

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS *(Unaudited)*

4. INVESTMENT TAX CREDITS RECEIVABLE

The Company made a claim for the refund of investment tax credits associated with scientific research and development performed in the year 2000. During the first quarter of 2003, the Company's claim was approved by Canada Customs and Revenue Agency in the amount of \$322,740. Professional fees of \$93,185 associated with the successful filing of the claim will be offset against the refund, resulting in net proceeds of \$229,555 to the Company.

5. STOCK-BASED COMPENSATION PLAN

Stock option activity with respect to the Company's stock option plan for the three months ended March 31, 2003 is shown below:

| | Number of Shares | Weighted Average Exercise Price (\$) |
|------------------------------------|---------------------|---|
| Outstanding, December 31, 2002 | 2,271,119 | 0.34 |
| Granted | 505,059 | 0.25 |
| Cancelled | (426,511) | 0.69 |
| Outstanding, March 31, 2003 | 2,349,667 | 0.25 |

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 and the resulting fair values were calculated for the following grants issued to employees, officers and Directors:

| Grant Date | Options Granted | Dividend Yield | Expected Volatility | Risk-Free Interest Rate | Average Expected Grant Life | Total Fair Value (\$) |
|-------------------|--------------------|-------------------|------------------------|-------------------------------|-----------------------------------|--------------------------|
| July 19, 2002 | 1,416,452 | 0% | 116% | 4.0% | 3 years | 165,480 |
| January 6, 2003 | 100,000 | 0% | 182% | 3.5% | 3 years | 10,137 |
| February 27, 2003 | 195,099 | 0% | 186% | 3.5% | 3 years | 16,459 |
| March 31, 2003 | 209,960 | 0% | 196% | 3.5% | 3 years | 37,976 |

For 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 \$15,091 for the quarter ended March 31, 2003. The corresponding loss per share figure would have been increased by \$0.0008 per share.

Additional information relating to stock options outstanding as at March 31, 2003 is presented below:

| Exercise Price (\$) | Remaining Number Outstanding | Weighted Average Remaining Contractual Life | Number Vested | Weighted Average Exercise Price (\$) |
|------------------------|------------------------------------|---|------------------|---|
| 0.25 | 2,335,000 | 46 months | 480,000 | 0.25 |
| 0.90 | 14,667 | 59 months | 14,667 | 0.90 |
| | 2,349,667 | 46 months | 494,667 | 0.27 |

BOARD OF DIRECTORS:

Michael Broadfoot, Brian Craig, Justin Ferrara, Shelley Kuipers, Marcos Lopez

ISSUED AND OUTSTANDING COMMON SHARES: 21,610,753

ISSUED AND OUTSTANDING PREFERRED SHARES: 2,500,000

TRADING SYMBOL ON TSX-V: "SUM"

**Solium
CAPITAL**

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2003 First Quarter Report to Shareholders
March 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS FROM OPERATIONS

Revenue

Gross revenue from E-SOAP services in the first quarter of 2003 was \$213,897, an increase of 92% from \$111,528 in the first quarter of 2002.

The Company ended the quarter with 13,255 active participants enrolled on the E-SOAP system. This represents a growth of 69% from the 7,859 enrolled as at March 31, 2002. During the first quarter of 2003, two new corporate clients were activated onto the E-SOAP system, adding approximately 850 new participants since December 31, 2002.

During the first quarter of 2003, the Company also recorded \$229,555 in other revenue. This revenue relates to an investment tax credit refund on scientific research and development performed in 2000.

Expenses

Salaries and wages expense for the first quarter of 2003 was \$275,638 compared to \$180,253 in the first quarter of 2002. The employee base was increased to twenty people at the end of March 31, 2003 from nine people at the end of the first quarter of 2002. This increase was due to the addition of sales and marketing staff, and the internalization of the Company's systems development through the integration of personnel from Stormworks Ltd. ("Stormworks"), the subsidiary purchased in May 2002, and from Bitonic Solutions Inc. ("Bitonic"), the subsidiary purchased in February 2003.

