



VIQ Solutions Inc.

First Quarter 2019 Condensed Interim Consolidated Financial Statements and Results of Operations

(Expressed in United States dollars)

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



NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor.

Signed "Sebastien Paré"
Sebastien Paré
President and Chief Executive Officer

Signed "Alexie Edwards"
Alexie Edwards
Chief Financial Officer

May 7, 2019

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

VIQ Solutions Inc.
Interim Consolidated Balance Sheets
(Expressed in United States dollars)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 1,192,493	\$ 1,922,768
Trade and other receivables, net of expected credit loss (note 4)	3,436,522	3,023,127
Inventories	105,047	58,195
Prepaid expenses and deposits	266,931	161,170
	5,000,993	5,165,260
Non-current assets		
Restricted cash	37,980	37,712
Property and equipment	101,061	111,437
Right of use assets (note 13)	841,203	-
Intangible assets	11,181,289	11,358,813
Goodwill	4,284,847	4,277,887
Deferred tax assets	371,558	368,997
Total assets	\$ 21,818,931	\$ 21,320,106
Liabilities		
Current liabilities		
Trade and other payables	\$ 3,999,809	\$ 4,384,831
Share appreciation rights plan obligations (note 7)	235,494	257,164
Current portion of long-term debt (note 5)	1,155,518	1,155,518
Conversion feature derivative liability	3,004,126	3,290,832
Current portion of lease obligation (note 13)	388,561	-
Provisions	391,873	458,959
Contract liabilities	579,927	454,789
Current portion of obligations under finance lease	33,400	38,231
	9,788,708	10,040,324
Non-current liabilities		
Deferred tax liability	30,379	29,752
Convertible debt (note 5)	1,563,554	1,563,554
Long-term debt (note 5)	7,260,001	6,877,061
Lease obligation (note 13)	466,373	-
Provisions	79,753	72,638
Obligations under finance lease	16,036	21,872
Total liabilities	19,204,804	18,605,201
Shareholders' equity		
Capital stock (note 6)	19,685,758	18,662,252
Contributed surplus	3,619,888	3,595,587
Accumulated other comprehensive income	(249,677)	127,753
Deficit	(20,441,842)	(19,670,687)
	2,614,127	2,714,905
Total liabilities and shareholders' equity	\$ 21,818,931	\$ 21,320,106

Approved by the Board Signed "Larry Taylor"
Larry Taylor, Director

Signed "Sebastien Paré"
Sebastien Paré, CEO and Director

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

VIQ Solutions Inc.

Interim Consolidated Statements of Income and Loss and Comprehensive Loss

(Expressed in United States dollars)

	Period Ended March 31,	
	2019	2018
Revenue	\$ 6,359,223	\$ 3,006,145
Cost of sales	3,322,085	1,814,129
Gross profit	3,037,138	1,192,016
Expenses		
Selling and administrative expenses	2,513,865	995,501
Research and development expenses	200,611	134,844
Stock-based compensation (note 7)	24,301	73,331
Loss on revaluation of conversion feature liability	(357,930)	–
Foreign exchange loss	19,750	(124,940)
Depreciation and amortization	792,529	50,574
	3,193,126	1,129,310
(Loss) Income before interest, accretion, business acquisition and financing costs, and income taxes	(155,988)	62,706
Interest income	623	30
Interest expense	(405,306)	(1,744)
Other income	–	591
Accretion expense	(210,484)	–
Net (loss) income before income taxes	(771,155)	61,583
Income tax (expense) recovery	–	–
Net (loss) income for the period	\$ (771,155)	\$ 61,583
Exchange differences on translating foreign operations	(377,430)	(213,504)
Comprehensive loss for the period	\$ (1,148,585)	\$ (151,921)
Net loss per share (note 8)		
Basic	\$ (0.00)	\$ 0.00
Diluted	\$ (0.00)	\$ 0.00
Weighted average number of common shares outstanding – basic (note 14)	183,404,871	161,205,502
Weighted average number of common shares outstanding – diluted (note 14)	183,404,871	169,107,155

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

VIQ Solutions Inc.
Interim Consolidated Statements of Changes in Equity
(Expressed in United States dollars)

