



VIQ Solutions Inc.

Consolidated Financial Statements
December 31, 2017 and 2016

(Expressed in United States 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 sheets as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years 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 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance as to 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 audits 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to note 2(b) of the consolidated financial statements, which explains that effective January 1, 2017, the Company changed its presentation currency from the Canadian Dollar to the United States Dollar. As part of this presentation currency change, the Company has presented a third statement of financial position as at January 1, 2016. The consolidated financial statements of the Company for the year ended December 31, 2015 (prior to the adjustments due to the presentation currency change) were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements in their report dated April 29, 2016. As part of our audits of the 2017 and 2016 consolidated financial statements, we also audited the adjustments described in note 21 that were applied to amend the consolidated statement of financial position as at January 1, 2016. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 consolidated financial statements of the Company, other than with respects to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 consolidated financial statements taken as a whole.

MNP LLP

Toronto, Ontario
April 24, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP

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

	December 31, 2017	December 31, 2016	January 1, 2016
		(Note 21)	(Note 21)
Assets			
Current assets			
Cash	\$ 4,112,123	\$ 1,929,333	\$ 974,887
Trade and other receivables, net of allowance (note 4)	2,180,533	995,330	1,195,741
Note receivable	—	—	100,286
Inventories	71,083	63,328	40,991
Prepaid expenses and deposits	83,381	114,570	73,987
	6,447,120	3,102,561	2,385,892
Non-current assets			
Restricted cash	42,118	39,004	38,993
Property and equipment (note 5)	173,299	145,162	206,475
Intangible assets (note 6)	1,849,969	701,117	348,632
Goodwill (note 7)	796,841	739,153	712,529
Deferred tax assets (note 18)	438,167	302,665	255,021
Total assets	\$ 9,747,514	\$ 5,029,662	\$ 3,947,542
Liabilities			
Current liabilities			
Trade and other payables	\$ 1,182,919	\$ 725,598	\$ 717,793
Share appreciation rights plan obligations (note 10)	651,451	510,897	140,725
Current portion of long-term debt	—	—	487,745
Provisions (note 8)	498,096	390,771	352,842
Unearned revenue	405,563	497,591	499,838
Current portion of obligations under finance lease (note 9)	40,239	15,271	59,855
	2,778,268	2,140,128	2,258,798
Non-current liabilities			
Long-term debt	—	—	90,510
Deferred tax liability (note 18)	88,270	75,857	98,130
Provisions (note 8)	78,767	72,892	66,016
Obligations under finance lease (note 9)	40,355	12,064	7,824
Total liabilities	2,985,660	2,300,941	2,521,278
Shareholders' Equity			
Capital stock (note 10)	17,426,645	13,278,837	11,165,524
Contributed surplus	2,715,610	2,316,676	2,185,906
Accumulated other comprehensive income (loss)	223,652	(113,856)	(123,031)
Deficit	(13,604,053)	(12,752,936)	(11,802,135)
	6,761,854	2,728,721	1,426,264
Total liabilities and shareholders' equity	\$ 9,747,514	\$ 5,029,662	\$ 3,947,542

Approved by the Board

Signed "Larry Taylor"
Larry Taylor, Director

Signed "Sebastien Paré"
Sebastien Paré, CEO and Director

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

VIQ Solutions Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in United States dollars)

	Year ended December 31	
	2017	2016
		(Note 21)
Revenue	\$ 11,730,471	\$ 8,625,645
Cost of sales	7,106,444	5,148,883
Gross profit	4,624,027	3,476,762
Expenses		
Selling and administrative expenses	4,498,960	3,456,612
Stock based compensation (note 11)	384,000	513,775
Research and development expenses	292,734	127,820
Depreciation & amortization	237,982	234,976
	5,413,676	4,333,183
Loss before undernoted items	(789,649)	(856,421)
Finance loss		
Interest income	2,651	3,718
Interest expense	(7,302)	(55,527)
Accretion on long-term debt	—	(3,803)
Other income	923	(1,073)
Foreign exchange loss	(177,056)	(74,622)
Net finance loss	(180,784)	(131,307)
Net loss before income taxes	(970,433)	(987,728)
Income tax recovery (note 18)	119,316	36,927
Net loss for the year	\$ (851,117)	\$ (950,801)
Exchange differences on translating foreign operations	337,508	9,175
Comprehensive loss for the year	\$ (513,609)	\$ (941,626)
Net loss per share (note 13)		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding – basic (note 13)	143,051,099	123,447,671
Weighted average number of common shares outstanding – diluted (note 13)	143,051,099	123,447,671

