



## **VIQ Solutions Inc.**

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Second Quarter 2010 Management's Discussion and Analysis of  
Financial Condition and Results of Operations

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## VIQ Solutions Inc.

# Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Six Month Periods Ended June 30, 2010

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The following Management's Discussion and Analysis ("MD&A") comments on the financial condition and results of operations of VIQ Solutions Inc. ("VIQ Solutions" or the "Corporation") for the three and six month periods ended June 30, 2010 and should be read in conjunction with the audited consolidated financial statements and Auditors' Report for fiscal 2009.

The Corporation's Interim Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), except for certain "Non-GAAP Measures" described in this MD&A. The unaudited Interim Consolidated Financial Statements and this MD&A were reviewed by the Corporation's Audit Committee and approved by the Corporation's Board of Directors.

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](http://www.sedar.com). This MD&A is dated August 23, 2010. All amounts herein are presented in Canadian dollars, unless otherwise stated.

### OVERVIEW

We develop software and provide solutions that capture, digitize, compress and store audio and video 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 integrators, channel partners and direct sales, solutions to end-users including courthouses, legislative assemblies 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 facilities, courtrooms, legislative assemblies, hearing rooms, inquiries and quasi-judicial clients in numerous countries including Canada, the United States, the United Kingdom, Australia, South Africa and Denmark.

### OUTLOOK AND STRATEGY

This "Outlook and Strategy" 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".

#### *Market trends*

We are well positioned to capitalize on the potential growth and heightened interest in our software solutions globally. During 2010, and for the next several years, 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; (iii) the increasing market demand for digital recording in various market verticals including the medical, insurance, law enforcement, military and transportation industries; and (iv) the need to manage large volumes of digital data with simple-to-use but sophisticated workflow technologies. We anticipate that these trends will continue to intensify in the future, allowing the benefits of digital records to be further demonstrated through a variety of solutions and applications. Accordingly, we intend to grow by acquiring new customers and expanding the service offering that we currently provide to our existing customers.

#### *Focus on Research and Development*

Our development team continues to produce significant new product offerings to complement our full spectrum of solutions from entry to enterprise level. Globally, we are seeing a demand for large-scale integrated justice projects which capture, manage and store digital records. With this in mind, we have expanded our offerings to integrate with

scalable storage systems and provide sophisticated file management capabilities for searching and retrieving recordings and associated documents. Several leading edge data storage subsystems can now be configured to interface with our products. Our Encompass Suite has been designed to accommodate a multi-tiered architecture capable of managing world-wide audio/video acquisition and workflow processes including redundancy and disaster-recovery scenarios. Our multi-tiered architecture provides automatic real-time synchronization of all nodes to middle-tier servers which in turn auto-synchronize with a central-tier data center providing instantaneous redundant file storage. We believe that these product capabilities will allow us to service existing markets as well as penetrate evolving markets that require easy to use digital recording with sophisticated back-office requirements, including the management and storage of mission-critical data.

Our solutions continue to be integrated with our NetScribe product which delivers secure anywhere-anytime exchange of files for transcription. Our NetScribe solution has been designed to accommodate easy-to-use entry-level solutions to sophisticated full-featured back-office workflow systems. This solution set allows the customer to adopt the level of sophistication suitable to their needs and maintain that investment while growing into more sophisticated requirements.

#### *Expanding Our Partner Networks*

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 clients, dealers and resellers continue to provide valuable input to the design and feature-set being delivered in our solutions. Our service businesses continue to play an important strategic role in guiding the Corporation, providing first hand knowledge and experience of the changes in the court reporting and transcription market and the evolving needs of our customers. Both of our subsidiaries, Spark & Cannon Australasia Pty. Limited (“Spark & Cannon”) and International Reporting Inc. (“International Reporting”), are continually adopting our new technology into their business processes and provide valuable feedback to our development team.

