

2003 Annual Report



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**SHAREHOLDERS’ ANNUAL AND SPECIAL MEETING**

The Annual and Special Meeting of Shareholders of Solium Capital Inc. will be held at 2 p.m. in the Strand/Tivoli Room of The Metropolitan Conference Centre, 333 Fourth Avenue S.W., Calgary, Alberta on the 9th day of June 2004. We encourage all shareholders unable to attend to sign and return the proxy form prior to the meeting or vote their shares via telephone or internet as per the instructions on the proxy form.

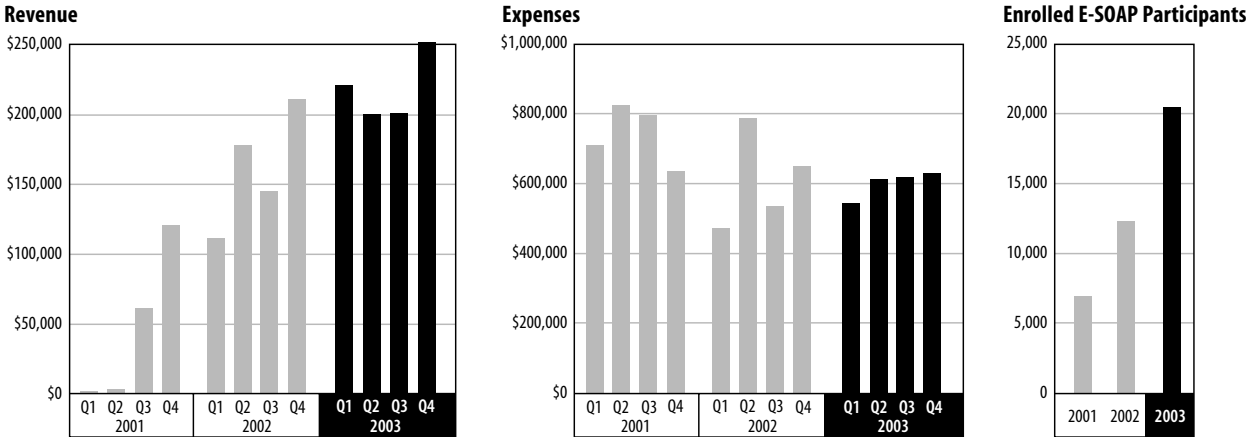
**CORPORATE OVERVIEW**

Solium Capital Inc. (“Solium” or the “Company”) specializes in technology and services for the administration of equity-based incentive and savings programs for public corporations and their employees. Through its web-based applications, Solium is focused on redefining the product and service standards in this sector. Solium’s flagship product, E-SOAP, is a complete web-based application for the administration, execution and reporting of employee stock options for Canadian public companies. Solium launched a second application, Solium Share Purchase, in early 2004.

Solium was founded in 1999 and went public in May 2001. Solium trades on the TSX Venture Exchange under the symbol SUM.

**CHARTS**

The following charts show the financial highlights of the Company for the last three years. See Management’s Discussion and Analysis for an explanation of the changes.



## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO

### Dear Shareholders:

When Solium's new management and Board got involved in May 2002, we accepted the task of turning the company around. But we stated at the time that it would take two full years to really demonstrate the fruits of our labour. It is now 2 years from that time, and in May 2004, Solium is expecting to record the first profit since the company's inception in 1999. Furthermore, our business is performing at a capacity where we expect to accelerate our penetration in the Canadian market. The next big challenge the Company faces is to take our products and services to other markets – principally the US and UK. This will test our ability to become the global leader in equity-based incentive solutions. These are ample challenges for a company of 21 people, and a fitting goal for a company that has consistently set its sights high.

We have been obsessed with becoming profitable from day one. Our lack of profitability has impaired our sales opportunities, as many companies are cautious about aligning with vendors who cannot demonstrate they will be around in the long term. The lack of profitability has also inhibited our ability to pursue new markets, as the increase in costs we would incur in pursuing those opportunities would put stress on our finite cash reserves and compound our short-term profit goals. Companies that are profitable have alternatives. Companies that consume cash tend to be very singular in their focus. We are now presented with alternatives, and this will be the proving period for Solium.

People often ask me various questions about the company – what's the company worth, why did Solium do the deal with GRS Securities Inc.<sup>(1)</sup> ("GRS Securities"), and how do you define the business model? Because these are so fundamental to how shareholders perceive the company and appraise their investment, I want to share some of management's philosophies on these subjects.

### Business owners versus shareholders

Imagine if it were possible to mobilize the talent of all the holders of Solium stock towards Solium's business goals with the focus and dedication of a small business owner. I suspect we would bring a higher level of responsibility to our shareholder community – people with acute interest in the business who are willing to take action to see results. This is a quality we seek when we're recruiting for employees and Board members. This is also a quality we want to engender in the people who hold Solium shares.

The privilege to vote is the essence of democracy – the associated responsibility is the essence of accountability. Solium is committed to contributing to a community that makes rational and informed decisions about its investment in Solium, something only possible through the acquired knowledge of investors who understand the business and who can properly appraise their investment in the business. It is the responsibility of Solium management to provide adequate information about Solium to enable our shareholders to behave in a rational manner. It is investors' responsibilities to use that information in their decision process.

*Footnote (1): GRS Securities Inc. is a wholly-owned subsidiary of The Canada Life Assurance Company (Canada Life), which is a wholly-owned subsidiary of The Great-West Life Assurance Company.*

## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO *(continued)*

Warren Buffet has always been an advocate of the 'business owner' philosophy. Buffet describes management's responsibility to share knowledge about the business as "the information we would require if our roles were reversed." There will be occasions when management must arbitrate between withholding information that might yield competitive advantage and providing adequate disclosure to maintain an informed investor community. In such circumstances, Solium will always favour shareholders by ensuring they have the information to act rationally.

Solium's shareholders have a right to request information. Solium has an obligation to share that information uniformly, and to ensure no single shareholder or group of shareholders has information that could possibly provide a competitive advantage in the trading of Solium's securities. It is our duty to Solium shareholders to disclose material events in the most timely, objective and succinct manner possible. We will make every effort to remain unbiased in our communications, and we will refrain from making projections on revenue, profit and other key measures where we have finite control over outcomes. As Solium will now be transitioning to profitability, beginning in the third quarter of 2004, we will maintain a current 'Owner's Presentation' on our website which will reflect the most up-to-date information on the company – the information Solium's shareholders require to make rational decisions on the business.

### **Valuation**

The value of any business is the value of the future discounted cashflows the business can generate. That's true of all businesses – big or small, emerging or sunset. Where there is an earnings history and a strong correlation of historical performance, then it becomes reasonably straight forward to forecast the future cashflows of a business and to determine a valuation. When there is no earnings history, it becomes a more challenging task, and the resultant valuation assigned to the business is less definitive or more speculative.