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

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

	Capital stock		Contributed		Accumulated other comprehensive	Total
	Number	Amount	surplus	Deficit	income (loss)	Equity
Balance at January 1, 2016	115,932,819	\$ 11,165,524	\$ 2,185,906	\$(11,802,135)	\$ (123,031)	\$ 1,426,264
Comprehensive loss for the period	—	—	—	(950,801)	9,175	(941,626)
Options exercised (note 10)	670,001	64,936	(21,874)	—	—	43,062
Warrants exercised (note 10)	11,723,788	664,246	(221,202)	—	—	443,044
Private placement (note 10)	9,883,329	1,312,623	230,856	—	—	1,543,479
Debt conversion (note 10)	1,000,000	71,508	—	—	—	71,508
Stock-based compensation (note 11)	—	—	142,990	—	—	142,990
Balance at December 31, 2016	139,209,937	\$ 13,278,837	\$ 2,316,676	\$(12,752,936)	\$ (113,856)	\$ 2,728,721
Comprehensive loss for the period	—	—	—	(851,117)	337,508	(513,609)
Options exercised (note 10)	589,999	75,607	(28,472)	—	—	47,135
Warrants exercised (note 10)	4,852,398	722,596	(149,652)	—	—	572,944
Private placement (note 10)	16,373,446	3,349,605	294,486	—	—	3,644,091
Stock-based compensation (note 11)	—	—	282,572	—	—	282,572
Balance at December 31, 2017	161,025,780	\$ 17,426,645	\$ 2,715,610	\$(13,604,053)	\$ 223,652	\$ 6,761,854

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

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

	Year ended December 31	
	2017	2016
Cash provided by (used in):		(Note 21)
Operating activities		
Net loss for the year from operations	\$ (851,117)	\$ (950,801)
Items not affecting cash:		
Depreciation and amortization	237,982	234,976
Stock-based compensation (note 11)	384,000	513,775
Provisions	5,875	44,807
Interest accretion on bridge loan	—	3,803
Deferred income tax benefit	(123,089)	(69,000)
Unrealized foreign exchange gain (loss)	238,401	(45,960)
Changes in non-cash operating working capital (note 14)	(714,011)	180,978
Cash used in operating activities	(821,959)	(87,422)
Investing activities		
Purchase of property and equipment, net	(187,035)	(68,472)
Purchase of intangibles	(1,227,936)	(449,486)
Change in restricted cash	(3,114)	(11)
Cash used in investing activities	(1,418,085)	(517,969)
Financing activities		
Private Placement	3,644,091	1,543,479
Warrants exercised	572,944	443,044
Options exercised	47,135	43,062
Repayment of short-term debt	—	(525,183)
Receipt of notes receivable	—	100,286
Finance lease payments	—	(40,344)
Cash provided by financing activities	4,264,170	1,564,344
Net increase in cash during the year	2,024,126	958,953
Cash, beginning of period	1,929,333	974,887
Effect of exchange rate changes on cash	158,664	(4,507)
Cash, end of year	\$ 4,112,123	\$ 1,929,333

Supplemental disclosure (note 14)

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

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

1. Nature of Operations

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

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

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

2. Basis of Preparation

(a) Statement of compliance

The 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, 2017. The consolidated financial statements were approved by the Board of Directors on April 20, 2018.

(b) Functional and presentation currency

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

Change in presentation currency

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

- Assets and liabilities have been translated into the USD at the rate of exchange prevailing at the respective reporting dates;
- The consolidated statements of loss and comprehensive loss were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- Equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and

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

2. Basis of Preparation (continued)

- Exchange differences arising on translation were recorded in accumulated other comprehensive loss in shareholders' equity.

The exchange rates used were as follows:

USD / CAD exchange rate	December 31, 2017	December 31, 2016	January 1, 2016
Closing at the reporting date	0.7968	0.7448	0.7225
Average rate for the year	0.7706	0.7548	0.7820

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 USD.

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 subsidiaries including (i) the operations of VIQ Solutions, Inc. (formerly VIQ Solutions (U.S.) Inc.); (ii) 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.

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
Leasehold improvements	Over the term of the lease

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

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

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.

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.

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

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

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.

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.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation, as a result of past events, and 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 are 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 consolidated 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 USD.

The financial statements of entities that have a functional currency different from the presentational currency of USD are translated into USD 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.

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

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

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:

- (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.

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

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

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, 2016, the Company had two CGUs with goodwill, which were the Spark & Cannon and Dataworxs businesses. The Spark & Cannon business is involved in recording and transcription services. Dataworxs is a digital media technology platform including audio capture and speech processing capabilities.

As at December 31, 2017, the goodwill recorded in the Company's consolidated financial statements relates to the Spark & Cannon and Dataworxs reporting units.

