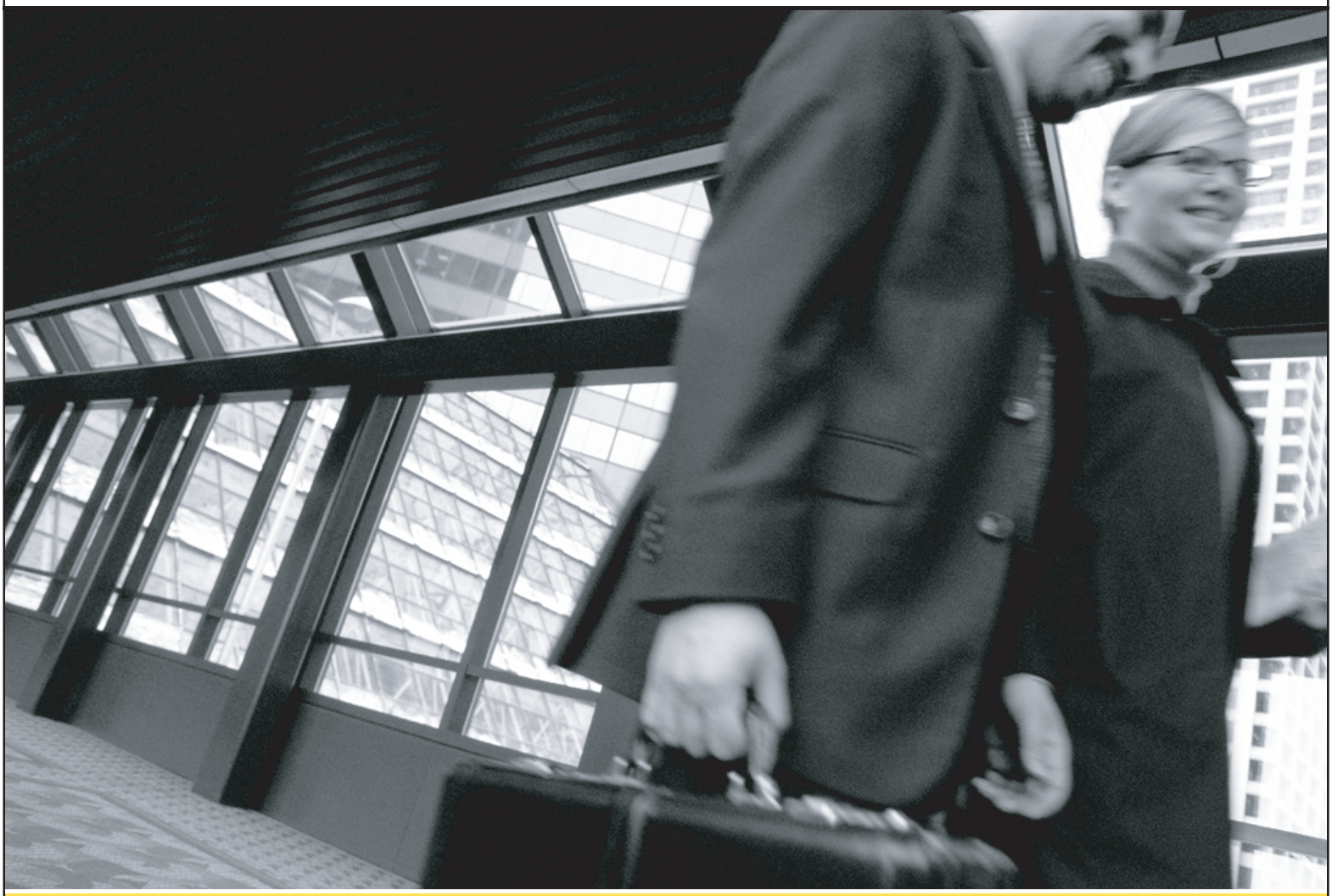
2004

2004 Annual Report



Solium
CAPITAL

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SHAREHOLDERS' ANNUAL AND SPECIAL MEETING