	Capital stock		Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
	Number	Amount				
Balance at January 1, 2018	161,025,780	\$ 17,426,645	\$ 2,715,610	\$(13,604,053)	\$ 223,652	\$ 6,761,854
Comprehensive loss for the period	–	–	–	61,583	(213,504)	(151,921)
Shares issued due to exercise of stock options (note 6)	268,333	29,383	(6,931)	–	–	22,452
Stock-based compensation (note 7)	–	–	73,997	–	–	73,997
Balance at March 31, 2018	161,294,113	\$ 17,456,028	\$ 2,782,676	\$(13,542,470)	\$ 10,148	\$ 6,706,382
Comprehensive loss for the period	–	–	–	(6,128,217)	117,605	(6,010,612)
Shares issued due to exercise of stock options (note 6)	142,166	10,721	(4,373)	–	–	6,348
Shares issued as debt financing costs (note 5)	2,127,659	225,530	623,152	–	–	848,682
Shares issued for Transcription Express acquisition (note 5)	11,022,418	969,973	–	–	–	969,973
Stock-based compensation (note 7)	–	–	194,132	–	–	194,132
Balance at December 31, 2018	174,586,356	\$ 18,662,252	\$ 3,595,587	\$(19,670,687)	\$ 127,753	\$ 2,714,905
Comprehensive loss for the period	–	–	–	(771,155)	(377,430)	(1,148,585)
Shares issued due to exercise of stock options (note 6)	244,167	19,854	–	–	–	19,854
Shares issued as financing costs	13,192,00	1,003,652	–	–	–	1,003,652
Stock-based compensation (note 7)	–	–	24,301	–	–	24,301
Balance at March 31, 2019	188,022,523	\$ 19,685,758	\$ 3,619,888	\$(20,441,842)	\$ (249,677)	\$ 2,614,127

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

VIQ Solutions Inc.
Interim Consolidated Statements of Cash Flows
(Expressed in United States dollars)

	Three Months Ended March 31,	
	2019	2018
Cash provided by (used in):		
Operating activities		
Net (loss) income for the period	\$ (771,155)	\$ 61,583
Items not affecting cash:		
Depreciation and amortization	792,529	50,574
Stock-based compensation (note 7)	24,301	73,331
Loss on revaluation of conversion feature liability	(357,930)	–
Provisions	7,115	6,819
Deferred income tax expense (recovery)	(1,934)	4,958
Unrealized foreign exchange loss	402,282	(500,731)
Changes in non-cash operating working capital (note 16)	(246,153)	(937,779)
Cash used in operating activities	(150,945)	(1,241,245)
Investing activities		
Purchase of property and equipment	(12,155)	(9,841)
Development costs related to internally generated intangible assets (note 6)	(400,091)	(215,435)
Change in restricted cash	(268)	1,009
Cash used in investing activities	(412,514)	(224,267)
Financing activities		
Proceeds from the exercise of stock options (note 11)	17,758	20,626
Repayment of debt	(40,000)	–
Payment of interest on debt	(41,896)	–
Payment of interest on lease obligations (note 13)	(22,029)	–
Repayment of lease obligations (note 13)	(94,886)	–
Finance lease advances	(10,667)	(10,850)
Cash (used in) provided by financing activities	(191,720)	9,776
Net decrease in cash for the period	(755,179)	(1,455,736)
Cash, beginning of period	1,922,768	4,112,123
Effect of exchange rate changes on cash	24,904	158,663
Cash, end of period	\$ 1,192,493	\$ 2,815,050

Supplemental disclosure (note 9)

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

VIQ Solutions Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in United States dollars)

1. Nature of operations

VIQ Solutions Inc. (“VIQ” or the “Company”) is a technology and service platform provider for digital evidence capture, retrieval, and content management. VIQ’s modular software allows customers to easily integrate the platform at any stage of their organization’s digitization, from the capture of digital content from video and audio devices through to online collaboration, mobility, data analytics, and integration with sensors, facial recognition, speech recognition, and case management or patient record systems. VIQ operates worldwide with a network of partners including security integrators, audio-video specialists, and hardware and data storage suppliers.

The Company also provides recording and transcription services directly to a variety of clients including medical, courtrooms, legislative assemblies, hearing rooms, inquiries and quasi-judicial clients in numerous countries including Canada, the United Kingdom, the United States and Australia.

On November 28, 2018, the Company completed the acquisition of Net Transcripts, Inc. (“Net Transcripts”) of Phoenix, Arizona. Net Transcripts is a leading provider of secure, multi-speaker documentation services to law enforcement and criminal justice organizations.

On December 21, 2018, the Company completed the acquisitions of Transcription Express, Inc. (“Transcription Express”) of Gilbert, Arizona and HomeTech, Inc. (“HomeTech”) of Seattle, Washington. Transcription Express and HomeTech are two leading providers of transcription services to the insurance, government and legal markets in the United States.

VIQ was incorporated by articles of incorporation in the province of Alberta in November 2004. On June 21, 2017, the Company continued under articles of continuance in the province of Ontario. The Company’s offices are located at 700 – 5915 Airport Road, Mississauga, Ontario, L4V 1H1. VIQ is a public company listed on the TSX Venture Exchange trading under the symbol “VQS”.

