

2002 Annual Report



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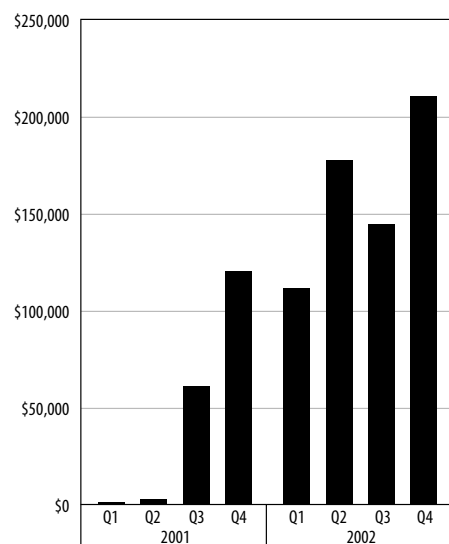
ABOUT SOLIUM

Solium is an outsourced provider of solutions for employee share entitlement programs. Solium's flagship application, E-SOAP (employee stock option administration platform), is a complete end-to-end solution for the administration, execution and reporting of employee stock options for Canadian public companies. Solium is traded on the TSX Venture Exchange under the symbol SUM.

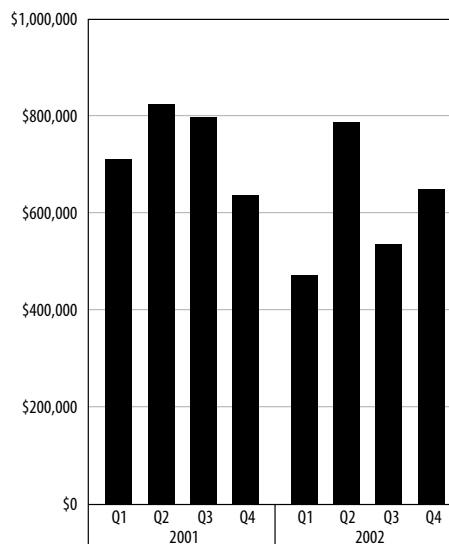
VISION

To be the Canadian leader in providing total solutions for the administration and execution of employee share entitlement plans.

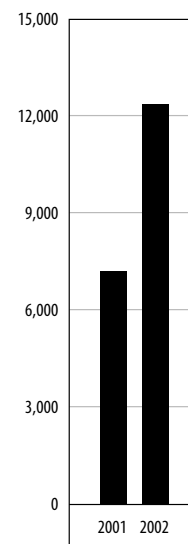
Revenue



Expenses



Enrolled Participants



MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO

Dear Shareholders:

Much has transpired over the last 12 months. 2002 is most aptly described as a 're-positioning year' for Solium, but that understates the significance of a year in which the Company, at its lowest point, narrowly dodged insolvency and, at its most brilliant, assembled the talent to dominate the Canadian stock option market. Every great small business experiences a moment of truth, and 2002 stands out as the year that Solium met its greatest challenge and emerged stronger, with a focus on the future.

Your Company today continues to consume capital at a rate of \$120,000 per month, and essentially erodes shareholder capital. If that were the only criteria for evaluating a company like Solium then it would be difficult to hold much optimism for our future. There are some shareholders – many of whom acquired their shares at \$1.00 – who possess this view and have chosen to dispose of their shares. I respect this decision because the pace of Solium's growth and the complexity of our niche market are not a fit for every investor. There are many other shareholders amongst us who evaluate our Company very differently, and we should take solace in the developments of the last several months as Solium has increasingly taken on the proportions of a formidable competitor.

In the last 11 competitions for new business that Solium has faced we have prevailed. That's uncommon for any business, and those results are helping to solidify Solium as the defacto leader in managed stock option solutions in Canada. Today we unquestionably hold mind share in the Canadian employee stock option marketplace.

Employee stock options are much maligned by some as a compensation tool, but the present emotion belies several important factors affecting this market:

- (1) many companies in Canada and around the globe have substantial option plans in place for the next several years;
- (2) the increased regulation and compliance affecting stock options will likely force companies to adopt more advanced solutions to manage and execute their option plans to address increased shareholder scrutiny;
- (3) many of the incentives introduced to replace stock options (stock options with performance triggers for vesting, share appreciation rights, tandem share appreciation rights, restricted stock units, etc.) will require equally sophisticated tools to monitor the future liability imposed on shareholders; and,
- (4) stock options remain an effective alignment tool between employees and shareholders and we are experiencing the ebb in their popularity.

2002 was a year of re-positioning, and 2003 is expected to be the year Solium crosses the threshold to profitability. Small companies face many thresholds, but none are more crucial than sustainability and the demonstration of a viable business model. Our sales pipeline is robust and, while sales have been slow the last several months, there is increasing probability the Company will experience a breakthrough over the next three to six months. Solium's lock on the Calgary market is formidable (EnCana, TransAlta, Shell Canada, Enbridge, etc.) and we will begin to see the same results in other primary markets, initially in Montreal and followed by Toronto.

SIGNIFICANT ACCOMPLISHMENTS IN 2002

1. Installing the Team

The most high impact decisions affecting Solium in 2002 were related to people, and our ability to increase the reservoir of talent supporting our goals. In addition to the Stormworks acquisition in 2002, which we discussed in last year's annual report, we also re-formulated the Solium Board and made the decision to acquire Bitonic Solutions, a transaction that concluded in February 2003. Three organizations were integrated in 2002 – Solium, Stormworks and Bitonic. The Solium team of 2003 has increased depth in leadership, governance, technology development, marketing, sales and operations. We're simply a far better company than we were a year ago.