It's for this reason that traditional valuation techniques such as price earnings ratios tend not to be reliable tools for early stage growth companies and thus don't apply well to the Solium situation. Instead, many investors create a scenario which includes an expectation for the mature state of the company, in terms of profitability, and then they apply a discount rate to the resultant cash flows, including the period of time to get to that mature state. The discount rate chosen reflects the investor's perceived risk (or variance) associated with the cashflow forecast. This approach implies growth forecasts, scalability of the business in the context of revenue size and cost structures, and the competitive landscape in the context of market penetration and profit margins available. Some investors might even use probabilities for a set of scenarios rather than adjusting for risk in the discount rate. In any event, these kinds of techniques generate values which are a function of a complex set of assumptions. Solium is an early stage company and there are a wide range of potential scenarios. That leads to a wide range in expected future values of the company, which in turn can lead to stock price volatility.

## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO *(continued)*

In 2002, revenues (\$644,557) at Solium grew by 247% from 2001 revenues (\$185,547). In 2003, revenues (\$872,058) grew by 35%. Revenue growth from the GRS Securities distribution alliance alone has the potential to increase 2004 revenues by more than 100%. It is difficult to pinpoint any statistical trend in these data, but clearly revenue is expanding. When rates of growth exceeding 35% per year are compounded over several years, there is the potential for significant growth. The other side of the equation is profit. Since Solium has no history of profitability, any forecast of future profits would remain speculation at this point.

So I have not made any attempt to pinpoint the value of Solium, and obviously any valuation at this early juncture could be disproven much more easily than proven. With each year of financial history from the company the range of scenarios will narrow and the expected future values will be better defined. As Solium transitions to a profitable business, there will be two critical criteria that will largely determine the value of the company – the free cashflow the company generates, and the stability and sustainability of the growth. These remain the goals of management.

### **The premise behind the GRS Securities Inc. alliance**

In October 2003, Solium signed an agreement with GRS Securities which allows GRS Securities to utilize Solium's product suite – E-SOAP and Share Purchase – as part of its service delivery to customers in Canada, in exchange for a share of the revenue. There was no exchange of equity in the deal, or any commitment for a transfer of equity in the future. Bill Kyle of GRS Securities was appointed to the Solium Board as part of the deal. The arrangement between the two companies affects only the Canadian market.

With any deal, you seek to find the right balance between what you get and what you give up, and that guided Solium's negotiations with GRS Securities. Our primary need as a business was to accelerate our penetration in the Canadian market and to drive increased revenue. Our secondary need was to realize our goals of moving into the complementary employee share purchase plan market. At the time the alliance was signed, Solium was consuming cash at a rate of approximately \$100,000 per month. While we have enjoyed a high success rate with direct sales, the revenue contributions from direct sales were accumulating too slowly to have any meaningful impact on the monthly burn rate. The most compelling aspect of the GRS Securities arrangement was that GRS Securities provided administrative services for a book of business with an established revenue stream. The licensing of Solium's technology by GRS Securities would immediately increase Solium's market penetration. Since the GRS Securities book was large – approximately 50 companies, more than \$2 Billion in assets and 100,000 participants – we saw it as an opportunity to address our cashflow situation.

Another important aspect to the GRS Securities book of business was that the book consists largely of employee share purchase plans. At the point in time the terms of the agreement were negotiated, Solium did not own an employee share purchase plan application, but it was something that we had always contemplated. We possessed both the knowledge base and skillsets to develop such a solution and it was a key part of our growth strategy. A second product targeted at employee share purchase plans would enable Solium to overcome one of our key shortcomings in the market – our single-product dependence – while gaining immediate access to an appreciable portion of the market. This would significantly compress the time required to cross the chasm that defines new product acceptance.

## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO *(continued)*

Group Retirement Services<sup>(2)</sup> is a leading provider of Capital Accumulation Plans in Canada, with a market share approaching 30%. That is significantly greater than the GRS Securities market share in the employee share purchase market in Canada, which could be reasonably estimated at about 15%. In the event GRS Securities is successful in increasing their share of the employee share purchase market to something more representative of their core business, then it could significantly augment Solium's direct sales efforts to emerge as the dominant solution provider in this vital market.

The arrangement with GRS Securities is exclusive to the Canadian market, but it still factors predominantly in Solium's aspirations in the US marketplace. For the past two years, we have resisted the attraction of the US market until we could first demonstrate our ability to penetrate a market and until we could augment our cash reserves to withstand the higher costs associated with entering a market more geographically distributed and more competitive. May 2004 will mark the first month where we will realize the full force of the GRS Securities revenue stream, and that will reveal that we have turned the corner on Solium's finances. May 2004 also marks our expanded market perspective, as we begin immediately seeking opportunities in the US, with an expectation that we will have operations set up in the eastern United States by Q4 2004.

Both GRS Securities and Solium will utilize Solium's E-SOAP and Share Purchase applications in their service delivery to the market. There will be instances where the two companies compete, but many more instances where the two companies collaborate to provide more comprehensive solutions than either party is capable of on a stand-alone basis. The relationship with GRS Securities is barely 6 months old, but it has already had a dramatic impact on Solium's business.

### **ASP – 'Build it and they will come'**

The Application Service Provider ("ASP") model is an interesting one, and it's a model that I tend to think favours larger companies with significant capital resources over start-ups because of the large up-front capital investment that is required to launch a new ASP business. Overall I think the ASP business model will be more rewarding than the predecessor software licensing model, but the cycle times from investment to the point in time where it is possible to measure a return on the investment will unquestionably be longer for ASPs.

There are two aspects to the ASP model that make it particularly challenging for early-stage companies. The first is the upfront cost of developing the solution and building the enterprise-capable infrastructure required to host corporate data. This is the concept of 'build it and they will come.' There must be a fully-proven enterprise solution in place before any company will risk placing their corporate data and assets on a vendor's servers. In Solium's case, the upfront costs of building out the infrastructure to develop, market and distribute our solutions were substantial – in excess of \$9,000,000 – before we got significant traction in the marketplace. That's a husky chunk of capital just to enter the race.

*Footnote (2): Group Retirement Services is a division of The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company.*

## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO *(continued)*

The second aspect of an ASP that is punitive to early-stage companies relates to the contracting of ASP services. Software used to predominantly be licensed, with a substantial upfront capital license fee and an ongoing annual maintenance fee. License fees for corporate solutions were often measured in millions of dollars, and annual maintenance was typically 15 to 20% of the license fee. Today Solium – as in the case of most ASPs – provides a web-based service and we give companies access to our ASP solution. There is no licensing of software and our code does not reside on the servers of our corporate customers. We simply provide access, and in return we receive a monthly access fee. Since there is no significant capital paid upfront – which can help replenish the tank for small companies with finite cash reserves – the value of the service is amortized over the life of the contract. My sense is that for short-term contracts – 3 years or less – that the licensing model would yield higher returns, but for contracts that extend beyond 3 years in length, the ASP access model will generate higher overall fees and returns. The key obviously is to create loyalty with customers to develop enduring relationships, and then the ASP fees behave much like an annuity. Easy to say, tough to execute on.

Where I think the ASP model really shines for vendors and corporate customers alike is on the cost side of supporting the software. In the ASP world, there is only ever a single version of release software available to customers and the cost of managing that codebase on our own servers, as opposed to the servers of our customers, is a fraction for both Solium and Solium's customers. When we release new code, it is propagated to all customers instantaneously. By contrast, in the world of releaseable, licensable software, you are inevitably straddling multiple versions of your codebase which demands dedicated resources to maintain each version. Interim releases for fixes or upgrades have to be administered individually, at tremendous cost to vendors and corporate customers alike.

