VIQ

VIQ Solutions Inc.

Consolidated Financial Statements
December 31, 2016 and 2015

(Expressed in Canadian dollars)

Independent Auditors' Report

To the Shareholders of VIQ Solutions Inc.:

We have audited the accompanying consolidated financial statements of VIQ Solutions Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VIQ Solutions Inc. and its subsidiaries as at December 31, 2016, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of VIQ Solutions Inc. and its subsidiaries as at December 31, 2015 and for the year then ended, were audited by another auditor who expressed an unmodified opinion on those statements dated April 29, 2016.

MNP LLP

Toronto, Ontario
April 27, 2017

Chartered Professional Accountants
Licensed Public Accountants

VIQ Solutions Inc.
Consolidated Balance Sheets
(Expressed in Canadian dollars)

	December 31, 2016	December 31, 2015
Assets		(Note 16)
Current assets		
Cash	$ 2,590,516	$ 1,349,244
Trade and other receivables, net of allowance (note 4)	1,336,431	1,654,906
Note receivable (note 5)	–	138,796
Inventories	85,030	56,731
Prepaid expenses and deposits	153,833	102,398
	4,165,810	3,302,075
Non-current assets		
Restricted cash	52,370	53,967
Property and equipment (note 6)	194,909	285,762
Intangible assets (note 7)	941,389	482,507
Goodwill (note 8)	992,461	986,140
Deferred tax assets (note 21)	406,388	352,949
Total assets	$ 6,753,327	$ 5,463,400
Liabilities		
Current liabilities		
Trade and other payables	$ 974,261	$ 993,426
Share appreciation rights plan obligations (note 12)	685,981	194,763
Current portion of debt (note 9)	–	675,039
Provisions (note 10)	524,689	488,335
Unearned revenue	668,115	691,776
Current portion of obligations under finance lease (note 11)	20,505	82,840
	2,873,551	3,126,179
Non-current liabilities		
Long-term debt (note 9)	–	125,266
Deferred tax liability (note 21)	101,853	135,814
Provisions (note 10)	97,872	91,364
Obligations under finance lease (note 11)	16,198	10,828
Total liabilities	3,089,474	3,489,451
Shareholders' Equity		
Capital stock (note 12)	15,259,717	12,444,870
Contributed surplus	2,674,105	2,502,216
Accumulated other comprehensive income	94,867	132,071
Deficit	(14,364,836)	(13,105,208)
	3,663,853	1,973,949
Total liabilities and shareholders' equity	$ 6,753,327	$ 5,463,400

Approved by the Board

Signed "*George Kempff*"
George Kempff, Director

Signed "*Sebastien Paré*"
Sebastien Paré, CEO and Director

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

VIQ Solutions Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31 2016	2015
		(Note 16)
Revenue	**$ 11,427,310**	**$ 9,897,812**
Cost of sales	6,821,273	6,124,238
Gross profit	4,606,037	3,773,574
Expenses		
Selling and administrative expenses	4,890,640	3,937,268
Stock based compensation (note 13)	680,653	417,687
Research and development expenses	169,337	546,286
	5,740,630	4,901,241
Loss before undernoted items	(1,134,593)	(1,127,667)
Finance income (loss)		
Interest income (note 5)	4,926	7,568
Interest expense	(73,563)	(105,184)
Accretion on long-term debt	(5,038)	(10,133)
Other expense	(1,421)	–
Foreign exchange gain (loss)	(98,860)	160,624
Net finance gain (loss)	(173,956)	52,875
Net loss before income taxes	(1,308,549)	(1,074,792)
Income tax recovery (note 21)	48,921	39,832
Net loss for the year	$ (1,259,628)	$ (1,034,960)
Exchange differences on translating foreign operation	(37,204)	145,511
Comprehensive loss for the year	$ (1,296,832)	$ (889,449)
Net loss per share		
Basic and diluted (note 15)	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding – basic (note 15)	123,447,671	97,670,788
Weighted average number of common shares outstanding – diluted (note 15)	123,447,671	97,670,788

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

VIQ Solutions Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Capital stock Number	Capital stock Amount	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total Equity (Note 16)
Balance at January 1, 2015	90,957,000	$ 11,578,213	$ 1,905,772	$(12,070,248)	$ (13,440)	$ 1,400,297
Comprehensive income (loss) for the year	–	–	–	(1,034,960)	145,511	(889,449)
Options exercised (note 13)	50,000	3,766	–	–	–	3,766
Equity component of debt	–	–	32,713	–	–	32,713
Warrants exercised (note 13)	4,104,100	229,398	(24,193)	–	–	205,205
Private placement (note 13)	14,600,000	358,493	365,000	–	–	723,493
Acquisition share exchange	6,221,719	275,000	–	–	–	275,000
Stock-based compensation (note 13)	–	–	222,924	–	–	222,924
Balance at December 31, 2015	115,932,819	$ 12,444,870	$ 2,502,216	$(13,105,208)	$ 132,071	$ 1,973,949
Comprehensive loss for the year	–	–	–	(1,259,628)	(37,204)	(1,296,832)
Options exercised (note 13)	670,001	85,424	(30,335)	–	–	55,089
Warrants exercised (note 13)	11,723,788	879,285	(293,050)	–	–	586,235
Private placement, net of costs (note 13)	9,883,329	1,754,718	305,840	–	–	2,060,558
Debt conversion (note 13)	1,000,000	95,420	–	–	–	95,420
Stock-based compensation (note 13)	–	–	189,434	–	–	189,434
Balance at December 31, 2016	139,209,937	$ 15,259,717	$ 2,674,105	$(14,364,836)	$ 94,867	$ 3,663,853

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

VIQ Solutions Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31 2016	2015
Cash provided by (used in):		(Note 16)
Operating activities		
Net loss for the year from operations	$ (1,259,628)	$ (1,034,960)
Items not affecting cash:		
Depreciation and amortization	311,297	210,666
Stock-based compensation (note 13)	680,653	417,687
Gain on disposal of property and equipment	–	(16,823)
Provisions	6,508	5,179
Interest accretion on bridge loan	5,038	10,133
Amortization of deferred lease incentive	–	(9,041)
Deferred income tax benefit	(87,400)	11,191
Unrealized foreign exchange loss (gain)	7,197	(14,244)
Changes in non-cash operating working capital (note 17)	227,602	(612,339)
Cash used in operating activities	(108,733)	(1,032,551)
Investing activities		
Business acquisition	–	(300,000)
Cash acquired on business acquisition (note 16)	–	275,698
Purchase of property and equipment, net	(91,937)	(60,218)
Purchase of intangibles	(587,388)	–
Change in restricted cash	1,597	61,951
Cash used in investing activities	(677,728)	(22,569)
Financing activities		
Private placement, net of costs	2,060,558	723,493
Warrants exercised	586,189	205,205
Options exercised	54,967	3,766
Repayment of short-term debt	(695,767)	(350,000)
Advances of short-term debt	–	150,000
Repayment of long-term debt	–	(84,046)
Advances of long-term debt	–	405,205
Receipt of notes receivable	138,796	–
Payments of finance lease	(56,965)	(100,868)
Proceeds from sale of subsidiary	–	911,178
Cash provided by financing activities	2,087,778	1,863,933
Net increase in cash during the year	1,301,317	808,813
Cash, beginning of year	1,349,244	446,950
Effect of exchange rate changes on cash	(60,045)	93,481
Cash, end of year	$ 2,590,516	$ 1,349,244