2. Omnibus Brokerage

The next most important decisions in 2002 related to our brokerage services. The cashless exercise process supported by Solium includes a direct link to brokerage for the transaction of the associated securities. In March 2002, Solium sold its brokerage arm, Solium Capital Online. In September and October of 2002, Solium incorporated two changes that have had huge impact on the quality of our brokerage solution. The first was our decision to migrate to an Omnibus platform. Historically, every individual with stock options was required to hold a brokerage account to receive Solium services. Our new Omnibus platform allows the creation of a single brokerage account for each corporate customer and execution of all of the trades associated with that company through that single account. The administration and financial controls required to support a single Omnibus account represent considerable operational efficiencies over individual brokerage accounts – efficiencies that directly impact Solium and our corporate customers.

The second key brokerage decision was to form a partnership with Merrill Lynch HSBC Canada Inc. HSBC is the world's second largest banking conglomerate, and their brand and international settlement capabilities were vital to this decision. Today Solium supports stock option participants in more than 20 international jurisdictions, and an important part of the offering that we extend to our customers relates to the global banking services provided by HSBC.

3. Solium Finances

Finally, the last important piece of the puzzle that was addressed in 2002 was the Company's finances. The new Board and Management of Solium have pledged considerable financial support to the Company and bring an impressive track record in guiding early-stage companies to their success. The new investors came in with eyes wide open and possess the ability to appraise Solium for what it is, in addition to what it can become. The new investing Board and Management bring both the capacity and commitment to see the Company through to its financial self-sufficiency.

CHALLENGES WE FACE IN 2003

1. Eliminating the cash burn

Current revenues average about \$70,000 per month against a fully loaded operating cost structure of approximately \$190,000 per month. Our current cash consumption rate is therefore \$120,000 per month. That's an improvement over last year at this time, but it's still far too high. We have commitments for an additional \$10,000 per month in revenue, which will come on stream in the next few months. We have also managed to reduce the costs of our data feeds by \$15,000 per month, and we will begin realizing the full impact of those savings in Q3 2003. That takes us down to a monthly burn of \$95,000 per month – still excessive.

Our sales pipeline has never looked better, but we are seeing longer sales cycles than we anticipated. This could be attributed to numerous factors, but it has tempered our expectations for how quickly this market may turn. We still expect to close substantial business in 2003, but it may be later in the year than we wish and we have to plan contingencies in the event the opportunities get pushed into 2004. We remain steadfastly confident about our ability to close this business, but our ability to forecast the timing of these events has been tested.

2. Development of an employee share purchase plan solution

As the Company approaches financial self-sufficiency, we will begin the next phase of development of an employee share purchase plan solution. We have several customers who have expressed interest in this product and we are committed to enriching the suite of Solium market offerings. We expect that we could introduce a new commercial product to market as early as Q1 2004.

The employee share purchase plan market is very different from the stock option market in Canada. It is approximately 10 times larger and is under serviced by current solution providers. Solium has identified two important factors that will guide our success in the share purchase plan market:

- (1) the functionality and supporting technology in E-SOAP, which will form the foundation of our share purchase plan solution, remains vastly superior to the share purchase plan solutions generally available today; and,
- (2) the cost of accessing this market will be a fraction of the cost of starting fresh as many of our current E-SOAP customers also have employee share purchase plans.

The key to our success in distributing an employee share purchase plan solution will be the relationship equity we hold with our customers. Today, we have very close and active relationships with our customers and we will continue to enrich these relationships as we grow.

3. Revenue model optimization

The employee share entitlement marketplace is highly fragmented, with many vendors competing for a finite set of customers. The absence of any clear market leader has contributed to a market that encourages price competition.

Price leadership is the exclusive domain of companies that possess either a dominant market position or a unique cost advantage. Our efficient business practices and increasing market share combine to provide Solium with an opportunity to prescribe a more effective pricing model to the employee entitlements industry. In the next six months we will be able to offer our customers expanded functionality that they can choose to subscribe for or opt out of, thereby establishing a broader range of solutions and price points.

The final message I will impart to all of you is that we remain very much on course. A year ago I advised that it would take a full two years to demonstrate the robust Solium business model. We are now one year into that timeline with significant progress made towards our objective, and with much work remaining. This next year is a second significant moment of truth about the success of Solium, and fortunately we have aligned the talent and focus to ensure Solium remains a formidable competitor. I look forward to reporting to you one year from now on our progress and our ability to confront the challenges that this next year will provide.

In the meantime I welcome your questions and comments. Please do not hesitate to deliver your thoughts and queries directly to me (phone 403.515.3910, extension 121, or email brian.craig@solium.com). On behalf of all of us at Solium we certainly appreciate your commitment to our Company and we look forward to a long and rewarding relationship with each and every shareholder.

Sincerely,



BRIAN CRAIG

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2002

The following discussion and analysis pertains to the fiscal year ended December 31, 2002, and should be read in conjunction with the Company's fiscal 2002 and 2001 Consolidated Financial Statements and accompanying notes.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis constitute forward-looking statements, which are based on Solium's current expectations and assumptions, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks include, among others, general business and economic conditions and actions from competitors.

RESULTS FROM OPERATIONS

Revenue

Gross revenue in 2002 was \$644,557, an increase of 247% from \$185,547 in 2001. This increase was due to: (1) increased market penetration as the Company's client base grew; and (2) an increase in average revenue per individual E-SOAP participant as the Company evolved and improved its revenue model in the last half of 2002.

Approximately \$115,000 of the revenue figure was derived from e-commerce consulting contracts held by Stormworks Ltd. ("Stormworks"). Stormworks was acquired effective May 1, 2002 as part of the restructuring of the Company from both a financial perspective and an executive leadership perspective. During the first quarter of 2002, the Company was reliant on short-term loans from directors and management, and thus long-term financial restructuring alternatives, including the acquisition of Stormworks, were pursued in 2002.