A feature that executable software and ASP have in common is the underlying business model, which we describe as a 'diminishing marginal cost' model. The cost of supporting each incremental customer becomes lower once the enterprise solution and infrastructure are in place. In theory, the infinite customer can be added at zero incremental cost which creates a favourable asymptotic relationship between costs and customers. The key, of course, in demonstrating the robustness of the diminishing marginal cost business model is to cover your fixed cost structure. Solium is positioned for the first time in our history to realize revenues that exceed costs, and as we expand our customer base we will increase our free cashflow. The diminishing marginal cost model can be extremely rewarding for the dominant players in an industry, and obviously that is our goal.

### **Challenges we face in 2004**

#### ***1. Capitalizing on the opportunities in the Canadian market.***

The market has really opened up in the last few months and we are seeing a lot of companies enter the market seeking new equity-based incentive solutions. The demand is for both stock option plans and employee share purchase plans, and we're poised to respond to both of those opportunities. We have never been stronger as our market share has been steadily climbing, we will finally be profitable, we can now offer a more complete service that spans long and short term incentives, and our solutions are highly regarded. It's critical that we harvest this wave of opportunity because it could be several years before these companies go to market again.

## ***2. US market penetration***

We are entering a market that is likely more than ten times the size of the Canadian market. We have complete inertia – we have literally zero penetration and zero recognition, and the accomplishments in the Canadian market will be minimally persuasive on US customers. We definitely have our work cut out for us, but we'll approach the US marketplace with the same strategy that proved successful for Solium in the Canadian marketplace. We'll focus initially on elevating our awareness in the market, and we'll cater to the market innovators and early adopters. A key part of our strategy will be to immerse some of our best product talent into the market so we can ensure that our solutions are competitively advantaged.

The question that comes up most often is whether we will pursue direct or channel distribution in the US – the answer is we will do what it takes to get a presence. We have already begun seeking channel partners, but that process can take months, if not years. Small businesses with finite resources focus on things that have the greatest immediate impact and the greatest level of control. We will launch direct sales immediately, focused on establishing a critical mass in the marketplace and take an opportunistic approach toward channel partners. It will likely be our success in direct sales that will draw the attention and interest of the channel distributors. We have modest initial goals in the US market, but it is our intent to make our presence felt immediately.

## ***3. Scaling the Solium business to become a global player***

The success we have had in the last 24 months has been with virtually the same personnel. We now have to increase our talent base in order to meet the emerging multitude of opportunities the company faces. This will be a new challenge for the Company – to attract and retain the key talent to enable us to achieve our business goals.

## ***4. An enduring sales cycle***

While our sales success rate has been high, we have consistently confronted a long, drawn out sales cycle. Solium's sales cycle often exceeds a year in length. The extent to which we can compress the sales cycle remains an unknown.

The Solium service offering is not core to our customers' businesses and therefore gets lumped in with discretionary spending. Increased market regulation and compliance are forces that have supported the demand for our solutions in the industry, but have not materially impacted the sales cycle. We seem to expend a greater effort and increased time responding to financial due diligence by our customers than we do on the buy decision and we're hoping that the shift to profitability will eliminate that need. I still expect that as Solium's penetration in the Canadian market increases we will emerge as a defacto standard, which should increase demand for Solium's products and possibly reduce the sales cycle. This could be a key factor in our ability to penetrate the US market.

## MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO *(continued)*

I want to thank all of the Solium shareholders for the confidence they have shown in management and the Company. It takes a certain level of shareholder patience and risk to participate in growth businesses and we hope our shareholders will be rewarded for their investment in our company. If we can sustain the current rate of growth for several years there is the potential for some outstanding compound returns – the quality of returns that offset the elevated risk of participating in early-stage businesses.

At this early point in Solium's lifecycle, we can point to a soon-to-be profitable company and significant penetration in the Canadian marketplace – a market that represents a small fraction of the global equity-based incentives marketplace. While we can rejoice at the small triumphs that we've confronted to date, we remain a long way from achieving our goal of becoming the global leader in the provision of equity-based incentive solutions. The big battles lie ahead, but the opportunities are in proportion to the competitive challenge. We must retain our focus, we need to remain agile so we can quickly respond to new opportunities, and we have to steadily improve. We will measure our success in small incremental milestones and see if we can't put Solium on the world stage.

As always, I welcome your questions and comments. Please do not hesitate to deliver your thoughts and queries directly to me (403.515.3910, extension 121 or [brian.craig@solium.com](mailto:brian.craig@solium.com)) and I will do my best to respond. 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

*This Management's Discussion and Analysis ("MD&A") for Solium Capital Inc. should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes. The Consolidated Financial Statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles. This MD&A is dated as of May 6, 2004.*

### Special Note Regarding Forward-Looking Statements

Certain statements in this MD&A constitute forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: sources of revenue; the sufficiency of cash and working capital for future operations; the timing for completion of various development projects including, without limitation, the launch of the Company's second product, Share Purchase; the revenue potential with respect to the strategic alliance with The Great-West Life Assurance Company's affiliate, GRS Securities Inc. ("GRS Securities"); the Company's projected capital expenditure levels; and, the Company's expected changes to staffing levels.

Readers are cautioned that there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. The forward-looking statements 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, the overall stock market performance, actions from competitors, the corporate governance environment and regulatory reporting requirements for Solium's clients, the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations, and the Company's ability to access external sources of financing if required.

### Financial Highlights

	2003	2002	2001
Total revenues	\$ 872,058	\$ 644,557	\$ 185,547
Loss before discontinued operations	\$ 1,518,500	\$ 1,804,964	\$ 2,788,616
Per share – basic and fully diluted	\$ 0.062	\$ 0.113	\$ 0.256
Net loss	\$ 1,518,500	\$ 1,918,545	\$ 3,415,961
Per share – basic and fully diluted	\$ 0.062	\$ 0.120	\$ 0.314
Total assets	\$ 1,639,287	\$ 1,320,039	\$ 868,273
Total long-term financial liabilities	\$ Nil	\$ Nil	\$ Nil
Cash dividends declared	\$ Nil	\$ Nil	\$ Nil

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The financial position and annual results in 2003, 2002 and 2001 reflect the impact of the following major factors:

- Participants enrolled in E-SOAP, the Company's employee stock option plan solution, grew 72% between 2001 to 2002, and 65% between 2002 to 2003.
- The online brokerage business previously operated by Solium Capital Online Inc. ("Online") was sold in March 2002. The disposition of Online was a critical step in the Company being able to focus on its core business of providing share entitlement administration programs. This disposition freed the Company from (1) ongoing losses (\$627,345 in 2001 and \$113,581 in 2002) associated with a business model that was failing; and (2) the significant capital and regulatory requirements of operating a brokerage business. Following this disposition, Online continued until mid-2002 to provide brokerage services as part of Solium's E-SOAP solution, at which time Solium developed a partnership with HSBC InvestDirect, a division of HSBC Securities (Canada) Inc. (previously known as Merrill Lynch HSBC Canada Inc.). The HSBC group of companies is one of the world's largest banking and financial services organizations.
- The Company acquired Stormworks Ltd. ("Stormworks") in May 2002. The acquisition of Stormworks, an e-commerce consulting firm, resulted in the addition of key management, marketing and development skills to the Company. Net assets of \$404,699 were added to Solium's balance sheet upon the acquisition of Stormworks. Stormworks contributed \$140,000 of consulting revenue to the Company in 2002, prior to the winding down of its consulting contracts as planned in July of that year. Following this date, Stormworks' staff were refocused onto Solium's business plan.
- In conjunction with and following the acquisition of Stormworks, several equity and debt financings totaling \$2,185,000 occurred in 2002, which consisted of issuances of common shares for gross proceeds of \$685,000, preferred shares for gross proceeds of \$500,000, and demand debentures for gross proceeds of \$1,000,000. Further equity financings for gross proceeds of \$1,165,000 occurred in 2003. The financings significantly strengthened the asset and working capital positions of the Company.
- The Company signed a Letter of Intent ("LOI") in June 2002 to acquire Bitonic Solutions Inc. ("Bitonic"). This acquisition closed in February 2003. Net assets of \$592,538 were added to Solium's balance sheet upon closing the acquisition. 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, thereby significantly reducing the ongoing development costs of such products. Third party development costs totaled approximately \$800,000 in 2001. These costs were substantially greater than the annualized development-related salaries of approximately \$500,000 at the end of 2003.
- In the fourth quarter of 2002, the Company revised its revenue model by charging an administrative fee to participants for each stock option exercise processed through E-SOAP ("exercise fees"). This source of revenue became significant in 2003.

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

- The Company has had an ongoing focus on minimizing the cost structure of the business and the associated cash burn wherever possible and practical. In addition to the savings from decreased development costs as explained above, major cost savings were achieved through the renegotiation of data feed contracts resulting in more than a \$15,000 decrease to monthly data feed costs commencing in the second quarter of 2003 (\$180,000 on an annualized basis). Significant decreases to general and administrative costs such as rent and professional fees have also contributed to a year-over-year decrease in expenses.
- In order to accelerate the development of the Share Purchase platform and meet the targets associated with the GRS Securities alliance, the Company increased its development staff by three individuals in the third and fourth quarters of 2003. These staff additions are expected to be permanent in order to support ongoing development of the Company's products.

### Quarterly results for 2003 and 2002

	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
E-SOAP participants	20,294	13,677	10,974	13,255	12,300	11,254	7,281	7,859
Revenues <sup>(1)</sup>	\$ 252,329	\$ 201,187	\$ 200,577	\$ 217,965	\$ 210,737	\$ 144,733	\$ 177,559	\$ 111,528
Expenses <sup>(1)(2)</sup>	\$ 630,461	\$ 608,428	\$ 603,947	\$ 547,722	\$ 650,342	\$ 537,290	\$ 788,430	\$ 473,459
Loss before discontinued operations <sup>(2)</sup>	\$ 378,132	\$ 407,241	\$ 403,370	\$ 329,757	\$ 439,605	\$ 392,557	\$ 610,871	\$ 361,931
Per share – basic and fully diluted	\$ 0.015	\$ 0.019	\$ 0.019	\$ 0.017	\$ 0.024	\$ 0.023	\$ 0.041	\$ 0.027
Net loss <sup>(2)</sup>	\$ 378,132	\$ 407,241	\$ 403,370	\$ 329,757	\$ 439,605	\$ 392,557	\$ 610,871	\$ 475,512
Per share – basic and fully diluted	\$ 0.015	\$ 0.019	\$ 0.019	\$ 0.017	\$ 0.024	\$ 0.023	\$ 0.041	\$ 0.036

<sup>(1)</sup> A tax credit refund of \$229,555 previously reported as other revenue in the first quarter of 2003 has been reclassified to offset expenses in order to conform to the year-end financial statement presentation.

<sup>(2)</sup> In accordance with new standards issued by the CICA in December 2003, the Company adopted the fair value based method of accounting for stock options. In accordance with the prospective treatment allowable under these new standards, \$29,762 was recorded as an expense in the fourth quarter of 2003. Quarterly results shown in the above table have been restated from those previously reported in interim reports to shareholders as a result of allocating this expense to the appropriate quarters in 2003. \$496, \$6,431, \$7,599 and \$15,236 have been added to expenses and net loss of the first, second, third and fourth quarters of 2003, respectively.

Quarterly results in 2003, as compared to the same periods in 2002, reflect: a) the impact of revenue from increased participants enrolled on the E-SOAP system and the introduction of exercise fees in late 2002; and, b) the impact on costs associated with the addition of staff through the acquisitions of Stormworks in May 2002 and Bitonic in February 2003, and the increase in development staff in late 2003, which are offset by the general reduction of other operating expenses.

## Results from Operations – Comparison of Fiscal Year 2003 to 2002

### Revenue

Gross revenue from E-SOAP services in 2003 was \$863,496, an increase of \$363,964 or 73% from \$499,532 in 2002. This increase is attributable to (1) increased license fees through the growth of the Company's client base; and (2) a full twelve months of exercise fees applicable to 2003.

Corporate license and implementation fees for E-SOAP totaled \$719,526 in 2003 compared to \$477,127 in 2002. The Company ended 2003 with 20,294 participants generating revenue on E-SOAP. This represents a growth of 65% from the 12,300 enrolled as at December 31, 2002. During 2003, seven new corporate clients were activated onto E-SOAP through direct sales, and one new client was added in the fourth quarter through the relationship with GRS Securities. (See Business Prospects and Outlook for a description of the arrangement with GRS Securities.) At the end of 2003, the Company's direct client list included:

- Adeptron Technologies Corp.
- Big Rock Brewery
- Cott Corporation
- CSI Wireless Inc.
- Domtar Inc.
- Enbridge Inc.
- EnCana Corporation
- Enerflex Systems Ltd.
- Esprit Exploration  
(formerly Canadian 88 Energy Corp.)
- EXFO Inc.
- Flint Energy Services Ltd.
- Fording Canadian Coal Trust
- MDS Inc.
- Microcell Telecommunications
- Mitec Telecom
- Molson Inc.
- Olympia Energy Inc.
- Pason Systems Inc.
- Shell Canada Limited
- Suncor Energy Inc.
- SR Telecom Inc.
- Talisman Energy Inc.
- Telesystem International Wireless
- Thunder Energy Inc.
- TransAlta Corporation

2003 was the first full year that exercise fees were charged to E-SOAP participants. These exercise fees totaled \$143,970 in 2003 compared to \$22,405 in 2002.

Consulting services revenue totaled \$8,562 in 2003 compared to \$145,025 in 2002. The decrease is due to the winding down of consulting contracts in Stormworks.

### Expenses

Salaries and wages expense for 2003 was \$1,388,908 compared to \$1,069,255 in 2002. Included in the expense for 2003 was \$29,762 of stock option expense. The Company adopted the fair value based method of accounting for stock options in accordance with the CICA Handbook, Stock-Based Compensation and Other Stock-Based Payments. This treatment has been adopted prospectively, with an expense recognized only for options granted on or after January 1, 2003.