## **2010 SECOND QUARTER BUSINESS HIGHLIGHTS**

We continue to move forward with our contract in the United Kingdom for the installation of at least 595 courtrooms with our partners Atos Origin and Logica. As previously reported, the successful installation of the implementation sites for the United Kingdom project was completed in early 2010. We anticipate that the national rollout in the United Kingdom will commence in the fourth quarter of 2010.

## FINANCIAL HIGHLIGHTS

### Summary Financial Analysis

(in thousands of dollars, except per share amounts)

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	% Change	2010	2009	% Change
<b>Consolidated Statement of Operations</b>						
Computer Products and Services	276	683	(60%)	724	1,113	(35%)
Transcription and Recording Services	2,766	2,395	16%	5,087	4,511	13%
Revenue	3,042	3,078	(1%)	5,811	5,624	3%
Gross Profit	997	1,367	(27%)	2,021	2,368	(15%)
% of Revenue	33%	44%		35%	42%	
Selling and Administrative Expenses	1,164	1,159	-	2,316	2,222	4%
Research and Development	166	128	30%	337	256	32%
Net Income (Loss)	(468)	37	(1364%)	(894)	(200)	(347%)
Net Income (Loss) per Share	(0.01)	0.00	-	(0.01)	(0.00)	-
<b>Consolidated Statement of Cash Flows</b>						
Cash From (Used in) Operating Activities	9	3	-	(380)	68	(658%)
<b>Other Measures</b>						
EBITDA <sup>1</sup>	(342)	132	(359%)	(666)	(15)	(4340%)

## OPERATING RESULTS

Revenue was \$3.0 million and \$5.8 million for the three and six month periods ended June 30, 2010 as compared to \$3.1 million and \$5.6 million for the three and six month periods ended June 30, 2009, representing a decrease in revenue of \$0.1 million or 1% for the three month period ended June 30, 2010 and an increase of \$0.2 million for the six month period ended June 30, 2010.

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

(\$000s)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Transcription services	\$ 2,766	\$ 2,395	\$ 5,087	\$ 4,511
Computer products and services	276	683	724	1,113
Total Revenue	\$ 3,042	\$ 3,078	\$ 5,811	\$ 5,624

<sup>1</sup> EBITDA is a Non-GAAP measure. Please refer to the section entitled "Non GAAP Measures" of this MD&A.

Revenue from computer products and services included revenue from the sale of our software and hardware products, NetScribe services and our service support and maintenance agreements. Revenue from this business unit has decreased over the three and six month periods ended June 30, 2010 relative to the previous year due to the purchase of software in 2009 in connection with the early implementation of 118 courtrooms for the United Kingdom project with Atos Origin and Logica. As previously reported, the successful installation of the implementation sites for the United Kingdom project was completed in early 2010. We anticipate that the revenue from computer products and services will resume its growth in 2010 with the commencement of the national rollout in the United Kingdom. We expect that our enterprise Encompass Server solution will continue to represent an increasing portion of our revenue in 2010 as we continue to leverage our existing relationships with system integrators.

Revenue from our transcription and recording services increased by 16% and 13% for the three and six month periods ended June 30, 2010 as compared to the same periods in 2009 primarily due to the commencement of the Fair Work Australia contract in 2010. We anticipate that transcription revenue will increase slightly for the balance of 2010 as our transcription businesses continue to take on more work from new and existing contracts.

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

(\$000s)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Transcription services	\$ 738	\$ 730	\$ 1,334	\$ 1,418
Computer products and services	259	637	687	951
	\$ 997	\$ 1,367	\$ 2,021	\$ 2,369

Gross profit for the three and six month periods ended June 30, 2010 was \$1.0 million and \$2.0 million as compared to \$1.4 million and \$2.4 million for the same periods in 2009 primarily due to the decrease in revenue from the computer products and services group which normally provides higher margins than our transcription businesses.

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Transcription services	27%	31%	26%	31%
Computer products and services	95%	93%	95%	85%
	33%	44%	35%	42%

Gross margin from computer products and services was 95% for the three and six month periods ended June 30, 2010 as compared to 93% and 85% for the same periods in 2009. The increase in the gross margin can be attributed primarily to the change in our revenue mix from the sale of our software products and services which typically have significantly higher margins than our hardware products. We are anticipating that our gross margins for our computer products and services will decrease slightly in subsequent quarters as the revenue mix moves to more historical ranges.