With respect to the Stormworks consulting business, by July 2002 the majority of Stormworks' consulting contracts had been wound down, as planned, and key Stormworks employees were integrated into the Company's ongoing operations to focus solely on the Company's business plan.

The Company ended the year with 12,300 active participants enrolled on the E-SOAP system. This represents a growth of 72% from the 7,135 enrolled as at December 31, 2001. During 2002, 10 new corporate clients were activated onto the E-SOAP system, including EnCana Corporation, Shell Canada Limited, Pason Systems Inc., Molson Inc. and Enbridge Inc. The largest increase to participants on the system occurred in the last half of the year, when more than 4,500 participants were added. The Company's client list at the end of 2002 was as follows:

- Adeptron Technologies Corp.
(formerly Electronics
Manufacturing Group)
- Big Rock Brewery
- Canadian 88 Energy Corp.
- CSI Wireless Inc.
- Enbridge Inc.
- EnCana Corporation
- Enerflex Systems Ltd.
- EXFO Inc.
- Fording Inc.
- MDS Inc.
- Microcell Telecommunications
- Molson Inc.
- Olympia Energy Inc.
- Pason Systems Inc.
- Shell Canada Limited
- Synsorb Biotech Inc.
- Telesystem International Wireless
- TGS Properties Ltd.
- Thunder Energy Inc.
- TransAlta Corporation

Solium's contracts with its clients can generally be considered long-term. The Company's current revenue model consists of: (1) recurring license fees to be paid quarterly by the client to Solium based on the number of option holders in the client corporation, and (2) administration fees paid by an option holder each time an option is exercised.

Expenses

The salaries and wages expense for 2002 was \$1,069,255 compared to \$1,121,608 in 2001. Included in the 2002 salaries and wages is \$43,029 of severance expense which was in the form of non-cash items. These non-cash items relate to the settlement of a portion of a loan by the Company to an employee (now a former employee), and to the issuance of shares to another employee (now a former employee) as part of severance agreements with both individuals. Although salaries and wages were relatively static between 2001 and 2002, the Company has gone through some significant organizational restructuring. The employee base was reduced by 10 people as a result of cost reductions and the sale of the online brokerage business (see Discontinued Operations section below); but this staff reduction was partially offset by the addition of sales and marketing staff, and the internalization of the Company's systems development through the integration of personnel from Stormworks. The staff reductions will be further offset in 2003 by the addition of personnel of Bitonic Solutions Inc. ("Bitonic", see Acquisition of Bitonic section below).

General and administrative costs totaled \$1,208,476 in 2002, an increase of \$285,269 from the total of \$923,207 in 2001. Contributing to this increase was the addition of Directors' and Officers' liability insurance and errors and omissions insurance totaling approximately \$21,000, which were added in the latter part of 2001. Rent expense increased in 2002 by \$185,000 for two reasons: (1) the Company enjoyed free rent in Calgary until June 30, 2001; and (2) due to the acquisition of Stormworks, the Company gained an additional office location and held two leases in Calgary, until such time that the Company was able to terminate one lease in November 2002. Fees associated with being a public company totaling approximately \$37,000 were also a significant portion of the change in general and administrative costs from 2001.

Outsourced development costs were \$78,252 in 2002 as compared to \$793,408 in 2001. This reflects the fact that E-SOAP's primary phase of commercial development was completed in 2001. In addition, due to the proposed acquisition of Bitonic and the strategic desire to internalize intellectual capital, the Company and Bitonic operated for the last half of 2002 under the assumption that this acquisition would close. The acquisition closed in February 2003. It is estimated that Bitonic would have billed the Company approximately \$350,000 in incremental development costs for development time incurred by Bitonic staff on the E-SOAP application during 2002, if the acquisition had not been completed as contemplated. See the Acquisition of Bitonic section below for further details.

Net Financial Results

The net loss for the year ended December 31, 2002 was \$1,918,545, an improvement of 44% when compared to a net loss of \$3,415,961 in 2001.

The net loss from continuing operations for the year ended December 31, 2002 was \$1,804,964, an improvement of 35% when compared to a net loss from continuing operations of \$2,788,616 in 2001.

These improvements are attributable to the factors described herein.

DISCONTINUED OPERATION OF THE ONLINE BROKERAGE BUSINESS

Effective March 28, 2002, the Company sold its online brokerage business which was operating in its wholly owned subsidiary, Solium Capital Online Inc. ("Online"). The loss in 2002 from this business was \$113,581, compared to \$657,345 in 2001. The loss in 2002 was attributable to the continued operation of the brokerage business until the sale of Online closed in late March. Note that a loss on disposal of \$39,000 had been previously accrued for as at December 31, 2001.

The disposal of Online was a critical step in the Company being able to focus on its core business of providing share entitlement administration programs. This disposal freed the Company from: (1) ongoing losses from the obligations associated with a business model that was failing, and (2) the significant capital and regulatory requirements of operating a brokerage business.

ACQUISITION OF BITONIC

A letter of intent was signed on June 21, 2002 to acquire all of the issued and outstanding shares of Bitonic. Bitonic had been responsible for the outsourced development of E-SOAP since the inception of the Company. This acquisition was initiated in order to internalize the development of the Company's products, which will significantly reduce the cost of ongoing development of such products. During the last half of 2002, when the Company and Bitonic operated under the assumption that the acquisition would close, approximately \$150,000 in salaries for development staff in Bitonic were absorbed by Bitonic. The economic cost of these salaries eventually flowed through to Solium, as these costs reduced the net assets of Bitonic that came to Solium upon the closing of the acquisition in February 2003.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash on hand as at December 31, 2002 was \$923,325. This cash position was primarily driven by issuing \$1,000,000 in non-convertible demand debentures during the month of December 2002. The debentures are held by two Directors who are shareholders of the Company. Due to the fact that the debentures are demand loans in nature, the debentures are listed as current liabilities on the December 31, 2002 balance sheet, and thus have been included in the calculation of working capital on that date. Therefore, working capital as at December 31, 2002 is negative \$190,055. However, it is anticipated that the debentures will not be repaid until the Company becomes profitable.