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The Company had an employee base of 22 people at the end of 2003 compared to 14 people at the end of 2002. This increase in staff is mainly attributable to the integration of personnel from Bitonic. The increase to salaries and wages expense in 2003 resulting from the acquisition of Bitonic was somewhat offset by a decrease to severance expenses which were incurred in the second quarter of 2002 and did not reoccur in 2003. In the third and fourth quarters of 2003, the Company added three individuals to its development team to aggressively pursue development of the new Share Purchase platform in anticipation of launching this product in the first quarter of 2004 in accordance with the strategic alliance with GRS Securities.

General and administrative costs totaled \$793,043 in 2003 compared to \$1,208,476 in 2002. The decrease is mainly a result of decreases to recurring data feed costs of \$140,000, rent costs of \$112,000, systems and operating costs associated with Stormworks of \$53,000, professional and legal fees of \$45,500, and regulatory costs of \$20,000; and an increase in bank interest revenue of \$45,000. These decreases to expense were offset by an increase of approximately \$35,000 in travel costs incurred mainly in the third quarter relating to increased sales activity in Eastern Canada and work on the strategic alliance with GRS Securities in Ontario.

Amortization expense was \$182,742 in 2003 compared to \$93,538 in 2002. The increase is a result of the amortization of capital assets added through the acquisition of Bitonic.

\$100,000 in debenture interest was incurred in 2003 on the \$1,000,000 of demand debentures that were issued at the end of 2002.

In the year ended December 31, 2003, \$188,047 of expense was incurred through the write-off of goodwill associated with the acquisition of Bitonic. The goodwill arose due to a delay between signing the LOI and closing the acquisition resulting in the net asset value of Bitonic being lower than the agreed upon purchase price by \$188,047. This reduction of \$188,047 in net asset value was economically offset by approximately \$185,000 of salaries incurred by Bitonic during the intervening period, that would have been incurred by Solium if the acquisition had closed immediately. For accounting purposes, the \$188,047 was recorded as goodwill. The goodwill was subsequently written off, as the Company 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.

During 2003, the Company recorded \$262,182 in tax credit refunds relating to scientific research and development performed by the Company in 2000 and by Bitonic in 2001.

Development costs of \$78,252 incurred in 2002 did not reoccur as a result of the acquisition of Bitonic.

### ***Net Financial Results***

The net loss for the year ended December 31, 2003 was \$1,518,500 compared to a net loss of \$1,918,545 in 2002. The improvements to the financial results are attributable to the factors described herein.

### **Financial Condition, Liquidity and Capital Resources**

During the third quarter of 2003, 2,600,000 share purchase warrants were exercised by certain Directors of the Company into 2,600,000 common shares at a price of \$0.25 per share. In addition, the Company closed a private placement, issuing 1,287,500 common shares at \$0.40 per share for gross proceeds of \$515,000. \$96,132 was also raised through the exercise of stock options in the third and fourth quarters.

As a result of the issuance of capital during the year, cash on hand as at December 31, 2003 was \$1,222,607. Management believes that the Company has sufficient cash to meet all current and expected financial requirements during the 2004 fiscal year. Working capital as at December 31, 2003 was \$108,003 with 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 even though the holders of the debentures are entitled to require payment on demand of the outstanding principal and interest. It is expected that cash and working capital will be significantly improved due to the additional revenues from the arrangement with GRS Securities (see Business Prospects and Outlook section for further explanation).

### **Transactions with Related Parties**

One of the demand debentures outstanding as at December 31, 2003 of \$500,000 is due to a Director of the Company. The second demand debenture of \$500,000 outstanding as at December 31, 2003 is due to the spouse of the President and Chief Executive Officer and a Director of the Company. Both holders of the debentures are also current shareholders of the Company. The debentures were issued in 2002 to provide the Company with general working capital, and to facilitate the execution of its business plan. The debentures are non-convertible, carry an interest rate of 10% per annum, and can be repaid by the Company at any time without penalty.

Effective February 27, 2003, the Company acquired all of the issued and outstanding shares of Bitonic. The former President and Chief Executive Officer of Bitonic is the Chief Technology Officer and 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. The acquisition was recorded at fair market value. During the year ended December 31, 2002, the Company incurred \$77,799 in third party development fees from Bitonic.

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 fair market value.

## **Business Prospects and Outlook**

### ***Development Activities***

The acquisition of Bitonic has solidified the application development area of Solium's business. Bitonic's extensive knowledge of the E-SOAP and Share Purchase platforms has strengthened Solium's ability to rapidly implement new functionality and product enhancements. This rapid development is critical to Solium's continued success and strategy to quickly penetrate the Canadian marketplace as it relates to employee share entitlement administration.

### ***Changing Market Conditions in Share Entitlements Industry***

With the introduction of new accounting rules making the expensing of stock-based compensation costs in Canada mandatory for fiscal years starting January 1, 2004, it is expected that E-SOAP will benefit from an increased urgency amongst companies who will find the complex logistics of the expense calculations too onerous to handle through traditional methods.

On the other hand, as requirements associated with stock options have become increasingly more complex, the Company has seen an increased usage in the market of alternative stock compensation arrangements. In response to these market conditions, the Company made enhancements to E-SOAP in 2003 to allow for the administration of stock appreciation rights ("SARs"), tandem SARs and cash units. The Company also began its development of a module with share unit functionality during the year, which will enable E-SOAP to manage client needs related to restricted stock units, performance units and deferred stock units. It is expected that this module will be completed in the second quarter of 2004.

### ***Strategic Alliance with GRS Securities Inc.***

During the fourth quarter of 2003, Solium finalized a strategic alliance with GRS Securities. Under the arrangement, GRS Securities will utilize Solium's E-SOAP and new Share Purchase platforms as part of its service delivery to clients in Canada. Under a revenue sharing model, Solium's minimum share of revenue from this arrangement is expected to be approximately \$1.6 million in the first year of operations. This \$1.6 million is lower than the amount previously anticipated and communicated to shareholders (press release dated October 23, 2003), and reflects revenue adjustments attributable to extraordinary service delivery charges which have since been further defined. These extraordinary service delivery charges are being incurred by GRS Securities in 2004, until such time that GRS Securities completely transitions off of its previous system provider onto the Solium system. Solium's minimum expected share of revenue has in turn been reduced to reflect the fact that Solium has agreed to share in a portion of these short-term extraordinary service delivery charges.

Full migration of GRS Securities' corporate clients onto Solium's Share Purchase platform occurred during the first four months of 2004. In preparation for this, in the third quarter of 2003, the Company began working aggressively towards completing the development of this new platform, resulting in an increase in staff and associated salary expenses. It is expected that incremental capital expenditures of up to \$100,000 will be incurred in the first half of 2004, as computer hardware is added to strengthen systems to accommodate the influx of new clients from this relationship.

The Company will continue to market its products and service its clients on a direct basis, in addition to supporting the business activities of GRS Securities.

### ***Share Purchase Platform***

The Company estimates that, in Canada, the share purchase and group savings industry is substantially larger than the options industry. Solium is positioned to capitalize on this market with the introduction in February 2004 of the new Solium Share Purchase platform. The share purchase industry has not seen changes for many years, with suppliers still providing their services using traditional paper-based manual processes. Solium's new Share Purchase platform offers a shift in the administration of share purchase plans to real-time, automated, web-based systems.