Gross margin from our transcription and court reporting services was 27% and 26% for the three and six month periods ended June 30, 2010 as compared to 31% for the three and six month periods ended June 30, 2009. The decrease in our 2010 gross margin can be attributed to the one-time start up costs associated with the Fair Work Australia contract that commenced in 2010. We anticipate that our gross margin for the transcription business will increase slightly throughout the balance of 2010.

Selling and administrative expenses were \$1.2 million and \$2.3 million for the three and six month periods ended June 30, 2010 as compared to \$1.2 million and \$2.2 million for the same three and six month periods in 2009

remaining relatively unchanged year over year. We anticipate that selling and administrative expenses will remain stable or increase slightly as we grow our revenue.

Included in selling and administrative expenses was stock-based compensation of \$41,863 and \$116,426 for the three and six month periods ended June 30, 2010 as compared to \$53,945 and \$109,775 for the three and six month periods ended June 30, 2009.

Research and development expenses were \$166,042 and \$337,342 for the three and six month periods ended June 30, 2010 as compared to \$128,085 and \$255,585 for the three and six month periods of the previous year, representing an increase of \$37,957 and \$81,757 respectively or 30% and 32% due to an increase in resources allocated to the continued development of our software product suite. We anticipate that our research and development expenses will remain constant as we continue to invest in existing and new products and services.

EBITDA loss for the three and six month periods ended June 30, 2010 was \$341,699 and \$666,011 respectively as compared to an EBITDA gain of \$132,204 and an EBITDA loss of \$15,616 for the three and six month periods ended June 30, 2009.

Our net loss for the three and six month periods ended June 30, 2010 was \$467,995 and \$894,304 respectively as compared to net income of \$36,679 and net loss of \$199,800 for the same periods in 2009.

Net loss per common share for the three month period ended June 30, 2010 was \$0.01 as compared to a net income of \$0.00 for the same three month period in 2009. Options granted under our stock option plan and outstanding warrants have not been included in the calculation of the diluted loss per share for 2010 as the effect would be anti-dilutive.

The weighted average number of common shares used in calculating the loss per share was 83,241,118 and 83,149,218 for the three and six month periods ended June 30, 2010 and 84,032,220 and 82,876,085 for the same periods ended June 30, 2009. The number of common shares outstanding as at June 30, 2010 was 83,384,085 (June 30, 2009 - 82,876,085). The total common shares outstanding as of the date of this MD&A was 83,204,085.

Stock options outstanding as at June 30, 2010 were 7,689,250 (2009 - 7,253,250), of which 6,456,074 were exercisable (2009 - 5,576,409). Warrants outstanding at June 30, 2010 were 625,000 (2009 - 2,464,665).

## QUARTERLY RESULTS OF OPERATIONS

The following table highlights selected financial information for the eight consecutive quarters ending June 30, 2010. 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.

	(000s of dollars – except per share amounts)							
	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$3,042	\$2,770	\$2,877	\$2,841	\$3,078	\$2,546	\$3,059	\$2,760
Gross Profit	997	1,024	1,103	1,081	1,367	1,001	1,556	1,077
Selling and Administrative Expenses	\$1,164	\$1,152	\$1,218	\$1,220	\$1,159	\$1,063	\$1,098	\$1,095
Net Income (Loss)	(468)	(426)	(324)	(449)	37	(237)	282	(332)
Net Loss per Share (Basic and Fully Diluted)	(\$0.01)	(\$0.00)	(\$0.005)	(\$0.005)	\$0.00	(\$0.00)	\$0.00	(\$0.00)