Supplemental disclosure (note 17)

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

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian 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 January 9, 2015, the Company disposed of the Company's Ottawa-based transcription and reporting business, International Reporting. On September 16, 2015, the Company completed the acquisition of Dataworxs Systems Limited ("Dataworxs"). Dataworxs is an international technology provider of digital audio dictation, document management and speech-to-text software solutions.

VIQ was incorporated by articles of incorporation in the province of Alberta in November 2004 and its registered office is Bankers Hall, 888 3rd St. S.W, Suite 1031, Calgary, Alberta, Canada, T2P 5C5. The Company's sales and development offices are located at 302 – 100 Allstate Parkway, Markham, Ontario, L3R 6H3. VIQ is a public company listed on the TSX Venture Exchange trading under the symbol "VQS".

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee applicable to the preparation of consolidated financial statements.

The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The policies applied in these consolidated financial statements are based on IFRS policies effective as at December 31, 2016. The audited consolidated financial statements were approved by the Board of Directors on April 27, 2017.

3. Significant Accounting Policies, Estimates and Judgments

(i) Significant accounting policies

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 Canadian dollars.

Basis of consolidation
The consolidated financial statements of the Company include the accounts of VIQ and the consolidated accounts of all of its wholly-owned continuing and discontinuing subsidiaries including (i) the operations of International Reporting Inc. ("International Reporting") up to the date of disposal on January 9, 2015; (ii) the operations of VIQ Solutions, Inc. (formerly VIQ Solutions (U.S.) Inc.); (iii) the operations of Dataworxs Systems Limited and Dataworxs Systems Limited's wholly-owned subsidiary Dataworxs Australia Pty Ltd. (collectively, "Dataworxs") (iii) the operations of VIQ Australia Pty. Limited and VIQ Australia Pty. Limited's wholly-owned subsidiaries Spark & Cannon Australasia Pty. Ltd. and Spark & Cannon Pty. Ltd. (collectively, "Spark & Cannon"). All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Subsidiaries include all entities controlled by the Company. Control exists when the Company has the power to directly or indirectly govern the financial and operating policies.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

Inventories
Inventories of finished goods and raw materials and supplies are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost is determined on a weighted average basis. Reversals of previous write-downs to net realizable value are recognized when there is a subsequent increase in the value of inventories.

Restricted cash
The Company placed funds into term deposits to be held as security for rental properties leased by Spark & Cannon. Restricted cash is recorded at fair value. Changes to fair value are recorded in the consolidated statements of loss and comprehensive loss in the period incurred. The funds remain as restricted cash for the term of the various leases and are classified as current or non-current assets depending on the term of the lease.

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Rates and basis of depreciation applied to write off the cost of property and equipment to their residual values over their estimated useful lives are as follows:

Furniture and Fixtures	8% – 20% declining balance
Computer and Transcription Equipment	20% – 50% declining balance, 33% – 50% straight line

An asset's residual value, useful life and depreciation method are reviewed, and adjusted prospectively if appropriate, on an annual basis. Repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the period which they are incurred. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of selling and administrative expenses in the consolidated statements of loss and comprehensive loss.

Intangible assets
Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 5 years for customer lists. Amortization expense is included as part of selling and administrative expenses in the consolidated statements of loss and comprehensive loss.

The estimated useful life and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis. These assets are subject to impairment testing as described below.

Research and development costs
The Company incurs costs associated with the design and development of new products. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred. Costs associated with maintaining computer software programs are recognized as an expense as incurred. Internally generated software development costs recognized as intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 3 years after they are completed. These assets are subject to impairment testing as described below.

Business combinations
IFRS 3, Business Combinations, requires business combinations to be accounted using the acquisition method. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation based on the facts and circumstances at the acquisition date.

Acquisition costs incurred are expensed and included in selling and administrative expenses.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (ii) fair value of the net identifiable assets acquired is recorded as goodwill.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of loss and comprehensive loss.

An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Determining whether goodwill is impaired requires an estimation of the higher of fair value less costs of disposal and value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Convertible note
The convertible note can be converted to capital stock at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of the convertible note is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component.

The liability component accretes up to the principal balance at maturity with the accretion expense included in the consolidated statements of comprehensive income and loss. The equity component is not re-measured subsequent to initial recognition. The equity component recorded in contributed surplus will be reclassified to capital stock on conversions. The equity portion is recognized net of deferred income taxes.

Leases
Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between interest expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an operating expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Additionally, the Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

The liability for employee long service leave benefits which is not expected to be settled within 12 months of the reporting date is recognized as a provision based on the probability that the employee will stay until they are legally entitled to the benefit. The liability payable later than one year has been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of the cash flows. The liability is carried as a current liability if the staff is entitled to the long service leave in the next financial year.

Capital stock
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The proceeds from the issuance of shares is bifurcated between capital stock and warrants, with the value of the warrants determined using the Black-Scholes option pricing model.

Foreign currency translation
Items included in these financial statements of each consolidated entity in the Company's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The financial statements of entities that have a functional currency different from that of the parent, being the Australian subsidiaries ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the balance sheet, and income and expenses at the average rate of the period as this is considered a reasonable approximation to actual rates. All resulting changes are recognized in other comprehensive income (loss) as translation adjustments.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of loss and comprehensive loss.

With regard to Canadian legal entities, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates of exchange, except for the cost of inventories and for depreciation, which are translated at rates prevailing when the related assets were acquired. Translation gains and losses are included in the consolidated statements of loss and comprehensive loss.

The Company has monetary items that are receivable from foreign operations. A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the parent company's net investment in that foreign operation. Such exchange differences are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in foreign operations.

Financial instruments
Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company classifies its financial instruments, depending on the purpose for which the instruments were acquired, as follows:

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

(a) Cash and restricted cash are designated as fair value through profit or loss which is measured at fair value, with changes in fair value being recorded in net earnings at each period end.

