



## **VIQ Solutions Inc.**

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Interim Consolidated Financial Statements  
For the three and six month periods ended June 30, 2008



**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

*signed "David Outhwaite"*

*signed "Karen Hersh"*

David Outhwaite  
President and Chief Executive Officer

Karen Hersh  
Chief Financial Officer

August 20, 2008

VIQ Solutions Inc.  
Interim Consolidated Balance Sheets  
(Unaudited)

	June 30 2008	December 31 2007
<b>Assets</b>		
Current		
Cash	\$ 1,162,472	\$ 314,078
Receivables	1,420,750	1,077,297
Investment tax credits receivable	-	74,423
Inventories	27,906	54,872
Prepaid expenses	116,036	87,896
	2,727,164	1,608,566
Restricted cash	124,868	120,776
Property and equipment	876,322	893,284
Goodwill	2,348,682	2,172,905
Future tax assets	239,786	213,444
	\$ 6,316,822	\$ 5,008,975
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 1,641,530	\$ 1,659,762
Short-term debt (note 5)	225,000	368,409
Deferred revenue and deferred lease incentives	245,021	176,545
Current portion of long-term debt (note 6)	11,203	1,011,504
Current portion of obligations under capital lease	88,771	86,358
	2,211,525	3,302,578
Obligations under capital lease	73,267	84,121
Deferred lease incentives	25,554	34,617
Long-term debt (note 6)	534,764	531,555
	2,845,110	3,952,871
<b>Shareholders' Equity</b>		
Capital stock (note 7)	8,480,470	6,370,864
Contributed surplus (note 8)	1,061,849	683,536
Accumulated other comprehensive income (loss)	99,879	(60,564)
Deficit	(6,170,486)	(5,937,732)
	3,471,712	1,056,104
	\$ 6,316,822	\$ 5,008,975

Going Concern Uncertainty (note 2)

Approved by the Board “Norman Inkster”  
Norman Inkster, Director

“David Outhwaite”  
David Outhwaite, CEO and Director

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

VIQ Solutions Inc.  
Interim Consolidated Statements of Operations and Deficit  
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Sales	\$ 3,282,426	\$ 3,282,803	\$ 6,117,124	\$ 6,584,925
Cost of sales	1,904,087	2,068,670	3,696,835	4,091,190
Gross profit	1,378,339	1,214,133	2,420,289	2,493,735
Expenses				
Selling and administrative	1,159,131	1,140,386	2,271,244	2,273,315
Research and development	120,165	96,919	230,816	197,921
	1,279,296	1,237,305	2,502,060	2,471,236
Earnings (loss) before the following items	99,043	(23,172)	(81,771)	22,499
Amortization of property and equipment	(73,845)	(66,954)	(139,046)	(137,082)
Amortization of intangibles	-	(36,500)	-	(73,000)
Interest income	6,170	5,252	12,549	9,614
Interest on long-term debt	(27,758)	(43,218)	(90,622)	(87,054)
Interest and bank charges	(10,400)	(11,127)	(15,769)	(16,988)
Loss on sale of equipment	-	(1,053)	-	(1,053)
Forgiveness of long-term debt (note 6)	-	193,573	-	193,573
Foreign exchange gain (loss)	27,269	(78,232)	81,905	(147,284)
Net income (loss) for the period	\$ 20,479	\$ (61,431)	\$ (232,754)	\$ (236,775)
Deficit, beginning of period	(6,190,965)	(5,137,864)	(5,937,732)	(4,962,520)
Deficit, end of period	\$ (6,170,486)	\$ (5,199,295)	\$ (6,170,486)	\$ (5,199,295)
Net loss per common share – basic and diluted (note 10)	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding – basic (note 10)	79,924,876	73,071,753	76,780,765	73,071,753
Weighted average number of common shares outstanding – fully diluted (note 10)	83,717,131	73,071,753	76,780,765	73,071,753