The Company's monthly normalized cash "burn rate" at the end of 2002 was approximately \$110,000 per month. The Company currently estimates that it will need to increase the number of E-SOAP participants to 25,000 (from the 12,300 participants at the end of 2002) in order to reach a cash-flow break-even point on a monthly basis.

BUSINESS PROSPECTS AND OUTLOOK

The acquisition of Bitonic has solidified the application development area of Solium's business. Bitonic's extensive knowledge of the E-SOAP and stock purchase plan applications has strengthened Solium's ability to rapidly implement new functionality and product enhancements. This rapid development is critical to Solium in continuing its success and strategy, to quickly penetrate the Canadian marketplace as it relates to employee stock option management programs.

During the last half of 2002, the Company established an office in Toronto in order to strengthen the Company's presence in the Ontario marketplace.

In the last half of 2002, the Company initiated an evolution of its revenue model for E-SOAP services. In the fourth quarter of 2002, the Company began charging an administrative fee to participants for each stock option exercise that is initiated through E-SOAP. This administrative fee generated \$22,405 in the fourth quarter and is in addition to the existing corporate license fees charged by the Company. It is anticipated that this source of revenue could become increasingly significant as more clients are activated onto the system. Management is continuing to evaluate additional opportunities in the revenue model which could be adopted to increase the flexibility of the Company's product offerings and further contribute to revenue sources of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Solium is exposed to a number of important factors in its current business environment, some of which are beyond the control of the Company. These factors include:

1. The overall stock market performance of the Company's prospective and existing corporate clients, as that in turn affects:
(a) prospective corporate client needs with respect to a sophisticated tool such as E-SOAP; and (b) the individual stock option related decisions made by E-SOAP participants.
2. The increased corporate governance focus on employee stock option programs, as that in turn affects a prospective corporate client's decision-making with respect to a tool such as E-SOAP. This increased focus could delay the decision-making of prospective clients as various solutions are researched. Alternatively, this increased focus may increase the urgency of adopting a sophisticated tool such as E-SOAP.

The Company believes that these factors have caused a number of prospective clients to delay their decisions to outsource the management and administration of their stock option programs from the last half of 2002 to sometime in 2003.

In response to these market conditions, Solium has actively adapted and evolved its sales and marketing strategy. For instance, the Company has been very proactive in educating clients and prospective clients on the employee stock option related ramifications of new regulatory standards (such as the Sarbanes-Oxley Act in the U.S. and the expensing of stock options), providing guidance and demonstrating E-SOAP's capabilities to assist clients in dealing with new regulatory requirements.

Since the restructuring in mid 2002, the Company has had an ongoing focus on ensuring that expenses are managed prudently and are reduced when possible and practical. To this end, the Company will reduce its datafeed costs significantly in 2003 and has gone through a small staff rationalization since Stormworks and Bitonic were acquired. The Company also changed the account structure from an individual brokerage client account to an "Omnibus" structure, in which the client corporation holds one brokerage account to facilitate the execution of all security trades for plan participants instead of managing hundreds or thousands of individual accounts. Although this enhancement to E-SOAP required systems development time, it has significantly reduced the administrative time and cost to implement E-SOAP, and has significantly increased the efficiency and effectiveness of plan management for Solium and clients alike.

In the second half of 2002, the Company determined that it needed to partner with a major financial industry player for the execution of the securities transactions that result from a client's use of E-SOAP. To this end, the Company developed a partnership with Merrill Lynch HSBC Canada Inc. ("MLHSBC"), under which MLHSBC provides the brokerage services necessary for E-SOAP's seamless end-to-end solution. MLHSBC is part of the HSBC group of companies, and is one of the world's largest banking and financial services organizations.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Solium Capital Inc. are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where appropriate, the information reflects management's judgements and estimates based on the available information. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent with the consolidated financial statements.

The Board of Directors meets regularly during the year with management and periodically with the external auditors to review their respective activities and the discharge of their responsibilities. Management reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

The Company's external auditors, Deloitte & Touche LLP, are responsible for auditing the consolidated financial statements and expressing an opinion thereon.



BRIAN CRAIG
President and Chief Executive Officer



LYNN LEONG
Chief Financial officer

April 4, 2003
Calgary, Canada

AUDITORS' REPORT

To the Shareholders of Solium Capital Inc.:

We have audited the consolidated balance sheets of Solium Capital Inc. as at December 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta
January 24, 2003

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

<i>Years Ended December 31, 2002 and 2001</i>	2002	2001
	\$	\$
REVENUE		
E-SOAP related services	499,532	185,547
Consulting services	145,025	–
	644,557	185,547
EXPENSES		
Salaries and wages	1,069,255	1,121,608
General and administrative	1,208,476	923,207
Development costs	78,252	793,408
Amortization	93,538	135,940
	2,449,521	2,974,163
LOSS FROM CONTINUING OPERATIONS	(1,804,964)	(2,788,616)
LOSS FROM DISCONTINUED OPERATIONS <i>(Note 4)</i>	(113,581)	(627,345)
NET LOSS	(1,918,545)	(3,415,961)
DEFICIT, BEGINNING OF YEAR	(5,899,061)	(2,483,100)
DEFICIT, END OF YEAR	(7,817,606)	(5,899,061)
LOSS PER SHARE		
From continuing operations	(0.11)	(0.25)
From discontinued operations	(0.01)	(0.06)
NET LOSS PER SHARE	(0.12)	(0.31)