Solium intends to aggressively pursue this market over the next year, with the GRS Securities relationship providing the first complement of clients to be implemented. The Company expects to secure its first direct sales customers for the Share Purchase platform over the next few months with a planned implementation for mid-2004. It is expected that additional staff will need to be hired in mid-2004 in the areas of sales and customer service to expand and, in turn, support the new share purchase business of the Company.

### ***Geographic Expansion***

Once Solium has reached a satisfactory level of financial stability, which management expects to achieve during the second half of 2004, the Company intends to expand geographically, first to the United States, and then to the United Kingdom. The Company's plans and strategies for the US expansion are being developed in 2004.

### **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at the date of this MD&A, there were 25,855,512 common shares and 2,500,000 preferred shares outstanding.

Employees, directors, officers and consultants have been granted options to purchase common shares under a stock option plan. As at the date of this MD&A, there were 2,198,098 options outstanding.

## MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all other information included in this annual report are the responsibility of the Company's management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and, where necessary, reflects management's best estimates based on available information. The financial information elsewhere in the annual report has been reviewed to ensure consistency with the consolidated financial statements.

The Company maintains appropriate internal control systems designed to ensure that assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors (the "Board") ensures that management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which consists solely of outside directors. The Audit Committee meets periodically with the external auditors, with and without the Company's management, to ensure that management responsibilities are discharged and to review the consolidated financial statements before they are presented to the Board for approval. The Board has approved the Company's consolidated financial statements on the recommendation of the Audit Committee.

The Company's external auditors, Deloitte & Touche LLP, have audited the consolidated financial statements in accordance with generally accepted auditing standards in Canada. Deloitte & Touche LLP have full and unrestricted access to the Audit Committee to discuss their audit and related findings. Their auditors' report is presented with the consolidated financial statements.



**Brian Craig**  
*President and Chief Executive Officer*

*May 6, 2004*



**Lynn Leong, CA**  
*Chief Financial Officer*

## AUDITORS' REPORT

### To the Shareholders of Solium Capital Inc.:

We have audited the consolidated balance sheets of **Solium Capital Inc.** as at December 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

*Calgary, Alberta  
January 23, 2004*

## CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

<i>Years Ended December 31,</i>	<b>2003</b> \$	2002 \$
<b>Revenue</b>		
E-SOAP related services	<b>863,496</b>	499,532
Consulting services	<b>8,562</b>	145,025
	<b>872,058</b>	644,557
<b>Expenses</b>		
Salaries and wages <i>(Note 12)</i>	<b>1,388,908</b>	1,069,255
General and administrative <i>(Note 13)</i>	<b>793,043</b>	1,208,476
Write-off of goodwill <i>(Note 4)</i>	<b>188,047</b>	-
Amortization	<b>182,742</b>	93,538
Debenture interest <i>(Note 10)</i>	<b>100,000</b>	-
Tax credit refunds <i>(Note 6)</i>	<b>(262,182)</b>	-
Development costs	-	78,252
	<b>2,390,558</b>	2,449,521
Loss from continuing operations	<b>1,518,500</b>	1,804,964
Loss from discontinued operations <i>(Note 7)</i>	-	113,581
<b>Net loss</b>	<b>1,518,500</b>	1,918,545
<b>Deficit, beginning of year</b>	<b>7,817,606</b>	5,899,061
<b>Deficit, end of year</b>	<b>9,336,106</b>	7,817,606
<b>Loss per share</b>		
From continuing operations	<b>0.062</b>	0.113
From discontinued operations	-	0.007
<b>Net loss per share</b>	<b>0.062</b>	0.120

*See Notes to the Consolidated Financial Statements*

## CONSOLIDATED BALANCE SHEETS

<i>As at December 31,</i>	<b>2003</b> \$	2002 \$
<b>Assets</b>		
Current		
Cash	1,222,607	923,325
Accounts receivable	64,523	62,400
Loans receivable <i>(Note 8)</i>	–	35,404
Prepaid expenses	88,654	63,491
	<b>1,375,784</b>	1,084,620
Capital assets <i>(Note 9)</i>	<b>263,503</b>	235,419
	<b>1,639,287</b>	1,320,039
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	133,606	219,840
Deferred revenue	134,175	54,835
Demand debentures <i>(Note 10)</i>	1,000,000	1,000,000
	<b>1,267,781</b>	1,274,675
<b>Shareholders' Equity</b>		
Share capital <i>(Note 11)</i>	9,665,639	7,862,970
Contributed surplus <i>(Note 8 and 12)</i>	41,973	–
Deficit	(9,336,106)	(7,817,606)
	<b>371,506</b>	45,364
	<b>1,639,287</b>	1,320,039

*See Notes to the Consolidated Financial Statements*

APPROVED BY THE BOARD:



**Michael Broadfoot**  
*Director*



**Brian Craig**  
*Director*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	<b>2003</b> \$	2002 \$
Cash flows related to the following activities:		
<b>Operating</b>		
Loss from continuing operations	<b>(1,518,500)</b>	(1,804,964)
Adjustments for:		
Write-off of goodwill <i>(Note 4)</i>	<b>188,047</b>	–
Amortization	<b>182,742</b>	93,538
Stock-based compensation expense <i>(Note 12)</i>	<b>29,762</b>	–
Loss on sale of capital assets	<b>24,250</b>	18,396
Non-cash expenses	–	43,029
Loss on write-down of loan receivable	–	6,428
	<b>(1,093,699)</b>	(1,643,573)
Changes in non-cash working capital <i>(Note 18)</i>	<b>(34,003)</b>	(106,161)
	<b>(1,127,702)</b>	(1,749,734)
Loss from discontinued operations <i>(Note 7)</i>	–	(113,581)
	<b>(1,127,702)</b>	(1,863,315)
<b>Financing</b>		
Loan repayment received <i>(Note 8)</i>	<b>29,471</b>	–
Issuance of demand debentures	–	1,000,000
Issuance of common shares, net of issue costs	<b>1,254,730</b>	669,654
Issuance of preferred shares	–	500,000
Changes in non-cash working capital <i>(Note 18)</i>	<b>34</b>	6,135
	<b>1,284,235</b>	2,175,789
<b>Investing</b>		
Cash acquired on purchase of subsidiary, net of acquisition costs incurred <i>(Note 4)</i>	<b>195,750</b>	–
Cash acquired on purchase of subsidiary, net of acquisition costs incurred <i>(Note 5)</i>	–	58,353
Proceeds on sale of subsidiary <i>(Note 7)</i>	–	25,000
Purchase of capital assets	<b>(71,394)</b>	(7,263)
Proceeds on disposal of capital assets	<b>23,940</b>	13,486
Refundable deposit	–	(10,000)
Changes in non-cash working capital <i>(Note 18)</i>	<b>(5,547)</b>	19,068
	<b>142,749</b>	98,644
<b>Net increase in cash</b>	<b>299,282</b>	411,118
<b>Cash, beginning of year</b>	<b>923,325</b>	512,207
<b>Cash, end of year</b>	<b>1,222,607</b>	923,325

*See Notes to the Consolidated Financial Statements*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2003 and 2002

### 1. DESCRIPTION OF BUSINESS

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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 subsidiaries Stormworks Ltd. (“Stormworks”) and Bitonic Solutions Inc. (“Bitonic”). Effective December 31, 2003, Solium, Stormworks and Bitonic were amalgamated into Solium Capital Inc.