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

VIQ Solutions Inc.  
 Consolidated Statements of Comprehensive Income and Loss  
 and Accumulated Other Comprehensive Income and Loss  
 (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net income (loss) for the period	\$ 20,479	\$ (61,431)	\$ (232,754)	\$ (236,775)
Other comprehensive income (loss)				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	59,450	(40,087)	160,443	(20,614)
Comprehensive income (loss)	\$ 79,929	\$ (101,518)	\$ (72,311)	\$ (257,389)
Accumulated other comprehensive income (loss), beginning of period	\$ 40,429	\$ 29,115	\$ (60,564)	\$ 9,642
Other comprehensive income (loss)	59,450	(40,087)	160,443	(20,614)
Accumulated other comprehensive income (loss), end of period	\$ 99,879	\$ (10,972)	\$ 99,879	\$ (10,972)

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

VIQ Solutions Inc.  
Interim Consolidated Statements of Cash Flows  
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Cash flows from operating activities</b>				
Net income (loss) for the period	\$ 20,479	\$ (61,431)	\$ (232,754)	\$ (236,775)
Amortization	73,845	103,454	139,046	210,082
Interest accretion on bridge loans	7,255	6,807	21,889	13,539
Loss on sale of equipment	-	1,053	-	1,053
Stock-based compensation (note 9)	58,774	44,747	99,120	85,253
Forgiveness of long-term debt (note 6)	-	(193,573)	-	(193,573)
Amortization of deferred lease incentive	(5,497)	(8,080)	(9,063)	(13,426)
Unrealized foreign exchange loss (gain)	(15,620)	69,914	(120,121)	54,499
	139,236	(37,109)	(101,883)	(79,348)
Changes in non-cash operating working capital (note 11)	(233,205)	85,347	(219,959)	231,504
<b>Cash flows from (used in) operating activities</b>	<b>(93,969)</b>	<b>48,238</b>	<b>(321,842)</b>	<b>152,156</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(19,955)	(35,814)	(36,167)	(66,938)
<b>Cash flows from financing activities</b>				
Advances in short-term debt	80,469	-	120,469	-
Repayment of short-term debt	(40,000)	(500,000)	(263,878)	(500,000)
Advances in long-term debt	-	265,000	-	265,000
Repayment of long-term debt	(583,733)	(6,581)	(1,018,981)	(13,109)
Proceeds from units issued for cash (note 7)	690,999	-	1,478,799	-
Proceeds from warrants exercised for cash (note 7)	606,000	-	910,000	-
Capital lease payments	(52,015)	(39,730)	(63,822)	(71,485)
<b>Cash flows from (used in) financing activities</b>	<b>701,720</b>	<b>(281,311)</b>	<b>1,162,587</b>	<b>(319,594)</b>
Effect of exchange rate changes on cash	23,761	(26,199)	43,816	(25,563)
Increase (decrease) in cash during the period	611,557	(295,086)	848,394	(259,939)
Cash, beginning of period	550,915	647,411	314,078	612,264
<b>Cash, end of period</b>	<b>\$ 1,162,472</b>	<b>\$ 352,325</b>	<b>\$ 1,162,472</b>	<b>\$ 352,325</b>

Supplemental Information (note 11)

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

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## VIQ Solutions Inc.

### Notes to Interim Consolidated Financial Statements

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#### 1. Nature of Operations

VIQ Solutions Inc. (“VIQ Solutions” or the “Corporation”) develops software and provides solutions that capture, digitize, compress and store voice from a variety of sources, including microphones, telephones and hand-held recorders. The software can be used to securely manage the flow of voice files over virtually any computer network, including the Internet. The Corporation supplies, through a network of distributors and channel partners, solutions to end-users including individual medical clinics, legislative assemblies, courthouses and quasi-judicial agencies. NetScribe, a sophisticated web-based workflow management switch, provides anywhere anytime transcription workflow capabilities worldwide.

The Corporation also provides recording and transcription services directly or by contracting to various suppliers around the world to a variety of clients including medical, courtrooms, legislative assemblies, hearing rooms, inquiries and quasi-judicial clients in numerous countries including Canada, the United States, Australia, South Africa, and Denmark.

