Condensed interim consolidated financial statements

Converge Technology Solutions Corp.

For the three and nine months ended September 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		**September 30, 2019**		December 31, 2018
Assets					
Current assets					
Cash		**$**	**15,732**	$	10,482
Restricted cash	8		**5,483**		4,240
Trade and other receivables			**121,048**		129,979
Inventories			**14,369**		12,392
Prepaid expenses and other assets			**12,623**		5,758
			169,255		162,851
Long-term assets					
Property and equipment, net	5		**22,491**		7,357
Intangible assets, net	6		**59,337**		46,033
Goodwill	7		**46,381**		32,614
Other non-current assets			**6,324**		7,443
		$	**303,788**	$	256,298
Liabilities					
Current liabilities					
Trade and other payables		**$**	**139,261**	$	136,208
Borrowings	8		**98,474**		75,993
Other financial liabilities	12		**17,270**		19,487
Debentures	9		**3,506**		-
Deferred revenue and other liabilities			**5,674**		4,632
Income taxes payable			**1,090**		390
			265,275		236,710
Long-term liabilities					
Other financial liabilities	12		**25,408**		7,864
Borrowings	8		**14,893**		4,382
Debentures	9		**-**		3,151
Convertible debenture	10		**5,076**		4,966
Deferred tax liability			**3,097**		3,729
		$	**313,749**	$	260,802
Shareholders' deficiency					
Common shares	11		**20,799**		17,826
Warrants	11		**305**		493
Contributed surplus			**307**		319
Exchange rights	4		**4,160**		-
Foreign exchange translation reserve			**(672)**		(715)
Deficit			**(34,860)**		(22,427)
			(9,961)		(4,504)
		$	**303,788**	$	256,298

Contingencies *(note 15)*

Subsequent events (*note 16)*

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

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 September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Revenues	14	$ **144,504**	$ 100,044	$ **473,091**	$ 323,105
Cost of sales	14	**109,615**	79,812	**364,861**	263,458
Gross profit		**34,889**	20,232	**108,230**	59,647
Selling, general and administrative expenses		**31,342**	21,119	**92,777**	50,506
Income (loss) before the following		**3,547**	(887)	**15,453**	9,141
Depreciation and amortization	5,6	**3,225**	1,306	**8,409**	3,250
Finance expense, net		**3,880**	1,608	**10,527**	4,998
Change in fair value of contingent consideration	12	**2,140**	190	**2,140**	7,633
Transaction costs - acquisitions, including retention bonuses	4,12	**843**	2,157	**4,347**	4,685
Reverse take-over costs		**-**	385	**-**	660
Other expense		**466**	61	**919**	99
Loss before income taxes		**(7,007)**	(6,594)	**(10,889)**	(12,184)
Income tax expense		**70**	182	**1,544**	1,854
Net loss		$ **(7,077)**	$ (6,776)	$ **(12,433)**	$ (14,039)
Other comprehensive loss					
Item that may be reclassified subsequently to income:					
Exchange loss (gain) on translation of foreign operations		**155**	80	**(43)**	222
		155	80	**(43)**	222
Net comprehensive loss		$ **(7,232)**	$ (6,856)	$ **(12,390)**	$ (14,261)
Net loss per share - basic		$ **(0.09)**	$ (0.11)	$ **(0.16)**	$ (0.23)
Net loss per share - diluted		$ **(0.09)**	$ (0.11)	$ **(0.16)**	$ (0.23)
Weighted average number of shares outstanding - basic (in 000's)		**77,823**	61,284	**76,521**	61,284
Weighted average number of shares outstanding - diluted (in 000's)		**77,823**	61,284	**76,521**	61,284

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 #	Common shares $	Warrants #	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
Private Placement - issuance of common shares, net of transaction costs		6,918,756	5,254	186,690	52	-	-	-	-	5,306
Broker warrants excercised		-	-	353,745	21	-	-	-	-	21
Shares issued on exercise of warrants		3,331,000	1,850	(3,331,000)	(184)	-	-	-	-	1,666
Net loss and comprehensive loss		-	-	-	-	-	-	(222)	(14,039)	(14,261)
Balance, September 30, 2018		**69,858,584**	**10,529**	**7,861,490**	**475**	**-**	**-**	**(246)**	**(18,230)**	**(7,472)**
Common shares issued pursuant to business acquisition, included as a derivative liability		**600,000**								
Balance, September 30, 2018		**70,458,584**	**10,529**	**7,861,490**	**475**	**-**	**-**	**(246)**	**(18,230)**	**(7,472)**
Balance, December 31, 2018		**75,683,159**	**17,826**	**7,908,365**	**493**	**319**	**-**	**(715)**	**(22,427)**	**(4,504)**
Warrants excercised		1,687,375	1,611	(1,687,375)	(188)	-	-	-	-	1,423
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
Exercise of exchange rights	4	1,500,000	960	-	-	-	(960)	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	-	43	(12,433)	(12,390)
Balance, September 30, 2019		**79,077,409**	**20,799**	**6,220,990**	**305**	**307**	**4,160**	**(672)**	**(34,860)**	**(9,961)**