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2010, the Corporation had \$826,680 of cash (June 30, 2009 - \$906,891). Cash flows from operating activities was \$9,049 and cash flows used in operating activities was \$379,873 for the three and six month periods ended June 30, 2010 as compared to cash from operations of \$2,975 and \$68,008 for the three and six month periods ended June 30, 2009 primarily due to an increase in our operating loss offset by a reduction in our investment in working capital for the period. Cash used in investing activities was \$28,247 and \$97,216 for the three and six month periods ended June 30, 2010 as compared to \$15,121 and \$49,968 for the three and six month periods ended June 30, 2009, primarily due to capital expenditures associated with the Fair Work Australia contract in the first half of 2010. Cash flows from financing activities was \$10,965 and \$937,724 for the three and six month periods ended June 30, 2010 as compared to a cash outflow of \$15,394 and \$92,898 for the same periods ended June 30, 2009 due to the new bridge loan facility for \$875,000 advanced during in the first quarter of 2010.

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 foreseeable future.

The following table provides information about the Corporation's non-cash working capital items:

As at June 30, (in thousands of dollars)	2010	2009	Change		Commentary
			\$	%	
<b>Current Assets</b>					
Accounts Receivable	1,482	1,815	(333)	(18%)	Decreased due to a greater amount of revenues recorded near the end of the period in 2009. Consistent with historic levels.
Inventory	17	28	(11)	(39%)	Inventory remained relatively unchanged and within normal historical levels.
<b>Current Liabilities</b>					
Accounts Payable and accrued liabilities	1,744	1,642	102	6%	Increased due to greater amount of purchases recorded near the end of the period.
Deferred revenue and deferred lease incentives	272	245	27	11%	Increased due to the timing of service contracts.

The following table provides information about the Corporation's total assets and total long-term debt as at June 30 for the last three years.

As at June 30 (\$000s)	2010	2009	2008
Total assets	\$ 5,845	\$ 6,190	\$ 6,317
Total long-term debt	\$ 517	\$ 548	\$ 546

## Financial Instruments

### *Fair Values*

The estimated fair values of cash, receivables, restricted cash, short-term debt and payables and accruals approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments. The estimated fair values of long-term debt and obligations under capital lease also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

### *Liquidity*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation'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. At June 30, 2010, we had approximately \$0.8 million in cash and had contractual obligations relating to accounts payable and accrued liabilities, obligations under capital leases 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 in the upcoming 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.

The condition of the current global economy and credit markets affects our outlook as our products depend, to some degree, on general world economic conditions and activity. If the current condition of the economy results in a sustained broad economic recession, governments may be forced to support industry and social programs in an unprecedented way. This, in turn, may limit the number of infrastructure projects that they invest in. As of the date of this MD&A, we are not aware of any decline in market activity from governments in connection with the operation and continued upgrading of courts. We continue to monitor our operating strategy in light of these market conditions.

### *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. An ongoing review is performed by management to evaluate changes in the status of counterparties.

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 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. An insignificant amount of these receivables were past due as at June 30, 2010.

### *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 and Great Britain pounds with a large portion of the Corporation's sales and operating costs being realized in these foreign currencies. Monetary 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, to the greatest extent possible, 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. The Corporation's computer products and services operations are exposed to exchange rate changes in the U.S. dollar and the Great Britain Pound relative to the Canadian dollar since a substantial portion of this division's sales are denominated in U.S. dollars or Great Britain Pounds with most of the related expenses payable in Canadian dollars.

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.

### *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. The Corporation did not institute any changes to its capital management strategy during the period.

## **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 current period and prior year.

Historically, management has consistently been able to raise sufficient funds to finance its operations, and has raised debt in the amount of \$875,000 in the first quarter of 2010 through a secured bridge loan. 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.

### **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 estimates made by the Corporation include the determination of the fair value of goodwill, the useful lives of property and equipment and other assets for amortization purposes, amounts recorded as accrued liabilities, valuation of stock-based payments, valuation allowance for future tax assets, impairment testing of goodwill and the fair values of financial instruments.