#### 2. Going Concern Uncertainty

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. VIQ Solutions has incurred operating losses and cash outflows from operations in prior periods.

Historically, management has consistently been able to raise sufficient funds to finance its operations, and has raised capital in the amount of \$2,388,799 in 2008 through a private placement and the exercise of warrants. Further, the Corporation has achieved positive working capital in the current period. Management believes that these actions make the going concern basis appropriate.

The Corporation’s ability to continue as a going concern is dependent on its ability to achieve and maintain profitable operations and to obtain future financing.

#### 3. Basis of Presentation

The consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and follow the same accounting policies as for the financial statements for the year ended December 31, 2007, with the exception of the changes in accounting policies described in Note 4. These interim consolidated financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements and notes thereto for the year ended December 31, 2007. Certain of the comparative figures have been restated to conform to the current year financial statement presentation.

#### Risk Management

##### *Liquidity*

Liquidity risk is the risk that the Corporation 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 Corporation has sustained losses over the last number of years and has financed these losses mainly through a combination of equity and debt offerings. As at June 30, 2008, the Corporation has contractual obligations relating

to accounts payable and accrued liabilities, obligations under capital lease and long-term debt of which a substantial portion will mature in the next year. Management believes that it has raised sufficient cash during the period to meet all of its contractual debt that is coming due in the current year and has the ability to fund any operating losses that may occur during the balance of the year. There are, however, a number of uncertainties related to the timing and use of the Corporation's cash resources and actual results may differ from expected results.

#### *Credit Risk*

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from its customers; however, the Corporation has a significant number of customers, minimizing the concentration of credit risk. Further, a large majority of the Corporation's customers are economically stable organizations such as government agencies or departments with whom the Corporation 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 Corporation's extension of credit to customers involves review and approval by senior management and conservative credit limits for new or higher risk accounts.

The Corporation reviews its trade receivable accounts regularly and writes down these accounts to their expected realizable values, by making an allowance for doubtful receivables, 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 collectibility 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.

The Corporation's exposure to credit risk for trade receivables by geographic area as at June 30, 2008 was as follows:

	<u>As at June 30, 2008</u>
Australia	62%
Canada	10%
United States	15%
Rest of world	13%
	<u>100%</u>

#### *Foreign Currency Risk*

Foreign currency risk arises because of fluctuations in exchange rates. The Corporation conducts a significant portion of its business activities in foreign currencies, primarily the U.S. and Australian dollars. A large portion of the Corporation's sales and operating costs are realized in foreign currencies, mainly the Australian and U.S. dollars. The assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Corporation's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting with third parties in Canadian, United States and Australian dollars.

The Corporation's Australian subsidiary is a self-sustaining entity and accordingly, creates an economic hedge as the majority of revenue and expenses for this entity are transacted in Australian dollars. As of June 30, 2008, fluctuations of the Australian dollar relative to the Canadian dollar of 5% would impact the net income and comprehensive income by approximately \$16,000 and \$22,000 respectively for the six month period ended June 30, 2008.

The Corporation's computer product 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 division's sales are denominated in U.S. dollars with most of the related expenses in Canadian dollars. As of June 30, 2008, foreign exchange fluctuations of 5% would have an effect on continuing operations for the six month period ended June 30, 2008 of approximately \$16,000.

The Corporation 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 Corporation recognized foreign exchange gains in the first six months of 2008 of \$81,905 as compared to foreign exchange losses of \$147,284 for the first six months of 2007.

#### *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 Corporation's interest rate risk is primarily related to the Corporation's interest bearing debts on its balance sheet. A significant portion of the Corporation's short-term and long-term debt has fixed interest rates, thereby minimizing the Corporation's exposure to cash flow interest rate risk.

#### **Capital Management**

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, fund research and development and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk.

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

The Corporation monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance the Corporation's ongoing growth, the Corporation does not currently pay a dividend to holders of its common shares.

