

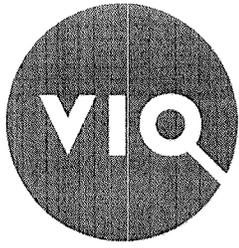


## **VIQ Solutions Inc.**

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

(Expressed in United States dollars)



## **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

November 6, 2019

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	Sept. 30, 2019	December 31, 2018	Sept. 30, 2018
Closing at the reporting date	0.7552	0.7329	0.7739
Average rate for the year	0.7524	0.7721	0.7771

**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**

	Sept. 30, 2019	December 31, 2018
Trade accounts receivable	\$ 4,642,156	\$ 3,793,057
Less: expected credit losses	(884,933)	(769,930)
	<b>\$ 3,757,223</b>	<b>\$ 3,023,127</b>

VIQ Solutions Inc.  
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(Expressed in United States dollars)

5. Debt

	September 30, 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 December 31, 2019. At June 30, 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.	\$ 5,811,341	\$ 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, 28,482,490 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)	4,489,084	4,854,386
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 were issued May 7, 2019. The principal amount of the notes is convertible, at the option of the holder, into common shares at a conversion price of CAD\$0.135 per share. In conjunction with the convertible notes, 21,123,567 common share purchase warrants were issued to the holders of the convertible notes. 4,719,951 of common share purchase warrant is convertible into one common share in the capital of the Company at a price equal to CAD\$0.162 with the remaining balance at a price equal to CAD\$0.155 until two years after the issuance of the notes.(iv)	1,757,841	–
Unsecured promissory note with the former owners of Transcription Express with a face value of \$1,666,227, bearing interest at 10% paid monthly for 24 months. (iii)	1,112,350	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)	818,123	903,392
	–	–
Less current portion	(1,034,204)	(1,155,518)
	\$ 12,954,535	\$ 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 ranging from CAD\$0.107 to 0.162 with expiry dates ranging from May 15, 2020 to November 28, 2023.

## VIQ Solutions Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

**5. Debt (continued)**

- (ii) The fair value of the convertible note was determined based on a market annual interest rate of 12%. A value of CAD \$4,249,569 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.
- (iv) The fair value of the convertible note was determined based on a market annual interest rate of 12%. A value of CAD \$1,607,956 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.

**6. Capital stock**

The Company's authorized capital consists of an unlimited number of common shares with no par value. As at September 30, 2019, common shares of the Company were reserved as follows:

	Exercise Price (CAD)	Expiry dates	Number outstanding
Options	\$0.06 – \$0.065	January 2020 – December 2020	4,650,000
	\$0.105 – \$0.21	January 2021 – December 2021	2,000,001
	\$0.22 – \$0.32	January 2022 – December 2022	2,280,000
	\$0.142 - \$0.30	January 2023 – December 2023	3,275,000
	\$0.11 - \$0.155	January 2024 – December 2024	5,157,000
			17,362,001
Deferred share units	\$0.06	N/A	1,333,332
Warrants	\$0.162	May 2020	5,843,917
	\$0.107	November 2020	12,384,606
	\$0.162	November 2020	285,554
	\$0.107	December 2020	10,915,074
	\$0.130	January 2021	13,192,000
	\$0.107	May 2021	2,243,762
	\$0.162	November 2023	9,000,000
			53,864,913

*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 \$0.162. The warrants expire on May 15, 2020 and May 22, 2020 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 expired 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 5) 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.

VIQ Solutions Inc.  
Notes to Condensed Interim Consolidated Financial Statements  
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**6. Capital stock (continued)**

On November 28, 2018 and December 20, 2018, the Company issued convertible debt (Note 5) which included the issuance of 28,485,933 common share purchase warrants. The exercise price for the 17,570,881 warrants issued on November 28, 2018 was CAD \$0.162. The exercise price for the 10,915,074 warrants issued on December 20, 2018 was CAD \$0.156. These warrants were repriced to CAD \$0.107 on September 18, 2019. The warrants expire on November 28, 2020 and December 20, 2020 respectively.