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

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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 and raising additional equity. 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

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#### *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
Intangibles	2 years
Leasehold improvements	Term of the lease
Trademarks	3 years

Intangibles consist of development libraries obtained through the acquisition of Bitonic (see Note 4).

#### *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 on E-SOAP. Corporate license fees are recognized monthly as they are earned over the term of the contract with the client. Corporate implementation fees are deferred and recognized monthly over the term of the contract. Participant fees are recognized as stock options are exercised through E-SOAP.

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 recognized as a decrease to expenses in the year of receipt.

### *Stock-based compensation plan*

The Company has a stock-based compensation plan which is described in Note 12. Effective January 1, 2002, the Company adopted the standards of Section 3870 of the CICA Handbook, Stock-Based Compensation and Other Stock-Based Payments. Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options in accordance with the standards of Section 3870. Compensation expense is recognized on a straight-line basis over the vesting period of the stock options.

The Company has chosen prospective application of the fair value based method, and accordingly, the results of prior years have not been restated. For stock options granted prior to January 1, 2003, no compensation expense has been recognized by Solium at the time of grant.

### *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, 2003 and 2002.

### *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. ACQUISITION OF BITONIC**

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Effective February 27, 2003, the Company acquired all of the issued and outstanding shares of Bitonic, the company which had been responsible for the outsourced development of E-SOAP since the inception of the Company. Bitonic was acquired for 2,830,415 common shares of the Company, priced at \$0.20 per share, for a purchase price of \$566,083.

The acquisition of Bitonic was initiated by the management of Solium 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Solium obtained the following net assets when Bitonic was acquired:

	\$
Net current liabilities, excluding cash	(5,336)
Capital assets	187,622
Goodwill	188,047
	<b>370,333</b>
Cash acquired	222,205
Net assets acquired	<b>592,538</b>
Consideration:	
Common shares issued	566,083
Acquisition costs incurred	26,455
	<b>592,538</b>

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 was written off.

### 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 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 11(e)).

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 entitled the holder thereof the right to purchase one Solium common share at \$0.25 per share for a period of three years (see Note 11(f)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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. TAX CREDIT REFUNDS

The Company made a claim for the refund of investment tax credits ("ITCs") 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 ("CCRA") in the amount of \$322,740. Professional fees of \$103,816 associated with the successful filing of the claim have been offset against the refund, resulting in net proceeds of \$218,924 to the Company.

Bitonic made a claim for the refund of ITCs associated with scientific research and development performed in the year 2001. During the fourth quarter of 2003, Bitonic's claim was approved by CCRA and proceeds in the amount of \$43,258 were received.

### 7. DISCONTINUED OPERATIONS

At December 31, 2001, the Company's Board of Directors 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 were as follows:

	2003 \$	2002 \$
Revenue	-	33,177
Operating loss	-	113,581
Loss on disposal	-	-
Loss from discontinued operations	-	113,581

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 8. LOANS RECEIVABLE

During the year, the Company received full repayment of a loan balance in the amount of \$29,471 which was due from a former officer of the Company.

During the year, the Company cancelled 49,440 common shares previously held as security on a loan balance in the amount of \$5,933 due from a second former officer of the Company. Share capital was decreased by \$18,144 to reflect the value of the 49,440 common shares at their average recorded per-share amount at the time of cancellation (see Note 11). Correspondingly, the loan balance of \$5,933 was decreased to nil, and the residual of \$12,211 was reflected as contributed surplus.

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

### 9. CAPITAL ASSETS

	2003		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computer equipment	191,729	123,056	68,673
Furniture and office equipment	188,270	115,220	73,050
Intangibles	175,000	72,917	102,083
Computer software	124,534	123,582	952
Leasehold improvements	30,259	11,514	18,745
Trademarks	2,823	2,823	–
	<b>712,615</b>	<b>449,112</b>	<b>263,503</b>
	2002		
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
	<b>496,823</b>	<b>261,404</b>	<b>235,419</b>

### 10. DEMAND DEBENTURES

In December 2002, the Company issued two \$500,000 debentures to a current Director and a former Director of the Company. Both individuals are current 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, an aggregate of \$100,000 of interest expense was incurred on the debentures, of which \$25,000 remained payable at December 31, 2003.

	2003 \$	2002 \$
Demand debentures; issued December 2002; with annual 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.	<b>1,000,000</b>	1,000,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 11. SHARE CAPITAL

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

	Number of Shares	Amount \$
<b>Issued – common shares</b>		
Balance, December 31, 2001	13,255,338	6,285,816
Issued through private placement (Note 11(c))	1,575,000	315,000
Issued through private placement (Note 11(e))	1,850,000	370,000
Issued on acquisition of Stormworks (Note 11(f))	1,975,000	395,000
Issued in payment of liability (Note 11(g))	125,000	12,500
Share issue costs	–	(15,346)
<b>Balance, December 31, 2002</b>	<b>18,780,338</b>	<b>7,362,970</b>
Issued through private placement (Note 11(a))	1,287,500	515,000
Issued on acquisition of Bitonic (Note 11(b))	2,830,415	566,083
Issued on exercise of warrants (Note 11(e) and (f))	2,600,000	650,000
Issued on exercise of stock options (Note 12)	384,528	96,132
Cancelled as repayment of loan receivable (Note 8)	(49,440)	(18,144)
Share issue costs	–	(6,402)
<b>Balance, December 31, 2003</b>	<b>25,833,341</b>	<b>9,165,639</b>
<b>Issued – preferred shares</b>		
Issued on conversion of debentures (Note 11(d))	2,500,000	500,000
<b>Total share capital</b>	<b>28,333,341</b>	<b>9,665,639</b>
<b>Common shares – fully diluted</b>		
Balance, December 31, 2003	25,833,341	9,165,639
Preferred shares convertible on one to one basis (Note 11(d))	2,500,000	500,000
Stock options outstanding (Note 12)	2,306,871	621,251
<b>Total common shares – fully diluted</b>	<b>30,640,212</b>	<b>10,286,890</b>

- a) On September 30, 2003 and October 1, 2003, the Company closed two tranches of a private placement, issuing 1,287,500 common shares at \$0.40 per share for gross proceeds of \$515,000.
- b) Effective February 27, 2003, the Company issued 2,830,415 common shares as payment for the acquisition of Bitonic (see Note 4).
- c) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- d) 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.

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.

- e) 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 11(f)) 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 entitled 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. On September 25, 2003, the 1,350,000 warrants were exercised in full for proceeds of \$337,500.
- f) 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 11(e)) 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 entitled 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. On September 25, 2003, the 1,250,000 warrants were exercised in full for proceeds of \$312,500.
- g) Effective March 26, 2002, the Company issued 125,000 common shares as part of a severance arrangement of a former employee. The transaction was recorded at \$0.10 per common share, being the fair value of the shares at the time of issuance.

### *Escrowed shares*

At December 31, 2003, 257,250 (December 31, 2002 – 771,750) issued and outstanding common shares are subject to an escrow agreement dated May 10, 2001. Pursuant to the escrow agreement, these common shares are to be released on November 11, 2004.

