



VIQ Solutions Inc.

Third Quarter 2006 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 Three and Nine Months Ended September 30, 2006

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") covers our interim consolidated financial statements for the three and nine months ended September 30, 2006 ("Interim Consolidated Financial Statements") and updates our MD&A for fiscal 2005. The information herein should be read in conjunction with the audited consolidated financial statements and Auditors' Report for fiscal 2005. The Corporation's Interim Consolidated 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", "Corporation", "our", "us", and "we" refers to VIQ Solutions Inc. and its subsidiaries. Additional information regarding the Corporation is available on SEDAR at www.sedar.com. This MD&A is dated November 23, 2006 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 nor 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, as well as other factors discussed 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 any 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 the section in our 2005 Annual Report entitled "Business Risks" for a more complete discussion of factors that could affect our future performance.

Incorporation and Corporate Restructuring

VIQ Solutions 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 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.

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 workflow management switch, provides anywhere anytime transcription workflow capabilities worldwide.

We also provide 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, New Zealand, South Africa, and Ireland.

Highlights of Business Development Activity for the Quarter

- During the period, the Corporation obtained a two-year \$455,000 secured bridge loan. The bridge loan bears interest at a rate of 12%, payable annually and includes the issuance to the lenders of 2,275,000 common share purchase warrants, which have an exercise price of \$0.16 for the first year and \$0.24 for the second year.
- During the period, the Corporation obtained a two-year \$270,000 secured bridge loan. The bridge loan bears interest at a rate of 12%, payable annually and includes the issuance to the lenders of 1,350,000 common share purchase warrants, which have an exercise price of \$0.16 for the first year and \$0.24 for the second year.
- Subsequent to the period, the Corporation announced the release of its new Encompass digital audio and video capture solution and the latest version of the RecordIAB recording console with networking capabilities. In addition to multi-channel digital audio recording, Encompass offers synchronized digital video capture, making it ideally suited for markets with both digital audio and visual requirements.
- Subsequent to the period, the Corporation announced the release of two new solutions from the RecordIAB family being RecordIAB Workstation and RecordIAB Software Edition (SE), making the Corporation's products appeal to an even broader market.

Critical Accounting Policies and Estimates

General

The preparation of the Interim Consolidated 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 Assumption

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 during the year. The following transactions demonstrate the Corporation’s ability to raise capital:

- In January 2006, the balance of the Corporation’s \$1.28 million secured debenture was converted into common shares and warrants of the Corporation;
- In the first quarter of 2006, the Corporation obtained a \$500,000 six-month secured bridge loan. The bridge loan bears interest at a rate of 10% per annum payable upon repayment of the loan. During the period, the Corporation extended the bridge loan to March 31, 2007;
- In the second quarter, the Corporation finalized a private placement in the amount of \$587,100 for 3,090,000 common shares at a price of \$0.19 per share; and
- During the period, the Corporation obtained two secured bridge loans for \$455,000 and \$270,000, each for a period of two years. The bridge loans bear interest at a rate of 12%, payable annually and include the issuance to the lenders of a combined 3,625,000 common share purchase warrants, which have an exercise price of \$0.16 for the first year and \$0.24 for the second year.

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 interim 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.

Financial Instruments with Separate Components

The secured bridge loan and associated warrants are segregated into their debt and equity components at the date of issue. The equity component, representing the value allocated to the warrants at their inception, has been included in contributed surplus. The remaining component, representing the value ascribed to the debt portion, has been classified as long-term debt. These components have been measured at their respective fair values on the date the financial instruments were issued. The carrying value of the warrants is accreted to the original face value of the secured bridge loans over the respective terms of the secured bridge loans.

During the period, the Corporation entered into two secured bridge loans with a face value of \$455,000 and \$270,000, each for a period of two years. The bridge loans bear interest at a rate of 12%, payable annually and include the issuance to the lenders of collectively 3,625,000 common share purchase warrants, which have an exercise price of \$0.16 for the first year and \$0.24 for the second year.

The debt portion was initially recorded on the balance sheet with a value of \$670,396, which was determined using the Black Scholes method to value the warrants. The difference of \$54,604, between the face amount and the estimated fair value of the debt component was reflected as contributed surplus and will be accreted over the two year life of the loan and is charged to the consolidated statement of operations as interest expense.

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. Limited and VIQ Australia Pty. Limited’s wholly-owned

subsidiaries Spark & Cannon Pty. Ltd., Spark & Cannon (SA) Pty. Ltd. (collectively referred to as “Spark & Cannon”) and VIQ Solutions NZ Limited (formally VoiceIQ NZ Limited). On July 1, 2006, Spark & Cannon Pty. Ltd. was amalgamated into Spark & Cannon (SA) Pty. Ltd. at which time Spark & Cannon (SA) Pty. Ltd. changed its name to Spark & Cannon Australasia Pty. Limited.

In 2005, the Corporation incorporated a new subsidiary, VIQ Solutions (U.S.) Inc., which has been included in the interim consolidated financial statements. On December 23, 2005, the Corporation acquired all the outstanding common shares of International Reporting Inc. (“International Reporting”).