On May 7, 2019, the Company issued convertible debt (Note 5) which included issuance of 21,123,567 common share purchase warrants. The exercise price for 4,719,951 of the warrants were at CAD \$0.162 and the exercise price of 16,403,616 were at CAD \$0.155. These warrants were repriced on September 18, 2019 to CAD \$0.107 and expire on May 7, 2021.

As at September 30, 2019, there were 53,864,913 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

As at September 30, 2019, the Company had 11,598,999 options (December 31, 2018 – 11,290,528) that had vested with a weighted average exercise price of CAD \$0.13 per share (December 31, 2018 – \$0.12).

During the nine months ended September 30, 2019, the Company granted 5,157,000 stock options to directors, officers, employees, and contractors (2018 – 1,575,000). During the nine months ended September 30, 2019, 1,357,196 stock options (December 31, 2018 – 410,999 stock options) were exercised for proceeds of \$59,215 (December 31, 2018 - \$28,800).

The following information applies to stock options outstanding and exercisable at September 30, 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)
\$0.06 – \$0.065	4,650,000	1.2 years	\$0.06	4,650,000	\$0.06
\$0.105 – \$0.21	2,000,001	2.0 years	\$0.13	2,000,001	\$0.13
\$0.22 – \$0.32	2,280,000	2.9 years	\$0.25	2,013,333	\$0.24
\$0.142 – \$0.30	3,275,000	4.3 years	\$0.16	1,216,666	\$0.18
\$0.11 – \$0.55	5,157,000	5.0 years	\$0.12	1,718,999	\$0.12
	17,362,001	3.2 years	\$0.10	11,598,999	\$0.13

*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.

VIQ Solutions Inc.  
 Notes to Condensed Interim Consolidated Financial Statements  
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**6. Capital stock (continued)**

Maximum allowable grants under the Stock Option and DSU plans in aggregate as at September 30, 2019 were 21,357,928 (December 31, 2018 – 17,458,636) of which 17,362,001 were outstanding stock options and 1,333,332 were outstanding DSUs for a total of 18,695,333 (December 31, 2018 – 16,597,195).

During the nine months ended September 30, 2019, 666,666 DSUs were exercised. The Company did not grant any DSU's to Directors of the Company during the nine months ended September 30, 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.

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 vested as at September 30, 2019 is 3,279,794 (December 31, 2018 – 4,129,160). All SAR units are fully vested as at September 30, 2019.

**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 September 30, 2019 was \$223,853 (2018 – \$216,538) which was included in stock-based compensation expense, with a corresponding charge to contributed surplus (\$235,291 stock options, net of forfeits) and a reduction in accrued liabilities (\$11,438 SARs). The Company granted 5,157,000 options during the nine months ended September 30, 2019 (2018 – 1,575,000) and nil SARs (2018 – nil). The weighted average fair value of the options granted during the nine months ended September 30, 2019 was CAD \$0.12 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 September 30, 2019 revaluation date (December 31, 2018 – CAD \$0.14).

During the nine months ended September 30, 2019, 573,254 SARs were exercised (December 31, 2018 – 398,340) resulting in \$80,256 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.

## VIQ Solutions Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

## 7. Stock-based compensation (continued)

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

	2019	2018
Risk free interest rate (%)	1.41 – 2.49%	2.10 - 2.17%
Expected volatility (%)	72.9 – 85.09%	82.65 – 93.75%
Expected life (in years)	5.01	4
Expected dividends	Nil	Nil
Weighted average share price (CAD)	\$0.13	\$0.18
Forfeiture rate (%)	Nil	Nil

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

	Sept. 30, 2019 revaluation date	December 31, 2018 revaluation date
Risk free interest rate (%)	1.43%	1.86%
Expected volatility (%)	37.8%-44.2%	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.

