

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") for Solium Capital Inc. ("Solium" or the "Company") should be read in conjunction with the unaudited Financial Statements and accompanying notes, and the MD&A included in the Company's 2003 Annual Report. The Financial Statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles. This MD&A is dated as of August 20, 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; and the revenue potential with respect to the strategic alliance with GRS Securities Inc. ("GRS Securities").

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.

### Summary of Quarterly Results

The following table summarizes the quarterly results for the eight most recently completed quarters.

	2004		2003				2002	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
E-SOAP participants	21,898	21,857*	20,294	13,677	10,974	13,255	12,300	11,254
Share Purchase participants	100,731	–	–	–	–	–	–	–
Revenues	\$ 803,902	\$ 395,561	\$ 252,329	\$ 201,187	\$ 200,577	\$ 217,965	\$ 210,737	\$ 144,733
Expenses	\$ 838,194	\$ 611,674	\$ 630,461	\$ 608,428	\$ 603,947	\$ 547,722	\$ 650,342	\$ 537,290
Net loss	\$ 34,292	\$ 216,113	\$ 378,132	\$ 407,241	\$ 403,370	\$ 329,757	\$ 439,606	\$ 392,557
Per share – basic and fully diluted	\$ 0.001	\$ 0.008	\$ 0.015	\$ 0.019	\$ 0.019	\$ 0.017	\$ 0.024	\$ 0.023

\*restated

## **Results From Operations**

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

The net loss for the quarter ended June 30, 2004 was \$34,292 compared to a net loss of \$403,370 in the same quarter of 2003. The net loss for the six months ended June 30, 2004 was \$250,405 compared to a net loss of \$733,127 in the comparable period of 2003.

The improvement to the financial results represent a major milestone to the Company. The Company experienced its first month of profitability in May 2004, when the full impact of the channel revenue from GRS Securities began to be realized.

### ***Revenue***

Gross revenue in the second quarter of 2004 was \$803,902 compared to \$200,577 in the second quarter of 2003, and \$1,199,464 for the six months ended June 30, 2004 compared to \$418,321 for the six months ended June 30, 2003. This represents an increase of 301% on a quarter basis, and 187% on a year-to-date basis. The increase in revenue is attributable to (1) the introduction of channel revenue from the Share Purchase application through the relationship with GRS Securities; (2) increased E-SOAP license fees through the growth of the Company's client base from direct sales; and (3) an increase in exercise fees.

In the second quarter of 2004, the Company completed the implementation of approximately 100,000 employee participants across 47 companies onto Solium's new Share Purchase application as part of the relationship with GRS Securities. Transition of these clients from their previous system was completed at the end of April. As a result of the implementations, Share Purchase channel revenue totaled \$454,919 to the end of June 30, 2004.

Corporate E-SOAP license and implementation fees totaled \$267,792 in the second quarter of 2004 compared to \$149,112 in the comparable quarter of 2003, and \$547,828 for the six months ended June 30, 2004 compared to \$329,928 for the six months ended June 30, 2003. E-SOAP revenue included stock option channel revenue from GRS Securities in the amount of \$13,863 for the quarter and \$43,624 for the six months ended June 30, 2004. The Company ended the current quarter with 21,898 participants generating revenue on E-SOAP. This represents a growth of 100% from the 10,974 participants enrolled as at June 30, 2003.

E-SOAP exercise fees for the second quarter of 2004 were \$67,791 compared to \$49,165 in the second quarter of 2003, and \$183,317 in the six months ended June 30, 2004 compared to \$82,025 for the six months ended June 30, 2003.