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 September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Cash flows from (used in) operating activities					
Net loss		**$ (7,077)**	$ (6,776)	**$ (12,433)**	$ (14,039)
Adjustments to reconcile net loss to net cash from operating activities					
Depreciation and amortization	5,6	**4,663**	2,002	**11,321**	4,859
Finance expense, net	8, 9,10	**3,880**	1,608	**10,527**	4,998
Change in fair value of contingent consideration	12	**2,140**	190	**2,140**	7,633
Income tax expense		**70**	(912)	**1,544**	760
		3,676	(3,888)	**13,099**	4,211
Changes in non-cash working capital items					
Trade and other receivables		**7,100**	4,124	**24,857**	(25,944)
Inventories		**1,933**	(8,825)	**(2,141)**	(3,862)
Prepaid expenses and other assets		**(1,555)**	309	**(5,784)**	(3,010)
Trade and other payables		**(7,519)**	9,725	**(12,850)**	34,040
Other financial liabilities		**1,322**	(7,565)	**1,322**	1,665
Deferred revenue and customer deposits		**(3,686)**	(1,494)	**(2,096)**	925
Cash from (used in) operating activities		**1,271**	(7,614)	**16,407**	8,025
Cash flows used in investing activities					
Purchase of property and equipment	5	**(780)**	(857)	**(2,573)**	(5,299)
Proceeds on disposal of property and equipment	5	**336**	-	**71**	-
Adjustment to intangible assets	6	**(7)**	-	**84**	-
Business combinations, net of cash acquired	4	**(1,775)**	-	**(16,257)**	(18,734)
Cash used in investing activities		**(2,226)**	(857)	**(18,675)**	(24,033)
Cash flows from financing activities					
Transfers to restricted cash	8	**-**	(5,417)	**(1,297)**	(8,392)
Interest paid		**(5,299)**	(1,225)	**(11,232)**	(3,052)
Income tax installments paid		**(165)**	-	**(1,463)**	-
Payments on finance lease		**(2,185)**	181	**(4,702)**	-
Proceeds from issuance of common shares and warrants	11	**1,309**	6,972	**1,569**	11,003
Repayment of borrowings	8	**(183,347)**	(104,883)	**(570,008)**	(310,371)
Proceeds from borrowings	8	**194,752**	115,948	**609,019**	329,591
Repayment of notes payable	12	**(596)**	-	**(3,829)**	-
Repayment of contingent consideration	12	**-**	-	**(10,143)**	-
Cash from financing activities		**4,469**	11,576	**7,914**	18,779
Net change in cash during the period		**3,514**	3,105	**5,646**	2,771
Effect of foreign exchange on cash		**(590)**	115	**(396)**	(268)
Cash, beginning of period		**12,808**	7,069	**10,482**	7,786
Cash, end of period		**$ 15,732**	$ 10,289	**$ 15,732**	$ 10,289

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 nine months ended September 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 September 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., 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
Nordisk Systems, Inc.	

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 November 20, 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 September 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") and Nordisk Systems, Inc. ("Nordisk") were recognized under IFRS 16 during the nine months ended September 30, 2019. These leases resulted in the recognition of a right-of-use asset of $8,044 and corresponding lease liability of $8,016. As at September 30, 2019, an additional $2,291 of equipment and office leases have been recognized as right-of-use assets and $2,342 of 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, December 31, 2018	3,141	3,180
Initial recognition as at January 1, 2019	7,209	7,209
Additions	10,335	10,358
Depreciation expense	(3,879)	-
Interest expense	-	930
Payments	-	(4,702)
Foreign exchange translation	118	119
Balance, September 30, 2019	16,924	17,094