## 8. Net income loss per share

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2019	2018	2019	2018
Numerator for basic and diluted net loss per share				
<b>Net income loss for the period</b>	\$ 291,994	\$ (688,859)	\$ (1,998,516)	\$ (1,127,214)
Denominator for basic net income loss per share:				
Weighted average number of common shares outstanding	190,305,707	161,433,649	184,224,875	161,321,716
Effect of potential dilutive securities	9,899,377	–	–	–
<b>Adjusted denominator for diluted net income loss per share</b>	200,205,084	161,433,649	184,224,875	161,321,716
Basic net income loss per share	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.00)
Diluted net loss per share	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.00)

For the nine months ended September 30, 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.

## VIQ Solutions Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

## 9. Supplemental cash flow information

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

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2019	2018	2019	2018
Trade and other receivables	\$ (16,353)	\$ 283,941	\$ (734,096)	\$ (275,350)
Inventories	32,913	2,935	(103,442)	(3,900)
Prepaid expenses	154,121	(255,160)	(18,481)	(365,763)
Trade and other payables	(223,058)	(105,053)	(1,612,101)	126,097
Provisions	–	3,405	–	58,541
Contract liabilities and taxes	136,990	24,462	(52,064)	90,709
Total	\$ 84,613	\$ (45,470)	\$ (2,520,184)	\$ (369,666)

## 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:

	Three months ended September 30, 2019			
	Technology	Transcription services	Corporate	Total
<b>Consolidated income (loss)</b>				
Recurring revenue	\$ 373,453	\$ 5,510,454	\$ –	\$ 5,883,907
Non-recurring revenue	534,416	32,754	–	567,170
Gross profit	589,059	2,310,961	–	2,900,020
Selling and administrative expenses	912,406	1,086,475	148,821	2,147,702
Stock-based compensation	–	–	109,272	109,272
Research and development expenses	286,531	–	–	286,531
Depreciation and amortization	428,405	494,482	–	922,887
Foreign exchange loss	16,231	–	–	16,231
Interest income	–	(309)	–	(309)
Interest and accretion expense	7,420	672,693	–	680,113
Other income	–	3,718	–	3,718
Gain on revaluation of conversion	–	–	(1,558,119)	(1,558,119)
Segment income (loss)	(1,061,934)	53,902	1,300,026	291,994
<b>Consolidated balance sheet</b>				
Total segment assets	\$ 7,096,689	\$ 15,169,095	\$ –	\$ 22,265,784
Total segment current liabilities	2,237,368	5,866,182	199,957	8,455,323
Total segment non-current liabilities	30,658	10,406,987	–	10,437,645

## VIQ Solutions Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Expressed in United States dollars)

## 10. Segmented financial information (continued)

Three months ended September 30, 2018				
	Technology	Transcription services	Corporate	Total
<b>Consolidated income (loss)</b>				
Recurring revenue	\$ 383,940	\$ 2,110,224	–	\$ 2,494,164
Non-recurring revenue	561,156	–	–	561,156
Gross profit	439,961	426,495	–	866,456
Selling and administrative expenses	224,797	439,734	572,813	1,237,344
Stock based compensation expense	–	–	100,784	100,784
Research and development expenses	103,777	–	–	103,777
Depreciation and amortization	28,110	17,257	–	45,367
Foreign exchange gain	64,076	1,852	–	65,928
Interest income	(43)	(572)	–	(615)
Interest expense	(10)	2,740	–	2,730
Other income	–	(591)	–	(591)
Segment income (loss)	19,254	(34,516)	(673,597)	(688,859)
<b>Consolidated Balance Sheet</b>				
Total segment assets	\$ 7,305,204	\$ 1,356,933	–	\$ 8,662,137
Total segment current liabilities	1,333,870	974,912	575,766	2,884,548
Total segment non-current liabilities	86,590	102,564	–	189,154
Nine months ended September 30, 2019				
	Technology	Transcription services	Corporate	Total
<b>Consolidated income (loss)</b>				
Recurring revenue	\$ 1,188,422	\$ 15,875,412	\$ –	\$ 17,063,834
Non-recurring revenue	1,644,247	291,67	–	1,935,924
Gross profit	1,546,016	6,841,384	–	8,387,400
Selling and administrative expenses	2,056,140	3,419,421	985,439	6,461,000
Stock-based compensation	–	–	223,853	223,853
Research and development expenses	718,966	–	–	718,966
Depreciation and amortization	1,103,607	1,468,217	–	2,571,824
Foreign exchange loss	162,870	–	–	162,870
Interest income	–	(1,110)	–	(1,110)
Interest and accretion expense	22,673	1,821,061	–	1,843,734
Loss on revaluation of conversion	–	–	(1,595,221)	(1,595,221)
Segment income (loss)	(2,518,240)	133,795	385,929	(1,998,516)

