	$ 103,277	**$ 314,035**	$ 223,061
Cost of sales	14	**115,049**	80,948	**242,618**	183,647
Gross profit		**34,224**	22,329	**71,417**	39,414
Selling, general and administrative expenses		**29,704**	17,652	**59,336**	29,387
Income before the following		**4,520**	4,677	**12,081**	10,027
Depreciation and amortization	5,6	**2,575**	1,132	**5,183**	1,944
Finance expense, net		**3,221**	2,142	**6,602**	3,390
Change in fair value of contingent consideration		**-**	4,430	**-**	7,443
Transaction costs - acquisitions, including retention bonuses	4,12	**438**	2,506	**3,616**	2,840
Other expense		**244**	81	**478**	3
Loss before income taxes		**(1,958)**	(5,614)	**(3,798)**	(5,593)
Income tax expense		**400**	182	**1,455**	1,672
Net loss		**$ (2,358)**	$ (5,796)	**$ (5,253)**	$ (7,265)
Other comprehensive loss					
Item that may be reclassified subsequently to income:					
Exchange loss (gain) on translation of foreign operations		**(233)**	95	**(200)**	142
		(233)	95	**(200)**	142
Net comprehensive loss		**$ (2,125)**	$ (5,891)	**$ (5,053)**	$ (7,407)
Net loss per share - basic		**$ (0.03)**	$ (0.10)	**$ (0.07)**	$ (0.13)
Net loss per share - diluted		**$ (0.03)**	$ (0.10)	**$ (0.07)**	$ (0.13)
Weighted average number of shares outstanding - basic (in 000's)		**75,872**	58,327	**75,860**	58,327
Weighted average number of shares outstanding - diluted (in 000's)		**75,872**	58,327	**75,860**	58,327

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

Converge Technology Solutions Corp.

Condensed interim consolidated statements of changes in shareholders' deficiency

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

(unaudited)

	Notes	Common shares		Warrants		Contributed surplus	Exchange rights	Foreign exchange transaction reserve	Deficit	Total
		#	$	#	$	$	$	$	$	$
Balance, December 31, 2017		**48,956,773**	**1**	**-**	**-**	**-**	**-**	**(24)**	**(4,191)**	**(4,214)**
Issuance of common shares and warrants		10,652,055	3,424	10,652,055	586	-	-	-	-	4,010
Broker warrants excercised		-	-	353,745	21	-	-	-	-	21
Net loss and comprehensive loss		-	-	-	-	-	-	(142)	(7,265)	(7,407)
Balance, June 30, 2018		**59,608,828**	**3,425**	**11,005,800**	**607**	**-**	**-**	**(166)**	**(11,456)**	**(7,590)**
Common shares issued pursuant to business acquisition, included as a derivative liability		**600,000**								
Balance, June 30, 2018		**60,208,828**	**3,425**	**11,005,800**	**607**	**-**	**-**	**(166)**	**(11,456)**	**(7,590)**
Balance, December 31, 2018		**75,683,159**	**17,826**	**7,908,365**	**493**	**319**	-	**(715)**	**(22,427)**	**(4,504)**
Warrants excercised		334,250	314	(334,250)	(188)	-	-	-	-	126
Shares issued from treasury		160,000	102	-	-	-	-	-	-	102
Qualifying transaction options excercised		46,875	56	-	-	(12)	-	-	-	44
Expiry of the right to repurchase shares	12	-	244	-	-	-	-	-	-	244
Issuance of exchange rights	4	-	-	-	-	-	5,120	-	-	5,120
Net loss and comprehensive loss		-	-	-	-	-	-	200	(5,253)	(5,053)
Balance, June 30, 2019		**76,224,284**	**18,542**	**7,574,115**	**305**	**307**	**5,120**	**(515)**	**(27,680)**	**(3,921)**

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

Converge Technology Solutions Corp.

Condensed interim consolidated statements of cash flows

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

(unaudited)