2. Basis of preparation

(a) Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and IAS 34 “Interim Financial Reporting” applicable to the preparation of condensed interim consolidated financial statements. The notes presented in these condensed interim consolidated financial statements include, in general, only significant changes and transactions occurring since the Company’s last year end and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the years ended December 31, 2018 and 2017.

This is the first set of financial statements where IFRS 16 - “Lease Accounting” have been applied. Changes to significant policies are described in note 3.

The consolidated financial statements were authorized for issue by the Board of Directors on May 7, 2019.

(b) Basis of presentation

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value as noted below. All financial information is presented in USD.

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

2. Basis of preparation (continued)

(c) Functional and presentation currency

The functional currency of VIQ Solutions Inc. is the Canadian dollar (“CAD”). The functional currency of the Company’s subsidiaries are as follows; Dataworxs Systems Limited – CAD, VIQ Solutions, Inc. – United States dollar (“USD”), VIQ Australia Pty. Ltd – Australian dollar (“AUD”), Dataworxs Systems Australia Pty. Ltd – AUD, Spark & Cannon Australasia Pty. Ltd – AUD, Spark & Cannon Pty – AUD, VIQ Services Inc. – USD, Net Transcripts – USD, Transcription Express – USD and HomeTech - USD. These consolidated financial statements are presented in USD.

Change in presentation currency

Effective January 1, 2017, the Company changed its presentation currency from the CAD to USD to better reflect the Company’s business activities. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the USD had always been the Company’s presentation currency, as follows:

- Assets and liabilities have been translated into the USD at the rate of exchange prevailing at the respective reporting dates;
- The consolidated statements of income and comprehensive income and loss were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- Equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- Exchange differences arising on translation were recorded in accumulated other comprehensive income and loss in shareholders’ equity.

The exchange rates used were as follows:

USD / CAD exchange rate	March 31, 2019	December 31, 2018	March 31, 2018
Closing at the reporting date	0.7483	0.7329	0.7754
Average rate for the year	0.7524	0.7721	0.7914

3. Significant Accounting Policies, Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the condensed interim consolidated financial statements and notes to the condensed interim consolidated financial statements. These estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. Significant estimates made by the Company include the determination of the recoverable amount of goodwill, amounts recorded as provisions, recognition of deferred tax assets, the provision for long-term service leave and other employee benefits and the determination of functional currency.

The accounting policies, estimates and judgments used in the preparation of these condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018 as these condensed interim consolidated financial statements follow the same accounting policies and methods of application, except as described below.

The changes in accounting policies will also be reflected in the Company’s annual financial statements as at the end for the year ending December 31, 2019.

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

3. Significant accounting policies, estimates and judgments (continued)**IFRS 16 Leases**

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company used the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17 and related interpretations.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The impact of the transition to IFRS 16 is shown in Note 13. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's borrowing rate. The Company used its borrowing rate as the discount rate.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Accounting standards and amendments issued but not yet applied

The International Accounting Standards Board ("IASB") has issued accounting standards which have not yet been adopted by the Company. The accounting standards are the same accounting standards issued but not yet applied as noted in the consolidated financial statements of the year ended December 31, 2017 except as noted above for IFRS 15. The Company does not expect to adopt these new and amended standards before their effective dates.

4. Trade and other receivables

	March 31, 2019	December 31, 2018
Trade accounts receivable	\$ 4,353,439	\$ 3,793,057
Less: expected credit losses	(916,917)	(769,930)
	\$ 3,436,522	\$ 3,023,127

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

5. Debt

	March 31, 2019	December 31, 2018
Secured debt facility with Crown Capital Funding Partner LP ("Crown") for drawing up to approximately \$11,500,000 (CAD\$15,000,000) bearing an interest rate of 10% payable quarterly. Drawing on the facility is open until June 30, 2019. At March 31, 2019, the Company had drawn \$6,548,461 (CAD\$8,935,000). The loan is secured by a general security agreement covering all assets of the Company. The outstanding principal balance of the loan is repayable on November 28, 2023. In conjunction with the debt facility, 9,000,000 common share purchase warrants were issued to Crown. Each warrant is convertible into one common share in the capital of the Company at a price per share equal to CAD\$0.162 until November 28, 2023. In addition, in lieu of payment of the debt facility origination fee the Company issued 2,127,659 common shares to Crown at a deemed price of CAD\$0.141 which was equal to the 20 day volume weighted trading price on the trading day immediately preceding November 28, 2018.	\$ 5,655,934	\$ 5,489,305
Unsecured convertible notes with a face value of \$1,000 bearing interest at a rate of 10% per annum maturing in five years after issuance. The principal amount of the notes is convertible, at the option of the holder, into common shares at a conversion price of CAD\$0.141 per share. In conjunction with the convertible notes, 28,485,943 common share purchase warrants were issued to the holders of the convertible notes. Each common share purchase warrant is convertible into one common share in the capital of the Company at a price equal to CAD\$0.162 until two years after the issuance of the notes.(ii)	\$4,799,665	\$4,854,386
Unsecured promissory note with the former owners of Transcription Express with a face value of \$1,666,227, bearing interest at 10% to be paid quarterly for 24 months.(iii)	\$1,639,882	\$1,639,882
Unsecured promissory note with the former owners of Hometech with a face value of \$1,200,000, to be paid \$20,000 monthly for 60 months which began February 25, 2019.(iii)	\$887,718	\$ 903,392
		-
Less current portion	1,155,518	1,155,518
	\$ 11,827,681	\$ 11,731,447