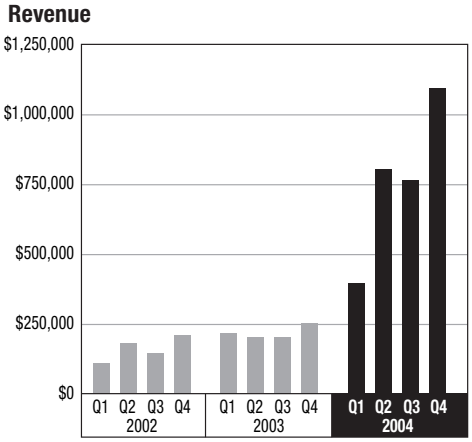
The Annual and Special Meeting of Shareholders of Solium Capital Inc. will be held at 2:30 p.m. in the Turner Valley Room of The Fairmont Palliser Hotel, 133 – 9th Avenue S.W., Calgary, Alberta on the 4th day of May 2005. We encourage all shareholders unable to attend to sign and return the proxy form prior to the meeting or vote their shares via telephone or internet as per the instructions on the proxy form.

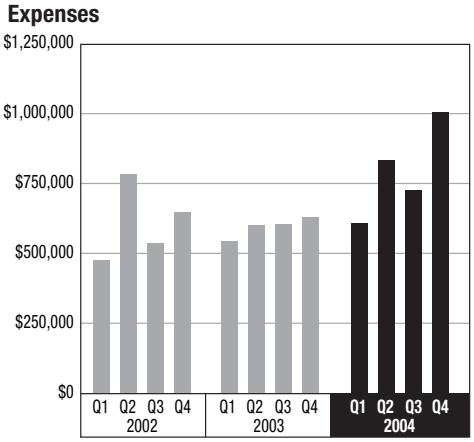
CORPORATE PROFILE

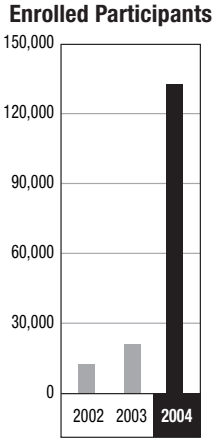
Solium Capital Inc. ("Solium" or the "Company") specializes in technology and services for the administration of equity-based incentive and savings programs for public corporations and their employees. Through its web-based applications, Solium is focused on redefining the product and service standards in this sector. Solium's products, E-SOAP and Share Purchase, are complete web-based applications for the administration, execution and reporting of equity-based incentive and savings programs.

Solium was founded in 1999 and is based in Calgary, Alberta, Canada. Solium is a public company listed on the TSX Venture Exchange under the symbol SUM.

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.







This Management's Discussion and Analysis ("MD&A") dated as of February 21, 2005 for Solium Capital Inc. ("Solium" or the "Company") should be read in conjunction with the audited Financial Statements and the accompanying notes for the year ended December 31, 2004. The Financial Statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to the Company is available on SEDAR at www.sedar.com under Solium Capital Inc.

Special Note Regarding Forward-Looking Statements

This MD&A contains certain forward-looking statements which reflect Management's expectations regarding the Company's growth, results of operations, performance, and business prospects and opportunities. 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; the Company's projected capital expenditure levels; and the Company's expected changes to staffing levels.

Forward-looking statements involve significant risks, uncertainties and assumptions. 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 significant risks and uncertainties that could cause actual results to differ materially from those anticipated. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward looking statements. Although the forward-looking statements contained in this MD&A are based upon what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances. 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, product capability and acceptance, 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. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the Risk Assessment section of this MD&A.

The foregoing is not exhaustive and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

Overview of the Company

Solium specializes in technology and services for the administration of equity-based incentive and savings programs for public corporations and their employees. Solium's products are E-SOAP and Share Purchase. Through these products, companies can administer their stock option, share appreciation rights ("SARs"), share units, or share purchase plans. Both products are end-to-end, web-based applications utilized by both corporate clients and their employee participants.