[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 total consideration for the purchase of Lighthouse was $23,079 ($17,352 USD). Purchase consideration consisted of $16,493 in cash and $6,586 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	16,951
Prepaid expenses and deposits	431
Inventories	949
Property and equipment	397
Customer relationships	9,106
Trade name and trademarks	3,156
Goodwill	8,866
Trade and other payables	(21,338)
Deferred revenue and customer deposits	(977)
Note payable	(3,482)
Purchase consideration transferred	**23,079**

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 was adjusted for the final working capital balance. As at September 30, 2019, nil 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 $6,586 as at the date of acquisition (see note 12). The Company has recorded a change in estimate of the initial contingent consideration amount of $3,585 as at December 31, 2018 to the final estimated contingent consideration of $6,586 due to a change in estimate of the assumptions that existed as of the date of the acquisition upon finalization of the purchase price allocation

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 will be permitted until at least six months from the acquisition date, at which point 1,500,000 common shares will become eligible for issuance pursuant to the agreement. An additional 1,500,000 common shares will 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. As at September 30, 2019, 1,500,000 Class B membership interests has been exchanged to 1,500,000 common shares of the Company for a value of $960.

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	1,133
Right-of-use asset, net	6,796
Backlog	1,110
Customer relationships	7,416
Trade name and trademarks	3,322
Goodwill	11,829
Trade and other payables	(18,030)
Lease liabilties	(6,796)
Deferred vendor rebates	(2,917)
Deferred revenue and customer deposits	(313)
Note payable	(1,521)
Purchase consideration transferred	**21,176**

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.

Notes to the condensed interim consolidated financial statements

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

For the three and nine months ended September 30, 2019 and 2018

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 September 30, 2019	For the nine months ended September 30, 2019
	$	$
Revenue	**27,646**	**75,915**
Net income	**1,005**	**2,103**

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**
Working capital adjustment	**804**
Less: cash balance acquired	**768**
	15,287

The working capital adjustment was fully paid to the sellers of SIS on October 18, 2019.

Nordisk Systems, Inc.

On July 1, 2019, the Company acquired all of the issued and outstanding shares of Nordisk Systems, Inc. (“Nordisk”). Nordisk is incorporated and is domiciled in the state of Oregon in the US.

Nordisk is an information technology professional services organization that specializes in infrastructure, cloud, security, analytics, business continuity and managed services solutions. The purpose of the acquisition was to enhance the Company’s highly skilled team and to provide a platform to grow in the US with local expertise.

The acquisition of Nordisk qualified as a business combination and was accounted for using the acquisition method of accounting. Accordingly, the results of Nordisk 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.

The total consideration for the purchase of Nordisk was $8,357 ($6,386 USD). Purchase consideration consisted of $3,272 in cash, $2,617 in promissory note, $2,599 in deferred purchase payment, offset by a ($131) working capital adjustment. The deferred purchase payment was fully paid on October 3, 2019. 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	1,366
Trade and other receivables	916
Inventories	84
Prepaid expenses and other current assets	51
Property and equipment	222
Intangible asset	17
Right-of-use asset, net	1,248
Other non-current assets	17
Customer relationships	3,926
Trade name and trademarks	599
Goodwill	2,577
Trade and other payables	(1,411)
Finance lease liability - current	(539)
Finance lease liability - non-current	(709)
Other financial liabilities	(7)
Purchase consideration transferred	**8,357**

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, Nordisk issued $2,617 ($2,000 USD) of promissory notes. The promissory note bears interest at a rate of 8% per annum and are payable quarterly. The Company was required to make partial repayments of $1,000 USD on December 31, 2021 and $1,000 USD on September 30, 2022. The promissory note payable balance of $2,617 has been included in deferred consideration (note 12).

Remuneration for post combination services comprises payments to sellers for meeting certain EBITDA conditions over the three years following the date of acquisition contingent on continuing employment. The fair value of the remuneration was nil as at the date of acquisition and September 30, 2019.

Total transaction costs for the acquisition of Nordisk were $453. All transaction costs were expensed as incurred.

Pro forma results of operations

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

	For the three months ended September 30, 2019	**For the nine months ended September 30, 2019**
	$	$
Revenue	**4,165**	**13,328**
Net income (loss)	**256**	**(323)**

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

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 Nordisk was as follows:

	$
Consideration paid in cash	**3,272**
Working capital adjustment	**(131)**
Less: cash balance acquired	**1,366**
	1,775

5. Property and equipment

Cost	Computer Hardware $	Furniture and Fixtures $	Equipment $	Leasehold Improvements $	Leased Building $	Total $
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	177	22	4,336	-	4,864	9,399
Additions	2,120	4	1,420	18	8,511	12,073
Dispositions	(246)	(115)	(57)	(13)	(56)	(487)
Foreign currency translation	(280)	(8)	(24)	(5)	(21)	(338)
As at September 30, 2019	**11,140**	**261**	**6,515**	**281**	**13,298**	**31,495**