(b) Trade and other receivables and note receivable are initially recognized at the amount expected to be received less, when material, a discount to reduce receivables to fair value. Subsequently, trade and other receivables and note receivable are measured at amortized cost using the effective interest method, which generally corresponds to cost.

(c) Trade and other payables, debt and obligations under finance lease are initially recognized at the amount expected to be paid less, when material, a discount to reduce payables to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method, which generally corresponds to cost.

(d) Share appreciation rights are designated as fair value through profit and loss which is measured at fair value, with changes in fair value being recorded in net earnings at each period end.

Financial instruments with separate components

Unit issuances comprising of one common share and one half warrant share are segregated between the capital stock and warrant value components at the date of issue. The fair value of the capital stock component is calculated using the share price at the date of the issuance. The fair value of the warrants is calculated using the Black Scholes pricing model. Amounts allocated to each component are allocated using the relative fair value basis.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss on the financial asset which is carried at amortized cost. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment of property and equipment, definite life intangibles and goodwill
Property and equipment and definite life intangibles are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable value is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. As at January 1, 2015, the Company had three CGUs with goodwill, which were the Spark & Cannon, Dataworxs, and International Reporting businesses. The Spark & Cannon and International Reporting businesses are involved in recording and transcription services. Dataworxs is a digital media technology platform including audio capture and speech processing capabilities. The recoverable amount of the International Reporting CGU was estimated based on its fair value less cost to sell in 2014 and was sold on January 9, 2015.

As at December 31, 2016, the goodwill recorded in the Company's consolidated financial statements relates to the Spark & Cannon and Dataworxs reporting units, as the International Reporting business unit was sold on January 9, 2015.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows for the Spark & Cannon and Dataworxs CGUs. If the carrying amount of the CGU exceeds its recoverable amount, the recoverable amount of the CGU is compared with its carrying amount to measure the amount of any impairment loss. Any impairment loss is expensed in the consolidated statements of loss and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying value of goodwill allocated to the units and then to reduce the carrying amounts of other assets of the unit on a pro rata basis.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Revenue recognition

The Company recognizes revenue at the time persuasive evidence of an agreement exists, price is fixed and determinable, the delivery has occurred and collectability is reasonably assured. Revenue is measured based on the price specified in the sales contract, net of discounts. Revenue from the sale of products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. Revenues from installation and training relating to the sale of software products are recognized as the services are performed. Software support and maintenance revenue is recognized over the term of the maintenance agreement. Revenues from recording and transcription services and information support are recognized as services are provided. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as unearned revenue.

The Company also enters into transactions that represent multiple-element arrangements, which may include any combination of software, equipment and services. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine if they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis, as determined by reliable objective evidence of fair value. Objective evidence of fair value is based on the price charged when the elements are sold separately, which is in accordance with the Company's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Cost of sales

Cost of sales for the computer products and services business segment includes the cost of finished goods inventory, costs related to shipping and handling and expenses relating to software support services. Cost of sales for the transcription business segments includes production wages and other associated costs.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in the consolidated statements of loss and comprehensive loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and is reviewed at the end of each reporting period.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognized.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

Net loss per common share
Basic net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company.

Research and development credits
Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the consolidated statements of loss and comprehensive loss as a reduction of expenses. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

Stock-based compensation
The Company has a stock option plan (note 12) for directors, officers and employees, a deferred share unit ("DSU") plan (note 12) for directors and a share appreciation rights ("SAR") plan (note 12) for directors, officers, employees, and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Other than the DSU grants, the fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model (note 13). Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus, and share appreciation rights plan obligations. Forfeitures are estimated at the grant date and are revised to reflect charges in actual forfeitures. The number of awards expected to vest is reviewed quarterly, with any impact being recognized immediately. When options are exercised the amount received is credited to capital stock and the fair value attributed to these options is transferred from contributed surplus to capital stock. As the SAR is a cash-settled plan, the fair value is recognized as a liability in the consolidated balance sheet and is re-measured each period using the Black-Scholes options pricing model and charged to profit and loss at each reporting date until the award is settled.

The holder of the DSU will only be able to redeem the DSUs in shares upon cessation of their service with the Company, therefore, the Company records DSUs as equity. Grants of DSUs are recorded at fair value in selling and administration expense at the time of grant. The quoted market price of the underlying shares on the grant date is considered to be equivalent to fair value for the DSUs. The charge to equity for DSUs is not updated to fair value at each subsequent reporting period. Upon settlement, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings (deficit).

Comprehensive loss
Comprehensive loss consists of net loss and other comprehensive income (loss). Other comprehensive income (loss) represents changes in shareholders' equity and includes foreign exchange gains and losses on the translation of the financial statements of the Company's foreign operations into its presentation currency and is presented as accumulated other comprehensive income (loss). The Company's net loss per share presented on the consolidated statements of loss and comprehensive loss is based upon its net loss and not its comprehensive loss.

Non-current assets held for sale and disposal groups
Non-current assets and disposal groups are classified as held for sale when they are available for immediate sale, management is committed to a plan to sell, it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn, an active program to locate a buyer has been initiated, the asset or disposal group is being marketed at a reasonable price in relation to its fair value and a sale is expected to be completed within twelve months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy and fair value less costs of disposal.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statements of loss and comprehensive loss (including the comparative period) as a single line which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the re-measurement to fair value less costs of disposal or on disposal of the assets/disposal groups constituting discontinued operations.

(ii) Critical accounting estimates and judgments

Overview
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the 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, revenue recognition, the fair value of stock based compensation and warrants, fair value of the purchase price allocation, the provision for long-term service leave and other employee benefits and the determination of functional currency.

These estimates have been applied in a manner consistent with that in prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain.

Stock based compensation
Management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering the Company's historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.

Warrants
Similar to other stock based compensation, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering the Company's historic share price volatility over similar periods to the expected life of the warrants. Changes in these assumptions will impact the calculation of fair value and the amount attributed to the warrants.

Internally generated development costs
Management monitors the progress of internal research and development projects and uses judgment to distinguish research from the development phase. Expenditures during the research phase are expensed as incurred. Development costs are recognized as an intangible asset when the Company can demonstrate certain criteria.

Goodwill
The Company performed tests for impairment of goodwill at December 31, 2016 and December 31, 2015. The goodwill recorded in the consolidated financial statements related to two CGUs being the Spark & Cannon and Dataworxs businesses.