### **Goodwill**

Goodwill has been recorded as a result of our acquisitions of Spark & Cannon and International Reporting. Goodwill is tested for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. We have selected our fourth quarter as our annual testing period for goodwill. Impairment of goodwill is tested at the business unit level by comparing the business unit's carrying amount, including goodwill, to the fair value of the business unit. The fair values of the business units are estimated using a combination of the discounted cash flow and capitalized earnings before interest, taxes, depreciation and amortization approaches. To determine the fair value using the discounted cash flow approach, we use estimates that include: (i) revenue; (ii) expected growth rates; (iii) costs; and (iv) appropriate discount rates. Significant management judgment is required in forecasting future operating results. Should different conditions exist, material impairments of goodwill could occur. The market approach, which utilizes comparable companies' data, is also used to a lesser extent due to the unique niche markets in which we operate.

### **Adoption of New Accounting Policies**

The following changes will be adopted in the future:

#### *Multiple Deliverable Revenue Arrangements*

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective

basis or by retrospective application. If EIC 175 is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Corporation's period of adoption. The Corporation does not expect the adoption of these amendments to have an impact on its financial statements.

#### *International Financial Reporting Standards*

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The Corporation will begin reporting its financial statements in accordance with IFRS on January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP there are significant differences in accounting policies that must be evaluated. As well, more disclosures will be required under IFRS.

In preparation for the conversion to IFRS, the Corporation's IFRS conversion project began in 2009. A project plan and project team, including an external advisor, was established. The project philosophy is to align with current accounting practices and policies, where possible, to minimize the impact of any changes to the business. Regular reporting is provided by senior management to the Audit Committee of the Board of Directors.

Our plan includes six significant items being: (i) accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis; (ii) information technology and data systems; (iii) internal control over financial reporting; (iv) disclosure controls and procedures, including investor relations and external communication plans; (v) financial reporting expertise, including training requirements; and (vi) business activities that may be influenced by Canadian GAAP measures such as debt covenants, capital requirements and compensation arrangements.

The Corporation has completed a Phase 1 assessment, which involved a high-level review of the major differences between Canadian GAAP and IFRS. This assessment has provided insight on the high risk and complex areas relating to the conversion. The assessment to date has found that there are likely to be no material differences to the majority of the line items appearing in the Corporation's balance sheet and statement of income from what has been reported under Canadian GAAP if the recognition and measurement provisions of IFRS were applied. It should be noted that in making this assessment, a full conversion exercise considering every recognition, measurement, presentation and disclosure differences that exist between the two bases of accounting (i.e. Canadian GAAP and IFRS) has not been completed, and accordingly, our assessment may change over time.

The associated table addresses certain elements of the conversion plan and an assessment of our progress. The Corporation's project team is working through the project plan and expects that certain project activities and milestones could change. Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating the key milestones below and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or through the project could result in changes to the project activities communicated in the following chart.

<b>Financial Statement Preparation</b>			
<b>Key Activity</b>	<b>Milestones/Target Dates</b>	<b>Progress to June 30, 2010</b>	<b>Management Comments</b>
Identify the major differences in accounting policies between Canadian GAAP and IFRS.	Complete IFRS Phase I diagnostic identifying the major difference between Canadian GAAP and IFRS.	Completed January 2010.	Based on the work carried out to date, it is expected that the implementation of the following IFRS policies will most likely have the greater potential impact on the Corporation's financial statements in 2011: (i) elections made under IFRS 1: First-time Adoption of IFRS; (ii) IAS 36: Impairment of Assets; (iii) IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and (iv) IFRS 2: Share Based Payments.
Select the Corporation's ongoing IFRS policies.	Senior management approval of all significant IFRS accounting policy choices by fall of 2010.	In progress.	An in-depth analysis of the Corporation's accounting policy choices is currently underway. The Corporation's progress to date has resulted in selected preliminary conclusions/assessments as noted below.
Quantify effects of change in initial IFRS disclosure and 2011 financial statements.	Complete quantification of changes in initial IFRS disclosure later in 2010.	Not yet started.	The Corporation is not yet able to quantify the impact on the financial statements and anticipates being able to make such quantification by later in 2010.
Develop financial statement format.	Senior management approval of financial statement format by the fourth quarter of 2010.	Not yet started.	The Corporation will develop an initial set of IFRS financial statements.