Accumulated depreciation	Computer Hardware $	Furniture and Fixtures $	Equipment $	Leasehold Improvements $	Leased Building $	Total $
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	2,564	49	1,253	158	2,100	6,124
Reversal of depreciation on dispositions	(39)	(24)	(353)	-	-	(416)
Foreign currency translation	(103)	(2)	(16)	(106)	32	(195)
As at September 30, 2019	**5,629**	**94**	**1,006**	**143**	**2,132**	**9,004**

Net book value	Computer Hardware $	Furniture and Fixtures $	Equipment $	Leasehold Improvements $	Leased Building $	Total $
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 September 30, 2019	5,511	167	5,509	138	11,166	22,491

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

For the three and nine months ended September 30, 2019, the Company has included $1,347 and $3,487, respectively (for the three and nine months ended September 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.

6. Intangible assets

	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
Cost	$	$	$	$	$
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	11,342	3,921	-	1,110	16,373
Additions (Adjustments)	2,652	470	(84)	-	3,038
Foreign currency translation	(677)	(311)	(16)	(2)	(1,006)
As at September 30, 2019	**50,386**	**16,772**	**657**	**1,108**	**68,923**

	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
Accumulated amortization	$	$	$	$	$
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	3,562	1,212	16	407	5,197
Foreign currency translation	(56)	(26)	(12)	(2)	(96)
As at September 30, 2019	**6,571**	**2,201**	**409**	**405**	**9,586**

	Customer Relationships	Trade Name & Trademarks	Computer Software	Managed Service Contracts	Total
Net book value	$	$	$	$	$
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 September 30, 2019	**43,815**	**14,571**	**248**	**703**	**59,337**

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	14,526
Foreign currency translation	(759)
As at September 30, 2019	**46,381**

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 September 30, 2019 were as follows:

Facility	Note	September 30, 2019	December 31, 2018
Canadian lender			
Corus Commercial Finance, LLC	8e	**20,035**	**19,155**
Northern Micro	8e	**7,500**	**5,797**
Converge West Commercial Finance, LLC	8e	**2,802**	**4,402**
Converge NE Commercial Finance, LLC	8a, 8e	**6,601**	**6,551**
Converge Canada Finance Corp.	8b, 8e	**55,090**	**37,361**
Other Borrowings	8c, 8d, 8e	**21,339**	**7,109**
Total		**113,367**	80,375
Current liabilities		**98,474**	75,993
Non-current liabilities		**14,893**	4,382
		113,367	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 September 30, 2019, the total balance owing to the lender under these facilities was $6,601 (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. As at September 30, 2019, the total balance owing to the lender under this facility was $55,090 (December 31, 2018 – $37,361).

c) On March 1, 2019, the Company entered into a three-year credit agreement with a third party, which was secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $124 USD was required. The lender advanced cash of $5,457 ($4,000 USD) with an interest rate of 7% per annum. As at September 30, 2019, the balance owing to the lender under the facility is $4,535 (December 31, 2018 – nil).

d) On June 11, 2019, the Company entered into a two-year credit agreement with a third party, which was secured by certain customer contracts. Under the agreement, monthly repayments of blended principal and interest of $453 USD was required. The lender advanced cash of $13,287 ($10,000 USD) with an interest rate of 8% per annum. As at September 30, 2019, the balance owing to the lender under the facility is $11,862 (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 September 30, 2019, the balance owing to the lender under this facility was $20,035 (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 September 30, 2019, the balance owing to the lender under this facility was $7,500 (December 31, 2018 – $5,797).

On May 18, 2018, Corus Group, LLC, a wholly owned subsidiary of the Company, entered into a three-year credit agreement with a third party. The lender advanced cash of $8,164 [$6,200 USD] with an interest rate of 7% per annum. As at December 31, 2018, the balance owing to the lender under the facility is $4,942 (December 31, 2018 – $7,109).

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 September 30, 2019, the balance owing to the lender under this facility was $2,802 (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, which was 5% of the facilities limit, into a cash reserve account controlled by the lender. The $5,483 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 nine months ended September 30, 2019 was $2,873 and $8,245, respectively (for the three and nine months ended September 30, 2018 - $1,608 and $4,998).