	Notes	For the three months ended June 30, 2019	2018	For the six months ended June 30, 2019	2018
Cash flows from operating activities					
Net loss		**$ (2,358)**	$ (5,797)	**(5,253)**	$ (7,265)
Adjustments to reconcile net loss to net cash from operating activities					
Depreciation and amortization	5,6	**3,851**	1,867	**7,365**	2,857
Finance expense, net	8, 9,10	**3,221**	2,142	**6,602**	3,390
Change in fair value of contingent consideration	12	**-**	4,430	**-**	7,443
Income tax expense		**400**	182	**1,455**	1,672
		5,114	2,824	**10,169**	8,097
Changes in non-cash working capital items					
Trade and other receivables		**28,566**	28,035	**17,757**	(30,068)
Inventories		**(1,049)**	4,538	**(4,074)**	4,963
Prepaid expenses and other assets		**(4,880)**	(2,262)	**(4,229)**	(3,319)
Trade and other payables		**(9,969)**	(26,238)	**(5,331)**	24,315
Finance lease liability, net		**721**	-	**721**	-
Other financial liabilities		**-**	9,230	**-**	9,230
Deferred revenue and customer deposits		**(1,585)**	2,728	**1,590**	2,419
Cash from operating activities		**16,918**	18,855	**16,603**	15,637
Cash flows from investing activities					
Purchase of property and equipment	5	**(2,940)**	(3,692)	**(4,115)**	(4,442)
Proceeds on disposal of property and equipment	5	**56**	-	**83**	-
Adjustment to intangible assets	6	**(10)**	-	**91**	-
Business combinations, net of cash acquired	4	**-**	(18,551)	**(14,483)**	(18,734)
Cash used in investing activities		**(2,894)**	(22,243)	**(18,424)**	(23,176)
Cash flows from financing activities					
Transfers to restricted cash	8	**-**	(2,975)	**(1,297)**	(2,975)
Interest paid		**(3,686)**	(882)	**(5,933)**	(1,825)
Income tax installments paid		**(781)**	-	**(1,298)**	-
Payments on finance lease		**(1,214)**	(104)	**(2,517)**	(181)
Proceeds from issuance of common shares and warrants	11	**157**	-	**260**	4,031
Repayment of borrowings	8	**(217,162)**	(110,124)	**(386,661)**	(205,488)
Proceeds from borrowings	8	**213,576**	121,149	**414,267**	213,643
Repayment of notes payable	12	**(1,239)**	-	**(3,233)**	-
Repayment of contingent consideration	12	**(401)**	-	**(10,143)**	-
Cash from (used in) financing activities		**(10,750)**	7,064	**3,445**	7,205
Net change in cash during the period		**3,274**	3,676	**1,624**	(334)
Effect of foreign exchange on cash		**488**	(442)	**702**	(383)
Cash, beginning of period		**9,046**	3,835	**10,482**	7,786
Cash, end of period		**$ 12,808**	$ 7,069	**12,808**	$ 7,069

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

Notes to the condensed interim consolidated financial statements

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

For the three and six months ended June 30, 2019 and 2018

1. Nature of business

Converge Technology Solutions Corp. (the "Company" or "Converge") is a North American platform of regionally focused IT infrastructure firms in the United States of America ("US") and Canada connecting best-of-breed services and solutions to clients.

The Company was incorporated on November 29, 2016. The Company's head office is located at 161 Bay Street, Suite 2325, Toronto, Ontario M5J 2S1.

The Company has the following wholly owned subsidiaries as at June 30, 2019:

Corus Commercial Finance, LLC, Corus Group, LLC Corus Managed Services, LLC, Corus Careers, LLC OHC International, LLC, Corus 360 Limited	Lighthouse Computer Services, Inc., Creative Computing LLC, Lighthouse Middleware, LLC, Acumetrics Business Intelligence Inc.
Northern Micro Inc.	10084182 Canada Inc. o/a Becker-Carroll
Key Information Systems, Inc.	BlueChip Tek, Inc.
Converge Acquisition, LLC	SIS Holding Company, LLC, Software Information Systems, LLC
Converge Canada Finance Corp.	Converge Technology Partners Inc.
Converge NE Commercial Finance, LLC	Converge West Commercial Finance, LLC

2. Basis of preparation

The unaudited condensed interim consolidated financial statements ("financial statements") were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2018, except as disclosed below. These condensed interim consolidated financial statements have been prepared in compliance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018. Certain comparative amounts in the financial statements have been reclassified to conform with the current year presentation.

The timely preparation of the condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements, and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 21, 2019.

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

3. New standards, amendments and interpretations

The following new accounting standards were applied or adopted during the period ended June 30, 2019:

[i] IFRS 16 – Leases ("IFRS 16")

IFRS 16 *Leases* ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, with certain exemptions. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases with a lease term of 12 months or less. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are also required to remeasure the lease liability upon the occurrence of certain events such as a change in lease term. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The new standard was effective for annual periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective transition approach and elected to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the lease commencement date and the lease contracts where the underlying asset is of low value.

The effect of adoption of IFRS 16 as at January 1, 2019 (increase/(decrease)) was as follows:

	January 1, 2019 $
Assets	
Right-of-use asset (included in property and equipment)	7,209
Liabilities	
Lease liabilities (included in other liabilities)	7,209

The Company recognized a right-of-use asset based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognized. The lease liability was recognized based on the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period as incurred.

The Company also applied the following available practical expedients:

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

In addition to the office and building leases that were transitioned as at January 1, 2019, office and equipment leases acquired as part of the acquisition of Software Information Systems LLC, ("SIS") were recognized under IFRS 16 during the six months ended June 30, 2019. These leases resulted in the recognition of a right-of-use asset and corresponding lease liability of $7,563. As at June 30, 2019, an additional $1,032 of equipment and office leases have been recognized as right-of-use assets and corresponding lease liabilities.