CONSOLIDATED BALANCE SHEETS

<i>December 31, 2002 and 2001</i>	2002	2001
	\$	\$
ASSETS		
CURRENT		
Cash	923,325	512,207
Accounts receivable	62,400	30,156
Loans receivable <i>(Note 6)</i>	35,404	72,361
Prepaid expenses	63,491	82,010
	1,084,620	696,734
Capital assets <i>(Note 7)</i>	235,419	171,539
	1,320,039	868,273
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	219,840	441,416
Deferred revenue	54,835	30,102
Demand debentures <i>(Note 8)</i>	1,000,000	–
Refundable deposit	–	10,000
	1,274,675	481,518
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 9)</i>	7,862,970	6,285,816
Deficit	(7,817,606)	(5,899,061)
	45,364	386,755
	1,320,039	868,273

APPROVED BY THE BOARD:



MICHAEL BROADFOOT
Director



BRIAN CRAIG
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years Ended December 31, 2002 and 2001</i>	2002	2001
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Loss from continuing operations	(1,804,964)	(2,788,616)
Adjustments for:		
Amortization	93,538	135,940
Loss on sale of capital assets	18,396	10,836
Non-cash expenses	43,029	–
Loss on write-down of loan receivable	6,428	32,139
	(1,643,573)	(2,609,701)
Changes in non-cash working capital	(106,161)	8,016
	(1,749,734)	(2,601,685)
Loss from discontinued operations	(113,581)	(627,345)
	(1,863,315)	(3,229,030)
FINANCING		
Issuance of demand debentures	1,000,000	–
Issuance of common shares, net of issue costs	669,654	1,973,427
Issuance of preferred shares	500,000	–
Changes in non-cash working capital	6,135	–
	2,175,789	1,973,427
INVESTING		
Refundable deposit	(10,000)	10,000
Proceeds on sale of subsidiary <i>(Note 4)</i>	25,000	–
Cash acquired on purchase of subsidiary, net of acquisition costs incurred <i>(Note 5)</i>	58,353	–
Provision of loans	–	(60,000)
Purchase of capital assets	(7,263)	(81,831)
Proceeds on disposal of capital assets	13,486	9,250
Changes in non-cash working capital	19,068	39,000
	98,644	(83,581)
NET INCREASE (DECREASE) IN CASH	411,118	(1,339,184)
CASH, BEGINNING OF YEAR	512,207	1,851,391
CASH, END OF YEAR	923,325	512,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2002 and 2001

1. DESCRIPTION OF BUSINESS

Solium Capital Inc. (the "Company" or "Solium") was incorporated under the Business Corporations Act of Alberta. The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary Stormworks Ltd. ("Stormworks").

The Company has developed and markets a proprietary web-based solution, called E-SOAP, for the administration and management of employee stock option plans.

2. FINANCIAL CONDITION

These consolidated financial statements have been prepared using the accounting principles applicable to a going concern, which assumes the Company will continue operations in the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business.

Solium's E-SOAP solution is early in its life cycle. The Company's ability to continue as a going concern is principally dependent upon achieving sufficient sales of the Company's products and thus establishing profitable operations. These consolidated financial statements do not include any adjustments or disclosures that might result from the Company's inability to continue as a going concern. If the going concern assumption is not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities and reported income and balance sheet classification.

Although Solium is achieving substantial presence in its marketplace, at this time it cannot be predicted or assumed with certainty whether Solium will establish profitable operations.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Capital assets

Capital assets are recorded at cost and amortization is provided on a straight-line basis over the following periods:

Furniture and office equipment	5 years
Computer equipment	3 years
Computer software	1 year
Leasehold improvements	Term of the lease
Trademarks	3 years

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recorded based on temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet and their tax bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue recognition

The Company derives revenues from corporate solutions for the administration of employee stock option plans. These revenues are recognized monthly as they are earned over the term of the contract with the client.

The Company also derives revenues from consulting services. These revenues are recognized as the services are provided.

Research and development costs

Research costs are expensed as incurred. Development costs are also expensed unless they meet specific criteria under Canadian generally accepted accounting principles, in which case they are deferred to be matched against future revenues.

Investment tax credits are applied to reduce research and development expenditures in the year of receipt.

Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 10. Effective January 1, 2002, the Company adopted the standards of Section 3870 of the CICA Handbook, Stock-Based Compensation and Other Stock-Based Payments.

The stock options have zero intrinsic value because the exercise price of the stock options are priced at or above current market prices at the time of the grant. No compensation expense is recognized by Solium at the time of grant. Any consideration paid by employees on exercise of stock options is credited to share capital.

Financial instruments

The Company's accounts receivable, loans receivable, accounts payable and accrued liabilities, and demand debentures constitute financial instruments. Based on available market information, the carrying value of the Company's financial instruments approximates their fair value at December 31, 2002 and 2001.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. DISCONTINUED OPERATIONS

At December 31, 2001, the Company's Board of Directors had made the decision to dispose of its online financial services (brokerage) business, which was operating in a wholly owned subsidiary, Solium Capital Online Inc. ("Online"). Effective March 28, 2002, the Company disposed of all of the issued and outstanding shares of Online to Tristone Capital Advisors Inc., for net proceeds of \$25,000.