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 cash and issuance of 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 $276 and $706 during the three and nine months ended September 30, 2019 (for the three and six months ended September 30, 2018 - $117 and $649) with a corresponding increase in debentures using the effective interest rate method.

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

	September 30, 2019	December 31, 2018
	$	$
Principal balance	3,896	3,896
Less:		
Issuance costs	(63)	(63)
Common shares derivative liability	(884)	(884)
Interest paid	(935)	(585)
Interest and accretion expense	1,610	904
	3,624	3,268

The cash interest payable of $118 (December 31, 2018 - $117) 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 will be payable on demand by the Company and bear 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 $142 and $423, respectively was recognized during the three and nine months ended September 30, 2019 (three and nine months ended September 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)

The balance of the convertible debenture as at September 30, 2019 and December 31, 2018 consists of the following:

	September 30, 2019	December 31, 2018
	$	$
Principal balance	4,943	4,943
Less:		
Interest paid	(385)	(71)
Interest and accretion expense	518	94
	5,076	4,966

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	1,687,375	1,611	(1,687,375)	(188)
Shares issued from treasury	160,000	102	-	-
Exercised exchange rights	1,500,000	960		
Qualifying transaction options excercised	46,875	56	-	-
Expiry of the right to repurchase shares (note 12)	-	244	-	-
Balance, September 30, 2019	**79,077,409**	**20,799**	**6,220,990**	**305**

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

12. Other financial liabilities

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

	September 30, 2019	December 31, 2018
	$	**$**
Notes payable	**4,283**	6,676
Deferred consideration	**6,100**	-
Contingent consideration	**15,202**	19,286
Lease liability	**17,093**	1,389
	42,678	27,351
Current liabilities	**17,270**	19,487
Non-current liabilities	**25,408**	7,864
	42,678	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 nine months ended September 30, 2019, the Company recognized interest expense of $60 and $241, of which nil was outstanding as at September 30, 2019 (for the three and nine months ended September 30, 2018 -$91 and $312).

As part of consideration to acquire BCT, the Company issued $255 of notes to a related party. The notes bear 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 notes payable to the sellers. The notes payable are non-interest bearing and are 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 September 30, 2019, $2 remains outstanding on the promissory note for working capital adjustments (December 31, 2018 - $3,420).

As at September 30, 2019, SIS had $1,281 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 September 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 nine months ended September 30, 2019.

No expense was recognized for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - $309 and $3,322).

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 September 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 September 30, 2019, the fair value of contingent consideration was $819 (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 nine months ended September 30, 2019 (for the three and nine months ended September 30, 2018 – $255 and $498). 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 nine months ended September 30, 2019 (for the three and nine months ended September 30, 2018 – $1,992 and $3,874).

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 September 30, 2019, the fair value of contingent consideration was nil resulting in expense of nil recognized for the three and nine months ended September 30, 2019 (for the three and nine months ended September 30, 2018 – nil). An employee retention bonus of $167 and $244 was expensed for the three and nine months ended September 30, 2019 with $167 outstanding as at September 30, 2019 (for the three and nine months ended September 30, 2018 - $165 and $241).

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 September 30, 2019, the fair value of contingent consideration was $8,698 (December 31, 2018 - $3,585). The Company has recognized an expense of $2,140 and an adjustment to the purchase price allocation of $3,091 for the three and nine months ended September 30, 2019 (for the three and nine months ended September 30, 2018 – nil).

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.

There have been no transfers between any levels of the fair value hierarchy during the three and nine months ended September 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 and going concern

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

In the preparation of interim financial statements, management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, 12 months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The Company's objective in managing liquidity risk is to ensure that there are sufficient committed borrowings in order to meet its liquidity requirements. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its borrowing capacity. The Company's ability to continue as a going concern for the next 12 months involves significant judgment and is dependent on the availability under the Company's borrowings, the Company's ability to renew its borrowings and its ability to generate positive cash flows from operating activities. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses 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. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

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 nine month periods ended September 30, 2019 and 2018 from the following geographical locations:

Converge Technology Solutions Corp.