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

The carrying amounts of the Company's right-of-use assets and lease liabilities and movements during the period were as follows:

	Right-of-use assets	Lease liabilities
	$	$
Balance, January 1, 2019	7,209	7,209
Additions	8,595	8,595
Depreciation expense	(2,000)	-
Interest expense	-	660
Payments	-	(2,385)
Balance, June 30, 2019	13,804	14,019

[ii] IFRIC 23 – Uncertainty over Income Tax Treatment ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The adoption of this interpretation did not have an impact on the condensed interim consolidated financial statements.

4. Business combinations

Lighthouse

On November 30, 2018, the Company acquired all of the issued and outstanding membership interests of Lighthouse Computer Services Inc., Creative Computing LLC, Lighthouse Middleware, LLC, Acumetrics Business Intelligence Inc. (collectively, "Lighthouse"). Lighthouse, excluding Acumetrics Business Intelligence Inc., is incorporated and is domiciled in the state of Rhode Island in the US. Acumetrics Business Intelligence Inc. is incorporated and is domiciled in the province of Ontario in Canada.

Lighthouse is an information technology professional services organization that specializes in analytics, hybrid cloud, infrastructure, and security solutions. The purpose of the acquisition was to enhance the Company's buying power and to provide a platform to grow in the US with local expertise.

The acquisition of Lighthouse qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of Lighthouse have been included in the condensed interim consolidated financial statements of the Company from the date of the acquisition. The acquisition accounting for this transaction has not yet been finalized and requires the Company to complete its determination of the fair values of identifiable intangible assets and contingent consideration.

The total consideration for the purchase of Lighthouse was $24,271 ($18,247 USD). Purchase consideration consisted of $16,493 in cash and $7,778 in contingent consideration. The allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition was as follows:

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

	Fair value recognized on acquisition $
Cash	9,020
Trade and other receivables	16,952
Prepaid expenses and deposits	431
Inventories	949
Property and equipment	397
Customer relationships	6,435
Trade name and trademarks	2,683
Goodwill	13,201
Trade and other payables	(21,338)
Deferred revenue and customer deposits	(977)
Note payable	(3,482)
Purchase consideration transferred	**24,271**

Goodwill arising on the acquisition reflects the benefits attributable to synergies, revenue growth, future market development and the estimated fair value of an assembled workforce. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. This goodwill is not deductible for income tax purposes.

As part of consideration for the acquisition, Lighthouse issued $3,420 ($2,618 USD) of promissory notes. The promissory notes were non-interest bearing and were payable $500 USD per month with the first such installment on January 1, 2019, the second such installment on February 1, 2019, the third such installment on March 1, 2019, the fourth such installment on April 1, 2019 and the fifth such installment on May 1, 2019 in an amount equal to the balance due under the promissory notes. The final payment of the promissory notes will be adjusted for the final working capital balance. As at June 30, 2019, $74 remains outstanding on the promissory note for working capital adjustments (December 31, 2018 - $3,420).

Contingent consideration comprises earn-out payments due to sellers for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $7,778 as at the date of acquisition (see note 12). The initial fair value of the contingent consideration was valued at $3,496 as at December 31, 2018.

Total transaction costs for the acquisition of Lighthouse were $1,045. All transaction costs were expensed as incurred.

Software Information Systems, LLC

On January 18, 2019, the Company acquired all of the issued and outstanding Class A membership interests, which represents 100% control of Software Information Systems, LLC (“SIS”) located in Kentucky, USA. There are 8,000,000 Class B membership interests issued and outstanding, which have no voting rights, no dividends, or equity participation. SIS is a 36-year-old technology solutions and services company, collaborating with customers on innovative data center strategy, technology solutions in the cloud or on-premise to help customers drive impactful business results.

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

Consideration for the purchase consisted of (i) $11,500 USD in cash; plus (ii) the issuance of a right to exchange 8,000,000 Class B membership interests for an aggregate of 8,000,000 common shares of the Company. Under the terms of the agreement, no exchange shall be permitted until at least six months from the acquisition date, at which point 1,500,000 common shares shall become eligible for issuance pursuant to the agreement. An additional 1,500,000 common shares shall become eligible for exchange on each six-month anniversary of the completion of the transaction thereafter, such that all 8,000,000 common shares will only be available for exchange following the three-year anniversary of the acquisition. The fair value of the exchange right consideration issued is $5,120 calculated as 8,000,000 common shares at $0.64 per share as at the date of acquisition. The acquisition accounting for this transaction has not yet been finalized and requires the Company to complete its determination of the fair values of identifiable tangible and intangible assets acquired.

The acquisition of SIS qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of SIS have been included in the condensed interim consolidated financial statements of the Company from the date of the acquisition.

The allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition was as follows:

	Fair value recognized on acquisition $
Cash	768
Trade and other receivables	18,278
Prepaid expenses and deposits	101
Property and equipment	7,693
Backlog	1,110
Customer relationships	6,903
Trade name and trademarks	3,127
Goodwill	13,341
Trade and other payables	(18,030)
Lease liabilties	(7,563)
Deferred vendor rebates	(2,917)
Deferred revenue and customer deposits	(313)
Note payable	(1,521)
Purchase consideration transferred	**20,977**

Goodwill arising on the acquisition reflects the benefits attributable to synergies, revenue growth, future market development and the estimated fair value of an assembled workforce. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. This goodwill is not deductible for income tax purposes.

Total transaction costs for the acquisition of SIS was $1,409. All transaction costs were expensed as incurred.

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

Pro forma results of operations

The following pro forma results of operations assume SIS was acquired by the Company on January 1, 2019:

	For the three months ended June 30, 2019	For the six months ended June 30, 2019
	$	$
Revenue	**19,741**	**30,716**
Net income	**1,226**	**325**

The pro forma results of operations are not intended to reflect the results that would have actually occurred had the acquisition closed on January 1, 2019. Further, the pro forma results of operations are not necessarily indicative of the results that may be generated by the Company in the future or reflect future events that may occur following the acquisition in a subsequent period or periods.

The net cash outflow related to the acquisition of SIS was as follows:

	$
Consideration paid in cash	**15,251**
Less: cash balance acquired	**768**
	14,483

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

5. Property and equipment

	Computer Hardware	Furniture and Fixtures	Equipment	Leasehold Improvements	Leased Building	Total
Cost	$	$	$	$	$	$
As at December 31, 2017	3,098	62	308	59	-	3,527
Acquired from acquisitions	2,976	234	511	71	-	3,792
Additions	2,755	52	302	162	-	3,271
Dispositions	(17)	-	(79)	(29)	-	(125)
Foreign currency translation	557	10	(202)	18	-	383
As at December 31, 2018	**9,369**	**358**	**840**	**281**	**-**	**10,848**
Acquired from acquisitions	-	3	2,760	-	3,824	6,587
Additions	1,762	-	1,380	-	8,151	11,293
Dispositions	90	(115)	(57)	(13)	(56)	(151)
Foreign currency translation	(409)	(11)	(80)	(7)	(159)	(666)
As at June 30, 2019	**10,812**	**235**	**4,843**	**261**	**11,760**	**27,911**

	Computer Hardware	Furniture and Fixtures	Equipment	Leasehold Improvements	Leased Building	Total
Accumulated depreciation	$	$	$	$	$	$
As at December 31, 2017	294	12	23	11	-	340
Depreciation	2,760	55	156	75	-	3,046
Reversal of depreciation on dispositions	(5)	-	(49)	-	-	(54)
Foreign currency translation	158	4	(8)	5	-	159
As at December 31, 2018	**3,207**	**71**	**122**	**91**	**-**	**3,491**
Depreciation	1,667	31	1,060	145	1,287	4,190
Reversal of depreciation on dispositions	-	(24)	(44)	-	-	(68)
Foreign currency translation	(159)	(3)	(29)	(107)	18	(280)
As at June 30, 2019	**4,715**	**75**	**1,109**	**129**	**1,305**	**7,333**

	Computer Hardware	Furniture and Fixtures	Equipment	Leasehold Improvements	Leased Building	Total
Net book value	$	$	$	$	$	$
As at December 31, 2017	2,804	50	285	48	-	3,187
As at December 31, 2018	6,162	287	718	190	-	7,357
As at June 30, 2019	6,097	160	3,734	132	10,455	20,578

For the three and six months ended June 30, 2019, the Company has included $1,234 and $2,140, respectively (for the three and six months ended June 30, 2018 - $735 and $913) of depreciation expense related to service equipment in cost of sales in the consolidated statements of loss and comprehensive loss.

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

6. Intangible assets

Cost	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
	$	$	$	$	$
As at December 31, 2017	18,673	5,789	-	-	24,462
Acquired from acquisitions	17,054	6,280	586	-	23,920
Additions	-	-	135	-	135
Foreign currency translation	1,342	623	36	-	2,001
As at December 31, 2018	**37,069**	**12,692**	**757**	**-**	**50,518**
Acquired from business combinations	7,431	3,127	-	1,110	11,668
Additions (Adjustments)	(531)	-	(88)	-	(619)
Foreign currency translation	(1,090)	(480)	(24)	(15)	(1,609)
As at June 30, 2019	**42,879**	**15,339**	**645**	**1,095**	**59,958**

Accumulated amortization	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
	$	$	$	$	$
As at December 31, 2017	320	115	-	-	435
Amortization	2,664	859	387	-	3,910
Foreign currency translation	81	41	18	-	140
As at December 31, 2018	**3,065**	**1,015**	**405**	**-**	**4,485**
Amortization	2,141	759	(39)	272	3,133
Foreign currency translation	(96)	(44)	(17)	(5)	(162)
As at June 30, 2019	**5,110**	**1,730**	**349**	**267**	**7,456**

Net book value	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
	$	$	$	$	$
As at December 31, 2017	18,353	5,674	-	-	24,027
As at December 31, 2018	34,004	11,677	352	-	46,033
As at June 30, 2019	**37,769**	**13,609**	**296**	**828**	**52,502**

7. Goodwill

	$
As at December 31, 2017	14,550
Acquired from acquisitions	16,620
Foreign currency translation	1,444
As at December 31, 2018	**32,614**
Acquired from acquisitions	17,779
Foreign currency translation	(1,323)
As at June 30, 2019	**49,071**

The Company performs a goodwill impairment test annually on December 31 and whenever there is an indication of impairment.