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.

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

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.

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 10) for directors, officers and employees, a deferred share unit (“DSU”) plan (note 10) for directors and a share appreciation rights (“SAR”) plan (note 10) 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 11). 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 changes 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).

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

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.

(ii) Critical accounting estimates and judgments

Overview

The preparation of consolidated 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, capitalization of internally generated development costs, revenue recognition, the fair value of stock based compensation and warrants, fair value of the purchase price allocation related to acquisitions, 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 value 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, 2017 and December 31, 2016. 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:

	December 31, 2017	December 31, 2016	January 1, 2016
Spark & Cannon, net of foreign exchange	\$ 653,653	\$ 605,311	\$ 609,994
Dataworxs, net of foreign exchange	143,188	133,842	102,535
	\$ 796,841	\$ 739,153	\$ 712,529

VIQ Solutions Inc.

Notes to Consolidated Financial Statements

(Expressed in United States 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	2017
Growth rate	2.0% - 7.0%
Terminal growth rate	2.0%
Sustaining capital expenditures	\$23,400
Pre-tax discount rate	22.4%

The Company notes that individually, a 1% increase or decrease in the terminal growth rate and the pre-tax discount rate would not lead to an impairment for the Spark and Cannon CGU.

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	2017
Growth rate	4.0% - 9.0%
Terminal growth rate	2.0%
Sustaining capital expenditures	\$5,000
Pre-tax discount rate	21.8%

The Company notes that individually, a 1% increase or decrease in the terminal growth rate and the pre-tax discount rate would not lead to an impairment for the Dataworxs CGU.

The Company determined the growth rate, the terminal growth rate 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 valuations 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.

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

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

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.

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-based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. This standard is effective January 1, 2018.

IFRS 15 permits two methods of adoption; retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application and no restatement of comparative periods (cumulative effect method). The Company expects to utilize the cumulative effect method to adopt the new standard. Furthermore, the Company will be required to disclose the quantitative difference between the reported fiscal 2018 results under IFRS 15 and those that would have been reported under current IFRS.

The Company is continuing to assess the impact of this standard on its consolidated financial statements. Under the Company's current accounting policies, the Company generally expenses incremental commission costs paid to employees to obtain customer contracts. When the Company receives a new transcription contract there are costs associated with training new employees to fulfil the contract that are expensed as incurred. Under IFRS 15, the Company will capitalize and amortize the incremental commission and training costs on a systematic basis, consistent with the recognition of revenue on the related contract.

The Company continues to assess the impact on its consolidated financial statements and will incorporate the new disclosure requirements of IFRS 15 in its consolidated financial statements, upon implementation on January 1, 2018.

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

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

(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, with 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

	December 31, 2017	December 31, 2016	January 1, 2016
Trade accounts receivable	\$ 2,731,954	\$ 1,039,202	\$ 1,242,451
Less: Allowance for doubtful accounts	(551,421)	(43,872)	(46,710)
	\$ 2,180,533	\$ 995,330	\$ 1,195,741

5. Property and Equipment

Details of the Company’s property and equipment as of December 31, 2017, December 31, 2016 and January 1, 2016 are listed as follows:

	Cost	Accumulated Depreciation	Net Book Value Dec. 31, 2017
Furniture and fixtures	\$ 264,977	\$ 191,924	\$ 73,053
Computer and transcription equipment	1,472,355	1,377,001	95,354
Buildings – Leasehold Improvements	4,996	104	4,892
	\$ 1,742,328	\$ 1,569,029	\$ 173,299

	Cost	Accumulated Depreciation	Net Book Value Dec. 31, 2016
Furniture and fixtures	\$ 282,840	\$ 216,187	\$ 66,653
Computer and transcription equipment	1,279,059	1,200,550	78,509
	\$ 1,561,899	\$ 1,416,737	\$ 145,162

	Cost	Accumulated Depreciation	Net Book Value Jan. 1, 2016
Furniture and fixtures	\$ 262,493	\$ 204,905	\$ 57,588
Computer and transcription equipment	1,186,369	1,037,482	148,887
	\$ 1,448,862	\$ 1,242,387	\$ 206,475

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

6. Intangible assets

Details of the Company's intangible assets as of December 31, 2017 and December 31, 2016 are listed as follows:

	Cost	Accumulated Amortization	Net Book Value Dec. 31, 2017
Acquired customer list	\$ 400,114	\$ 180,051	\$ 220,063
Internally generated intangible asset	1,653,622	23,716	1,629,906
	\$ 2,053,736	\$ 203,767	\$ 1,849,969