- (i) A value of \$623,152 (CAD\$828,917) was attributed to the 9,000,000 warrants and has been included in contributed surplus. A value of \$225,530 (CAD\$300,000) was attributed to the 2,127,659 common shares and has been included in capital stock. Legal fees associated with establishing the debt facility were netted against the face value of the debt facility. The difference between the face value and ascribed value of the debt, being the carrying value of the warrants, the origination fee paid via the issuance of common shares and the legal fees is being accreted over the five year life of the debt facility. The warrants have an exercise price of CAD\$0.161, expiring on November 28, 2023.
- (ii) The fair value of the convertible note was determined based on a market annual interest rate of 12%. A value of \$3,138,423 was attributed to the convertibility option. The difference between the face value and ascribed value of the debt, being the value of the convertibility option, is being accreted over the five year life of the convertible note
- (iii) The fair value of the unsecured promissory notes was determined on a market annual interest rate of 5.5%. The difference between the face value and the ascribed value of the notes is being accreted over life of the notes.

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

6. Capital stock

The Company's authorized capital consists of an unlimited number of common shares with no par value. As at March 31, 2019, common shares of the Company were reserved as follows:

	Exercise Price (CAD)	Expiry dates	Number outstanding
Options	\$0.05 – \$0.07	January 2019 – December 2019	613,029
	\$0.06 – \$0.065	January 2020 – December 2020	5,150,000
	\$0.105 – \$0.21	January 2021 – December 2021	2,000,001
	\$0.22 – \$0.32	January 2022 – December 2022	2,280,000
	\$0.145 - \$0.30	January 2023 – December 2023	3,275,000
	\$0.135 - \$0.155	January 2024 – December 2024	1,100,000
			14,418,030
Deferred share units	\$0.06	N/A	1,999,998
Warrants	\$0.39	May 2019	8,186,720
	\$0.30	May 2019	341,915
	\$0.162	November 2020	17,570,869
	\$0.156	December 2020	10,915,074
	\$0.13	January 2021	13,192,000
	\$0.162	November 2023	9,000,000
			59,206,577

Warrants

On November 15, 2017 and November 22, 2017, the Company completed a private placement to fund the development of the Company's artificial intelligence platform, aiAssist™. The raise totalled \$3,644,091 (net of fees of \$218,603) for 16,373,446 common shares plus one-half warrant per common share. The exercise price of the warrants is CAD \$0.39. The warrants expire on May 15, 2019 and May 22, 2019 respectively. The warrants attached to the common shares were valued at \$294,486. The Company also granted 341,915 warrants to the broker at an exercise price of CAD \$0.30 that expire on May 22, 2019. The broker warrants were valued at \$23,463.

On November 28, 2018, the Company entered into a secured debt facility with Crown Capital Funding Partner LP (Note 8) which included the issuance of 9,000,000 common share purchase warrants as debt issuance costs. The exercise price of the warrants is CAD \$0.162. The warrants expire on November 28, 2023.

On November 28, 2018 and December 20, 2018, the Company issued convertible debt (Note 8) which included the issuance of 28,485,943 common share purchase warrants. The exercise price for the 17,570,869 warrants issued on November 28, 2018 is CAD \$0.162. The exercise price for the 10,915,074 warrants issued on December 20, 2018 is CAD \$0.156. The warrants expire on November 28, 2020 and December 20, 2020 respectively.

As at March 31, 2019, there were 59,206,577 warrants outstanding (December 31, 2018 – 46,014,578).