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

8. Borrowings

The borrowings outstanding as at June 30, 2019 was as follows:

Facility	Note	June 30, 2019	December 31, 2018
Canadian lender			
Corus Commercial Finance, LLC	8e	**19,950**	19,155
Northern Micro	8e	**6,403**	5,797
Converge West Commercial Finance, LLC	8e	**2,769**	4,402
Converge NE Commercial Finance, LLC	8a, 8e	**6,523**	6,551
Converge Canada Finance Corp.	8b, 8e	**44,312**	37,361
Other Borrowings	8c, 8d, 8e	**23,520**	7,109
Total		**103,477**	80,375
Current liabilities		**87,552**	75,993
Non-current liabilities		**15,925**	4,382
		103,477	80,375

a) On November 30, 2018, Converge NE Commercial Finance, LLC, a wholly owned subsidiary of the Company, entered into a revolving credit agreement with a Canadian lender. This agreement, which is an ABL, provides a line of credit secured by the assets of the Company. The ABL can be drawn to a certain percentage of the eligible trade receivables to a maximum of $10,000. Interest is payable monthly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.3% - 8.3% based on the advance rate of the trade receivables.

On January 18, 2019, Converge NE Commercial Finance, LLC, entered into a revolving credit agreement with a Canadian lender. This agreement, which is an ABL, provides a line of credit secured by the assets of the Company. The ABL can be drawn to a certain percentage of the eligible trade receivables to a maximum of $12,500. Interest is payable monthly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.3% - 8.3% based on the advance rate of the trade receivables.

The initial term of both agreements is one year, and the term may be extended in six-month increments with consent of both the Company and the lender. As at June 30, 2019, the total balance owing to the lender under this facility was $6,523 (December 31, 2018 – $6,551).

b) On October 11, 2018, Converge Canada Finance Corp., a wholly owned subsidiary of the Company, entered into a revolving credit agreement with a Canadian lender. This agreement, which is an ABL, provide a line of credit secured by assets of the Company. The ABL could be drawn to a certain percentage of the eligible trade receivables and eligible inventory balances to a maximum of $40,000. From time to time, the maximum amount of the credit facility could be increased to $50,000 at the discretion of the lender. Interest is payable monthly at a rate of the higher of 9.25% and the published TD Bank prime rate plus 5.3%. On January 18, 2019, the Converge Canada Finance Corp. ABL, increased the maximum drawing limit to $52,500 from $40,000. From time to time, the maximum amount of the credit facility may be increased to $62,500 at the discretion of the lender.

c) On March 1, 2019, the Company entered into a three-year credit agreement with a third party, which is secured by certain Company customer contracts. Under the agreement, blended payments of principal and interest of $124 USD are payable monthly. The lender advanced cash of $5,457 ($4,000 USD) with an interest rate of 7% per annum. As at June 30, 2019, the balance owing to the lender under the facility is $4,111 (December 31, 2018 – nil).

d) On June 11, 2019, the Company entered into a two-year credit agreement with a third party, which is secured by certain Company customer contracts. Under the agreement, blended payments of principal and interest of $453 USD are payable monthly. The lender advanced cash of $13,287 ($10,000 USD) with an interest rate of 8% per annum. As at June 30, 2019, the balance owing to the lender under the facility is $13,086 (December 31, 2018 – nil).

e) On October 9, 2017, Corus Commercial Finance, LLC, a wholly owned subsidiary of the Company, entered into a revolving credit agreement with a Canadian lender, which was amended on October 5, 2018. This agreement, which is an asset-based loan ("ABL"), provides a line of credit secured by the assets of Corus360. The ABL can be drawn to a certain percentage of the eligible trade receivables to a maximum of $15,000 (December 31, 2018 - $15,000). Interest is payable weekly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.3%-8.3%. On April 3, 2018, Corus Commercial Finance, LLC, entered into a revolving credit agreement with a Canadian lender, which was amended on October 5, 2018. This agreement, which is an ABL, provides a line of credit secured by the assets of the Company. The ABL can be drawn to a certain percentage of the eligible trade receivables to a maximum of $5,000. Interest is payable monthly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.3% - 8.3% based on the advance rate of the trade receivables. As at June 30, 2019, the balance owing to the lender under this facility was $19,950 (December 31, 2018 – $19,155).

