



VIQ Solutions Inc.

Second Quarter 2005 Management's Discussion and Analysis of
Financial Condition and Results of Operations

VIQ Solutions Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Period Ended June 30, 2005

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the audited consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of VIQ Solutions Inc. ("VIQ Solutions" or the "Corporation") for the three months ended June 30, 2005. The Corporation's consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information. Unless the context otherwise requires, all references to "VIQ Solutions", "our", "us", and "we" refers to VIQ Solutions Inc., and its subsidiaries. This MD&A is dated August 29, 2005 and all amounts herein are presented in Canadian dollars unless otherwise stated.

Forward-looking Statements and Risk Factors

This MD&A contains forward-looking statements, including statements regarding the future success of our business and technology strategies, and future market opportunities. These statements are neither promises or guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, and levels of activities to be materially different from any future results or levels of activities expressed or implied by these forward-looking statements. These risks include risks related to our revenue growth, operating results, industry and products, and well as other factors discussed below and elsewhere in this MD&A. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements. Readers are expected to review our 2004 MD&A section entitled "Risk Factors" for a more complete discussion of factors that could affect our future performance.

Incorporation and Corporate Restructuring

VIQ Solutions Inc. ("VIQ Solutions" or the "Corporation") was incorporated by Certificate of Incorporation pursuant to the provisions of the *Business Corporations Act* (Alberta) on November 10, 2004. On December 23, 2004, pursuant to a formal plan of arrangement ("the Arrangement") by VoiceIQ Inc. ("VoiceIQ"), the Corporation purchased all the assets of VoiceIQ, being the voice capture and digitization assets and business of VoiceIQ in exchange for 36,776,310 shares of the Corporation ("the Acquisition"). As part of the Acquisition, VIQ Solutions assumed all of VoiceIQ's contractual obligations and liabilities as of the date of the Arrangement that were not compromised by VoiceIQ under the *Companies Creditors Arrangement Act* (Canada) ("CCAA"). As part of the Arrangement, VIQ Solutions issued 2,000,000 common shares to certain creditors of VoiceIQ and an additional 1,333,333 common shares to a creditor of VoiceIQ as partial consideration of debt settlement under the CCAA.

Until the Arrangement was implemented, VIQ Solutions did not carry on any business and had no material assets or liabilities. The Corporation commenced active business on December 24, 2004.

Under Canadian generally accepted accounting principles ("GAAP"), a company is required to comprehensively revalue its assets and liabilities after a financial reorganization that results in a substantial realignment of the equity and non-equity interest in the company. As there was no substantial change in control of the Corporation subsequent to the Arrangement, the assets and liabilities acquired from VoiceIQ have not been revalued.

Due to the fact that the predecessor company, being VoiceIQ, underwent a major restructuring, comparative figures are not meaningful and accordingly, have not been provided in the Consolidated Financial Statements.

Overview

We develop software and provide solutions that capture, digitize, compress and store voice from a variety of sources, including microphones, telephones and hand held recorders. Our 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 work flow management switch, provides anywhere anytime transcription work flow capabilities worldwide.

Spark & Cannon, our services division provides transcription services to court and quasi-judicial clients in Australia, New Zealand and other countries. With five offices across Australia, Spark & Cannon provides high quality and fast turn-around transcripts of court and legislative reporting services.

Critical Accounting Policies and Estimates

General

The preparation of the Consolidated Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. The Corporation's critical accounting policies have been reviewed and discussed with the Corporation's Audit Committee.

Going Concern Uncertainty

These Consolidated Interim 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. Prior to the Plan, VoiceIQ incurred significant operating losses, and, as at December 31, 2004, the Corporation had a working capital deficiency.

In January 2005, the Corporation secured a twelve-month, \$1,280,000 secured convertible debenture. The convertible debenture bears interest at a rate of 12% per annum compounded and payable monthly. The debenture is convertible into 7,111,111 units at a conversion price of \$0.18 per unit. Each unit is comprised of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant entitles the debenture holder to purchase one common share at a price of \$0.30 for a period of 18 months from the date of closing. The Corporation repaid the outstanding Debtor-in-possession ("DIP") financing that was assumed from VoiceIQ from the proceeds of the convertible debenture.