Stock Option Plan

The Company has an incentive stock option plan for its directors, officers, employees, and contractors. The Company's stock option plan allows for the granting of options (and Deferred Share Units as described below) up to an aggregate amount equal to 10% of the aggregate number of common shares of the Company outstanding. The options, which have a term not exceeding five years when issued, generally vest as follows:

- 1/3 at time of issue
- 1/3 after one year
- 1/3 after two years

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

6. Capital stock (continued)

As at March 31, 2019, the Company had 11,359,696 options (December 31, 2018 – 11,290,528) that had vested with a weighted average exercise price of CAD \$0.12 per share (December 31, 2018 – \$0.12).

During the three months ended March 31, 2019, the Company granted 1,100,000 stock options to directors, officers, employees, and contractors (2018 – 375,000). During the three months ended March 31, 2019, 244,167 stock options (December 31, 2018 – 410,999 stock options) were exercised for proceeds of \$17,758 (December 31, 2018 - \$28,800).

The following information applies to stock options outstanding and exercisable at March 31, 2019:

Range of exercise prices (CAD)	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price (CAD)	Options exercisable	Weighted average exercise price (CAD)
\$0.05 – \$0.07	613,029	0.4 years	\$0.05	613,029	\$0.05
\$0.06 – \$0.065	5,150,000	1.4 years	\$0.06	5,150,000	\$0.06
\$0.105 – \$0.21	2,000,001	2.2 years	\$0.13	2,066,668	\$0.13
\$0.22 – \$0.32	2,280,000	3.2 years	\$0.25	2,186,663	\$0.24
\$0.142 – \$0.30	3,275,000	4.5 years	\$0.16	1,091,668	\$0.18
\$0.135 – \$0.55	1,100,000	4.9 years	\$0.15	1,091,668	\$0.15
	14,418,030	2.8 years	\$0.12	11,290,528	\$0.12

Deferred Share Units Plan

In 2015, the Company established a Deferred Share Units (“DSU”) Plan to provide non-employee directors with the opportunity to acquire DSUs of the Company to allow them to participate in the long-term success of the Company. DSUs are fully vested upon being granted.

The Board of Directors may grant DSUs (and the number of options to purchase shares described above) up to a maximum of 10% of common shares outstanding and up to a maximum of 2,000,000 units.

Maximum allowable grants under the Stock Option and DSU plans in aggregate as at March 31, 2019 were 18,802,252 (December 31, 2018 – 17,458,636) of which 14,418,030 were outstanding stock options and 1,999,998 were outstanding DSUs for a total of 16,418,020 (December 31, 2018 – 16,597,195).

The Company did not grant any DSU’s to Directors of the Company during the quarter ended March 31, 2019 (2018 – nil).

Share Appreciation Rights Plan

In 2015, the Company established a Share Appreciation Rights (“SAR”) plan for its Service Providers (as defined in VIQ’s SAR plan). The Company’s SAR plan provides incentive compensation, based on the appreciation in the value of the Company’s shares, to the service providers, thereby providing additional incentive for their efforts in promoting the continued growth and success of the business of the Company. The aggregate number of units in respect of which SARs have been granted and not yet exercised, shall not at any time exceed 10% of the aggregate number of shares that are then issued and outstanding. The SAR units, which have a term not exceeding five years when granted, generally vest as follows:

- 1/3 at time of issue
- 1/3 after one year
- 1/3 after two years

At any time on or after the date when the trading price of one share is equal to or exceeds four times the fair value of one SAR unit at the grant date, the Company shall be entitled to require the disposition of the vested SAR units by the grantee to the Company, by the Company paying the bonus in cash to the grantee.

VIQ Solutions Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

6. Capital stock (continued)

The value of each SAR unit when issued is based on the market price of the Company's stock on the date of grant. At the end of December 31, 2017, the Company amended the SAR's plan by placing a limit on the appreciated value of the Company's shares within the SAR's plan to limit the overall liability. The total number of SAR units which have vested as at March 31, 2019 is 3,853,048 (December 31, 2018 – 4,129,160). The total number of SAR units which are unvested as at March 31, 2019 is nil (December 31, 2018 – nil).

7. Stock-based compensation

The total compensation expense relating to the value assigned to the stock options, DSUs and SARs granted to directors, officers, employees, and contractors for the year ended March 31, 2019 was \$24,301 (2018 – \$73,331) which was included in stock-based compensation expense, with a corresponding charge to contributed surplus (\$46,100 stock options, net of forfeits) and a reduction in accrued liabilities (\$7,412 SARs). The Company granted 1,100,00 options during the quarter ended March 31, 2019 (2018 – 375,000) and nil SARs (2018 – nil). The weighted average fair value of the options granted during the three months ended March 31, 2019 was CAD \$0.15 per option (2018 – CAD \$0.18) and \$nil (2018 – nil) per SAR unit at the grant date, CAD \$0.14 per SAR unit at the March 31, 2019 revaluation date (December 31, 2018 – CAD \$0.14).