VIQ Solutions Inc.  
Notes to Condensed Interim Consolidated Financial Statements  
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10. Segmented financial information (continued)

Nine months ended September 30, 2018				
	Technology	Transcription services	Corporate	Total
<b>Consolidated income (loss)</b>				
Recurring revenue	\$ 1,155,133	\$ 6,154,876	–	\$ 7,310,009
Non-recurring revenue	2,026,390	16,047	–	2,042,437
Gross profit	1,878,525	1,284,558	–	3,163,083
Selling and administrative expenses	1,054,438	1,222,223	1,421,385	3,698,046
Stock based compensation expense	–	–	216,538	216,538
Research and development expenses	327,188	–	–	327,188
Depreciation and amortization	89,396	53,742	–	143,138
Foreign exchange gain	(17,943)	(81,584)	–	(99,527)
Interest income	(122)	(1,627)	–	(1,749)
Interest expense	332	6,331	–	6,663
Segment income (loss)	425,236	85,473	(1,637,923)	(1,127,214)

Revenues are segmented by geographic region as follows:

	2019	2018
United States	\$ 11,032,720	\$ 1,027,606
Australia	6,678,422	7,229,801
United Kingdom	1,028,984	695,754
Canada	205,649	346,442
Other	53,983	52,843
	<b>\$18,999,758</b>	<b>\$ 9,352,446</b>

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

	2019	2018
First	15%	22%
Second	11%	14%
Third	9%	12%
Fourth	6%	9%
Fifth	6%	2%
Others	53%	41%
	<b>100%</b>	<b>100%</b>

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**11. Expenses by nature**

Expenses incurred by nature are as follows:

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2019	2018	2019	2018
Employee salaries and benefits	\$ 3,588,029	\$ 2,769,412	\$ 10,683,845	\$ 8,117,178
Inventory, materials and other cost of sales	1,609,716	417,602	4,905,832	869,025
Depreciation and amortization	922,887	45,367	2,571,824	143,138
Facilities	47,925	92,905	161,926	285,437
Professional and consulting fees	312,869	96,472	628,834	295,560
Bad debt	(57,182)	–	90,584	–
Telephone and internet	164,901	89,776	512,933	205,793
Travel	101,304	45,213	237,045	171,222
Investor relations and other shareholder expenses	98,809	14,386	156,917	55,778
Insurance	15,216	11,730	45,379	35,643
Other	212,975	93,273	592,882	395,499
<b>Total</b>	<b>\$ 7,017,449</b>	<b>\$ 3,676,136</b>	<b>\$ 20,588,001</b>	<b>\$ 10,574,273</b>

**12. Employee benefit expense**

Expenditures for employee benefits are as follows:

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2019	2018	2019	2018
Salaries and wages and employee benefits	\$ 2,877,179	\$ 2,125,797	\$ 8,821,319	\$ 6,311,301
Contract labour	596,838	500,087	1,665,286	1,419,339
Stock-based compensation	109,272	100,784	223,853	216,538
Other staff expense	4,740	42,744	26,613	170,00
<b>Total</b>	<b>\$ 3,588,029</b>	<b>\$ 2,769,412</b>	<b>\$ 10,683,845</b>	<b>\$ 8,117,178</b>