Subsequent to the period, certain provisions of the secured convertible were amended for no additional consideration including:

- The maturity date of the secured convertible debenture was extended from January 14, 2006 to April 2, 2007;
- The expiry date of the warrants issued on conversion of the secured convertible debenture was extended from July 2006 to September 30, 2007; and
- The conversion price for the secured convertible debenture was increased from \$0.18 to \$0.20 per Unit for all periods from and after January 14, 2007.

In January and February 2005, the Corporation received net proceeds of \$650,140 in connection with several private placements by issuing 3,611,888 units at a price of \$0.18 per unit. Each unit is comprised of one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.30 for a period of 18 months from the closing date.

In February 2005, the Corporation issued 2,490,555 units at \$0.18 for net proceeds of \$448,300 through a director's placement based on the same terms and conditions of the above-noted private placements.

In March 2005, the Corporation completed an additional private placement financing and received net proceeds of \$575,000 by issuing 2,500,000 units at a price of \$0.23 per unit. Each unit is comprised of one common share and one-half warrant whereby each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.30 for a period of 24 months from the closing date.

Management believes that these actions make the going concern basis appropriate. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities, and expenses in these financial statements.

The Corporation's ability to continue as a going concern is dependent on its ability to achieve and maintain profitable operations. These Consolidated Financial Statements do not reflect any adjustments to reflect the possible future effects on the recoverability and the classification of assets and of the amounts and the classification of liabilities that may result if the going concern assumption were not appropriate. Such adjustments may be material.

Basis of Consolidation

On December 23, 2004, the Corporation acquired all the assets and assumed all the associated contractual obligations and liabilities (to the extent that they were not compromised under the CCAA) from VoiceIQ including its wholly-owned subsidiary VIQ Australia Pty Ltd. and VIQ Australia Pty Ltd.'s wholly-owned subsidiaries Spark & Cannon Pty Ltd., Spark & Cannon (SA) Pty Ltd. (collectively referred to as "Spark & Cannon") and VoiceIQ NZ Limited. The Consolidated Financial Statements include the accounts of VIQ Solutions and the operations of the newly acquired assets as of the date of acquisition being December 23, 2004. The Corporation commenced active business on December 24, 2004. During the period, the Corporation incorporated a new subsidiary, VIQ Solutions (U.S.) Inc. which has been included in the consolidated financial statements.

Use of Estimates

In preparing the Corporation's Consolidated Interim Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenue and expenses. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the determination of the valuation of notes receivable and goodwill, the useful lives of property, plant and equipment, and other assets for amortization purposes, amounts recorded as accrued liabilities and the fair values of financial instruments.

Acquisition of Business Assets from VoiceIQ

On December 23, 2004, the Corporation signed an asset purchase agreement to acquire all of the assets of VoiceIQ and its subsidiaries and assume all of VoiceIQ's liabilities to the extent that they were not compromised under the CCAA. The aggregate purchase price was satisfied by the issuance of 36,776,310 common shares of the Corporation. As part of the Arrangement, VIQ Solutions issued 2,000,000 common shares to certain creditors of VoiceIQ and an additional 1,333,333 common shares to a creditor of VoiceIQ as partial consideration of debt settlement under the CCAA. Further, the Corporation reissued the stock options and warrants that were outstanding as of December 23, 2004 under the same terms and conditions that they existed in VoiceIQ.

Under Canadian GAAP, a company is required to comprehensively revalue its assets and liabilities after a financial reorganization that results in a substantial realignment of the equity and non-equity interest in the company. As

there was no substantial change in control of the Corporation subsequent to the Arrangement, the assets and liabilities acquired from VoiceIQ have not been revalued.

Accordingly, the value of the 36,776,310 common shares and the additional shares issued to the creditors of VoiceIQ was determined based on the carrying value of the net assets acquired at the time of the acquisition. The results of VoiceIQ's operations have been included in the consolidated financial statements since the agreement took effect on December 23, 2004.

Results of Operations for the three and six months ended June 30, 2005

Due to the fact that the predecessor company, being VoiceIQ, underwent a major restructuring, comparative figures are not meaningful and accordingly, have not been discussed in the MD&A.