<b>Internal Control Over Financial Reporting</b>			
<b>Key Activity</b>	<b>Milestones/Target Dates</b>	<b>Progress to June 30, 2010</b>	<b>Management Comments</b>
Assess if new controls are required, and if required, design new controls and develop test plans to address initial reporting of IFRS financial statements, including related note disclosures as well as on-going financial reporting later in 2010.	All key control and design effectiveness implications will be assessed as part of the IFRS differences and accounting policy choices throughout 2010.	Not yet started.	At this time, the Corporation does not anticipate that the transition to IFRS will have a significant impact on its internal control systems.

<b>Information Technology</b>			
<b>Key Activity</b>	<b>Milestones/Target Dates</b>	<b>Progress to June 30, 2010</b>	<b>Management Comments</b>
Ensure that the impact of IFRS on the Corporation's information technology ("IT") systems are IFRS compliant, including program upgrades and changes and gathering data for disclosures.	Complete analysis of existing IT systems to ensure that systems are able to capture all the necessary data required under IFRS by the third quarter of 2010 and identify deficiency areas.	Not yet started.	At this time, the Corporation does not anticipate that the transition to IFRS will have a significant impact on its information systems.

<b>Financial Reporting Expertise</b>			
<b>Key Activity</b>	<b>Milestones/Target Dates</b>	<b>Progress to June 30, 2010</b>	<b>Management Comments</b>
Ensure that management and its employees have the technical knowledge to lead the IFRS conversion and implement the accounting changes throughout the organization.	Identify resource requirements to establish appropriate IFRS financial reporting expertise at all levels of the business by December 31, 2009 and training of key finance and operational staff to be delivered in 2010.	In progress.	Commenced in 2009 and continuing in 2010.
Ensure that the Audit Committee members are sufficiently knowledgeable about IFRS to evaluate management's selection of accounting policy choices permitted under IFRS and to consider the impact of IFRS conversion on the various aspects of the Corporation's operations.	Education information regarding IFRS to be provided to members of the Board of Directors (including Audit Committee members) on a quarterly basis commencing with the first quarter of 2010.	In progress.	Initial orientation carried out in 2009.  Quarterly sessions progressing as planned.

In accordance with IFRS 1 – First-time Adoption of IFRS (“IFRS 1”), we expect to apply certain optional exemptions from full retrospective application of IFRS. The optional exemptions are still being examined by the project team; however, a determination has been made with respect to certain exemptions that are expected to be applied as summarized below.

- *Business combination.* We expect to apply the business combinations exemption in IFRS 1 and to not apply IFRS 3 - Business Combinations retrospectively to business combinations. Accordingly, we will not restate business combinations that took place prior to the January 1, 2010 transition date or modify the carrying amounts arising on business combinations occurring before the transition date.
- *Fair value or revaluation as deemed cost.* We do not expect to elect to measure certain items of property, plant and equipment at fair value as at January 1, 2011 or revalue amounts previously determined under Canadian GAAP. Accordingly, we will use carrying value as determined under IFRS as our deemed cost as at January 1, 2011.

## RELATED PARTY TRANSACTIONS

The following related party transaction occurred during the three month period ended June 30, 2010:

- (i) The unsecured amount owed to the vendors of International Reporting included loans from certain senior officers and employees of International Reporting. During the period, no interest (2009 - nil) was paid in connection with the unsecured loans; and
- (ii) The secured bridge loan provided to the Corporation in March 2010 with a face value of \$875,000 included loans from a director of the Corporation in the amount of \$75,000. No interest was paid to the director during the period.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument (“NI”) 52-109 (Certification of Disclosure in Issuer’s Annual and Interim Filings), the Corporation’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) file a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements and accompanying Management’s Discussion and Analysis. The Venture Issuer Basic Certification includes a ‘Note to Reader’ stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

As part of our corporate governance practices, internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“DC&P”) have been designed. There has been no formal evaluation of the operation of these controls. The Corporation has designed its ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management works to mitigate the risk of a material misstatement in financial reporting; however, 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.