During the quarter ended March 31, 2019, 276,112 SARs were exercised (December 31, 2018 – 398,340) resulting in \$19,942 of payments.

The fair value of the stock options and SAR units was determined using the Black-Scholes option pricing model which requires subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. The expected volatility is based on the Company's historical trading prices. The expected life is based on historical exercise patterns. The quoted market price of the underlying shares on the grant date is considered to be equivalent to fair value for the DSUs.

The fair value of stock options was calculated using the following weighted average assumptions:

	2019	2018
Risk free interest rate (%)	1.49 – 2.49%	1.88 – 2.13%
Expected volatility (%)	72.9 – 93.75%	72.9 – 93.75%
Expected life (in years)	4.0	4.0
Expected dividends	Nil	Nil
Weighted average share price (CAD)	\$0.14	\$0.16
Forfeiture rate (%)	Nil	Nil

The fair value of SAR units was calculated using the following weighted average assumptions:

	March 31, 2019 revaluation date	December 31, 2018 revaluation date
Risk free interest rate (%)	1.86%	1.86%
Expected volatility (%)	52.3%-57.8%	52.3%-57.8%
Expected life (in years)	1.5-2.2	1.5-2.2
Expected dividends	Nil	Nil
Weighted average share price (CAD)	\$0.14	\$0.14
Forfeiture rate (%)	Nil	Nil

The Company has amended the outstanding SAR's to extend the expiry of the SAR's from December 31, 2018 to July 15, 2020, the date the SAR's plan will expire.

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8. Net loss per share

	Year ended March 31,	
	2019	2018
Numerator for basic and diluted net loss per share:		
Net loss for the period	\$ (771,155)	\$ 61,583
Denominator for basic net income per share:		
Weighted average number of common shares outstanding	183,404,871	161,205,502
Effect of potential dilutive securities	—	7,901,653
Adjusted denominator for diluted net loss per share	183,404,871	169,107,155
Basic net loss per share	\$ (0.00)	\$ 0.00
Diluted net loss per share	\$ (0.00)	\$ 0.00

For the quarter ended March 31, 2019, potentially dilutive common shares issuable upon the exercise of the conversion option related to convertible debt, warrants and options were not included in the computation of loss per share because their effect was anti-dilutive.

9. Supplemental cash flow information

Components of the net change in non-cash working capital are as follows:

	Three months ended March 31	
	2019	2018
Trade and other receivables	\$ (413,395)	\$ (726,935)
Inventories	(46,852)	666
Prepaid expenses	(105,761)	16,133
Trade and other payables	385,022	(333,352)
Provisions	59,971	(1,385)
Contract liabilities and taxes	(125,138)	107,094
Total	\$ (246,153)	\$ (937,779)

Other supplemental cash flow information as follows:

	Three ended March 31	
	2019	2018
Cash received for interest	\$ —	\$ —
Cash paid for interest	63,923	—

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10. Segmented financial information

The Company operates within two business segments: the technology segment, which develops, distributes and licenses computer-based digital solutions based on its proprietary technology; and the transcription segment, which provides recording and transcription services. The Company's reportable segments are strategic business segments that offer different products and/or services. These business segments work on different business models and operate autonomously.

The Company does not segregate sales and associated costs by individual technology products. Accordingly, segmented information on revenue and associated costs is only provided for the full line of software solutions currently offered by the Company.

Financial information by reportable business segment is as follows:

	Period ended March 31, 2019			
	Technology	Transcription services	Corporate	Total
Consolidated loss				
Recurring revenue	\$ 392,946	\$ 5,096,430	\$ –	\$ 5,489,376
Non-recurring revenue	716,146	153,701	–	869,847
Gross profit	592,423	2,444,715	–	3,037,138
Selling and administrative expenses	690,998	1,385,732	437,135	2,513,865
Stock-based compensation	–	–	24,301	24,301
Research and development expenses	200,611	–	–	200,611
Depreciation and amortization	304,782	487,747	–	792,529
Foreign exchange loss	19,750	–	–	19,750
Interest income	–	(623)	–	(623)
Interest and accretion expense	7,734	608,056	–	615,790
Gain on revaluation of conversion	–	–	(357,930)	(357,930)
Segment loss	(631,449)	(36,197)	(103,506)	(771,155)
Consolidated balance sheet				
Total segment assets	\$ 5,998,662	\$ 15,820,269	\$ –	\$ 21,818,931
Total segment current liabilities	3,146,751	6,406,463	235,494	9,788,708
Total segment non-current liabilities	30,379	9,385,717	–	9,416,096

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10. Segmented financial information (continued)