General and administrative costs totaled \$255,090 in the first quarter of 2003, an increase of \$37,768 from \$217,988 in the comparable quarter of 2002. \$15,000 of this change was due to increased travel to other major markets in Canada as the Company strives to increase its client base in cities such as Toronto, Montreal and Vancouver. A further \$11,000 of the change was a result of an allowance for a doubtful receivable. In addition, a Toronto office was established in the fall of 2002, adding \$13,500 per quarter in rent.

Also included in total expenses for the first quarter of 2003 was the addition of \$17,522 in amortization expense as a result of the addition of assets through the acquisition of Stormworks and Bitonic. \$25,000 in debenture interest was accrued on the \$1,000,000 of demand debentures that were issued at the end of 2002. Finally, \$188,047 of expense was incurred through the write-off of goodwill. See "Acquisition of Bitonic" section below for an explanation of this write-off.

Net Financial Results

The net loss for the quarter ended March 31, 2003 was \$329,261, an improvement of \$146,250 when compared to a net loss of \$475,511 in the same quarter of 2002.

The net loss from continuing operations for the quarter ended March 31, 2003 was \$329,261, compared to a net loss from continuing operations of \$361,931 in the first quarter of 2002.

ACQUISITION OF BITONIC

Effective February 27, 2003, the Company acquired all of the issued and outstanding shares of Bitonic for consideration of \$566,083 consisting of 2,830,415 common shares of the Company at \$0.20 per share. 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.

The letter of intent ("LOI") for this acquisition was signed on June 21, 2002. During the period between the date of the LOI to the closing date of the acquisition on February 27, 2003, the Company and Bitonic operated under the assumption that the acquisition would close. During this period, certain members of Bitonic's development staff were devoted exclusively to Solium's internal development projects. Approximately \$185,000 of salaries for these individuals was absorbed by Bitonic. As a result of this and the incurring of acquisition costs, the net assets of Bitonic that came to Solium upon the closing of the acquisition in February 2003 was lower than the agreed upon purchase price in the LOI by \$188,047. For accounting purposes, this amount was recorded as goodwill. The goodwill was subsequently written off, as the Company has made the decision to wind down all of Bitonic's external contracts and focus all of Bitonic's employees on Solium's internal development projects.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash on hand as at March 31, 2003 was \$789,962. Working capital as at March 31, 2003 was negative \$80,793, due to the inclusion of the demand debentures in current liabilities. However, it is anticipated that these debentures will not be repaid until the Company becomes profitable.



Brian Craig
President and Chief Executive Officer

May 2, 2003



Lynn Leong
Chief Financial Officer

CONSOLIDATED STATEMENT OF
LOSS AND DEFICIT

| | <i>Three Months Ended March 31,</i> | |
|--|---|-----------|
| <i>(unaudited)</i> | 2003 | 2002 |
| Revenue | | |
| E-SOAP related services | 213,897 | 111,528 |
| Consulting services | 4,068 | – |
| Other <i>(Note 4)</i> | 229,555 | – |
| | 447,520 | 111,528 |
| Expenses | | |
| Salaries and wages | 275,638 | 180,253 |
| General and administrative | 255,090 | 217,988 |
| Write-off of goodwill <i>(Note 3)</i> | 188,047 | – |
| Amortization | 33,006 | 15,484 |
| Debt interest | 25,000 | – |
| Development costs | – | 59,734 |
| | 776,781 | 473,459 |
| Loss from continuing operations | 329,261 | 361,931 |
| Loss from discontinued operations | – | 113,580 |
| Net loss | 329,261 | 475,511 |
| Deficit, beginning of period | 7,817,606 | 5,899,061 |
| Deficit, end of period | 8,146,867 | 6,374,572 |
| Loss per share: | | |
| From continuing operations | 0.02 | 0.03 |
| From discontinued operations | – | 0.01 |
| Net loss per share | 0.02 | 0.04 |