Additional details relating to the discontinued operations of Online are as follows:

	2002 \$	2001 \$
Revenue	33,177	60,840
Operating loss	113,581	588,345
Loss on disposal	–	39,000
Loss from discontinued operations	113,581	627,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. ACQUISITION OF STORMWORKS

Effective May 1, 2002, the Company acquired all of the issued and outstanding shares of Stormworks, a company providing e-commerce consulting services. Stormworks was acquired for 1,975,000 common shares of the Company, priced at \$0.20 per share, for a total purchase price of \$395,000.

The acquisition of Stormworks was initiated by the management of Solium in order to achieve a restructuring of the Company. The acquisition was consummated in conjunction with a private placement (see Note 9(c)).

As part of the Stormworks acquisition and concurrent private placement and as consideration for the subject restructuring, the Company issued 1,250,000 detachable warrants to the key principals of Stormworks. Each warrant entitles the holder thereof the right to purchase one Solium common share at \$0.25 per share for a period of three years.

Solium obtained the following net assets when Stormworks was acquired:

	\$
Net current assets, excluding cash	154,610
Capital assets	182,037
	336,647
Cash acquired	68,052
Net assets acquired	404,699
Consideration:	
Common shares issued	395,000
Acquisition costs incurred	9,699
	404,699

6. LOANS RECEIVABLE

On June 30, 2001, a loan in the amount of \$60,000 was issued to a then current (now former) officer of the Company.

On June 30, 2002, as part of an overall severance agreement with such officer, the Company applied \$30,529 of the officer's severance against the loan receivable amount, bringing the outstanding balance of the loan down to \$29,471. The loan is non-interest bearing and is due on July 1, 2003.

In 2000, a loan in the amount of \$44,500 was issued to another then current (now former) officer of the Company. The loan is secured by 49,445 common shares of the Company, is non-interest bearing and became due on December 31, 2001.

Prior to December 31, 2001, as part of the overall severance agreement with such officer, the Board of Directors approved the cancellation of the 49,445 common shares of the Company as payment of the outstanding loan. The value of the loan was written down to reflect the fair market value of the common shares at December 31, 2001, being \$0.25 per share. The 49,445 common shares will be cancelled upon their release from a general escrow on May 10, 2003 (see Note 9). Consequently, at December 31, 2002, the value of the loan has been further written down to \$5,933 to reflect the fair market value of the common shares as at December 31, 2002, being \$0.12 per share.

In the future, the Company does not envision providing loans to any officers, employees or Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. CAPITAL ASSETS

	2002		Net Book Value \$
	Cost \$	Accumulated Amortization \$	
Furniture and office equipment	224,239	81,550	142,689
Computer equipment	119,182	64,286	54,896
Computer software	120,320	107,770	12,550
Leasehold improvements	30,259	5,462	24,797
Trademarks	2,823	2,336	487
	496,823	261,404	235,419

	2002		Net Book Value \$
	Cost \$	Accumulated Amortization \$	
Furniture and office equipment	130,307	37,355	92,952
Computer equipment	89,017	35,096	53,921
Computer software	92,764	92,594	170
Leasehold improvements	34,485	11,417	23,068
Trademarks	2,823	1,395	1,428
	349,396	177,857	171,539

8. DEMAND DEBENTURES

In December 2002, the Company issued two \$500,000 debentures to two Directors who are shareholders. The debentures were issued to provide the Company with general working capital, and to facilitate the execution of its business plan.

	2002 \$	2001 \$
Demand debenture; issued December 2002; with interest at 10% payable quarterly; secured and supported by a fixed and floating charge covering all of the present and after-acquired assets, undertakings and property of the Company; non-convertible; the loan principle or a portion thereof may be paid back by the Company at any time without penalty.	500,000	—
Demand debenture; issued December 2002; with interest at 10% payable quarterly; secured and supported by a fixed and floating charge covering all of the present and after-acquired assets, undertakings and property of the Company; non-convertible; the loan principle or a portion thereof may be paid back by the Company at any time without penalty.	500,000	—
	1,000,000	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. SHARE CAPITAL

The Company has authorized an unlimited number of common shares and an unlimited number of preferred shares.

	Number of Shares	Amount \$
Issued – common shares		
Balance, December 31, 2000	7,222,005	1,390,276
Issued through initial public offering <i>(Note 9(g))</i>	2,300,000	2,300,000
Issued on exercise of special warrants <i>(Note 9(h))</i>	3,333,333	3,000,000
Issued on forgiveness of debt <i>(Note 9(f))</i>	400,000	100,000
Share issue costs	–	(504,460)
Balance, December 31, 2001	13,255,338	6,285,816
Issued in private placement <i>(Note 9(a))</i>	1,575,000	315,000
Issued in private placement <i>(Note 9(c))</i>	1,850,000	370,000
Issued on purchase of Stormworks <i>(Note 9(d))</i>	1,975,000	395,000
Issued in payment of liability <i>(Note 9(e))</i>	125,000	12,500
Share issue costs	–	(15,346)
Balance, December 31, 2002	18,780,338	7,362,970
Issued – preferred shares		
Issued on conversion of debentures <i>(Note 9(b))</i>	2,500,000	500,000
Total share capital		7,862,970
Common shares – fully diluted		
Balance, December 31, 2002	18,780,338	7,362,970
Preferred shares converted on one to one basis <i>(Note 9(b))</i>	2,500,000	500,000
Warrants exercised <i>(Note 9(c) and (d))</i>	2,600,000	650,000
Stock options exercised <i>(Note 10)</i>	2,271,119	1,044,715
Total common shares – fully diluted	26,151,457	9,557,685

- a) On October 16, 2002, the Company closed a \$315,000 private placement of 1,575,000 common shares issued at \$0.20 per share. The private placement was part of the financial restructuring of the Company initiated in May 2002.
- b) On September 19, 2002, the Company converted \$500,000 of convertible debentures, which had been issued on May 23, 2002, into 2,500,000 preferred shares at a deemed price of \$0.20 per share. The demand convertible debentures were part of the financial restructuring of the Company in May 2002. The preferred shares are entitled to dividends on the same basis as any dividends that may be declared on common shares.