Operating results for the three and six month periods ended June 30, 2005 were as follows:

	3 months ended June 30, 2005	6 months ended June 30, 2005
Net sales	\$3,211,594	\$5,756,428
Gross profit	\$1,239,449	\$2,173,479
Net loss	\$577,038	\$2,193,337
Net loss per common share	\$0.01	\$0.04
Cash loss from operations	\$211,914	1,417,351

Stock-based compensation expense

Stock-based compensation was \$84,336 in the second quarter of 2005, unchanged from the first quarter, representing the expense of option grants carried forward from VoiceIQ as contemplated in the Arrangement and option grants in the first quarter of 2005.

Shares Outstanding

For the three-month period ended June 30, 2005, the weighted average number of shares used in calculating the loss per share was 58,859,378. The number of shares outstanding as at June 30, 2005 was 58,870,642. Options granted under our stock option plan, outstanding warrants and special warrants have not been included in the calculation of the diluted loss per share as the effect would be anti-dilutive.

Stock options outstanding were 2,536,333 as at June 30, 2005, of which 1,317,666 were exercisable. Warrants and special warrants outstanding at June 30, 2005 were 10,736,077 and 4,000,000 respectively.

Results of Operations for the second quarter of 2005 compared to the first quarter of 2005

Revenues were \$3.2 million, a 26% increase from \$2.5 million primarily due to the increase in transcription services of approximately \$500,000 in Australia as well as an increase in software and software related sales of approximately \$200,000 in North America.

Gross profit expressed as a percentage of revenues was 39%, an increase of 2% due to a slight variation in sales mix during the quarter.

Selling and administrative expenses were \$1.5 million, an 8% increase from \$1.4 million due to increased sales activity.

Research and development costs were \$0.2 million for the quarter representing a 50% decline from \$0.4 million as a

result of the completion of work commenced in the first quarter for the development of its RecordIAB product, a new innovative enclosed recording console for the recording, playback and storing of digital audio.

Net loss was \$0.6 million, a 64% decrease from \$1.6 million in the first quarter primarily due one time expenses of \$720,000 in the first quarter relating to the Plan of Arrangement and the increase in sales and corresponding increase in gross profit in the second quarter.

Cash loss from operations for the quarter was \$0.2 million as compared to \$1.4 million representing a decrease of 85% from the previous quarter primarily due to the reduction in operating losses in the quarter.

Liquidity and Capital Resources

As at June 30, 2005, the Corporation had \$2,182,167 of cash and cash equivalents. Cash and cash equivalents used in operating activities was \$211,914 during the second quarter primarily due to operating losses for the period. Cash and cash equivalents used in investing activities were \$202,789 for the purchase of fixed assets and the increase in restricted cash as required security for leases entered into by the Corporation's subsidiary, Spark & Cannon. Cash and cash equivalents used in financing activities were \$193,379 during the period primarily from the repayment of the note payable.

We intend to use our funds to meet net funding requirements for the development and commercialization of our computer products and transcription services based on anticipated market demand. Our actual funding requirement will vary depending on a variety of factors, including our success in executing our business plan, the progress of our research and development efforts, our commercial sales and our ability to manage our working capital requirements. We believe that our existing cash balances and cash generated from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the foreseeable future.

Contractual Obligations

The Corporation and its subsidiaries have entered into agreements to lease office premises until 2010. 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:

2005	\$	209,377
2006		288,316
2007		342,292
2008		339,020
2009		219,993
2010		61,463
	\$	<u>1,460,461</u>

Long-term Debt

As at June 30, 2005, we did not have any long-term debt.