The Corporation’s DC&P have been designed to ensure that information required to be disclosed by VIQ Solutions is accumulated and communicated to the Corporation’s management as appropriate to allow timely decisions regarding required disclosure. It should be noted that while the Corporation’s CEO and CFO believe that the Corporation’s DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Corporation in the three month period ended June 30, 2010.

## NON-GAAP MEASURES

Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) is a non-GAAP measure used by management to provide additional insight into our performance and financial condition. We believe that this measure is an important part of the financial reporting process and is useful in communicating information that complements and supplements the consolidated financial statements. Accordingly, we are presenting EBITDA in this MD&A to enhance the usefulness of our MD&A. In accordance with Canadian Securities Administration Staff Notice 52-306, we have provided a reconciliation of EBITDA to the most directly comparable Canadian GAAP number, disclosure of the purpose of the non-GAAP measure, and how the non-GAAP measure is used in managing the business.

We report EBITDA because it is a key measure used by management to evaluate performance of our business units and the Corporation. EBITDA is a measure commonly reported and widely used by investors as an indicator of a company’s operating performance and ability to incur and service debt, and as a valuation metric. The Corporation believes EBITDA assists investors in comparing a company’s performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on Canadian GAAP and should not be considered an alternative to operating income or net income in measuring the Corporation’s performance, nor should it be used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash which are disclosed in the consolidated statements of cash flows. Investors should carefully consider the specific items included in our computation of EBITDA.

The following is a reconciliation of EBITDA with the net income (loss) for the three and six month periods ended June 30:

EBITDA (\$000s)	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2010	2009	2010	2009
Net Income (loss) for the period	\$ (468)	\$ 37	\$ (894)	\$ (200)
Amortization of property and equipment	74	70	147	134
Interest expense	52	25	81	51
Income tax expense (recovery)	-	-	-	-
<b>EBITDA</b>	<b>\$ (342)</b>	<b>\$ 132</b>	<b>\$ (666)</b>	<b>\$ (15)</b>

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements about our achievements, the future success of our business and technology strategies, performance, goals and other future events. Management’s assessment of future plans and operations, cash flows, methods of financing and the ability to fund financial liabilities, and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, the risks identified above. As a consequence, the Corporation’s actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although VIQ Solutions believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Corporation can give no assurance that such expectations will prove to be correct.

In addition to other factors and assumptions which may be identified in this document and other documents filed by the Corporation, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which VIQ Solutions operates, including significant changes in demand from our customers as a result of the impact of the global economic crisis and capital markets weakness; the risk of potential non-performance by counterparties, including but not limited to, customers and suppliers, during uncertain economic conditions; our dependence on a limited number of customers; our

dependence on industries affected by rapid technological change; our ability to successfully manage our operations internationally including in the United Kingdom, Australia and the United States; the challenge of managing our financial exposures to foreign currency fluctuations; our ability to obtain qualified staff and services in a timely and cost-efficient manner; our ability to obtain financing on acceptable terms including anticipated sources of funding of working capital and financial losses which may include securing credit facilities, accessing new equity, corporate acquisitions or business combinations or joint venture arrangements; the ability to secure new contracts on terms acceptable to the Corporation; the ability to successfully develop new products; the Corporation's ability to effectively register, for protection, its new and existing products in certain jurisdictions; the Corporation's ability to protect new and existing products from proprietary infringement by third parties and its ability to effectively enforce such proprietary infringements; taxes in the jurisdictions in which the Corporation operates, including Canada, the United Kingdom, Australia and the United States; and VIQ Solutions' ability to successfully market its products. Readers are cautioned that the foregoing list of factors is not exhaustive.

The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Corporation's fiscal 2010 financial performance and may not be appropriate for other purposes. Readers are encouraged to read the section entitled "Risk Factors" in our 2009 Annual Report for a broader discussion of the factors that could affect our future performance. Furthermore, the forward-looking statements contained in this document are made as at the date of this document and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.