The preferred shares are redeemable by the Company at any time after May 23, 2007, at \$0.20 per share. Upon redemption, the Company is required to pay to each holder any accrued and unpaid dividends, and an accrued interest equivalent computed at a rate of return equal to 8% per annum, for each \$0.20 of preferred share, compounded annually from the issue date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The preferred shares are also convertible into common shares at the option of the holder. They are convertible on a one-for-one basis in the first two years after the issue date, and thereafter at a ratio of four common shares for five preferred shares (equivalent to \$0.25 per common share) in the third year, two common shares for three preferred shares (equivalent to \$0.30 per common share) in the fourth year, and four common shares for seven preferred shares (equivalent to \$0.35 per common share) in the fifth year after the issue date. Upon conversion, the Company is required to pay to each holder, any accrued and unpaid dividends.

- c) On May 23, 2002, the Company issued 1,850,000 common shares at a price of \$0.20 per share by way of a private placement for gross proceeds of \$370,000. This private placement was in conjunction with the acquisition of Stormworks (see Note 5 and Note 9(d)) and the associated financial restructuring of the Company. In addition, 1,350,000 detachable warrants were issued in conjunction with 1,350,000 of the common shares issued pursuant to the private placement. Each warrant entitles the holder to the right to purchase one common share at \$0.25 per share for a period of three years. These warrants were issued as consideration as part of the foregoing private placement.
- d) Effective May 1, 2002, the Company issued 1,975,000 common shares as payment for the acquisition of Stormworks (see Note 5). This acquisition was in conjunction with the private placement described above (see Note 9(c)) and the associated financial restructuring of the Company. In addition, 1,250,000 detachable warrants were issued in conjunction with 1,250,000 of the common shares issued pursuant to the acquisition. Each warrant entitles the holder to the right to purchase one common share at \$0.25 per share for a period of three years. These warrants were issued to the key Stormworks principals as consideration for restructuring the Company.
- e) Effective March 26, 2002, the Company issued 125,000 common shares as part of a severance arrangement of a former employee. The transaction has been recorded at \$0.10 per common share, being the fair value of the shares at the time of issuance.
- f) On November 27, 2001, the Company issued 400,000 common shares in a debt settlement arrangement whereby \$100,000 of the then current accounts payable to Bitonic Solutions Inc. ("Bitonic") were forgiven by Bitonic in exchange for such common shares. In addition, Bitonic's President and CEO was appointed to the Company's Board of Directors effective November 6, 2001.
- g) On May 11, 2001, the Company completed an initial public offering ("IPO") of 2,300,000 common shares at \$1.00 per share for net proceeds of \$1,973,440. In connection with the IPO, 230,000 options were issued to the underwriter (see Note 10).
- h) On May 11, 2001, upon the closing of the Company's IPO, 3,333,333 special warrants were exercised into 3,333,333 units, at \$0.90 per unit. Each unit consisted of a common share plus one-half of one purchase warrant. These warrants expired, unexercised, on December 31, 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Warrants

At December 31, 2002, 2,600,000 share purchase warrants were outstanding pursuant to the purchase of Stormworks (see Note 5 and Note 9(d)) and a private placement (see Note 9(c)). These warrants are exercisable for the purchase of common shares at \$0.25 per share until May 23, 2005.

Escrowed shares

At December 31, 2002, 771,750 (December 31, 2001 - 1,286,254) issued and outstanding common shares are subject to an escrow agreement dated May 10, 2001. Pursuant to the escrow agreement, the common shares are to be released in equal amounts over six month intervals until May 11, 2004.

10. STOCK-BASED COMPENSATION PLAN

The Company has a stock option plan open to Directors, officers, employees, consultants and other key personnel of the Company and its subsidiary. Under this plan, options granted to Directors, officers, employees and consultants may not exceed a total of 2,580,801 without additional shareholder approval. By policy, the exercise price of the option must be equal to or greater than the market price of the Company's stock at the time of pricing the option grant. Options expire in five years from the date of grant and generally vest in equal proportions over the first three years of the term.

Stock option activity with respect to all of the Company's stock options for the year ended December 31, 2002 is shown below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding options		
Outstanding, December 31, 2000	1,270,000	0.66
Granted	864,667	0.68
Cancelled	(801,000)	0.80
Outstanding, December 31, 2001	1,333,667	0.60
Granted	1,416,452	0.25
Cancelled	(479,000)	0.80
Outstanding, December 31, 2002	2,271,119	0.34
Vested options		
Vested options, December 31, 2000	588,338	0.59
Vested during year	538,065	0.83
Cancelled during year	(528,505)	0.76
Vested options, December 31, 2001	597,898	0.66
Vested during year	423,551	0.44
Cancelled during year	(218,337)	0.95
Vested options, December 31, 2002	803,112	0.46

In connection with the Company's IPO, the Company granted the Underwriter an option to purchase up to 230,000 common shares at a price of \$1.00 (see Note 9(g)). As at December 31, 2002, these options expired without being exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year ended December 31, 2002, the Company granted 1,416,452 options to Directors, officers and employees.

The Company has used the Black-Scholes option pricing model in order to quantify the expected potential compensation benefit of an option grant. The following assumptions were used for grants in the year ended December 31, 2002: a dividend yield of 0%; an expected volatility of 116%; a risk-free interest rate of 4.0%; and an average expected grant life of 3 years. With these assumptions, the Black-Scholes option pricing model calculated a "fair value" of the options equal to approximately \$0.12 per share. Thus, the model calculated a total expected potential compensation benefit ("fair value") of approximately \$165,000, for the aggregate 1,416,452 options granted. Pro-rated over the three-year vesting period of the option grant, this has been translated to a deemed annual compensation benefit of \$55,000.