At December 31, 2003, 291,666 issued and outstanding common shares are subject to an escrow agreement dated February 27, 2003 in connection with the acquisition of Bitonic (see Note 4). Pursuant to the escrow agreement, these common shares are to be released on December 1, 2004 subject to certain criteria associated with the retention of certain Bitonic employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 12. STOCK-BASED COMPENSATION

The Company has a stock option plan open to Directors, officers, employees, consultants and other key personnel of the Company and its subsidiaries. Under this plan, options granted to Directors, officers, employees and consultants may not exceed a total of 3,241,613 without additional shareholder approval. Options expire in five years from the date of grant and generally vest in equal proportions over the first three years of the term.

Effective January 1, 2002, the Company adopted the standards of Section 3870 of the CICA Handbook, Stock-Based Compensation and Other Stock-Based Payments. Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options in accordance with the standards of Section 3870. The Company has chosen prospective application of the fair value based method.

In accordance with the provisions of Section 3870, \$29,762 was recorded as total stock-based compensation expense and charged to contributed surplus for the year ended December 31, 2003.

The following table illustrates the pro-forma effect on net loss and loss per share if the fair value method had also been applied to all stock options granted in 2002.

	2003 \$	2002 \$
Net loss, as reported	1,518,500	1,918,545
Total additional stock-based compensation expense determined under fair value method	51,600	22,051
Pro-forma net loss	1,570,100	1,940,596
Pro-forma basic loss per share	0.064	0.122

The Company has used the Black-Scholes option pricing model in order to quantify the compensation expense of an option grant. The following table sets forth the weighted-average assumptions used:

	2003	2002
Weighted-average fair value (per share) of options granted	\$ 0.2047	\$ 0.1168
Dividend yield	0%	0%
Expected volatility	200%	116%
Risk-free interest rate	3.33%	4.00%
Expected life	3 years	3 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The following table summarizes the stock option activity with respect to all of the Company's stock options for the years ended December 31, 2003 and 2002:

	Number of Options \$	Weighted Average Exercise Price \$
<b>Outstanding options</b>		
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
Granted	1,070,059	0.28
Exercised	(384,528)	0.25
Forfeited	(639,779)	0.53
Expired	(10,000)	1.00
<b>Outstanding, December 31, 2003</b>	<b>2,306,871</b>	<b>0.27</b>
<b>Vested options</b>		
Vested options, December 31, 2001	597,898	0.66
Vested during the year	423,551	0.44
Forfeited	(218,337)	0.95
Vested options, December 31, 2002	803,112	0.46
Vested during the year	523,714	0.31
Exercised	(384,528)	0.25
Forfeited	(372,171)	0.74
Expired	(10,000)	1.00
<b>Vested options, December 31, 2003</b>	<b>560,127</b>	<b>0.27</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The following table summarizes additional information relating to stock options outstanding and vested as at December 31, 2003 and 2002:

2003				
Exercise Price \$	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Number Vested	Weighted Average Exercise Price \$
0.25	1,942,204	44 months	545,460	0.25
0.35	350,000	58 months	—	—
0.90	14,667	25 months	14,667	0.90
	<u>2,306,871</u>	<u>46 months</u>	<u>560,127</u>	<u>0.27</u>
2002				
0.25	1,981,452	50 months	551,667	0.25
0.90	179,667	29 months	174,778	0.90
1.00	100,000	42 months	76,667	1.00
	<u>2,271,119</u>	<u>48 months</u>	<u>803,112</u>	<u>0.46</u>

### 13. GENERAL AND ADMINISTRATIVE EXPENSE

The major components of general and administrative expense are as follows:

	2003 \$	2002 \$
Rent and occupancy	194,752	307,070
Data feeds	176,765	316,016
IT systems	94,254	118,340
Sales	84,602	49,137
Professional and legal fees	72,602	118,141
Other	218,381	302,922
Operating interest revenue	(48,313)	(3,150)
	<u>793,043</u>	<u>1,208,476</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 14. 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	1,100,000
2008	2,800,000
2009	1,700,000
2010	1,700,000
	<b>7,330,000</b>

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

The Company has approximately \$600,000 in a research and development expenditures pool available to offset future business income.

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

### 15. RELATED PARTY TRANSACTIONS

One of the demand debentures outstanding as at December 31, 2003 of \$500,000 is due to a Director of the Company. The second demand debenture of \$500,000 outstanding as at December 31, 2003 is due to the spouse of the President and Chief Executive Officer and a Director of the Company. Both holders of the debentures are also current 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, 2003, the Company utilized legal services totaling \$46,442 (2002 – \$30,951), plus applicable taxes, which were provided by a firm with which a Director of the Company is employed. At December 31, 2003, \$6,169 (2002 – \$31,184) remained payable, inclusive of applicable taxes.

Effective February 27, 2003, the Company acquired all of the issued and outstanding shares of Bitonic (see Note 4). The former President and Chief Executive Officer of Bitonic is the Chief Technology Officer and 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. During the year ended December 31, 2002, the Company incurred \$77,799 in third party development fees from Bitonic. The acquisition was recorded at the exchange amount, which was fair market value.

Effective May 1, 2002, the Company acquired all of the issued and outstanding shares of Stormworks (see Note 5). 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 16. CONTINGENCIES AND COMMITMENTS

#### *Operating leases*

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

	\$
2004	115,736
2005	109,603
2006	78,936
2007	13,156
	<b>317,431</b>

### 17. GUARANTEES

In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay counterparties. Historically, the Company has not made any payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

### 18. CHANGES IN NON-CASH WORKING CAPITAL

	2003 \$	2002 \$
(Increase) decrease in accounts receivable	(2,123)	194,133
(Increase) decrease in prepaid expenses	(25,163)	30,109
Increase in interest payable	25,000	-
Decrease in accounts payable	(111,057)	(355,136)
Increase in deferred revenue	79,340	24,733
Changes in non-cash operating working capital	<b>(34,003)</b>	<b>(106,161)</b>
Increase in accounts payable	34	6,135
Changes in non-cash financing working capital	<b>34</b>	<b>6,135</b>
(Decrease) increase in accounts payable	(5,547)	19,068
Changes in non-cash investing working capital	<b>(5,547)</b>	<b>19,068</b>
Total changes in non-cash working capital	<b>(39,516)</b>	<b>(80,958)</b>

## CORPORATE INFORMATION

### OFFICERS

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**Brian Craig**

*President and Chief Executive Officer*

**June Davenport**

*Chief Products Officer*

**Lynn Leong**

*Chief Financial Officer*

**Marcos Lopez**

*Chief Technology Officer*

### DIRECTORS

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**Michael Broadfoot**

*Chairman,  
Solium Capital Inc.*

**Brian Craig**

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

**Justin Ferrara**

*Partner,  
Macleod Dixon LLP*

**William Kyle**

*Senior Vice-President,  
GRS Securities Inc.*

**Marcos Lopez**

*Chief Technology Officer  
Solium Capital Inc.*

**Anthony Webb**

*Former President and Chief Executive Officer,  
Royal Trust*

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**Transfer Agent**

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**Legal Counsel**

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**Auditors**

Deloitte & Touche LLP

**Stock Listing and Symbol**

TSX Venture Exchange

Symbol: SUM

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