The breakdown of goodwill between the CGUs are as follows:

	2016	2015 (Note 16)
Spark & Cannon, net of foreign exchange	$ 850,553	$ 844,232
Dataworxs (note 8)	141,908	141,908
	$ 992,461	$ 986,140

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

The recoverable amount of the Spark & Cannon and Dataworxs CGUs was estimated based on an assessment of their value in use using a discounted cash flow approach. The approach uses cash flow projections based upon a financial forecast approved by management and the Board of Directors, covering a five year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rate. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events.

The Company has made certain assumptions in determining the cash flow projections based on budgets approved by management and include management's best estimate of expected market conditions. The cash flow projections include certain key assumptions regarding expected gross margins, current income tax rates and the purchase of property and equipment (sustaining capital expenditures). Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future valuations of goodwill and the Company would be required to recognize an impairment loss.

The following are key assumptions on which management based its determinations of the recoverable amount for goodwill based on the Spark & Cannon CGU's value in use:

Spark & Cannon Assumptions	**2016**
Gross Margin	30.0%
Sustaining capital expenditures	$30,000
Pre-tax discount rate	24.8%

The following are key assumptions on which management based its determinations of the recoverable amount for goodwill based on the Dataworxs CGU's value in use:

Dataworxs Assumptions	**2016**
Gross Margin	57.0%
Sustaining capital expenditures	$25,000
Pre-tax discount rate	24.8%

The Company determined the gross margin and sustaining capital expenditures based on past performance and its expectations for market development. The pre-tax discount rates used reflect specific risks in relation to the CGU.

Purchase price allocation
In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. All acquisitions have been accounted for using the acquisition method.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Provisions
The Company has made certain assumptions in order to estimate the provision for statutory long-term service leave for employees of the Company. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation and the expected timing of the expenditure at the end of the reporting period and are discounted to present value where the effect is material.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

3. Significant Accounting Policies, Estimates and Judgments (continued)

Revenue recognition
As the Company enters into transactions that represent multiple-element arrangements, estimates are made to determine how consideration is allocated to the separate units of accounting or elements on a relative fair value basis. Changes in the estimates will impact the revenue recognized in the period.

Functional currency
A substantial portion of the Company's revenue is in currencies other than the Canadian dollar whereas expenses are predominately in Canadian dollars. Secondary indicators of functional currency including financing are primarily in Canadian dollars. As the indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company.

(iii) Accounting standards and amendments issued but not yet applied

The International Accounting Standards Board ("IASB") has issued the following accounting standards which have not yet been adopted by the Company:

(a) IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued this standard which replaces IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, and allows earlier adoption. The standard introduces a new model for the classification and measurement of financial assets, a single expected credit loss model for the measurement of the impairment of financial assets, and a new model for hedge accounting that is aligned with a company's risk management activities. The Company does not intend to adopt this standard early and is currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued this standard which provides a single, principles-base five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(c) IFRS 16 – Leases ("IFRS 16")

In January 2016, the IASB issued this standard, which brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases and requires all leases, including operating and financing to be reported on a company's balance sheet. IFRS 16 supersedes IAS 17, Leases, and related interpretations and is effective for periods beginning on or after January 1, 2019, which earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers, has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the anticipated impact on adopting this standard on the consolidated financial statements.

4. Trade and Other Receivables

	2016	2015
Trade accounts receivable	$ 1,395,336	$ 1,719,552
Less: Allowance for doubtful accounts	(58,905)	(64,646)
	$ 1,336,431	$ 1,654,906

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

5. Note Receivable

On January 9, 2015, the Company sold all of the issued and outstanding shares of International Reporting, one of the Company's transcription and reporting services subsidiaries, to Mr. Barry Prouse, the President of International Reporting (the "Transaction"). The Company received approximately $1.12 million in proceeds from the Transaction, in the form of $580,000 in cash consideration for the sale of the shares and the satisfaction by International Reporting of all intercompany payables in the amount of $540,000, through the payment of $200,000 cash and the issuance of a $70,000 unsecured promissory note which was repaid in the current year, and a $270,000 secured, interest-bearing at 5.5% per annum, subordinated promissory note repayable on a monthly basis until December 15, 2016. As at December 31, 2016, the outstanding balance was paid in full (December 31, 2015 – $138,796). For the year ended December 31, 2016, the Company recognized interest income of $4,926 (2015 – $7,568).

6. Property and Equipment

Details of the Company's property and equipment as of December 31, 2016 and December 31, 2015 are listed as follows:

	Cost	Accumulated Depreciation	Net Book Value Dec. 31, 2016
Furniture and fixtures	$ 379,769	$ 290,274	$ 89,495
Computer and transcription equipment	1,717,393	1,611,979	105,414
	$ 2,097,162	$ 1,902,253	$ 194,909

	Cost	Accumulated Depreciation	Net Book Value Dec. 31, 2015
Furniture and fixtures	$ 363,290	$ 283,588	$ 79,702
Computer and transcription equipment	1,641,935	1,435,875	206,060
	$ 2,005,225	$ 1,719,463	$ 285,762

7. Intangible Assets

Details of the Company's intangible assets as of December 31, 2016 and December 31, 2015 are listed as follows:

	Cost	Accumulated Amortization	Net Book Value Dec. 31, 2016
Acquired Customer list	$ 512,507	$ 128,126	$ 384,381
Internally generated intangible asset	587,389	30,381	557,008
	$ 1,099,896	$ 158,507	$ 941,389

	Cost	Accumulated Amortization	Net Book Value Dec. 31, 2015
Acquired Customer list	$ 512,507	$ 30,000	$ 482,507
	$ 512,507	$ 30,000	$ 482,507

8. Goodwill

	2016	2015 (Note 16)
Opening balance	$ 986,140	$ 793,661
Acquisition of Dataworxs (note 16)	-	141,908
Foreign currency adjustment	6,321	50,571
Goodwill	$ 992,461	$ 986,140

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

8. Goodwill (continued)

The goodwill recorded in the consolidated financial statements relates to Spark & Cannon, the Company's transcription reporting unit, and Dataworxs, a digital media technology software platform. The Company tests, at least annually, whether goodwill suffered any impairment in accordance with the accounting policy in note 3 to these consolidated financial statements. The Company performed its annual impairment tests in 2016 and 2015 and determined that there were no impairment charges necessary for the respective years. The Company chose the discounted cash flow approach as the primary valuation approach to determine the value of the Spark & Cannon and Dataworxs CGUs. The estimated recoverable amount of the CGUs was based on the Company's forecast and on the best information available as at the measurement date.