	Cost	Accumulated Amortization	Net Book Value Dec. 31, 2016
Acquired customer list	\$ 381,699	\$ 95,424	\$ 286,275
Internally generated intangible asset	437,468	22,626	414,842
	\$ 819,167	\$ 118,050	\$ 701,117

	Cost	Accumulated Amortization	Net Book Value Jan. 1, 2016
Acquired customer list	\$ 370,308	\$ 21,676	\$ 348,632
	\$ 370,308	\$ 21,676	\$ 348,632

As of December 31, 2017, the Company has \$1,181,603 of internally generally intangible assets under development which have not commenced amortization (December 31, 2016 - \$414,842):

7. Goodwill

	December 31, 2017	December 31, 2016	January 1, 2016
Opening balance	\$ 739,153	\$ 712,529	\$ 806,455
Foreign currency adjustment	57,688	26,624	(93,926)
Goodwill	\$ 796,841	\$ 739,153	\$ 712,529

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 2017, 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.

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

8. 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, 2016	\$ 246,328	\$ 217,335	\$ 463,663
Additional provisions	65,105	256,232	321,337
Utilized during the year	(55,711)	(181,034)	(236,745)
Unused amounts reversed	(8,423)	—	(8,423)
Foreign currency adjustments	19,674	17,357	37,031
Balance at December 31, 2017	266,973	309,890	576,863
Less: current portion	(188,206)	(309,890)	(498,096)
	\$ 78,767	\$ —	\$ 78,767

	Long-term service leave	Other provisions	Total provisions
Balance at December 31, 2015	\$ 238,646	\$ 180,212	\$ 418,858
Additional provisions	77,785	204,186	281,971
Utilized during the year	(63,958)	(168,926)	(232,884)
Unused amounts reversed	(4,183)	—	(4,183)
Foreign currency adjustments	(1,962)	1,863	(99)
Balance at December 31, 2016	246,328	217,335	463,663
Less: current portion	(173,436)	(217,335)	(390,771)
	\$ 72,892	\$ —	\$ 72,892

	Long-term service leave	Other provisions	Total provisions
Balance at December 31, 2014	\$ 294,993	\$ 211,637	\$ 506,630
Additional provisions	32,494	195,142	227,636
Utilized during the year	(69,803)	(203,634)	(273,437)
Unused amounts reversed	12,928	—	12,928
Foreign currency adjustments	(31,966)	(22,933)	(54,899)
Balance at January 1, 2016	238,646	180,212	418,858
Less: current portion	(172,630)	(180,212)	(352,842)
	\$ 66,016	\$ —	\$ 66,016

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.

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

9. Obligations under Finance Leases

The Company has finance lease obligations until 2020. The monthly lease payments consist of principal repayment and interest and the weighted average imputed interest rate is 7.7%. The minimum payments under all agreements are as follows:

2018	\$	43,996
2019		34,448
2020		7,964
		86,408
Less: imputed interest		(5,814)
		80,594
Less: current portion		(40,239)
	\$	40,355

10. Capital Stock

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

On September 16, 2015, the Company completed a private placement in order to fund the Dataworx acquisition and to fund growth initiatives. The raise totalled \$522,755 (net of fees of \$4,702) for 14,600,000 common shares plus one warrant per common share. The exercise prices for the warrants (in Canadian dollars) were \$0.05 up to the one-year anniversary date, increasing to \$0.07 after the one-year anniversary date. The warrants expired in two years. The warrants attached to the common shares were valued at \$263,728. For the year ended December 31, 2017, 2,876,212 (2016 – 11,723,788) of these warrants were exercised.

On December 15, 2016, the Company completed a private placement to extinguish high interest rate debt and to fund future growth initiatives over the next 18 months. The raise totalled \$1,543,479 (net of fees of \$11,271) for 9,883,329 common shares plus one-half warrant per common share. The exercise price for the warrants (in Canadian dollars) is \$0.26. The warrants expire on June 21, 2018. The warrants attached to the common shares were valued at \$230,856. For the year ended December 31, 2017, 1,976,186 (2016 – nil) of these warrants were exercised.

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

As at December 31, 2017, there were 11,494,107 warrants outstanding (December 31, 2016 – 7,817,870).