   On November 9, 2017, Northern Micro entered into a revolving credit agreement with a Canadian lender, which was amended on October 5, 2018. This agreement, which is an ABL, provides a line of credit secured by the assets of Northern Micro. The ABL can be drawn to a percentage of the eligible trade receivables and eligible inventory balances to a maximum of $7,500 (December 31, 2018 - $7,500). Interest is payable monthly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.8%. As at June 30, 2019, the balance owing to the lender under this facility was $6,403 (December 31, 2018 – $5,797).

   On May 18, 2018, Converge West Commercial Finance, LLC, a wholly owned subsidiary of the Company, entered into a revolving credit agreement with a Canadian lender, which was amended on October 5, 2018. This agreement, which is an ABL, provides a line of credit secured by the assets of the Company. The ABL can be drawn to a certain percentage of the eligible trade receivables to a maximum of $2,500. Interest is payable monthly at a rate of the higher of 9.25% or the published TD Bank prime rate plus 5.3% - 8.3% based on the advance rate of the trade receivables. As at June 30, 2019, the balance owing to the lender under this facility was $2,769 (December 31, 2018 – $4,402).

   For all the revolving credit facilities with a Canadian lender, in addition to general security over all assets of the Company, the Company was required to deposit $5,250, calculated as 5% of the total facilities limit, into a cash reserve account controlled by the lender. The $5,464 deposited into the cash reserve account has been classified as restricted cash in the condensed interim consolidated statements of financial position and was in excess of the minimum deposit requirement.

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

The consolidated interest expense for all borrowings for the three and six months ended June 30, 2019 was $2,381 and $5,372, respectively (for the three and six months ended June 30, 2018 - $2,142 and $3,390).

9. Debentures

On September 30, 2017 ("Closing Date"), the Company issued 3,896,450 unsecured debentures with face value of $3,896 and 3,896,450 common shares for total cash proceeds of $3,896. In addition, the Company issued 60,323 common share warrants to the brokers in connection with the financing (note 11). Debentures bear an interest rate of 12% per annum and interest is payable quarterly in arrears within 10 days of each quarter end. The debentures have a maturity date of September 2020 and can be extended to September 2021 at the option of the Company. If the maturity date is extended to September 2021, the interest rate for the extension term will be increased to 18% per annum.

The Company recognized an interest expense of $239 and $430 during the three and six months ended June 30, 2019 (for the three and six months ended June 30, 2018 - $356 and $532) with a corresponding increase in debentures using the effective interest rate method.

The balance of debentures as at June 30, 2019 and December 31, 2018 consists of the following:

	June 30, 2019	December 31, 2018
	$	$
Principal balance	3,896	3,896
Less:		
Issuance costs	(63)	(63)
Common shares derivative liability	(884)	(884)
Interest paid	(818)	(585)
Interest and accretion expense	1,334	904
	3,465	3,268
Current	117	117
Non-current	3,348	3,151

The current portion of $117 (December 31, 2018 - $117) represents the amount of cash interest payable and has been included in trade and other payables.

10. Convertible debenture

On October 30, 2018, the Company issued a $5,250 principal amount secured convertible debenture due October 30, 2020 and bearing interest at 8% per annum to a third party. The principal amount of the debenture is convertible into common shares at a conversion price of $1.00 per common share. Pursuant to the terms of the debenture, on October 30, 2018, the Company loaned $5,250 to another third-party borrower, which is payable on demand by the Company and bears interest at a rate of 10% per annum. The loan is secured by a pledge of the shares of a wholly owned subsidiary of the borrower.

The Company calculated the fair value of the liability portion of the convertible debenture, using a discount rate of 11.75% with the difference between the fair value and the proceeds being ascribed to the conversion feature. The fair value of the liability portion was calculated to be $4,943, resulting in $307 being allocated to the conversion feature, which was recognized in contributed surplus. Interest expense of $141 and $281, respectively was recognized during the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – nil) with a corresponding increase in convertible debenture using the effective interest rate method.

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

11. Share capital

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares. Reconciliation of common shares is below.

	Common shares		Warrants	
	#	$	#	$
Balance, December 31, 2017	**48,956,773**	**1**	**-**	**-**
Issuance of common shares and warrants	10,652,055	3,424	10,652,055	586
Private placement - issuance of common shares, net of transaction costs	6,918,756	5,254	186,690	52
Broker warrants	-	-	353,745	21
Shares issued on exercise of warrants	3,331,000	1,850	(3,331,000)	(184)
Shares issued on qualifying transaction	1,328,125	1,063	46,875	18
Shares issued on conversion of common shares derivative liability	3,896,450	6,234	-	-
Common shares issued pursuant to business acquisition	600,000	-	-	-
Balance, December 31, 2018	**75,683,159**	**17,826**	**7,908,365**	**493**
Warrants excercised	334,250	314	(334,250)	(188)
Shares issued from treasury	160,000	102	-	-
Qualifying transaction options excercised	46,875	56	-	-
Expiry of the right to repurchase shares (note 12)	-	244	-	-
Balance, June 30, 2019	**76,224,284**	**18,542**	**7,574,115**	**305**