**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 and loss for the three months ended September 30, 2019:

	September 30, 2019 As reported	Adjustments	September 30, 2019 Without adoption of IFRS 16
Revenue	6,451,077		6,451,077
Cost of Sales	3,551,057		3,551,057
Gross Profit	2,900,020	–	2,900,020
Expenses			
Selling and administrative expenses	2,147,702	119,611	2,267,313
Research and development expenses	286,531		286,531
Stock based compensation	109,272		109,272
Gain on revaluation of conversion feature liability	(1,558,119)		(1,558,119)
Foreign exchange (gain) loss	16,231		16,231
Depreciation & amortization	922,887	(116,620)	806,267
Total operating expenses	1,924,504	2,991	1,927,495
Operating loss	975,516	(2,991)	972,525
Finance income (loss)			
Interest income	309		309
Interest expense	(390,445)		(390,445)
Interest - lease obligation	(19,065)	19,065	–
Accretion on debt	(270,603)		(270,603)
Other income (expense)	(3,718)		(3,718)
Business acquisition and financing costs	–		–
Net finance income (loss) from continuing operations	(683,522)	19,065	(664,457)
Loss from continuing operations for the period	291,994	16,074	308,068
Income taxes	–		–
Net income (loss) for the period	291,994	16,074	308,068
Exchange differences on translating foreign operations	91,687		91,687
Comprehensive income (loss) for the period	383,681	16,074	399,755
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 - basic	190,305,707	190,305,707	190,305,707
Weighted average number of common shares outstanding - diluted	200,205,084	200,205,084	200,205,084

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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 and loss for the nine months ended September 30, 2019:

	September 30, 2019 As reported	Adjustments	September 30, 2019 Without adoption of IFRS 16
Revenue	18,999,758		18,999,758
Cost of Sales	10,612,358		10,612,358
Gross Profit	8,387,400	–	8,387,400
Expenses			
Selling and administrative expenses	6,461,000	354,852	6,815,852
Research and development expenses	718,966		718,966
Stock based compensation	223,853		223,853
Gain on revaluation of conversion feature liability	(1,595,221)		(1,595,221)
Foreign exchange (gain) loss	162,870		162,870
Depreciation & amortization	2,571,824	(334,719)	2,237,105
Total operating expenses	8,543,292	20,133	8,563,425
Operating loss	(155,892)	(20,133)	(176,025)
Finance income (loss)			
Interest income	1,110		1,110
Interest expense	(1,085,972)		(1,085,972)
Interest - lease obligation	(60,779)	60,779	–
Accretion on debt	(696,983)		(696,983)
Other income (expense)	–		–
Business acquisition and financing costs	–		–
Net finance income (loss) from continuing operations	(1,842,624)	60,779	(1,781,845)
Loss from continuing operations for the period	(1,998,516)	40,646	(1,957,870)
Income taxes	–		–
Net income (loss) for the period	(1,998,516)	40,646	(1,957,870)
Exchange differences on translating foreign operations	(368,511)		(368,511)
Comprehensive income (loss) for the period	(2,367,027)	40,646	(2,326,381)
Net loss per share			
Basic	(0.01)	0.00	(0.01)
Diluted	(0.01)	0.00	(0.01)
Weighted average number of common shares outstanding - basic	184,224,875	184,224,875	184,224,875
Weighted average number of common shares outstanding - diluted	184,224,875	184,224,875	184,224,875

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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 September 30, 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:

	September 30, 2019	September 30, 2018
United States	68%	30%
Australia	25%	32%
United Kingdom	3%	30%
Canada	3%	4%
Rest of world	1%	4%
	100%	100%

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

	September 30, 2019	December 31, 2018
Expected credit loss – beginning of period	\$ 769,930	551,421
Add: provision for expected credit loss	100,048	232,223
Less: Write-offs	-	(10,651)
Foreign exchange adjustments	14,987	(3,063)
Expected credit loss – end of period	\$ 884,933	\$ 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 September 30, 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 \$7,000 (2018 – \$4,000).

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 \$33,000 (2018– \$1,000) as at September 30, 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 \$4,000 (2018 – \$9,000) as at September 30, 2019.

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 \$162,870 for the nine months ended September 30, 2019 (2018 – foreign exchange gain of \$99,527).

**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.