The Company does not currently expense employee or Director stock options, nor does it plan to expense Director or employee stock options in the future, unless such stock option expensing is mandated by the appropriate regulator.

For the purposes of pro-forma disclosure as required by Canadian generally accepted accounting principles, the calculated fair value of the stock options would have increased the Company's net loss by \$27,580 for the year ended December 31, 2002. The corresponding loss per share figure would have been increased by \$0.002 per share.

Additional information relating to stock options outstanding as at December 31, 2002 and 2001 is presented below:

2002				
Exercise Price \$	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Number Vested	Weighted Average Price \$
0.25	1,981,452	50 months	551,667	0.25
0.90	179,667	29 months	174,778	0.90
1.00	110,000	42 months	76,667	1.00
	<u>2,271,119</u>	48 months	<u>803,112</u>	0.46
2001				
Exercise Price \$	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Number Vested	Weighted Average Price \$
0.25	670,000	46 months	240,003	0.25
0.90	369,667	43 months	243,226	0.90
1.00	294,000	52 months	114,669	1.00
	<u>1,333,667</u>	46 months	<u>597,898</u>	0.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INCOME TAXES

The Company has non-capital losses carried forward for tax purposes which will begin to expire in 2006. Losses carried forward are approximately as follows:

Expiry	\$
2006	30,000
2007	2,000,000
2008	2,900,000
2009	1,900,000
	6,830,000

The Company also has capital losses of approximately \$29,000 available to offset future capital gains.

The benefit of these tax losses has not been recognized in the financial statements.

12. RELATED PARTY TRANSACTIONS

The demand debentures outstanding at December 31, 2002 totaling \$1,000,000, are due to two Directors who are shareholders of the Company. The debentures were issued to provide the Company with general working capital, and to facilitate the execution of its business plan.

During the year ended December 31, 2002, the Company utilized legal services totaling \$30,951, plus applicable taxes, which were provided by a firm with which a Director of the Company is employed. At December 31, 2002, \$31,184 remained payable, inclusive of applicable taxes. During the year ended December 31, 2001, the Company utilized legal services totaling \$85,427 which were provided by a different firm with which a Director at the time (now a former Director) was employed.

On June 20, 2002, the Company signed a letter of intent ("LOI") for the acquisition of all of the issued and outstanding shares of Bitonic for total consideration of \$566,083, which will be satisfied by the issuance of 2,830,415 common shares of the Company. The President and CEO of Bitonic is a Director of the Company. Solium initiated the acquisition of Bitonic in order to internalize the development of and the intellectual capital associated with the Company's products. This acquisition will significantly reduce the cost of ongoing development of the Company's products. Pursuant to this LOI and the strategic desire to internalize intellectual capital, the Company and Bitonic operated for the latter half of 2002 under the assumption that this acquisition would close. It is estimated that Bitonic would have billed the Company approximately \$350,000 in incremental development costs for development time incurred by Bitonic staff on the E-SOAP application during 2002, if the acquisition had not been contemplated and completed.

Effective May 1, 2002, the Company acquired all of the issued and outstanding shares of Stormworks. Prior to the acquisition, Stormworks was substantially owned by a Director of the Company. The acquisition of Stormworks was initiated by the management of Solium in order to achieve a restructuring of the Company. The transaction was recorded at the exchange amount, which was fair market value.

At December 31, 2001, included in accounts payable and accrued liabilities was a balance of \$53,669 payable to Bitonic for development and maintenance of the Company's web-based application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. CONTINGENCIES AND COMMITMENTS

Operating leases

The Company's obligations under operating leases for occupied premises are as follows:

	\$
2003	146,819
2004	115,736
2005	109,603
2006	78,936
2007	13,156
	464,250

14. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

Officers

BRIAN CRAIG
President and Chief Executive Officer

LYNN LEONG
Chief Financial Officer

JUNE DAVENPORT
*Chief Operating Officer and
Vice President, Market Strategy*

MARCOS LOPEZ
*Chief Technology Officer and
Vice President, Business Strategy*

Directors

MIKE BROADFOOT
*Chairman,
Solium Capital Inc.*

BRIAN CRAIG
*President and Chief Executive Officer,
Solium Capital Inc.*

MARCOS LOPEZ
*Chief Technology Officer and
Vice President, Business Strategy,
Solium Capital Inc.*

JUSTIN FERRARA
Lawyer, Macleod Dixon Inc.

SHELLEY KUIPERS
President, Material Insight Inc.

Offices

HEAD OFFICE
710, 805 – 8th Avenue S.W.
Calgary, Alberta T2P 1H7
Phone 403-515-3910
Fax 403-515-3919
Toll Free 1-877-380-7793

TORONTO OFFICE
Fourth Floor
439 King Street West
Toronto, Ontario M5V 1K4
Phone 416-644-8540
Fax 416-644-8544

MONTREAL OFFICE
Suite 355
1470 Peel Street
Montreal, Quebec H3A 1T1
Phone 514-499-8200
Fax 514-499-8201

Investor Information

TRANSFER AGENT
Valiant Trust Company

LEGAL COUNSEL
Macleod Dixon LLP

AUDITORS
Deloitte & Touche LLP

STOCK LISTING AND SYMBOL
TSX Venture Exchange
Symbol: SUM

INVESTOR CONTACT
Lynn Leong, CFO
Phone 403-515-3910
Fax 403-515-3933
Email investorrelations@solium.com

WEBSITE
www.solium.com