12. Other financial liabilities

Other financial liabilities as at June 30, 2019 and December 31, 2018 comprise of the following:

	June 30, 2019	December 31, 2018
	$	**$**
Notes payable	**4,479**	6,676
Deferred consideration	**597**	-
Contingent consideration	**14,057**	19,286
Lease liability	**14,653**	1,389
	33,786	27,351
Current liabilities	**13,201**	19,487
Non-current liabilities	**20,585**	7,864
	33,786	27,351

Notes payable

As part of consideration to acquire Northern Micro, the Company issued $6,000 of notes. The notes bear interest at a rate of 8% per annum and are payable quarterly. The Company was required to make partial repayments of $1,500 on or before May 9, 2018, and $1,500 on or before November 9, 2018. The remaining $3,000 is due on

November 9, 2020. As general and continuing security for the notes and contingent consideration, the Company has pledged all the equity instruments of Northern Micro to the sellers.

During the three and six months ended June 30, 2019, the Company recognized interest expense of $59 and $119, of which $59 was outstanding as at June 30, 2019 (for the three and six months ended June 30, 2018 - $180 and $298 respectively).

As part of consideration to acquire BCT, the Company issued $255 of notes to a related party. The notes bore interest at a rate of 7% per annum. The notes payable and interest accrued was paid on May 17, 2019.

As part of the consideration to acquire Lighthouse, the Company issued $3,420 ($2,612 USD) of non-interest bearing notes payable to the sellers. The notes payable were to be repaid in five monthly installments of $500 USD per month with the first installment due January 1, 2019. In the event that the principal is not repaid, interest shall accrue at 7% per annum. As at June 30, 2019, $74 remains outstanding on the promissory note for working capital adjustments (December 31, 2018 - $3,420).

As at June 30, 2019, SIS had $1,346 in notes payable to third party for the purchase of equipment (December 31, 2018 – nil).

Contingent consideration – Northern Micro

Contingent consideration comprises earn-out payments due to sellers of Northern Micro for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $4,446 as at the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 17.8% and a volatility factor of 22%.

As at June 30, 2019, the fair value of the remaining contingent consideration was $5,518 (December 31, 2018 - $8,018), with $1,250 repaid in 2018 and $2,500 paid during the six months ended June 30, 2019. No expense was recognized for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - $309 and $3,322 respectively).

Contingent consideration – Becker-Carroll

As part of the purchase consideration for the acquisition of Becker-Carroll, the Company issued 600,000 common shares to the selling shareholders of Becker-Carroll. The Company had the right to repurchase the common shares for nil consideration equivalent to the amount of short-fall in certain gross margin and net income targets over the 12 months following the date of acquisition. Therefore, the number of common shares issued as part of consideration for the acquisition was variable, resulting in their being classified as a derivative liability. The fair value of the contingent consideration was $244 as at the date of acquisition and nil as at June 30, 2019, as the share repurchase option has expired.

Contingent consideration – KeyInfo

Contingent consideration comprises earn-out payments due to sellers of KeyInfo for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of the contingent consideration was $1,848 as at the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 27.5% and a volatility factor of 45%.

As at June 30, 2019, the fair value of contingent consideration was $810 (December 31, 2018 - $7,014) with expense of nil recognized in the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2019 (for the three and six months ended June 30, 2018 – $243). As at December 31, 2018, the fair value of contingent consideration was $867 with a reversal of $1,120 in expense recognized for the year ended December 31, 2018. The reversal of the contingent consideration as at December 31, 2018 was due the resignation of a key employee subsequent to year end, forfeiting that employee's right to the earnout and updated forecast results.

As part of the purchase consideration for the acquisition of KeyInfo, the Company entered into a post-closing employee retention bonus agreement, which was paid on March 1, 2019 to employees of KeyInfo. The total bonus payments were $7,242 ($5,500 USD). The Company has recognized an expense of nil and $1,246 for the three and six months ended June 30, 2019 (for the three and six months ended June 30, 2018 – $1,882).

Contingent consideration – BlueChip Tek

Contingent consideration comprises earn-out payments due to key employees of BCT for meeting certain EBITDA conditions over the three years following the date of acquisition. The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 25.1% and a volatility factor of 45.0%.

As at June 30, 2019, the fair value of contingent consideration was nil resulting in expense of nil recognized for the three and six months ended June 30, 2019 (for the three and six months ended June 30, 2018 – nil). An employee retention bonus of $77 was expensed for the three and six months ended June 30, 2019 with $77 outstanding as at June 30, 2019 (for the three and six months ended June 30, 2018 - $79).