### ***Expenses***

Salaries and wages expense for the second quarter of 2004 was \$609,977 compared to \$350,739 in the second quarter of 2003, and \$979,517 for the six months ended June 30, 2004 compared to \$629,512 for the six months ended June 20, 2003. The increase is mainly attributable to a bonus of \$212,000 awarded to certain employees in April 2004 as recognition for the development of the Share Purchase application and the successful implementation of GRS Securities' clients onto this new application. \$106,000 of this bonus was paid out in cash, while the remaining \$106,000 will be payable through a share purchase plan to be implemented by the Company during the remainder of the year. Also a factor in the increase to salaries and wages expense on a quarterly and year-to-date basis is the addition of five employees in the latter part of 2003 and the beginning of 2004. Lastly, stock options granted in the third and fourth quarters of 2003 caused an increase in stock-based compensation expense, totaling \$17,526 in the second quarter of 2004 compared to \$6,431 in the second quarter of 2003 and \$22,066 in the six months ended June 30, 2004 compared to \$6,927 in the six months ended June 30, 2003.

General and administrative expense totaled \$214,513 in the second quarter of 2004 compared to \$206,530 in the comparable quarter of 2003, and \$382,715 in the six months ended June 30, 2004 compared to \$458,761 in the six months ended June 30, 2003. The increase of \$7,983 between the comparable quarters, and the decrease of \$76,046 between the comparable six-month periods is attributable to the changes in the following categories:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	\$	\$	\$	\$
Rent and occupancy	<b>43,719</b>	53,346	<b>88,481</b>	105,362
Travel and entertainment	<b>40,435</b>	19,408	<b>41,955</b>	35,352
IT systems and phones	<b>33,821</b>	30,643	<b>63,259</b>	58,218
Data feeds	<b>33,784</b>	58,313	<b>61,945</b>	132,600
Professional fees	<b>16,184</b>	13,855	<b>27,260</b>	30,855
Regulatory compliance	<b>15,666</b>	9,364	<b>19,900</b>	13,279
Insurance	<b>10,824</b>	7,915	<b>20,554</b>	15,830
Other	<b>21,769</b>	17,613	<b>66,016</b>	73,923
Operating interest revenue	<b>(1,689)</b>	(3,927)	<b>(6,655)</b>	(6,658)
	<b>214,513</b>	206,530	<b>382,715</b>	458,761

Rent and occupancy costs decreased as a result of the termination of an apartment lease in Toronto. The apartment was previously used as accommodation for sales visits. Data feed costs decreased as a result of the renegotiation of data feed contracts resulting in more than a \$15,000 decrease to monthly costs commencing in the middle of the second quarter of 2003. Travel and entertainment costs increased due to increased travel associated with the channel partner relationship with GRS Securities, and also due to increased sales activity in Eastern Canada.

Tax credit refunds recorded in both 2004 and 2003 relate to scientific research and development performed by the Company in 2000. Included in the refunds were \$10,595 and \$26,849 of interest in 2004 and 2003, respectively.

### Financial Condition, Liquidity and Capital Resources

Cash on hand as at June 30, 2004 was \$686,272. Management believes that the Company has sufficient cash to meet all current and expected financial requirements during the 2004 fiscal year. The working capital deficiency as at June 30, 2004 was \$63,002 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 strategic alliance with GRS Securities.

### Transactions with Related Parties

No related party transactions occurred in the second quarter of 2004.

### Business Prospects and Outlook

Overall, economic and industry factors are substantially unchanged from those described in the MD&A for the year ended December 31, 2003.

### 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 2,548,098 options outstanding.

## AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the period ended June 30, 2004 have not been reviewed by the Company's auditors, Deloitte & Touche LLP. The Company did not engage its auditors to provide a Review Engagement Report on the interim financial statements, and therefore, no such report was issued by the auditors for the period ended June 30, 2004.



**Brian Craig**  
*President & Chief Executive Officer*



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

## BALANCE SHEETS

<i>As At</i>	<b>June 30,</b> \$ <i>(Unaudited)</i>	December 31, \$ <i>(Audited)</i>
<b>Assets</b>		
Current		
Cash and cash equivalents	686,272	1,222,607
Accounts receivable	595,835	64,523
Prepaid expenses	65,021	88,654
	<b>1,347,128</b>	1,375,784
Capital assets	211,711	263,503
	<b>1,558,839</b>	1,639,287
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	280,829	133,606
Deferred revenue	129,301	134,175
Demand debentures	1,000,000	1,000,000
	<b>1,410,130</b>	1,267,781
<b>Shareholders' Equity</b>		
Share capital <i>(Note 3)</i>	9,671,181	9,665,639
Contributed surplus <i>(Note 4)</i>	64,039	41,973
Deficit	<b>(9,586,511)</b>	(9,336,106)
	<b>148,709</b>	371,506
	<b>1,558,839</b>	1,639,287