Highlights of business development activity in the second quarter:

- During the quarter, the Corporation announced a new VAR partnership with WUSF, a public broadcast organization in the state of Florida, received certification as a supplier to the state of Florida and finalized an integrated solutions contract for 15 hearing rooms in Florida;
- During the quarter, the Corporation announced a new VAR partnership with DECA-AMR Business Products Inc., a Georgia-based company focusing on business recording solutions for medical, legal and corporate customers;
- Subsequent to the quarter, VIQ Solutions completed the development, testing and deployment of its RecordIAB product, a new innovative enclosed recording console for the recording, playback and storing of digital audio, and secured a contract for 15 high courts in the Delta States in Nigeria;
- Subsequent to the quarter, VIQ Solutions announced that its wholly-owned subsidiary Spark & Cannon had secured a five-year, Aus\$2.5 million contract with the South Australian Industrial Relations Commission; and
- Subsequent to the quarter, the Corporation announced that Netsound Pty Limited has been appointed regional distributor of VIQ Solutions' products and services for the Asia-Pacific region.

Related party Transactions

The convertible debenture in the amount of \$1,280,000 is from a company in which a director of the Corporation is a senior officer. During the period, \$38,295 of interest was paid in connection with the secured convertible debenture.

Subsequent Events

The following events occurred subsequent to the period:

(i) Stock Options

Subsequent to the period, the Corporation granted 240,000 stock options to employees. The options have exercise prices ranging between \$0.20 and \$0.21 and expire five years after the grant date. The stock options vest one third immediately, one third after one year and one third after two years.

(ii) Convertible Debenture

Subsequent to the period, certain provisions of the secured convertible were amended for no additional consideration including:

- The maturity date of the secured convertible debenture was extended from January 14, 2006 to April 2, 2007;
- The expiry date of the warrants issued on conversion of the secured convertible debenture was extended from July 2006 to September 30, 2007; and
- The conversion price for the secured convertible debenture was increased from \$0.18 to \$0.20 per Unit for all periods from and after January 14, 2007.

Outlook and Strategy

With the corporate restructuring and the refinancing of the Corporation successfully completed, we are well positioned to capitalize on the enormous potential and heightened interest in our software solutions in North America and globally.

We are working to develop new partnerships and expand existing partnerships among large systems integrators and strategic entry point partners. These partners have geographic and technical presence in the market and accelerate our ability to attain and keep new contracts. As these relationships flourish, they will result in valuable and long-term recurring revenues for the Corporation.

Our development teams are producing significant new product offerings and entirely new products to augment our full spectrum of solutions from entry to enterprise level. Our clients, dealers and resellers continue to provide valuable input to the design and feature-set being delivered in our solutions. New product releases and new opportunities continue to evolve and subsequently, new solutions are being offered on a regular bases. We continue to release new products on a rapid development cycle with new releases occurring approximately each quarter.

VIQ Solutions achieved a major commercial milestone by successfully installing and piloting the world's first automated wireless court reporting and transcription solution, NetScribe. Netscribe provides a fully automated service for clients to capture, store, transfer and transcribe digital audio files. This dramatically increases the market opportunities for the Corporation to win all forms of electronic Court reporting around the world including remote location applications, near real time transcription needs, hearings, tribunals and quasi-judicial needs. Netscribe will also introduce a new transaction-based recurring revenue model to VIQ Solutions. Specifically, customers will be provided with our audio capture software with Netscribe to manage all digital audio traffic; these customers will be billed based on usage of transcription services or web-based tools. An example of this is the Corporation's recent announcement of a new VAR partnership with WUSF, a public broadcast organization in the state of Florida, receiving certification as a supplier to the state of Florida and finalizing an integrated solutions contract for 15 hearing rooms in Florida.

We have also just completed the development, testing and deployment of our newest offering, RecordIAB, an innovative and fully enclosed recording appliance for the recording, playback and storing of digital audio. RecordIAB is ideally suited for entry-level customers requiring a feature rich, simple to use, touch screen product. RecordIAB is a complete solution which is simple to use but also has expansion capabilities to meet the needs of sophisticated judicial, legislative and deposition customers by adding sophisticated features as the operator's skill set evolves. RecordIAB is designed to be completely compatible with all of our other product offerings. We believe that RecordIAB will allow us to access existing markets as well developing market opportunities that require an easy to use solution which does not incur any of the technical overhead normally required by complex solutions.

These products and offerings continue to be integrated with our NetScribe services providing a complete solution set spanning easy-to-use entry-level solutions to sophisticated full-featured systems. This solution set allows the customer to adopt the level of sophistication suitable to their needs.