Contingent consideration – Lighthouse

Contingent consideration comprises earn-out payments due to sellers of Lighthouse for meeting certain EBITDA conditions over the three years following the date of acquisition (see note 4). The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and was determined based on a Monte Carlo simulation using various assumptions including EBITDA forecast, a discount rate of 18.0% and a volatility factor of 30.0%. As at June 30, 2019, the fair value of contingent consideration was $7,652 (December 31, 2018 - $3,585).

13. Financial instruments and risk management

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. When the fair value of financial assets and financial liabilities, including contingent consideration, 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

The table below presents information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques used to determine such fair values:

Fair value as at June 30, 2019	Total	Level 1	Level 2	Level 3
Loan receivable	5,250	-	-	5,250
Contingent consideration	14,057	-	-	14,057

Fair value as at December 31, 2018	Total	Level 1	Level 2	Level 3
Loan receivable	5,250			5,250
Contingent consideration	19,286	-	-	19,286

There have been no transfers between any levels of the fair value hierarchy during the three and six months ended June 30, 2019 or during fiscal 2018. There were also no changes in the purpose of any financial liability or financial asset that subsequently resulted in a different classification of that liability or asset.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

The Company's objective in managing liquidity risk is to ensure that there are sufficient committed borrowings in order to meet its liquidity requirements. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its borrowing capacity. The primary sources of liquidity are the Company's borrowings and cash flow from operating activities. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses or the Company's borrowings are called, it may be required to seek additional capital in the form of debt or equity or a combination of both. The outcome of these matters cannot be predicted at this time.

14. Segmented information

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. The following table presents details on revenue derived for the three and six month periods ended June 30, 2019 and 2018 from the following geographical locations:

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

	Three months ended June 30, 2019			Six months ended June 30, 2019		
	United States	Canada	Total	United States	Canada	Total
	$	$	$	$	$	$
Product revenue	**101,950**	**23,114**	**125,064**	**179,974**	**79,519**	**259,493**
Service revenue	**23,002**	**359**	**23,361**	**51,535**	**1,738**	**53,273**
Other revenue	**835**	**13**	**848**	**1,256**	**13**	**1,269**
Total revenue	**125,787**	**23,486**	**149,273**	**232,765**	**81,270**	**314,035**
Cost of sales	**94,805**	**20,244**	**115,049**	**172,819**	**69,799**	**242,618**
Gross profit	**30,982**	**3,242**	**34,224**	**59,946**	**11,471**	**71,417**
Selling, general and administrative expenses	**27,482**	**2,222**	**29,704**	**51,195**	**8,141**	**59,336**
Income before the following	**3,500**	**1,020**	**4,520**	**8,751**	**3,330**	**12,081**
Depreciation and amortization			**2,575**			**5,183**
Finance expense, net			**3,221**			**6,602**
Change in fair value of contingent consideration			**-**			**-**
Transaction costs - acquisitions, including retention bonuses			**438**			**3,616**
Other expense			**244**			**478**
Loss before income taxes			**(1,958)**			**(3,798)**

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	United States	Canada	Total	United States	Canada	Total
	$	$	$	$	$	$
Product revenue	47,285	38,351	85,636	76,224	122,774	198,998
Service revenue	16,899	670	17,569	23,321	670	23,991
Other revenue	72	-	72	72	-	72
Total revenue	64,256	39,021	103,277	99,617	123,444	223,061
Cost of sales	46,601	34,347	80,948	73,529	110,118	183,647
Gross profit	17,655	4,674	22,329	26,088	13,326	39,414
Selling, general and administrative expenses	17,332	320	17,652	25,631	3,756	29,387
Income before the following:	323	4,354	4,677	457	9,570	10,027
Depreciation and amortization			1,132			1,944
Finance expense, net			2,142			3,390
Change in fair value of contingent consideration			4,430			7,443
Transaction costs - acquisitions, including retention bonuses			2,506			2,840
Other expense (income)			81			3
Loss before income taxes			(5,614)			(5,593)

15. Subsequent events

Acquisition of Nordisk Systems, Inc.

On July 1, 2019, the Company acquired all of the issued and outstanding shares of Nordisk Systems, Inc. (“Nordisk”) located in Oregon, USA. The transaction will be accounted for as a business combination. Nordisk is a 36-year-old technology solutions and services company, focused on infrastructure, cloud, security, analytics, business continuity, and managed services solutions. Consideration for the purchase consisted of (i) $2,500 USD in cash; plus (ii) $2,000 USD deferred consideration due September 30, 2019; plus (iii) $2,000 USD promissory notes payable; plus (iv) up to an aggregate of $3,000 USD in earn-out payments for the three years following the acquisition if certain EBITDA targets are met.

Contingencies

On July 2, 2019, SIS was served with a statement of claim by a vendor alleging breach of contract and breach of good faith and fair dealing. The amount claimed is $2,400 USD plus costs and the Company believes the claim is without merit.