APPROVED BY THE BOARD OF DIRECTORS



Michael Broadfoot  
*Director*



Brian Craig  
*Director*

## STATEMENTS OF LOSS AND DEFICIT

<i>(Unaudited)</i>	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<b>2004</b> \$	2003 \$	<b>2004</b> \$	2003 \$
<b>Revenue</b>				
E-SOAP services	348,983	200,577	744,545	418,321
Share Purchase services	454,919	–	454,919	–
	<b>803,902</b>	200,577	<b>1,199,464</b>	418,321
<b>Expenses</b>				
Salaries and wages <i>(Note 4)</i>	609,977	350,739	979,517	629,512
General and administrative	214,513	206,530	382,715	458,761
Write-off of goodwill	–	–	–	188,046
Amortization	50,191	48,527	99,124	81,533
Debenture interest	25,000	25,000	50,000	50,000
Tax credit refund <i>(Note 5)</i>	(61,487)	(26,849)	(61,487)	(256,404)
	<b>838,194</b>	603,947	<b>1,449,869</b>	1,151,448
<b>Net loss</b>	34,292	403,370	250,405	733,127
<b>Deficit, beginning of period</b>	9,552,219	8,147,363	9,336,106	7,817,606
<b>Deficit, end of period</b>	9,586,511	8,550,733	9,586,511	8,550,733
<b>Net loss per share</b>	0.001	0.019	0.010	0.035

## STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i>	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	\$	\$	\$	\$
Cash flows related to the following activities:				
<b>Operating</b>				
Net loss	(34,292)	(403,370)	(250,405)	(733,127)
Adjustments for:				
Amortization	50,191	48,527	99,124	81,533
Stock-based compensation <i>(Note 4)</i>	17,526	6,431	22,066	6,927
Write-off of goodwill	-	-	-	188,047
Loss on sale of capital assets	-	-	-	24,076
	33,425	(348,412)	(129,215)	(432,544)
Changes in non-cash working capital	(238,878)	232,508	(288,702)	(15,453)
	(205,453)	(115,904)	(417,917)	(447,997)
<b>Financing</b>				
Issuance of common shares	-	-	5,542	-
Changes in non-cash working capital	(60,052)	-	(66,221)	-
	(60,052)	-	(60,679)	-
<b>Investing</b>				
Purchase of capital assets	(32,003)	(2,670)	(47,332)	(18,671)
Cash acquired on purchase of subsidiary, net of acquisition costs	-	-	-	195,750
Proceeds from sale of capital assets	-	-	-	18,981
Changes in non-cash working capital	(3,258)	-	(10,407)	-
	(35,261)	(2,670)	(57,739)	196,060
Net decrease in cash and cash equivalents	300,766	118,574	536,335	251,937
Cash and cash equivalents, beginning of period	987,038	789,962	1,222,607	923,325
Cash and cash equivalents, end of period	686,272	671,388	686,272	671,388

## NOTES TO THE FINANCIAL STATEMENTS

Six Months Ended June 30, 2004 (Unaudited)

### 1. BASIS OF PRESENTATION

The accompanying unaudited 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, 2003. These interim financial statements should be read in conjunction with the Company's December 31, 2003 audited annual financial statements. Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.

### 2. FINANCIAL CONDITION

These 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 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 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 financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and reported income and balance sheet classification.