9. Debt

	December 31, 2016	December 31, 2015
Secured bridge loan with a face value of $500,000 bearing interest at a rate of 13% per annum, payable at maturity. The loan is repayable in May 2016. The loan is secured by a general security agreement covering all assets of the Company. Effective May 1, 2016, the Company repaid $250,000 of the face value and extended the maturity date to May 1, 2017. The Company repaid the remaining amounts in December 2016.	$ –	$ 500,000
Unsecured term loan with a face value of $205,205 bearing interest at a rate of 10.5% per annum maturing in December 2016. In connection with the term loan, 4,104,100 warrants were issued to the lender with an exercise price of $0.05 per share until December 4, 2016, repayable in blended monthly payments of $12,371. During the year ended December 31, 2016, the Company repaid the balance of the promissory note. (i)	–	130,058
Secured, subordinate (to the secured bridge loan above) term loan with a face value of $100,000 bearing interest at a rate of 10% per annum maturing in September 2017, repayable in 4 blended payments of $28,835 commencing December 2015. The Company repaid the balance of the secured term loan during the year ended December 31, 2016.	–	76,871
Unsecured convertible note with a face value of $100,000 bearing interest at a rate of 10.5% per annum maturing in September 2017. The principal amount of the note is convertible, at the option of the holder, into common shares at a conversion price of $0.10 per share. (ii) (iii)	–	93,376
	–	800,305
Less current portion	–	675,039
	$ –	$ 125,266

(i) A value of $24,193 was attributed to the 4,104,100 warrants and has been included in contributed surplus. The difference between the face value and ascribed value of the debt, being the carrying value of the warrants, is being accreted over the one and a half year life of the loan using an effective interest rate of 27.53%. The warrants have an exercise price of $0.05, expiring on December 4, 2016. The fair value of the warrants granted on September 15, 2015 was estimated at the date of grant as the difference between the fair value of the debt and the face value of the loan. The fair value of the debt was determined based on a market annual interest rate of 15%.

(ii) A value of $8,520 was attributed to the convertibility option and has been included in contributed surplus. The difference between the face value and ascribed value of the debt, being the value of the convertibility option, is being accreted over the two year life of the loan using an effective interest rate of 15.47%. The fair value of the debt was determined based on a market annual interest rate of 15%.

(iii) The unsecured convertible note was converted by the holder at a conversion price of $0.10 per share during the year ended December 31, 2016.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

10. Provisions

The Company's provisions relate to statutory benefits including annual and long-term service leaves for employees of Spark and Cannon. A summary of the provisions is as follows:

	Long-term service leave	Other provisions	Total provisions
Balance at December 31, 2015	$ 330,286	$ 249,413	$ 579,699
Additional provisions	103,050	270,507	373,557
Utilized during the year	(84,732)	(223,794)	(308,526)
Unused amounts reversed	(5,542)	–	(5,542)
Foreign currency adjustments	(12,317)	(4,310)	(16,627)
Balance at December 31, 2016	330,745	291,816	622,561
Less: current portion	(232,873)	(291,816)	(524,689)
	$ 97,872	$ –	$ 97,872

	Long-term service leave	Other provisions	Total provisions
Balance at December 31, 2014	$ 342,221	$ 245,520	$ 587,741
Additional provisions	44,972	270,077	315,049
Utilized during the year	(96,608)	(281,829)	(378,437)
Unused amounts reversed	17,893	–	17,893
Foreign currency adjustments	21,808	15,645	37,453
Balance at December 31, 2015	330,286	249,413	579,699
Less: current portion	(238,922)	(249,413)	(488,335)
	$ 91,364	$ –	$ 91,364

Long-term service leave represents Australian statutory leave payable to those employees reaching the nominated service date as required by state law. Long-term service leave accrues from the date the employee commences employment. The accrual is based on the expected weeks of leave payable for each employee and the entitlement calculation as provided within the various state Acts. A probability factor is applied to the accrual for each employee based on the probability the employee will reach the entitlement. The long-term service leave provision also includes a provision for superannuation (pension) and payroll tax, both payable when the leave is taken. Other provisions include annual leave and time off in lieu.

The provisions have been classified as short and long-term based on the Company's best estimate of when the benefits will be paid. Annual leave is classified as current in the consolidated financial statements. The provision for long-term service leave is classified as current if the employee has reached the required service in accordance with the applicable state Act and is eligible for the leave. If the employee has not reached the entitlement date, the leave provision is classified as non-current.

11. Obligations under Finance Leases

The Company has finance lease obligations until 2019. The monthly lease payments consist of principal repayment and interest and the weighted average imputed interest rate is 8.3%. The minimum payments under all agreements are as follows:

2017	$ 22,394
2018	14,362
2019	2,489
	39,245
Less: imputed interest	(2,542)
	36,703
Less: current portion	(20,505)
	$ 16,198

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

12. Capital Stock

The Company's authorized capital consists of an unlimited number of common shares with no par value.

In 2015, the Company issued 4,104,100 warrants as part of the agreement on the unsecured term loan. Each whole warrant entitled the holder to purchase one Common Share of the Company at a price of $0.05 per share for a period of approximately one and a half years. As at December 31, 2015, all of these warrants were exercised for proceeds of $205,205. The fair value assigned to the warrants of $24,193 was reclassified to capital stock from contributed surplus. The weighted average price on the date of exercise was $0.08.

On September 16, 2015, the Company completed a private placement in order to fund the Dataworxs acquisition and to fund growth initiatives. The raise totalled $723,493 (net of fees of $6,507) for 14,600,000 common share plus one warrant per common share. The exercise prices for the warrants are $0.05 up to the one year anniversary date, increasing to $0.07 after the one year anniversary date. The warrants expire in two years. The warrants attached to the common shares were valued at $365,000. For the year ended December 31, 2016, 11,723,788 of these warrants were exercised. The fair value assigned to the warrants of $293,050 was reclassified to capital stock from contributed surplus. The weighted average price on the date of exercise was $0.14.

On December 15, 2016, the Company completed a private placement in order to extinguish high interest rate debt and to fund future growth initiatives over the next 18 months. The raise totalled $2,060,558 (net of fees of $14,932) for 9,883,329 common shares plus one half warrant per common share. The exercise price for the warrants is $0.26. The warrants expire on June 21, 2018. The warrants attached to the common shares were valued at $305,840. For the year ended December 31, 2016, none of these warrants were exercised.

As at December 31, 2016, there were 7,817,870 warrants outstanding (December 31, 2015 – 14,600,000).