The Interim Consolidated Financial Statements include the accounts of VIQ Solutions, the operations of the acquired assets of VoiceIQ as of the date of acquisition being December 23, 2004, the operations of VIQ Solutions (U.S.) Inc. and the operations of International Reporting as of the date of acquisition being December 23, 2005.

Use of Estimates

In preparing the Corporation's Interim Consolidated 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 intangibles and goodwill, the useful lives of property, plant and equipment, and other assets for amortization purposes and amounts recorded as accrued liabilities.

Business Acquisitions

Acquisition of International Reporting

On December 23, 2005, the Corporation signed and closed a share purchase agreement to acquire all of the common shares of International Reporting, a transcription and recording services company. The aggregate purchase price was \$950,000 satisfied by \$500,000 of cash and two unsecured notes of \$225,000 each bearing interest at 5% to be repaid on the first and second anniversaries of the acquisition. The Corporation may be required to pay additional consideration of varying amounts to the vendors in the event that certain sales and net earnings targets are met.

Employee Stock-based Compensation Expense

Employee stock-based compensation was \$43,421 for the three month period ended September 30, 2006 as compared to \$67,051 for the three month period ended September 30, 2005. Stock options are expensed over their expected life and are charged to selling and administrative expenses.

Shares Outstanding

The weighted average number of common shares used in calculating the loss per share was 73,071,753 and 71,721,090 for the three and nine month periods ended September 30, 2006 (three and nine months ended September 30, 2005 – 58,870,642 and 57,109,554). We have included the special warrants in the weighted average number of common shares as these warrants are deemed exercised as they have no exercise price and are automatically exercised prior to expiry. The number of common shares outstanding as at September 30, 2006 was 73,071,753 (September 30, 2005 – 58,870,642). The increase in the number of common shares outstanding was primarily attributable to the common shares issued from the private placements that took place in 2005 and 2006 and the conversion of the \$1,280,000 secured convertible debenture.

Options granted under our stock option plan and outstanding 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 4,321,333 as at September 30, 2006 (September 30, 2005 – 2,787,999), of which 2,471,989 were exercisable (September 30, 2005 – 1,739,330). During the quarter, 5,000 stock options were granted.

Warrants outstanding at September 30, 2006 were 7,525,555 (September 30, 2005 – 10,736,077) and special warrants outstanding were nil (September 30, 2005 – 4,000,000). As at September 30, 2006, 1,800,000 special warrants remained in escrow pursuant to the terms of the special warrants.

Results of Operations

Revenue for the three and nine months periods ended September 30, 2006 was \$2.7 million and \$8.1 million, respectively, representing an increase of \$0.1 million or 3% compared to the three months ended September 30, 2005 and a decrease of \$0.2 million or 3% compared to the nine month period ended September 30, 2005. The increase reflects the increase in revenue from our computer products and services (\$161,000) partially offset by a decline in our transcription services primarily due to slower business activity in Australia (\$413,000) and partially offset by increased revenues as a result of the inclusion of International Reporting's revenue for the quarter (\$342,000).

Revenue from computer products and services included revenue from the sale of our software and hardware products, NetScribe services, service support and maintenance agreements and the sale of our RecordIAB console product. We anticipate that the revenue from computer products and services will continue to grow due the release of our new products as well as an increase in market activity. We expect that the RecordIAB product suite and the Encompass product will represent a substantial portion of our revenue in 2006 as our global network of value added resellers and distributors become more familiar with the products and begin to access new market verticals.

The following table provides a breakdown of our revenues for the reported periods:

(\$000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2006	2005	2006	2005
Transcription services	\$ 2,144	\$ 2,215	\$ 6,755	\$ 7,269
Computer products and services	577	416	1,365	1,118
	<u>\$ 2,721</u>	<u>\$ 2,631</u>	<u>\$ 8,120</u>	<u>\$ 8,387</u>

Gross profit for the three and nine months periods ended September 30, 2006 were \$1,063,768 and \$2,829,222 respectively or 39% and 35% gross margin as compared to \$806,071 and \$2,979,549 respectively or 31% and 35% gross margin for three and nine months periods ended September 30, 2005.

Gross margin from computer products and services was 82% for the three months ended September 30, 2006 as compared to 54% from the previous quarter and 62% from the three months ended September 30, 2005. The increase in the gross margin can be attributed to the increase in revenue from the sale of our software products and services which typically have significantly higher margins than our RecordIAB console product. We are anticipating a modest increase in our gross margins in subsequent quarters as a result of changes in our revenue mix. We have plans to continue to improve our gross margins by further standardizing and enhancing our manufacturing process for the RecordIAB console as well as the introduction of a new software version of the product.

Gross margin from our transcription and court reporting services was 28% for the three months ended September 30, 2006 as compared to 28% from the previous quarter and 25% for the three months ended September 30, 2005 primarily due to the increased margin attributable to International Reporting. We anticipate that our gross margins for the transcription business will remain the same or increase slightly in the short term.