#### **4. Adoption of New Accounting Policies**

The Corporation has adopted the following changes to its accounting policies:

##### *Capital Disclosures*

On December 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued new accounting standard: Capital Disclosures (Handbook Section 1535). This new standard became effective for the Corporation for its first fiscal year commencing on or after October 1, 2007. Handbook Section 1535 establishes disclosure requirements about an entity's capital and how it is managed and quantitative data about what the entity regards as capital. The purpose is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. The Corporation has included the recommended disclosures in Note 3 of these interim consolidated financial statements.

##### *Financial Instruments Disclosures*

The Corporation has adopted the requirements of the CICA Handbook Section 3862, "Financial Instruments Disclosures," which apply to fiscal years beginning on or after October 1, 2007. This section requires disclosures relating to the nature and extent of the Corporation's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Corporation manages those risks. The Corporation has included the recommended disclosures in Note 3 of these interim consolidated financial statements.

*Financial Instruments Presentation*

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Corporation for interim and annual financial statements beginning on January 1, 2008. The adoption of this standard did not impact the presentation of the financial statements or notes thereto.

*Inventories*

CICA Handbook Section 3031, Inventories replaces the existing Section 3030, Inventories, and contains requirements on measurement and disclosure of inventories to converge with international financial reporting. This standard is effective for the Corporation for interim and annual financial statements beginning on January 1, 2008. The Corporation adopted this new guidance effective January 1, 2008. This standard did not have a material impact on its consolidated financial position, results of operations or cash flows.

The following changes will be adopted in the future:

*Goodwill and Intangibles*

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaces Section 3062 and establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets to converge with international financial reporting. This standard is effective for the Corporation for interim and annual financial statements beginning on January 1, 2009. The Corporation does not anticipate that the adoption of this policy will have an impact on its financial statements.

*International Financial Reporting Standards*

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 “Inventories” and IAS 38 “Intangible assets”, thus mitigating the impact of adopting IFRS at the mandatory transition date. The Corporation continues to monitor and assess the impact that the adoption of IFRS will have on its financial statements.

**5. Short-term Debt**

	June 30, 2008	December 31, 2007
Unsecured amount owing to the vendors of International Reporting bearing interest at 7% with no specified repayment terms (see Related Party Transactions – note 13).	\$ 225,000	\$ 218,409
Unsecured bridge loan due on March 31, 2008, bearing interest at a rate of 12% (ii).	-	150,000
	<u>\$ 225,000</u>	<u>\$ 368,409</u>

- (i) The Corporation has a \$100,000 line of credit facility, bearing interest at a variable rate of prime plus 1.5%, secured by a general security agreement covering all the assets of International Reporting. As at June 30, 2008, the Corporation had no balance outstanding on the line of credit.
- (ii) In 2007, the expiry date of the bridge loan was extended from December 2007 to March 2008 with the interest rate adjusted to 12%.

## 6. Long-term Debt

	June 30, 2008	December 31, 2007
IRAP repayable contribution (i)	\$ -	\$ 58,427
Unsecured notes bearing interest at a rate of 5% per annum, payable annually as a vendor take-back from the acquisition of International Reporting. Half of the notes, or \$225,000, were repaid on the one-year anniversary of the acquisition being December 23, 2006 and the other \$225,000 was repayable on the two-year anniversary, being December 23, 2007. In 2007, the vendors agreed to extend the debt for an unspecified period of time. The unsecured note was fully repaid during the period.	-	225,000
Secured bridge loan with a face value of \$455,000 bearing interest at a rate of 12% per annum, payable annually and the issuance of 2,275,000 warrants resulting in an imputed rate of interest of 13%. The loan was repayable on the two-year anniversary, being July 2008. The loan was secured by a general security agreement covering all assets of the Corporation and its subsidiaries. During the period, the secured bridge loan was repaid (See Related Party Transactions - note 13) (ii).	-	443,931
Secured bridge loan with a face value of \$270,000 bearing interest at a rate of 12% per annum, payable annually and the issuance of 1,350,000 warrants resulting in an imputed rate of interest of 13%. The loan was repayable on the two-year anniversary, being August 2008. The loan was secured by a general security agreement covering all assets of the Corporation and its subsidiaries. During the period, the secured bridge loan was repaid (iii).	-	265,724
Mortgage, 6.5% per annum payable in monthly blended payments of principal and interest of \$1,250 on the first business day of each month, secured by property of International Reporting.	4,531	11,750
Secured bridge loan with a face value of \$500,000 bearing interest at a rate of 12% per annum, payable annually and the issuance of 1,250,000 warrants resulting in an imputed rate of interest of 13%. The loan is repayable on the two-year anniversary, being July 2009. The loan is secured by a general security agreement covering all assets of the Corporation (iv).	486,048	479,503
Base rate plus one percent term loan, repayable in monthly payments of \$556 principal plus interest, maturing September 2018.	55,388	58,724
	\$ 545,967	\$ 1,543,059
Less current portion	(11,203)	(1,011,504)
	\$ 534,764	\$ 531,555