The fair value of the warrants granted during the year was calculated using the following assumptions:

	2016	**2015**
Risk free interest rate (%)	0.55	0.52
Expected volatility (%)	86%	102%
Expected life (in years)	1.5	2
Expected dividends	Nil	Nil
Weighted average share price	$0.21	$0.05 - $0.07

Also on September 16, 2015, as part of the Dataworxs acquisition consideration, the Company issued 6,221,719 common shares valued at $275,000.

As at December 31, 2016, common shares of the Company were reserved as follows:

	Exercise Price	Expiry Dates	Number
Options	$0.25	Jan 2017 – Dec 2017	220,000
	$0.10	Jan 2018 – Dec 2018	280,500
	$0.05 – $0.07	Jan 2019 – Dec 2019	887,196
	$0.06 – $0.065	Jan 2020 – Dec 2020	5,516,666
	$0.105 – $0.21	Jan 2021 – Dec 2021	2,616,666
			9,521,028
Deferred Share Units	$0.06	N/A	1,999,998
Warrants	$0.07	Sep 2017	2,876,212
	$0.21	Jun 2018	4,941,658
			7,817,870
Total			19,338,896

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

12. Capital Stock (continued)

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 December 31, 2016, the Company had 5,721,029 options (December 31, 2015 – 3,823,186) that had vested with a weighted average exercise price of $0.08 per share (December 31, 2015 – $0.13). During the year ended December 31, 2016, the Company granted 2,850,000 stock options to directors, officers, employees, and contractors (2015 – 5,750,000).

The following information applies to stock options outstanding and exercisable at December 31, 2016:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.25	220,000	0.1 years	$0.25	220,000	$0.25
$0.10	280,500	1.1 years	$0.10	280,500	$0.10
$0.05 – $0.07	887,196	2.5 years	$0.06	887,196	$0.06
$0.06 – $0.065	5,516,666	3.7 years	$0.06	3,616,663	$0.06
$0.105 – $0.21	2,616,666	4.5 years	$0.13	716,670	$0.13
	9,521,028	3.6 years	$0.08	5,721,029	$0.08

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 in order 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 these plans in aggregate as at December 31, 2016 were 13,920,994 (December 31, 2015 – 11,593,282) of which 9,521,028 (December 31, 2015 – 8,020,029) were outstanding stock options and 1,999,998 (December 31, 2015 – 1,800,000) were outstanding DSUs for a total of 11,521,026 (December 31, 2015 – 9,820,029).

During the year ended December 31, 2016, The Company granted 199,998 DSUs to Directors of the Company (December 31, 2015 – 1,800,000).

Share Appreciation Rights Plan
Also 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

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

12. 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. During the year ended December 31, 2016, the Company granted 76,500 SAR units to Service Providers (2015 – 4,451,000). The total number of SAR units which have vested as at December 31, 2016 is 2,982,833 (December 31, 2015 – 1,483,668).

At any time on or after that 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.

13. Stock-based Compensation

The total compensation expense relating to the value assigned to the stock options, DSUs, SARs granted to directors, officers, employees, and contractors for the year ended December 31, 2016 was $680,653 (2015 – $417,687), with a corresponding charge to contributed surplus ($167,435 stock options, net of forfeits; $22,000 DSUs) and change in accrued liabilities ($491,218 SARs). The Company granted 2,850,000 options during the year ended December 31, 2016 (2015 – 5,750,000); 199,998 DSUs (2015 – 1,800,000); 76,500 SARs (2015 – 4,451,000). The weighted average fair value of the options granted during the year ended December 31, 2016 was $0.08 per option (2015 – $0.04), $0.105 per DSU (2015 – $0.06), and $0.12 (2015 – $0.04) per SAR unit at the grant date, $0.17 per SAR unit at the December 31, 2016 revaluation date (December 31, 2015 – $0.11).

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 for the past three years. 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:

	2016	2015
Risk free interest rate (%)	0.53	0.49
Expected volatility (%)	104%	102%
Expected life (in years)	3	3
Expected dividends	Nil	Nil
Weighted average share price	$0.13	$0.06
Forfeiture rate (%)	nil	nil

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

	Dec 31, 2016 Revaluation Date	Dec 31, 2015 Revaluation Date
Risk free interest rate (%)	0.55	0.49
Expected volatility (%)	93.41%	100%
Expected life (in years)	1.9	2.5
Expected dividends	Nil	Nil
Weighted average share price	$0.22	$0.14
Forfeiture rate (%)	nil	nil

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

14. Commitments and Contingencies

The Company and its subsidiaries have entered into agreements to lease office premises until 2019. The annual rent expenses for premises consist of minimum rent plus realty taxes, insurance and common area maintenance costs. The minimum payments under all agreements are as follows:

2017	$	524,016
2018		212,729
2019		125,136
	$	861,881

From time to time, the Company may be exposed to claims and legal actions in the normal course of business. Litigation is subject to many uncertainties, and the outcome of these matters is not predictable with assurance. The Company, with the help of legal counsel, continues to defend these claims and believes that the likelihood of having to pay these claims is remote and unlikely.

15. Net Loss per Share

	2016	**2015** (Note 16)
Numerator for basic and diluted loss per share:		
Net loss for the year	$(1,259,628)	$(1,034,960)
Net loss for the year	$(1,259,628)	$(1,034,960)
Denominator for basic loss per share:		
Weighted average number of common shares outstanding	123,447,671	97,670,788
Effect of potential dilutive securities	–	–
Adjusted denominator for diluted loss per share	123,447,671	97,670,788
Basic and diluted net loss per share	$ (0.01)	$ (0.01)

Excluded from the calculation of diluted net loss per share for the year ended December 31, 2016 were 9,521,028 (2015 – 8,020,029) stock options with a weighted average exercise price of $0.08 per share (2015 – $0.09), 1,999,998 DSUs (2015 – 1,800,000), and 7,817,870 warrants (2015 – 14,600,000).

16. Acquisition

On September 16, 2015, the Company completed the acquisition of Dataworxs, a leading international technology provider of digital audio dictation, document management and speech-to-text software solutions. The primary driver was that Dataworxs is an ideal and synergistic acquisition for the Company and a crucial link to accelerate growth plans and market diversification.

Consideration paid to acquire Dataworxs included the issuance of 6,221,719 common shares of VIQ valued at $0.0442 per common share, and a $300,000 cash payment to the sole shareholder of Dataworxs. The aggregate value of the shares issued on September 16, 2015 amounted to $275,000.