Notes to the condensed interim consolidated financial statements

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

For the three and nine months ended September 30, 2019 and 2018

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	United States	Canada	Total	United States	Canada	Total
	$	$	$	$	$	$
Product revenue	**93,121**	**20,024**	**113,145**	**279,100**	**99,543**	**378,643**
Service revenue	**29,826**	**701**	**30,527**	**90,112**	**2,221**	**92,333**
Other revenue	**826**	**6**	**832**	**2,084**	**31**	**2,115**
Total revenue	**123,773**	**20,731**	**144,504**	**371,296**	**101,795**	**473,091**
Cost of sales	**91,096**	**18,519**	**109,615**	**276,543**	**88,318**	**364,861**
Gross profit	**32,677**	**2,212**	**34,889**	**94,753**	**13,477**	**108,230**
Selling, general and administrative expenses	**29,167**	**2,175**	**31,342**	**85,640**	**7,137**	**92,777**
Income before the following	**3,510**	**37**	**3,547**	**9,113**	**6,340**	**15,453**
Depreciation and amortization			**3,225**			**8,409**
Finance expense, net			**3,880**			**10,527**
Change in fair value of contingent consideration			**2,140**			**2,140**
Transaction costs - acquisitions, including retention bonuses			**843**			**4,347**
Other expense			**466**			**919**
Loss before income taxes			**(7,007)**			**(10,889)**

	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	United States	Canada	Total	United States	Canada	Total
	$	$	$	$	$	$
Product revenue	56,249	18,933	75,182	132,473	141,707	274,180
Service revenue	23,893	669	24,562	47,214	1,339	48,553
Other revenue	107	193	300	179	193	372
Total revenue	80,249	19,795	100,044	179,866	143,239	323,105
Cost of sales	46,601	34,347	79,812	120,130	144,465	263,458
Gross profit	33,648	(14,552)	20,232	59,736	(1,226)	59,647
Selling, general and administrative expenses	17,332	320	21,119	42,963	4,076	50,506
Income before the following:	16,316	(14,872)	(887)	16,773	(5,302)	9,141
Depreciation and amortization			1,306			3,250
Finance expense, net			1,608			4,998
Change in fair value of contingent consideration			190			7,633
Transaction costs - acquisitions, including retention bonuses			2,157			4,685
Reverse take-over costs			385			660
Other expense (income)			61			99
Loss before income taxes			(6,594)			(12,184)

15. 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.

16. Subsequent events

Acquisition of Datatrend Technologies, Inc.

On October 1, 2019, the Company acquired all of the issued and outstanding shares of Datatrend Technologies, Inc. (“Datatrend”) located in Minneapolis, USA. The transaction will be accounted for as a business combination. Datatrend provides Hybrid IT solutions including Next Gen data center, Hybrid Cloud, infrastructure, multi-site IT Deployments and ISV/OEM solutions. Consideration for the purchase consisted of i) $15,000 USD in cash; and (ii) a promissory note in the amount of $2,500 USD. In addition, Datatrend had estimated excess net working capital at closing of approximately $3,600 USD, which will be paid to the sellers in 12 months.

Acquisition of Essex Technology Group, Inc.

On October 1, 2019, the Company acquired all membership interests of Essextec Acquisition, LLC, the sole shareholder of Essex Technology Group, Inc. ("Essextec") located in New Jersey, USA. The transaction will be accounted for as a business combination. Essextec provides artificial intelligence, cybersecurity and data analytics offerings for use. Consideration for the purchase was approximately $5,000.

Acquisition of VSS Holdings, LLC

On November 18, 2019, the Company announced that it had acquired all of the voting and economic interests of the membership interests of VSS Holdings, LLC ("VSS") located in Mississippi, USA. The transaction will be accounted for as a business combination. VSS provides managed service offerings, cloud computing, and consulting services. Consideration for the purchase consisted of (i) $15,620 USD in cash; (ii) promissory notes in the total amount of $1,500 USD in favor of the sellers; (iii) up to an aggregate of $10,000 USD in earn-out payments for the three years following closing of the acquisition based on the achievement of certain milestones; plus (iv) the issuance of a right to the sellers to exchange the remaining 10% membership interests constituted solely of Class B membership units in VSS held by the sellers which have no right to any economic or voting participation in VSS, for an aggregate of 2.93 million common shares of the Company, subject to certain conditions. In addition, a promissory note in the amount of $2,600 USD was issued primarily for settlement of working capital and will be paid to the sellers on January 31, 2020.

Financing

On October 1, 2019, the Company entered into a two-year credit agreement with a third party, which was secured by certain customer contracts. The lender advanced cash of $5,000 USD with an interest rate of 8.5% per annum and under the terms of the agreement, monthly repayments of blended principal and interest of $427 are required.

On November 15, 2019, Company entered into a three-year credit agreement with a third party, which was secured by certain customer contracts. The lender advanced cash of $5,000 USD with an interest rate of 8.5% per annum and under the terms of the agreement, monthly repayments of blended principal and interest of $158 USD are required.