The following table provides a breakdown of our gross margins for the reported periods:

(\$000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2006	2005	2006	2005
Transcription services	28%	25%	28%	29%
Computer products and services	82%	62%	70%	75%
	39%	31%	35%	35%

Selling and administrative expenses were \$0.94 million and \$3.1 million for the three and nine month periods ended September 30, 2006 as compared to \$1.14 million and \$3.9 million for the three and nine month periods ended September 30, 2005, representing a decline of \$0.2 million or 18% and \$0.8 million or 20% as compared to the comparable periods in 2005. Selling and administrative expenses declined in the quarter primarily due to continued rationalization of our business operations (\$326,000), offset by additional selling and administrative expenses associated with International Reporting of approximately \$124,000. We anticipate that selling and administrative expenses will continue to decline due to management's continual efforts to improve efficiencies of the business operations.

Research and development expenses were \$207,726 for the three months ended September 30, 2006 as compared to \$214,541 for the previous quarter and \$237,924 for the three months ended September 30, 2005. We anticipate that our research and development expenses will remain constant as we continue to invest in existing and new product and services.

Our net loss for the three and nine month periods ended September 30, 2006 was \$253,133 and \$1,475,913 as compared to \$851,216 and \$3,044,553 for the three and nine month periods ended September 30, 2005.

Net loss per common share for the three months ended September 30, 2006 was \$0.00, down from \$0.01 from the previous quarter and from the \$0.01 from the three month period ended September 30, 2005. Options granted under our stock option plan and warrants have not been included in the calculation of the diluted loss per share as the effect would be anti-dilutive.

Financial Condition, Liquidity and Capital Resources

As at September 30, 2006, the Corporation had \$979,649 of cash and cash equivalents (September 30, 2005 - \$1,421,189). Cash and cash equivalents used in operating activities was \$292,256 for the three month period ended September 30, 2006 as compared to \$637,220 for the three month period ended September 30, 2005. Cash and cash equivalents used in investing activities decreased to \$17,412 for the three months ended September 30, 2006 as compared to \$127,242 for the three months ended September 30, 2005, primarily due to the investment in furniture and fixtures required for our Australian transcription business in 2005. Cash and cash equivalents from financing activities increased to \$759,146 for the three month period ended September 30, 2006 as compared to \$12,286 for the three month period ended September 30, 2005 primarily from proceeds from the two bridge financings secured during the period.

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 requirements 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 balance of the year.

The "Liquidity and Capital Resources" section above contains certain forward-looking statements. By their nature forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the caution regarding Forward-looking Statements on page 10 of our 2005 Annual Report and page 18 of our 2005 Annual Report for a discussion of such risk and uncertainties and the material factors and assumptions related to the statements set forth in those sections.

Quarterly Results of Operations

The following table sets forth our unaudited consolidated statements of operations for each of the past quarters since the Corporation's inception. This information was obtained from our quarterly unaudited financial statements, which have been prepared in accordance with Canadian GAAP. We expect our operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future performance.

	Quarter Ended (Unaudited) (000s of dollars – except per share amounts)							
	Dec. 31 2004 (8 days)	March 31 2005	June 30 2005	Sept. 30 2005	Dec. 31 2005	March 31 2006	June 30 2006	Sept. 30 2006
Revenue	\$ 86	\$2,545	\$3,212	\$2,631	\$2,504	\$2,470	\$2,929	\$2,721
Net Loss	(76)	(1,616)	(577)	(851)	(557)	(668)	(555)	(253)
Net Loss per Common Share (Basic and Fully Diluted)	(\$0.00)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management as appropriate to allow timely decisions regarding required disclosure. The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Related Party Transaction

The bridge loan provided to the Corporation during the period included loans from a senior officer of the Corporation in the amount of \$50,000.

Outlook and Strategy

This "Outlook" section contains certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the section "Forward-looking Statements".

We are well positioned to capitalize on the potential growth and heightened interest in our software solutions in North America and globally. During 2006, we anticipate that we will benefit from a series of market trends including (i) the transition in the courts from analog audio recording systems to digital recording systems; (ii) the end of life cycle for most analog audio recording devices; and (iii) the increasing market demand for digital recording in various market verticals including the medical, insurance, law enforcement, military and transportation industries.

We have recently released our RecordIAB suite of products which includes an innovative and fully enclosed recording console, a space-efficient workstation and software edition for the recording, playback and storing of digital audio. All three solutions are built on the same user-friendly RecordIAB software platform. The RecordIAB suite is ideally suited for entry-level and sophisticated customers requiring a feature-rich, simple to use, product.

The RecordIAB suite provides a complete solution which is easy to use but also has expansion capabilities to meet the needs of sophisticated end users by adding features as the operator's skill set evolves. The RecordIAB suite is designed to be completely compatible with all of our other product offerings. We believe that the RecordIAB suite will allow us to service existing markets as well as penetrate new markets that require easy to use, digital recording.

We are working to develop new partnerships and expand existing partnerships among large system 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 should result in valuable and long-term recurring revenues for the Corporation.

Our development teams are producing significant new product offerings 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 releases are occurring each quarter.

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.