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

	2017	2016
Risk free interest rate (%)	1.47%	0.55%
Expected volatility (%)	55%	86%
Expected life (in years)	1.5	1.5
Expected dividends	Nil	Nil
Weighted average share price (in Canadian dollars)	\$0.29	\$0.21

VIQ Solutions Inc.
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10. Capital Stock (continued)

As at December 31, 2017, common shares of the Company were reserved as follows:

	Price (in Canadian dollars)	Expiry Dates	Number
Options	\$0.10	Jan 2018 – Dec 2018	245,500
	\$0.05 – \$0.07	Jan 2019 – Dec 2019	865,529
	\$0.06 – \$0.065	Jan 2020 – Dec 2020	5,266,666
	\$0.105 – \$0.21	Jan 2021 – Dec 2021	2,050,001
	\$0.22	Jan 2022 – Dec 2022	3,280,000
			11,707,696
Deferred Share Units	\$0.06	N/A	1,999,998
Warrants	\$0.26	Jun 2018	2,965,472
	\$0.39	May 2019	8,186,720
	\$0.30	May 2019	341,915
			11,494,107
Total			25,201,801

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, 2017, the Company had 8,804,363 options (December 31, 2016 – 5,721,029) that had vested with a weighted average exercise price (in Canadian dollars) of \$0.10 per share (December 31, 2016 – \$0.08). During the year ended December 31, 2017, the Company granted 3,300,000 stock options to directors, officers, employees, and contractors (2016 – 2,850,000).

The following information applies to stock options outstanding and exercisable at December 31, 2017:

Range of Exercise Prices (in Canadian dollars)	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (in Canadian dollars)	Options Exercisable	Weighted Average Exercise Price (in Canadian dollars)
\$0.10	245,500	0.1 years	\$0.10	245,500	\$0.10
\$0.05 – \$0.07	865,529	1.5 years	\$0.06	865,529	\$0.06
\$0.06 – \$0.065	5,266,666	2.7 years	\$0.06	5,266,666	\$0.06
\$0.105 – \$0.21	2,050,001	3.5 years	\$0.13	1,333,331	\$0.13
\$0.22 - \$0.32	3,280,000	4.5 years	\$0.25	1,093,337	\$0.25
	11,707,696	3.2 years	\$0.13	8,804,363	\$0.10

Deferred Share Units Plan

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

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

VIQ Solutions Inc.
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10. Capital Stock (continued)

in aggregate, as at December 31, 2017 were 16,102,578 (December 31, 2016 – 13,920,994), of which 11,707,696 were outstanding stock options and 1,999,998 were outstanding DSUs for a total of 13,707,694 (December 31, 2016 – 11,521,026).

The Company did not grant any DSU's to Directors of the Company during the year ended December 31, 2017 (2016 – 199,998).

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

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, 2017, the Company granted nil SAR units to Service Providers (2016 – 76,500). The total number of SAR units which have vested as at December 31, 2017 is 4,502,000 (December 31, 2016 – 2,992,833). The total number of SAR units which are unvested as at December 31, 2017 is 25,500 (December 31, 2016 – 1,534,667).

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

During the year the Company amended the SAR's plan by placing a limit on the appreciated value of the Company's shares within the SAR's plan to limit the overall liability.

11. 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, 2017 was \$384,000 (2016 – \$513,775) which was included in stock based compensation expense, with a corresponding charge to contributed surplus (\$282,572 stock options, net of forfeits) and change in accrued liabilities (\$101,428 SARs). The Company granted 3,300,000 options during the year ended December 31, 2017 (2016 – 2,850,000) and nil SARs (2016 – 76,500). The weighted average fair value of the options granted (in Canadian dollars) during the year ended December 31, 2017 was \$0.16 per option (2016 – \$0.13), \$nil per DSU (2016 – \$0.105), and \$nil (2016 – \$0.05) per SAR unit at the grant date, \$0.24 per SAR unit at the December 31, 2017 revaluation date (December 31, 2016 – \$0.17).

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 the value for the DSUs.

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11. Stock-based Compensation (continued)

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

	2017	2016
Risk free interest rate (%)	1.33%	0.53%
Expected volatility (%)	93%	104%
Expected life (in years)	3.6	3.0
Expected dividends	Nil	Nil
Weighted average share price (in Canadian dollars)	\$0.25	\$0.13
Forfeiture rate (%)	Nil	Nil

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

	December 31, 2017 Revaluation Date	December 31, 2016 Revaluation Date
Risk free interest rate (%)	1.37%	0.55%
Expected volatility (%)	40.15%	93.41%
Expected life (in years)	0.9	1.9
Expected dividends	nil	nil
Weighted average share price (in Canadian dollars)	\$0.24	\$0.22
Forfeiture rate (%)	Nil	Nil

The Company has amended the SAR's plan to set a limit (in Canadian dollars) of \$0.24 per share for the maximum exercise price.

12. Commitments and contingencies

The Company and its subsidiaries have entered into agreements to lease office premises until 2025. 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:

2018	\$	240,857
2019		164,224
2020		167,899
thereafter		347,325
	\$	920,305

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.