- (i) The National Research Council Canada ("NRC") provided a contribution of \$292,000 under the Industrial Resources Assistance Program ("IRAP") for certain product development activities undertaken by VoiceIQ Inc., a predecessor company from which VIQ Solutions purchased its technology assets. In 2007, the NRC agreed to reduce the amount payable to \$98,427. Accordingly, the balance of the debt in the amount of \$193,573 was taken into income in 2007. During the period, the balance of the loan owing was repaid in full.
- (ii) A value of \$41,653 has been attributed to the 2,275,000 warrants and has been included in contributed surplus. The difference between the face value and ascribed value of the debt, being the carrying value of the warrants, is being accreted over the two year life of the loan. The warrants have an exercise price of \$0.16 for the first year and \$0.24 for the second year.

- (iii) A value of \$12,951 has been attributed to the 1,350,000 warrants and has been included in contributed surplus. The difference between the face value and ascribed value of the debt, being the carrying value of the warrants, is being accreted over the two year life of the loan. The warrants have an exercise price of \$0.16 for the first year and \$0.24 for the second year.
- (iv) A value of \$26,250 has been attributed to the 1,250,000 warrants and has been included in contributed surplus. The difference between the face value and ascribed value of the debt, being the carrying value of the warrants, is being accreted over the two year life of the loan. The warrants have an exercise price of \$0.16 for the first year and \$0.24 for the second year.

## 7. Capital Stock

The Corporation's authorized capital consists of an unlimited number of common shares with no par value. Changes in the issued and outstanding common shares for the period ended June 30, 2008 are as follows:

	Number of shares	Amount
Balance December 31, 2006 and 2007 – issued and outstanding	73,071,753	\$ 6,370,864
Issued upon exercise of warrants	1,600,000	304,000
Issued on private placements (i)	4,525,999	1,041,800
Balance March 31, 2008 – issued and outstanding	79,197,752	\$ 7,716,664
Issued upon exercise of warrants	2,525,000	676,806
Issued on private placements (ii)	403,333	87,000
Balance June 30, 2008 – issued and outstanding	82,126,085	\$ 8,480,470

- (i) In March 2008, the Corporation issued 4,525,999 units at a price of \$0.30 per unit for net proceeds of \$1,357,800. Each unit comprised one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.45 for a period of 24 months from the closing date. A value of \$316,000 has been attributed to the 2,262,999 warrants and has been included in contributed surplus.
- (ii) In April 2008, the Corporation issued 403,333 units at a price of \$0.30 per unit for net proceeds of \$121,000. Each unit comprised one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.45 for a period of 24 months from the closing date. A value of \$34,000 has been attributed to the 201,667 warrants and has been included in contributed surplus.