The acquisition was determined to be a business combination and was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective September 16, 2015. Total acquisition related costs incurred by VIQ was $92,344 which has been included in selling and administration expense.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

16. Acquisition (continued)

Total consideration for the acquisition and the finalized purchase price allocation is as follows:

Consideration		
Shares issued	$	275,000
Cash		300,000
Total Consideration	**$**	**575,000**
Identifiable assets acquired and liabilities assumed		
Cash		275,698
Trade and other receivables		223,169
Inventory and other assets		23,439
Deferred income taxes		32,451
Trade and other payables		(186,402)
Deferred revenue		(311,956)
Intangible asset – customer list		512,507
Deferred tax liability		(135,814)
Goodwill		141,908
Total	**$**	**575,000**

The accounting for the Dataworxs acquisition was incomplete as at December 31, 2015 as disclosed in the prior year consolidated financial statements. During the year ended December 31, 2016, the Company completed the accounting for the acquisition within the measurement period. The Company has retrospectively adjusted the provisional goodwill amount and recognized a definite life intangible asset which is being amortized on a straight-line basis over 5 years. Comparative information from prior periods has been recasted to include changes to amortization in accordance with IFRS 3 – Business Combinations.

	2015 (As previously reported)	**2015 (recasted)**
Goodwill - consolidated	$1,362,833	$ 986,140
Intangible Asset – customer list	-	512,507
Deferred tax liability	-	(135,814)
Amortization for the year ended December 31, 2015	-	30,000
Net loss for the year ended December 31, 2015	1,004,960	1,034,960
Comprehensive loss for the year ended December 31, 2015	$ 859,449	$ 889,449

The goodwill recognized primarily reflects the potential incremental cash flows management expects to generate through efficiencies obtain through combined operation and growth in sales to existing and new customers through cross selling opportunities. The goodwill is not tax deductible.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

17. Supplemental Cash Flow Information

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

	2016	2015
Trade and other receivables	$ 288,838	$(454,398)
Inventories	(30,407)	(35,110)
Prepaid expenses	(53,189)	(35,494)
Trade and other payables	4,486	(267,061)
Provisions	35,824	(13,222)
Unearned revenue and taxes	(17,950)	192,946
Total	$ 227,602	$(612,339)

Other supplemental cash flow information is as follows:

	2016	2015
Cash received for interest	$ 3,663	$ 7,568
Cash paid for interest	81,009	88,378

18. Segmented Financial Information

The Company operates within two business segments: the computer products and services 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 software products. Accordingly, segmented information on revenue and associated costs is only provided for the full line of software solutions currently offered by the Company.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

18. Segmented Financial Information (continued)

Financial information by reportable business segment for the years period ended December 31, 2016 and December 31, 2015 is as follows:

	Year ended December 31, 2016			
	Computer Products & Services	Transcription Services	Corporate	Total
Consolidated Loss and Comprehensive Loss				
Revenue from external customers	$ 3,419,050	$ 8,008,260	$ –	$ 11,427,310
Gross profit	2,738,324	1,867,713	–	4,606,037
Selling and administrative expenses	1,679,586	1,853,786	1,357,268	4,890,640
Stock based compensation expense	–	–	680,653	680,653
Research and development expenses	169,337	–	–	169,337
Foreign exchange loss	98,860	–	–	98,860
Interest income	(1,189)	(3,737)	–	(4,926)
Interest expense	70,814	7,787	–	78,601
Other expense	–	1,421		1,421
Income taxes recoverable (expense)	(56,107)	7,186	–	(48,921)
Segment income (loss)	777,023	1,270	(2,037,921)	(1,259,628)
Consolidated Balance Sheet				
Total segment assets	$ 5,099,148	$ 1,654,179	$ –	$ 6,753,327
Total segment current liabilities	1,784,367	1,089,184	–	2,873,551
Total segment non-current liabilities	101,853	114,070	–	215,923
Other Items				
Depreciation of property and equipment	$ 30,803	$ 151,987	$ –	$ 182,790
Amortization of intangible assets	128,507	–	–	128,507

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

18. Segmented Financial Information (continued)

	Year ended December 31, 2015			
	Computer Products & Services	**Transcription Services**	**Corporate**	**Total (Note 16)**
Consolidated Loss and Comprehensive Loss				
Revenue from external customers	$2,603,243	$7,294,569	$ –	$ 9,897,812
Gross profit	1,915,066	1,858,508	–	3,773,574
Selling and administrative expenses	785,079	2,072,764	1,079,425	3,937,628
Stock based compensation expense	–	–	417,687	417,687
Research and development expenses	546,286	–	–	546,286
Foreign exchange (gain) loss	(160,624)	–	–	(160,624)
Interest income	468	7,100	–	7,568
Interest expense	102,603	12,714	–	115,317
Income taxes recoverable	7,135	32,697	–	39,832
Segment income (loss)	649,325	(187,173)	(1,497,112)	(1,034,960)
Consolidated Balance Sheet				
Total segment assets	$2,911,100	$2,552,300	$ –	$ 5,463,400
Total segment current liabilities	1,238,759	1,212,381	675,039	3,126,179
Total segment non-current liabilities	345,797	(107,791)	125,266	363,272
Other Items				
Depreciation of property and equipment	$ 20,389	$160,277	$ –	$ 180,666
Amortization of intangible assets	$ 30,000	$ –	$ –	$ 30,000

Revenues are segmented by geographic region as follows:

	2016	**2015**
Australia	$ 8,890,557	$ 7,488,242
United States	1,374,713	877,932
United Kingdom	604,985	475,977
Canada	475,325	297,795
Other	81,730	757,866
	$ 11,427,310	$ 9,897,812

Property and equipment is located in the following countries:

	2016	**2015**
Australia	$ 112,333	$ 204,802
Canada	82,576	80,960
	$ 194,909	$ 285,762

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

18. Segmented Financial Information (continued)

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

	2016	2015
First	18%	19%
Second	14%	16%
Third	12%	13%
Fourth	11%	7%
Fifth	4%	4%
Others	41%	41%
	100%	100%

19. Expenses by Nature

Expenses incurred by nature are as follows:

	2016	2015 (Note 16)
Employee salaries and benefits (note 20)	$ 10,222,822	$ 9,109,033
Facilities	427,646	528,172
Depreciation and amortization	311,297	210,666
Travel	175,207	206,142
Professional and consulting fees	290,473	365,297
Inventory, materials and other cost of sales	470,593	290,091
Investor relations and other shareholder expenses	19,073	74,288
Insurance	58,826	31,177
Telephone and internet	176,363	222,815
Other	409,603	(12,202)
Total	$ 12,561,903	$ 11,025,479

20. Employee Benefit Expense

Expenditures for employee benefits are as follows:

	2016	2015
Salaries and wages	$ 7,340,012	$ 5,775,978
Employee benefits	134,812	1,506,518
Contract labour	2,067,345	1,376,096
Stock-based compensation	680,653	417,687
Other	–	32,754
Total	$10,222,822	$ 9,109,033