VIQ Solutions Inc.
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13. Net loss per Share

	Year ended December 31	
	2017	2016
Numerator for basic and diluted net loss per share:		
Net loss for the year	\$ (851,117)	\$ (950,801)
Denominator for basic net per share:		
Weighted average number of common shares outstanding	143,051,099	123,447,671
Effect of potential dilutive securities	—	—
Adjusted denominator for diluted net loss per share	143,051,099	123,447,671
Basic net loss per share	\$ (0.01)	\$ (0.01)
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, 2017, were 11,707,696 (2016 – 9,521,028) stock options with a weighted average exercise price (in Canadian dollars) of \$0.13 per share (2016 – \$0.08), 1,999,998 DSUs (2016 – 1,999,998), and 11,494,107 warrants with an average exercise price (in Canadian Dollars) of \$0.35 per share (2016 – 7,817,870) as these would be anti-dilutive.

14. Supplemental Cash Flow Information

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

	2017	2016
Trade and other receivables	\$ (1,201,739)	\$ 200,411
Inventories	(2,806)	(22,337)
Prepaid expenses	38,114	(40,583)
Trade and other payables	413,058	7,805
Provisions	86,875	37,929
Unearned revenue and taxes	(47,513)	(2,247)
Total	\$ (714,011)	\$ 180,978

Other supplemental cash flow information is as follows:

	2017	2016
Cash received for interest	\$ —	\$ 2,728
Cash paid for interest	—	60,333

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15. Segmented Financial Information

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

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

Financial information by reportable business segment is as follows:

	Year ended December 31, 2017			
	Technology	Transcription Services	Corporate	Total
Consolidated Loss and Comprehensive Loss				
Revenue	\$ 3,923,500	\$ 7,806,971	–	\$ 11,730,471
Gross profit	3,111,316	1,512,711	–	4,624,027
Selling and administrative expenses	1,432,537	1,556,623	1,509,800	4,498,960
Stock based compensation expense	–	–	384,000	384,000
Research and development expenses	292,734	–	–	292,734
Depreciation & amortization	107,885	130,097	–	237,982
Foreign exchange loss	52,944	124,112	–	177,056
Interest income	(229)	(2,422)	–	(2,651)
Interest expense	158	7,144	–	7,302
Other income	–	(923)	–	(923)
Income taxes recovery	(78,211)	(41,105)	–	(119,316)
Segment income (loss)	1,303,498	(260,815)	(1,893,800)	(851,117)
Consolidated Balance Sheet				
Total segment assets	\$ 8,267,587	\$ 1,479,927	–	\$ 9,747,514
Total segment current liabilities	826,256	1,134,401	817,611	2,778,268
Total segment non-current liabilities	88,270	119,122	–	207,392

VIQ Solutions Inc.
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15. Segmented Financial Information (continued)

	Year ended December 31, 2016			
	Technology	Transcription Services	Corporate	Total
Consolidated Loss and Comprehensive Loss				
Revenue	\$ 2,580,793	\$ 6,044,852		\$ 8,625,645
Gross profit	2,066,961	1,409,801	–	3,476,762
Selling and administrative expenses	1,147,546	1,284,563	1,024,503	3,456,612
Stock based compensation expense	–	–	513,775	513,775
Research and development expenses	127,820	–	–	127,820
Depreciation & amortization	120,251	114,725	–	234,976
Foreign exchange loss	74,622	–	–	74,622
Interest income	(897)	(2,821)	–	(3,718)
Interest expense and accretion	53,452	5,878	–	59,330
Other expense	–	1,073	–	1,073
Income tax recovery	(42,351)	5,424	–	(36,927)
Segment income (loss)	586,518	959	(1,538,278)	(950,801)
Consolidated Balance Sheet				
Total segment assets	\$ 3,797,682	\$ 1,231,980	–	\$ 5,029,662
Total segment current liabilities	818,042	811,189	510,897	2,140,128
Total segment non-current liabilities	75,857	84,956	–	160,813

Revenues are segmented by geographic region as follows:

	2017	2016
Australia	\$ 8,707,189	\$ 6,710,835
United States	1,813,464	1,037,671
United Kingdom	752,095	456,659
Canada	335,813	358,788
Other	121,910	61,692
	\$ 11,730,471	\$ 8,625,645

Property and equipment is located in the following countries:

	2017	2016
Australia	\$ 81,401	\$ 83,662
Canada	91,898	61,500
	\$ 173,299	\$ 145,162

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

	2017	2016
First	22%	18%
Second	13%	14%
Third	13%	12%
Fourth	9%	11%
Fifth	3%	4%
Others	40%	41%
	100%	100%

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16. Expenses by Nature

Expenses incurred by nature are as follows:

	2017	2016
Employee salaries and benefits	\$ 9,513,180	\$ 7,716,463
Facilities	381,556	322,799
Depreciation and amortization	237,982	234,976
Travel	202,400	132,251
Professional and consulting fees	430,451	219,257
Inventory, materials and other cost of sales	552,489	355,216
Investor relations and other shareholder expenses	43,728	14,397
Insurance	43,961	44,403
Telephone and internet	178,790	133,124
Bad debt	515,338	10,440
Other	420,245	298,740
Total	\$ 12,520,120	\$ 9,482,066

17. Employee Benefit Expense

Expenditures for employee benefits are as follows:

	2017	2016
Salaries and wages	\$ 7,600,146	\$ 5,540,441
Employee benefits	114,140	101,760
Contract labour	1,414,894	1,560,488
Stock-based compensation	384,000	513,775
Total	\$ 9,513,180	\$ 7,716,464

18. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2016- 26.5%) to the effective tax rate is as follows:

	2017	2016
Net loss before income taxes	\$ (970,433)	\$ (987,728)
Expected income tax (recovery) expense	(256,823)	(261,748)
Difference in foreign tax rates	(788)	(6,262)
Share based compensation and non-deductible expenses	79,918	41,444
Non-taxable accounting entry	33,761	-
Prior year true-ups	96,146	10,405
Tax rate changes and other adjustments	(54,046)	5,691
FX translation adjustment	(182,801)	-
Share issuance cost booked directly into equity	(53,743)	-
Change in tax benefits not recognized	219,060	173,543
Income tax (recovery) expense	\$ (119,316)	\$ (36,927)

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18. Income Taxes (continued)

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

	2017	2016
Current income tax expense	3,773	24,910
Deferred income tax expense (recovery)	(123,089)	(61,837)
Income tax (recovery) expense	\$ (119,316)	\$ (36,927)

The significant components of deferred tax assets are as follows:

	2017	2016
Non-capital losses carried forward	\$ 213,557	\$ 158,615
Reserves	224,610	144,050
Deferred tax assets	\$ 438,167	\$ 302,665
Deferred tax liabilities	(88,270)	(75,857)
Net deferred tax assets	\$ 349,897	\$ 226,808

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2017
Property, plant and equipment	\$ 598,549
Intangible assets	222,391
Share issuance costs – 20(1)(e)	164,401
Non-capital losses carried forward – Canada	3,848,844
Capital losses carried forward	578,634
Investment tax credits from schedule 31	604,530
SR&ED pool from T661	1,891,459
Intercompany loan – Australian entity	52,080
Unrealized foreign exchange	37,239
Stock appreciation right liability	651,717

The Company has available Canadian non-capital losses of approximately \$3,818,958 and capital losses of approximately \$350,724.

The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains.

The Company's Canadian non-capital income tax losses expire as follows:

2026	\$ 554,445
2027	568,154
2029	312,653
2030	857,668
2032	324,732
2033	209,992
2034	312,423
2035	371,480
2036	136,588
2037	170,823
	<u>\$ 3,818,958</u>

During the year-ended December 31, 2017, the Company utilized Canadian loss carry-forwards of approximately \$nil (2016 – \$nil) to reduce taxable income in the current year.

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18. Income Taxes (continued)

The Company also has investment tax credits available to reduce future federal taxes payable of approximately \$604,530 if not utilized will expire as follows:

2025	\$	101,094
2026		38,145
2027		40,119
2028		46,822
2029		53,948
2030		59,641
2031		75,396
2033		90,397
2034		98,970
	\$	604,530

The effective and statutory tax rate in the Company's Australian subsidiaries is 30% (2016 – 30%). These subsidiaries have capital losses of approximately \$1,155,406 (2016 – \$1,066,636) available to offset future taxable capital gains and non-capital losses of approximately \$693,334 (2016 – \$528,717) 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.

19. Risk Management for Financial Instruments

Fair Values

The estimated fair values of cash, trade and other receivables, restricted cash, trade and other payables, and share appreciation rights plan obligations, approximate their carrying values due to the relatively short-term nature of the instruments. The estimated fair values of 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, 2017.

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.

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, 2017, 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.

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19. Risk Management for Financial Instruments (continued)

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	\$ 1,182,919	–	–	\$ 1,182,919
Provisions	498,096	78,767	–	576,863
Share appreciation rights	651,451	–	–	651,451
Obligations under finance lease	40,239	34,448	5,907	80,594
Total	\$ 2,372,705	\$ 113,215	\$ 5,907	\$ 2,491,827

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, 2017	December 31, 2016
Australia	40%	54%
United States	29%	27%
United Kingdom	20%	12%
Canada	6%	6%
Rest of world	5%	1%
	100%	100%

As at December 31, 2017, the Company had \$62,245 of accounts receivable which were past due (December 31, 2016 – \$94,779)

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.