As at June 30, 2008, common shares of the Corporation were reserved as follows:

	Price	Expiry Dates	Number
Options	\$0.11 - \$0.94	July 2008 – June 2009	850,000
	\$0.22	July 2009 – June 2010	623,000
	\$0.19 - \$0.27	July 2010 – June 2011	2,600,000
	\$0.13 - \$0.15	July 2011 – June 2012	1,426,250
	\$0.09 - \$0.16	July 2012 – June 2013	1,402,500
			6,901,750
Warrants	\$0.24 - \$1.07	July 2008 – June 2009	845,000
	\$0.16 - \$0.45	July 2009 – June 2010	2,714,665
			3,559,665
Total			10,461,415

The Corporation's stock option plan allows for the granting of options up to an aggregate amount equal to 10% of the aggregate number of common shares of the Corporation 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

The exercise price of each option is based on the market price of the Corporation's stock on the date of grant. As at June 30, 2008, the Corporation had 5,489,662 options that had vested with a weighted average exercise price of \$0.32 per share. During the period, the Corporation granted 1,200,000 stock options to directors and officers.

## 8. Contributed Surplus

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Balance, beginning of period	\$ 1,039,882	\$ 529,287	\$ 683,536	\$ 488,781
Value of warrants from private placement	34,000	-	350,000	-
Value of warrants exercised from bridge loans	(70,807)	-	(70,807)	-
Stock-based compensation (note 9)	58,774	44,747	99,120	85,253
Balance, end of period	\$ 1,061,849	\$ 574,034	\$ 1,061,849	\$ 574,034

## 9. Stock-based Compensation

The Corporation has an incentive stock option plan for all of its directors, officers, and employees. The option exercise price is the fair market value of the Corporation's common shares at the date of grant. These options generally vest over a period of 24 months after which they are exercisable for a maximum of five years after the grant date.

The total compensation expense relating to stock options granted to employees and directors for the three month period ended June 30, 2008 was \$58,774 (2007 - \$44,747) which was included in selling and administrative expense, with a corresponding charge to contributed surplus. The Corporation issued 1,200,000 options during the period. The weighted average fair value of the options granted during the period was \$0.38 per option.

Stock options issued during the period were valued using the Black-Scholes option pricing model with the following assumptions:

	June 30 2008	June 30 2007
Risk free interest rate (%)	2.88	4.11
Expected volatility (%)	99	88
Expected life (in years)	2	2
Expected dividends	Nil	Nil

**10. Income (loss) per Common Share**

The following table outlines the calculation of basic and diluted earnings (loss) per share:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss) for the period - basic and diluted	\$ 20,479	\$ (61,431)	\$ (232,754)	\$ (236,775)
Adjusted numerator for diluted earnings (loss) per share	\$ <b>20,479</b>	\$ <b>(61,431)</b>	\$ <b>(232,754)</b>	\$ <b>(236,775)</b>
Denominator for basic earnings (loss) per share – weighted average number of common shares outstanding				
	79,924,876	73,071,753	76,780,765	73,071,753
Effect of potential dilutive securities:	3,792,255	-	-	-
Adjusted denominator for diluted earnings (loss) per share	<b>83,717,131</b>	<b>73,071,753</b>	<b>76,780,765</b>	<b>73,071,753</b>
Basic earnings (loss) per share				
	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Diluted earnings (loss) per share				
	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)

The dilutive effect of outstanding stock options and warrants on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds for the exercise of such securities are assumed to be used to purchase common shares of the Corporation.

Excluded from the calculation of diluted earnings per share for the three month period ended June 30, 2008 were 850,000 outstanding options and 345,000 warrants where the exercise prices were greater than the average market price of the common shares for the period.

The following were not included in the computation of diluted net loss per share for the six month period ended June 30, 2008 as they are anti-dilutive:

- 6,901,750 stock options with a weighted average exercise price of \$0.31 per share (note 7); and
- 3,559,665 warrants with exercise prices ranging from \$0.16 to \$1.07 (note 7).