CONSOLIDATED BALANCE SHEET

| | <i>March 31, 2003</i> | <i>December 31, 2002</i> |
|--|---------------------------|------------------------------|
| <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(audited)</i> |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 789,962 | 923,325 |
| Accounts receivable | 101,212 | 62,400 |
| Investment tax credits receivable <i>(Note 4)</i> | 229,555 | – |
| Loans receivable | 35,404 | 35,404 |
| Prepaid expenses | 56,780 | 63,491 |
| | 1,212,913 | 1,084,620 |
| Capital assets | 362,979 | 235,419 |
| | 1,575,892 | 1,320,039 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 223,764 | 219,840 |
| Deferred revenue | 69,942 | 54,835 |
| Demand debentures | 1,000,000 | 1,000,000 |
| | 1,293,706 | 1,274,675 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 8,429,053 | 7,862,970 |
| Deficit | (8,146,867) | (7,817,606) |
| | 282,186 | 45,364 |
| | 1,575,892 | 1,320,039 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | <i>Three Months Ended March 31,</i> | |
|---|---|-----------|
| <i>(unaudited)</i> | 2003 | 2002 |
| Cash flows related to the following activities: | | |
| Operating | | |
| Net loss from continuing operations | (329,261) | (361,931) |
| Adjustments for: | | |
| Amortization | 33,006 | 15,484 |
| Write-off of goodwill <i>(Note 3)</i> | 188,047 | – |
| Loss on sale of capital assets | 24,076 | – |
| Non-cash expense | – | 25,000 |
| | (84,132) | (321,447) |
| Changes in non-cash working capital | (275,975) | 190,116 |
| Loss from discontinued operations | – | (113,580) |
| | (360,107) | (244,911) |
| Financing | | |
| Issuance of promissory notes | – | 43,500 |
| Changes in non-cash working capital | 28,014 | – |
| | 28,014 | 43,500 |
| Investing | | |
| Refundable deposit | – | (10,000) |
| Cash acquired on purchase of subsidiary, net of acquisition costs <i>(Note 3)</i> | 195,750 | – |
| Proceeds on sale of subsidiary | – | 25,000 |
| Proceeds from sale of capital assets, net of purchase of capital assets | 2,980 | – |
| | 198,730 | 15,000 |
| Net decrease in cash and cash equivalents | (133,363) | (186,411) |
| Cash and cash equivalents, beginning of period | 923,325 | 512,207 |
| Cash and cash equivalents, end of period | 789,962 | 325,796 |

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS *(Unaudited)*

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Solium Capital Inc. (the "Company" or "Solium") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements dated December 31, 2002. These interim financial statements should be read in conjunction with the Company's December 31, 2002 audited annual financial statements. Certain of the prior periods' comparative figures have been reclassified to conform to the current period's presentation.

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.

The Company'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 assets and liabilities and reported income and balance sheet classification.

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

3. ACQUISITION

Effective February 27, 2003, the Company acquired all of the issued and outstanding shares of Bitonic Solutions Inc. ("Bitonic"), for consideration of \$566,083 consisting of 2,830,415 common shares of the Company at \$0.20 per share. 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 the Company's current and future products. Prior to the acquisition, Bitonic was substantially owned by a Director of the Company.

The Company obtained the following net assets when Bitonic was acquired:

| | \$ |
|---|---------|
| Net current liabilities, excluding cash | (5,336) |
| Capital assets | 187,622 |
| Goodwill | 188,047 |
| | 370,333 |
| Cash acquired | 222,205 |
| Net assets acquired | 592,538 |
| Consideration: | |
| Shares issued | 566,083 |
| Acquisition costs incurred | 26,455 |
| Total purchase price | 592,538 |

The Letter of Intent ("LOI") for the Bitonic acquisition was signed on June 21, 2002. At that time, the value of the acquisition was determined based primarily upon the book value of the net assets on Bitonic's balance sheet. The acquisition did not close until February 27, 2003. During the intervening period, Solium and Bitonic operated under the assumption that the acquisition would close. As a result, certain Bitonic employees were assigned to work exclusively on Solium projects, with the associated salaries continuing to be paid out of Bitonic. Consequently, during this period, Bitonic's cash resources were decreased by the amount of these salaries, thereby decreasing the net assets ultimately available to Solium on the closing date of the transaction. As a result of this decrease to the net assets, the total purchase price of \$592,538 that was determined under the LOI exceeded the net assets acquired at February 27, 2003 by \$188,047. This amount has been shown as goodwill in the table above.

Upon closing the Bitonic acquisition, the Company made the decision to focus all of Bitonic's development staff on Solium's internal development projects. As a result, Bitonic's external contracts were wound down. Based on this decision, the goodwill of \$188,047 associated with the purchase of the Bitonic business has been written off.