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

21. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015- 26.5%) to the effective tax rate is as follows:

	2016	2015
Net loss before income taxes	$ (1,308,549)	$ (1,074,792)
Expected income tax recovery at statutory rates	(346,765)	(284,820)
Difference in foreign tax rates	(8,296)	(1,514)
Non-deductible expenses	54,905	479,933
Prior year true-ups	13,785	-
Tax rate changes and other adjustments	7,539	-
Change in deferred tax assets not recognized	229,911	(233,431)
Income tax provision	$ (48,921)	$ (39,832)

The Company's income tax expense (recovery) is allocated as follows:

	2016	2015
Current income tax expense (recovery)	33,010	(47,930)
Deferred income tax expense (recovery)	(81,931)	8,098
Income tax provision	$ (48,921)	$ (39,832)

The significant components of deferred tax assets are as follows:

	2016	2015
Non-capital losses available to offset future taxable income	$ 1,444,551	$ 1,281,928
Capital losses and related provisions available to offset future taxes payable	273,795	223,843
Excess of tax bases of assets over the carrying values	1,779,984	1,704,899
	3,498,330	3,210,670
Temporary differences not recognized	(3,091,942)	(2,857,721)
Deferred tax assets	$ 406,388	$ 352,949
Deferred tax liabilities	(101,853)	(135,814)
Net deferred tax assets	$ 304,535	$ 217,135

The Company has available Canadian losses of approximately $4,698,651 and capital losses of approximately $440,000. These losses are available to reduce taxable income and taxes payable in future years and, if not utilized, the capital losses will carry forward indefinitely but the non-capital losses will expire as follows:

2026	$ 695,578
2027	712,776
2029	392,238
2030	1,075,985
2032	407,392
2033	263,445
2034	385,879
2035	459,769
2036	305,589
	$ 4,698,651

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

21. Income Taxes (continued)

During the year-ended December 31, 2016, the Company utilized Canadian loss carry-forwards of approximately $nil (2015 – $nil) to reduce taxable income in the current year.

The Company also has investment tax credits available to reduce future federal taxes payable of approximately $631,585 if not utilized will expire as follows:

2026	$	47,855
2027		50,331
2028		58,740
2029		67,680
2030		74,822
2031		94,588
2033		113,407
2034		124,162
	$	631,585

The effective and statutory tax rate in the Company's Australian subsidiaries is 30% (2015 – 30%). These subsidiaries have capital losses of approximately $1,436,636 (2015 – $1,492,284) available to offset future taxable capital gains and non-capital losses of approximately $664,697 (2015 – $534,126) available to reduce future taxable income. These losses do not expire.

The potential future tax benefits that may result from the application of the capital loss carry forwards and Canadian non-capital federal and provincial losses have not been recorded in these consolidated financial statements.

22. Risk Management for Financial Instruments

Fair Values
The estimated fair values of cash, trade and other receivables, note receivable, 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 short-term 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 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 December 31, 2016.

Liquidity
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.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

22. Risk Management for Financial Instruments (continued)

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. As at December 31, 2016, the Company has contractual obligations relating to trade and other payables and obligations under finance lease. Management believes that it has raised sufficient cash to meet all of its contractual debt that is coming due in 2017 and has the ability to fund any operating losses that may occur in the upcoming periods. There are, however, a number of uncertainties related to the timing and use of the Company's cash resources and actual results may differ from expected results.

The table below summarizes the Company's debt into relevant maturity groups at the balance sheet date based on the expected contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows for operations:

	Anticipated settlement within one year	Anticipated settlement within two years	Anticipated settlement beyond two years	Total
Trade and other payables	$ 974,261	$ –	$ –	$ 974,261
Provisions	524,689	97,872	–	622,561
Share appreciation rights	685,981	–	–	685,981
Obligations under finance lease	22,394	14,362	2,489	39,245
Total	$2,207,325	$ 112,234	$ 2,489	$2,322,048

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, losses under trade receivables have been insignificant. 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.

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

	December 31, 2016	**December 31, 2015**
Australia	54%	51%
United States	27%	18%
Canada	6%	4%
United Kingdom	12%	4%
Rest of world	1%	23%
	100%	100%

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

22. Risk Management for Financial Instruments (continued)

The activity of the allowance for doubtful accounts for the two year period ended December 31, 2016 is as follows:

	2016	2015
Allowance for doubtful accounts – beginning of year	$ 64,646	$ 19,254
Add: allowance for doubtful accounts acquired	17,764	11,250
Bad debt expense	(22,246)	33,457
Foreign exchange adjustments	(1,259)	685
Allowance for doubtful accounts – end of year	$ 58,905	$ 64,646

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 Canadian 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 December 31, 2016, fluctuations of the Australian dollar relative to the Canadian dollar of 5% would result in an exchange gain or loss on the net financial assets, impacting the Company's comprehensive income by approximately $4,000 (2015 – $5,100).

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 $21,000 (2015 – $58,600) as at December 31, 2016.

The Company's computer products and services operations are exposed to exchange rate changes in the Great Britain pound relative to the Canadian dollar since a portion of this business unit's sales are denominated in Great Britain pounds with most of the related expenses in Canadian dollars. A fluctuation of the Great Britain pound of 5% would result in an exchange gain or loss on the net financial assets of approximately $7,000 (2015 – $15,200) as at December 31, 2016.

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 $43,704 for the year ended December 31, 2016 (2015 – foreign exchange gain of $160,624).

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.

VIQ Solutions Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

22. Risk Management for Financial Instruments (continued)

Capital Management
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.

The Company's capital is composed of total shareholders' equity. The Company's primary uses of capital are to finance operating losses, capital expenditures and increases in non-cash working capital. The Company currently funds these requirements from internally generated cash flows and cash raised through past share issuances and long and short-term debt as required. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide its products and services to its customers and returns to its shareholders.

The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

23. Related Party Transactions

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (note 15), DSU plan, SAR plan. Key management personnel compensation for the years ended December 31, 2016 and December 31, 2015 is as follows:

	2016	2015
Salaries and short-term employee benefits (i)	$ 692,847	$ 753,100
Stock-based compensation	575,827	377,875
	$ 1,268,674	$ 1,130,975

(i) Short-term employee benefits include bonuses and car allowances.

24. Subsequent Events

The Company's option holders exercised 6,667 options after December 31, 2016, with a weighted average exercise price of $0.07. The Company accordingly issued 6,667 common shares from treasury.

On March 22, 2017, the Company issued 2,000,000 options, with a weighted average exercise price of $0.22.