**11. Supplemental Cash Flow Information**

During the period, changes in non-cash operating working capital were as follows:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Receivables	\$ (8,440)	\$ 363,467	\$ (269,029)	\$ 139,991
Inventory	8,990	21,916	26,966	(40,832)
Prepaid expense	(57,022)	(36,646)	(28,140)	(7,352)
Payables and accruals	(132,211)	(235,700)	(18,232)	127,136
Deferred revenue and deferred lease incentives	(44,522)	(27,690)	68,476	12,561
Total	\$ (233,205)	\$ 85,347	\$ (219,959)	\$ 231,504

Other supplemental cash flow information is as follows:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash paid for interest	\$ 52,180	\$ 50,010	\$ 88,344	\$ 63,151
Cash received for interest	\$ 6,170	\$ 5,252	\$ 12,549	\$ 9,614
Property and equipment acquired under capital lease	\$ 29,313	\$ -	\$ 29,313	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -

## 12. Segmented Information

Management has determined that the Corporation operates within two business segments: the computer products and services segment, which develops, distributes and licenses computer-based voice processing solutions based on its proprietary technology; and the transcription segment, which provides recording and transcription services, and information support services.

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

	Three months ended June 30, 2008		
	Computer Products & Services	Transcription Services	Total
Revenue from external customers	\$ 426,420	\$ 2,856,006	\$ 3,282,426
Gross profit	\$ 415,892	\$ 962,447	\$ 1,378,339
Segment Income (loss)	\$ 14,677	\$ 241,867	\$ 256,544
Corporate Expenses			\$ (236,065)
Net income for the period			<u>\$ 20,479</u>

	Three months ended June 30, 2007		
	Computer Products & Services	Transcription Services	Total
Revenue from external customers	\$ 507,556	\$ 2,775,247	\$ 3,282,803
Gross profit	\$ 365,578	\$ 848,555	\$ 1,214,133
Segment Income (loss)	\$ 60,551	\$ 137,487	\$ 198,038
Corporate Expenses			\$ (259,469)
Net loss for the period			<u>\$ (61,431)</u>

	Six months ended June 30, 2008		
	Computer Products & Services	Transcription Services	Total
Revenue from external customers	\$ 777,069	\$ 5,340,055	\$ 6,117,124
Gross profit	\$ 702,674	\$ 1,717,615	\$ 2,420,289
Segment Income (loss)	\$ (131,776)	\$ 331,777	\$ 200,001
Corporate Expenses			\$ (432,755)
Net loss for the period			<u>\$ (232,754)</u>

	Six months ended June 30, 2007		
	Computer Products & Services	Transcription Services	Total
Revenue from external customers	\$ 1,305,508	\$ 5,279,417	\$ 6,584,925
Gross profit	\$ 1,052,755	\$ 1,440,980	\$ 2,493,735
Segment Income (loss)	\$ 279,190	\$ 41,833	\$ 321,022
Corporate Expenses			\$ (557,797)
Net loss for the period			<u>\$ (236,775)</u>

The following tables provide information about geographic sales, property and equipment and goodwill.

	Six months ended June 30, 2008		
	Sales	Property and Equipment	Goodwill
Canada	\$ 871,232	\$ 379,230	\$ 748,611
Australia	4,764,702	497,092	1,600,071
United States and other	481,190	-	-
	<u>\$ 6,117,124</u>	<u>\$ 876,322</u>	<u>\$ 2,348,682</u>

	Six months ended June 30, 2007		
	Sales	Property and Equipment	Goodwill
Canada	\$ 904,610	\$ 422,260	\$ 748,611
Australia	4,574,930	566,844	1,483,269
United States and other	1,105,385	-	-
	<u>\$ 6,584,925</u>	<u>\$ 989,104</u>	<u>\$ 2,231,880</u>

### 13. Related Party Transactions

The following related party transactions occurred during the period:

- The bridge loan provided to the Corporation in 2006 with a face value of \$455,000 included loans from a senior officer of the Corporation in the amount of \$50,000 (see Note 6). During the second quarter, interest of \$5,688 was paid to the senior officer in connection with the loan; and
- The unsecured amount owing to the vendors of International Reporting includes loans from certain senior officers and employees of International Reporting (see Note 5). No interest was paid on the unsecured loan during the second quarter of 2008.