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19. Risk Management for Financial Instruments (continued)

The activity of the allowance for doubtful accounts is as follows:

	2017	2016
Allowance for doubtful accounts – beginning of year	\$ 43,872	\$ 50,381
Add: allowance for doubtful accounts	507,460	13,230
Bad debt expense	(3,236)	(16,792)
Foreign exchange adjustments	3,325	(2,947)
Allowance for doubtful accounts – end of year	\$ 551,421	\$ 43,872

Foreign Currency Risk

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

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

The Company's Australian subsidiaries have a majority of revenue and expenses being transacted in Australian dollars. As of December 31, 2017, fluctuations of the Australian dollar relative to the United States dollar of 5% would result in an exchange gain or loss on the net financial assets, impacting the Company's comprehensive income by approximately \$8,000 (2016 – \$3,000).

The Company's computer products and services operations are exposed to exchange rate changes in the U.S. dollar relative to the Canadian dollar since a substantial portion of this business unit's sales are denominated in U.S. dollars with most of the related expenses in Canadian dollars. A 5% fluctuation of the U.S. dollar would result in an exchange gain or loss on the net financial assets of approximately \$15,000 (2016 – \$7,000) as at December 31, 2017.

The Company's computer products and services operations are exposed to exchange rate changes in the Great Britain pound relative to the United States dollar since a portion of this business unit's sales are denominated in Great Britain pounds with most of the related expenses in United States dollars. A fluctuation of the Great Britain pound of 5% would result in an exchange gain or loss on the net financial assets of approximately \$3,000 (2016 – \$10,000) as at December 31, 2017.

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 \$177,056 for the year ended December 31, 2017 (2016 – foreign exchange loss of \$74,622).

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.

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20. 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 11), DSU plan, SAR plan. Key management personnel compensation for the years ended December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
Salaries and short-term employee benefits (i)	\$ 550,446	\$ 522,980
Stock-based compensation	271,756	434,650
	\$ 822,202	\$ 957,630

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

21. Change in Presentation Currency

For comparative purposes, the consolidated statements of financial position as at January 1, 2016 and December 31, 2016 includes adjustments to reflect the change in the accounting policy resulting from the change in presentation to the U.S. Dollar. The amounts previously reported in Canadian Dollars as shown below have been translated into U.S. Dollars at January 1, 2016 and December 31, 2016 exchange rates (Note 2). The effect of the translation is as follows:

As at January 1, 2016

	Previously Reported (CAD \$)	Translated (USD \$)
Current Assets	\$ 3,302,075	\$ 2,385,892
Non-current Assets	2,161,325	1,561,650
Total Assets	\$ 5,463,400	\$ 3,947,542
Current Liabilities	\$ 3,126,179	\$ 2,258,798
Non-current Liabilities	363,272	262,480
Total Liabilities	\$ 3,489,451	\$ 2,521,278

As at December 31, 2016

	Previously Reported (CAD \$)	Translated (USD \$)
Current Assets	\$ 4,165,810	\$ 3,102,561
Non-current Assets	2,587,517	1,927,101
Total Assets	\$ 6,753,327	\$ 5,029,662
Current Liabilities	\$ 2,873,551	\$ 2,140,128
Non-current Liabilities	215,923	160,813
Total Liabilities	\$ 3,089,474	\$ 2,300,941

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21. Change in Presentation Currency (continued)

For comparative purposes, the consolidated statements of loss and comprehensive loss for the year ended December 31, 2016 includes adjustments to reflect the change in accounting policy resulting from the change in presentation currency to the U.S. Dollar. The amounts previously reported in Canadian Dollars as shown below have been translated into U.S. Dollars at the average 2016 exchange rate (Note 2). The effect of the translation is as follows:

Year ended December 31, 2016

	Previously Reported (CAD \$)	Translated (USD \$)
Revenue	\$ 11,427,310	\$ 8,625,645
Cost of sales	6,821,273	5,148,883
Gross profit	4,606,037	3,476,762
Expenses	5,740,630	4,333,183
Loss before undernoted items	(1,134,593)	(856,421)
Net finance loss	(173,956)	(131,307)
Net loss before income taxes	(1,308,549)	(987,728)
Income tax recovery	48,921	36,927
Net loss for the year	\$ (1,259,628)	\$ (950,801)
Exchange differences on translating foreign operations	(37,204)	9,175
Comprehensive loss for the year	\$ (1,296,832)	\$ (941,626)

22. Subsequent Events

On February 14, 2018 the Company issued 375,000 stock options at an exercise price of \$0.30 to Directors of the Company.