	Period ended March 31, 2018			
	Technology	Transcription services	Corporate	Total
Consolidated income (loss)				
Recurring revenue	\$ 379,723	\$ 1,883,951	–	\$ 2,263,674
Non-recurring revenue	735,883	6,588	–	742,471
Gross profit	806,293	385,723	–	1,192,016
Selling and administrative expenses	369,634	384,008	241,859	995,501
Stock based compensation expense	–	–	73,331	73,331
Research and development expenses	134,844	–	–	134,844
Depreciation and amortization	31,216	19,358	–	50,574
Foreign exchange gain	(86,144)	(38,796)	–	(124,940)
Interest income	(30)	–	–	(30)
Interest expense	346	1,398	–	1,744
Other income	–	(591)	–	(591)
Segment income (loss)	356,427	20,346	(315,190)	61,583
Consolidated Balance Sheet				
Total segment assets	\$ 8,037,327	\$ 1,243,624	–	\$ 9,280,951
Total segment current liabilities	809,036	966,775	595,536	2,371,347
Total segment non-current liabilities	86,701	116,521	–	203,222

Revenues are segmented by geographic region as follows:

	2019	2018
United States	\$ 3,398,364	\$ 382,950
Australia	2,185,551	2,064,127
United Kingdom	556,831	252,981
Canada	177,154	245,812
Other	41,323	60,275
	\$6,359,223	\$ 3,006,145

The Company's largest customers comprise the following percentages of consolidated revenue:

	2019	2018
First	16%	20%
Second	10%	14%
Third	10%	13%
Fourth	8%	7%
Fifth	6%	2%
Others	50%	44%
	100%	100%

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10. Segmented financial information (continued)

Property and equipment are located in the following countries:

	2019	2018
Australia	\$ 52,594	\$ 60,064
Canada	78,467	92,781
	\$ 101,061	\$ 152,845

11. Expenses by nature

Expenses incurred by nature are as follows:

	2019	2018
Employee salaries and benefits	\$ 3,547,473	\$ 2,533,944
Inventory, materials and other cost of sales	1,744,961	105,714
Depreciation and amortization	792,529	50,574
Facilities	135,860	98,059
Professional and consulting fees	171,481	67,967
Bad debt	147,766	7,914
Telephone and internet	104,167	59,510
Travel	57,658	66,020
Investor relations and other shareholder expenses	19,556	17,625
Insurance	32,889	12,055
Other	99,051	48,997
Total	\$ 6,853,391	\$ 3,068,379

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12. Employee benefit expense

Expenditures for employee benefits are as follows:

	2019	2018
Salaries and wages and employee benefits	\$ 2,937,008	\$ 2,018,512
Contract labour	580,878	422,315
Stock-based compensation	24,301	73,331
Other staff expense	5,286	19,786
Total	\$ 3,547,473	\$ 2,533,944

13. IFRS 16 – Adoption of Lease Accounting

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of \$988,452 were recorded as of January 1, 2019, with no net impact on retained earnings.

When measuring lease liabilities, the Company discounted lease payments using its borrowing rate at January 1, 2019. The rate applied is approximately 10%.

The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

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13. IFRS 16 – Adoption of Lease Accounting (continued)

The following table summarizes the impact of adopting IFRS 16 on the Company's interim consolidated statement of income (loss) for the three months ended March 31, 2019:

	March 31, 2019 As reported	Adjustments	March 31, 2019 Without adoption of IFRS 16
Revenue	6,359,223		6,359,223
Cost of Sales	3,322,085		3,322,085
Gross Profit	3,037,138	–	3,037,138
Expenses			
Selling and administrative expenses	2,513,865	116,915	2,630,780
Research and development expenses	200,611		200,611
Stock based compensation	24,301		24,301
Gain on revaluation of conversion feature liability	(357,930)		(357,930)
Foreign exchange (gain) loss	19,750		19,750
Depreciation & amortization	792,529	(109,021)	683,508
Total operating expenses	3,193,126	7,894	3,201,020
Operating loss	(155,988)	(7,894)	(163,882)
Finance income (loss)			
Interest income	623		623
Interest expense	(405,306)	22,029	(383,277)
Accretion on debt	(210,484)		(210,484)
Net finance income (loss) from continuing operations	(615,167)	22,029	(593,138)
Loss from continuing operations for the period	(771,155)	14,135	(757,020)
Income taxes	–		–
Net income (loss) for the period	(771,155)	14,135	(757,020)
Exchange differences on translating foreign operations	(377,430)		(377,430)
Comprehensive income (loss) for the period	(1,148,585)	14,135	(1,134,450)
Net loss per share			
Basic	(0.00)	0.00	(0.00)
Diluted	(0.00)	0.00	(0.00)
Weighted average number of common shares outstanding	183,404,871	183,404,871	183,404,871
Weighted average number of common shares outstanding	183,404,871	183,404,871	183,404,871