### 3. SHARE CAPITAL

	Number of Shares	Amount \$
<b>Issued – common shares</b>		
Balance, December 31, 2003	25,833,341	9,165,639
Issued on exercise of stock options (Note 4)	22,171	5,542
<b>Balance, June 30, 2004</b>	<b>25,855,512</b>	<b>9,171,181</b>
<b>Issued – preferred shares (Note 6)</b>	<b>2,500,000</b>	<b>500,000</b>
<b>Total share capital</b>	<b>28,355,512</b>	<b>9,671,181</b>

### 4. STOCK-BASED COMPENSATION

Stock option activity with respect to the Company's stock option plan for the three months ended June 30, 2004 is shown below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, December 31, 2003	2,306,871	0.27
Granted	325,000	0.42
Exercised	(22,171)	0.25
Forfeited	(311,602)	0.34
<b>Outstanding, June 30, 2004</b>	<b>2,298,098</b>	<b>0.28</b>

Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options in accordance with CICA Handbook Section 3870. The Company chose the prospective application of the fair value based method, applied to stock options granted on or after January 1, 2003.

In accordance with the provisions of Section 3870, \$17,526 was recorded as total stock-based compensation expense and charged to contributed surplus for the quarter ended June 30, 2004 (2003 – \$6,431), and \$22,066 for the six months ended June 30, 2004 (2003 – \$ 6,927).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 \$	2003 \$	2004 \$	2003 \$
Net loss, as reported	34,292	403,370	250,405	733,127
Total additional stock-based compensation expense determined under fair value based method	29,113	12,088	40,699	24,043
Pro-forma net loss	63,405	415,458	291,104	757,170
Pro-forma basic loss per share	0.002	0.019	0.011	0.037

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 during the six months ended June 30, 2004 and 2003:

	2004	2003
Weighted-average fair value (per share) of options granted	\$ 0.3796	\$ 0.1448
Dividend yield	0%	0%
Expected volatility	193%	195%
Risk-free interest rate	2.6%	3.5%
Expected life	3.2 years	3.0 years

Additional information relating to stock options outstanding as at June 30, 2004 is presented below:

Exercise Price \$	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Number Vested	Weighted Average Exercise Price \$
0.25	1,865,032	37 months	705,047	0.25
0.35	100,000	52 months	—	—
0.40	275,000	57 months	—	—
0.50	50,000	59 months	—	—
0.90	8,066	19 months	8,066	0.90
	<b>2,298,098</b>	<b>41 months</b>	<b>713,113</b>	<b>0.26</b>

### 5. TAX CREDIT REFUND

The Company had a claim outstanding for the refund of investment tax credits associated with scientific research and development performed in the year 2000. During the second quarter of 2004, the Company's claim, including interest, was approved by Canada Revenue Agency in the amount of \$81,982. Professional fees of \$20,495 associated with the successful filing of the claim have been offset against the refund, resulting in net proceeds of \$61,487 to the Company.

### 6. SUBSEQUENT EVENTS

In August 2004, 75,000 stock options with an exercise price of \$0.45 per share were granted to Russ Waterhouse, a newly appointed Director of the Company, and 175,000 stock options with an exercise price of \$0.50 per share were granted to certain employees of the Company. These options vest 50% on the second anniversary, and an additional 25% vest on each of the third and fourth anniversaries. The options expire in five years from the date of grant.

In August 2004, holders of the 2,500,000 preferred shares communicated their intention to convert these shares into 2,500,000 common shares of the Company. 1,250,000 of these shares are held by the President and Chief Executive Officer of the Company, who is also a Director of the Company. The other 1,250,000 shares are held by the Chairman of the Company.

### 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.*

**Russ Waterhouse**

*Former President,  
Computershare North America*

**Anthony Webb**

*Former President and Chief Executive Officer,  
Royal Trust*

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### OFFICES

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**Head Office**

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

**Toronto Office**

20 Adelaide Street East  
Suite 1102  
Toronto, Ontario M5C 2T6  
Phone 416-365-7771  
Fax 416-365-9169

**Montreal Office**

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

### INVESTOR INFORMATION

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**Transfer Agent**

Valiant Trust Company

**Legal Counsel**

Macleod Dixon LLP

**Auditors**

Deloitte & Touche LLP

**Stock Listing and Symbol**

TSX Venture Exchange  
Symbol: SUM

**Investor Contact**

Lynn Leong, CFO  
Phone 403-515-3910  
Fax 403-515-3933  
Email [investorrelations@solium.com](mailto:investorrelations@solium.com)

**Website**

[www.solium.com](http://www.solium.com)