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14. Risk management for financial instruments

Fair values

The estimated fair values of cash, trade and other receivables, restricted cash, trade and other payables, and share appreciation rights plan obligations approximate their carrying values due to the relatively short-term nature of the instruments. The estimated fair values of current and long-term debt and obligations under finance lease also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

Fair value measurements recognized in the consolidated balance sheets must be categorized in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments carried at fair value on the consolidated balance sheets consist of cash and restricted cash. Cash and restricted cash are valued using quoted market prices (Level 1). Share appreciation rights and the conversion feature derivative liability are categorized using observable market inputs (Level 2). The Company did not value any financial instruments using valuation techniques based on non-observable market inputs (Level 3) as at March 31, 2019.

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 approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, by continuously monitoring actual and budgeted cash flows.

The Company has sustained losses over the last number of periods and has financed these losses mainly through a combination of equity and debt offerings. Management believes that it has raised sufficient cash to meet all of its contractual debt that is coming due in 2019 and has the ability to fund any operating losses that may occur in the upcoming periods.

Credit risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company is exposed to credit risk from its customers; however, the Company has a significant number of customers, minimizing the concentration of credit risk. Further, a large majority of the Company's customers are economically stable organizations such as government agencies or departments with whom the Company transacts with on a regular basis, further reducing the overall credit risk.

Historically, the Company has suffered losses under trade receivables. In order to minimize the risk of loss from trade receivables, the Company's extension of credit to customers involves review and approval by senior management and conservative credit limits for new or higher risk accounts.

The Company reviews its trade receivable accounts regularly and writes down these accounts to their expected realizable values, by making an allowance for doubtful accounts, as soon as the account is determined not to be fully collectible. The allowance is charged against earnings. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern issues. Normal credit terms for amounts due from customers call for payment within 30 to 60 days.

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14. Risk management for financial instruments (continued)

The Company's exposure to credit risk for trade receivables by geographic area was as follows:

	March 31, 2019	March 31, 2018
United States	56%	30%
Australia	25%	30%
United Kingdom	10%	27%
Canada	7%	8%
Rest of world	2%	5%
	100%	100%

The activity of the expected credit loss provision is as follows:

	March 31, 2019	December 31, 2018
Expected credit loss – beginning of period	\$ 769,930	\$ 551,421
Add: provision for expected credit loss	147,766	232,223
Less: Write-offs	-	(10,651)
Foreign exchange adjustments	(779)	(3,063)
Expected credit loss – end of period	\$ 916,917	\$ 769,930

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk is primarily related to the Company's interest-bearing debts on its consolidated balance sheet. The Company does not have a material amount of long-term debt with variable interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the U.S. and Australian dollars and Great Britain pounds with a large portion of the Company's sales and operating costs being realized in these foreign currencies. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in Canadian, U.S. and Australian dollars.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. This primarily includes cash, restricted cash, trade and other receivables, trade and other payables, provisions and obligations under finance lease which were denominated in foreign currencies.

The Company's Australian subsidiaries have a majority of revenue and expenses being transacted in Australian dollars. As of March 31, 2019, fluctuations of the Australian dollar relative to the United States dollar of 5% would result in an exchange gain or loss on the net financial assets, impacting the Company's comprehensive income by approximately \$14,000 (2018 – \$9,000).

The Company's computer products and services operations are exposed to exchange rate changes in the U.S. dollar relative to the Canadian dollar since a substantial portion of this business unit's sales are denominated in U.S. dollars with most of the related expenses in Canadian dollars. A 5% fluctuation of the U.S. dollar would result in an exchange gain or loss on the net financial assets of approximately \$27,000 (2018– \$18,000) as at March 31, 2019.

The Company's computer products and services operations are exposed to exchange rate changes in the Great Britain pound relative to the United States dollar since a portion of this business unit's sales are denominated in Great Britain pounds with most of the related expenses in United States dollars. A fluctuation of the Great Britain pound of 5% would result in an exchange

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14. Risk management for financial instruments (continued)

gain or loss on the net financial assets of approximately \$7,000 (2018 – \$23,000) as at March 31, 2019.

Foreign currency risk (continued)

The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currencies cash flows as management has determined that this risk is not significant at this point in time. The Company recognized a foreign exchange loss from operations of \$19,760 for the quarter ended March 31, 2019 (2018 – foreign exchange gain of \$124,940).

Capital management

The Company considers its capital structure to consist of shareholders' equity, long-term debt and convertible debt. The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, fund research and development and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk.

15. Subsequent events

None.