For corporate clients, E-SOAP and Share Purchase streamline an administrator's workflow with regards to the issuance of entitlements, the exercise of entitlements, reporting of entitlements and day-to-day maintenance of the entitlements database. E-SOAP provides constant online access to reports for securities regulators, internal management and financial disclosure.

E-SOAP and Share Purchase empower plan participants by providing direct access to the financial markets through Solium's national online brokerage partner, HSBC InvestDirect. E-SOAP also extends online access to participants to review their stock entitlement portfolios from any Internet-connected computer, anywhere in the world.

Revenues are generated from both the corporate clients and the employee participants. Each implementation of a corporate client typically results in a one-time implementation fee, as well as recurring monthly revenue based on the number of employee participants in the application. Revenue is generated from employee participants in the form of transaction fees when an exercise of a stock option, share unit or SAR occurs, or upon withdrawal of assets from a share purchase plan.

The Company markets and sells its products through a direct sales force in Canada. The Company also has a channel agreement with GRS Securities Inc. ("GRS Securities"). GRS Securities is a wholly-owned subsidiary of The Canada Life Assurance Company, which is a wholly-owned subsidiary of The Great-West Life Assurance Company. Under a revenue sharing arrangement, GRS Securities utilizes Solium's E-SOAP and Share Purchase platforms as part of its service delivery to clients in Canada.

Financial Highlights

	2004	2003	2002
Total revenues	**$ 3,053,943**	$ 872,058	$ 644,557
EBITDA[1]	**$ 159,532**	$ (1,235,758)	$ (1,711,426)
Earnings (loss) before discontinued operations	**$ (134,022)**	$ (1,518,500)	$ (1,804,964)
Per share – basic and fully diluted	**$ (0.005)**	$ (0.062)	$ (0.113)
Net earnings (loss)	**$ (134,022)**	$ (1,518,500)	$ (1,918,545)
Per share – basic and fully diluted	**$ (0.005)**	$ (0.062)	$ (0.120)
Total assets	**$ 1,306,440**	$ 1,639,287	$ 1,320,039
Total long-term liabilities	**$ 57,069**	$ 45,328	$ Nil
Cash dividends declared	**$ Nil**	$ Nil	$ Nil

Notes:

[1] *EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by GAAP (generally accepted accounting principles) and is therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA provides useful information to users as it reflects the net earnings or loss prior to the effect of non-operating expenses such as interest, tax, depreciation and amortization. The following is a reconciliation of EBITDA to net earnings (loss):*

	2004	2003	2002
EBITDA	**159,532**	(1,235,758)	(1,711,426)
Interest expense	**(100,000)**	(100,000)	–
Amortization	**(193,554)**	(182,742)	(93,538)
Loss from discontinued operations	**–**	–	(113,581)
Net earnings (loss)	**(134,022)**	(1,518,500)	(1,918,545)

The financial position and annual results in 2004, 2003, and 2002 reflect the impact of the following major factors:

- 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. Following the acquisition, Stormworks contributed $140,000 of consulting revenue prior to the winding down of its consulting contracts in July 2002, when its staff were re-focused 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 acquired Bitonic Solutions Inc. ("Bitonic") 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 consummated 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 added significantly to total revenues in 2003 and 2004.
- During the fourth quarter of 2003, the Company finalized a strategic alliance with GRS Securities under a revenue sharing arrangement, GRS Securities utilizes Solium's E-SOAP and Share Purchase platforms as part of its service delivery to clients in Canada. Approximately 100,000 employee participants across 47 companies were migrated onto Solium's platforms by the end of April 2004.

Quarterly results for 2004 and 2003

	2004			
	Q4	**Q3**	**Q2**	**Q1**
E-SOAP participants	**29,906**	**24,404**	**21,898**	**21,857**
Share Purchase participants	**102,867**	**101,290**	**100,731**	**–**
Revenues	**$ 1,091,340**	**$ 763,137**	**$ 803,902**	**$ 395,564**
Expenses	**$ 1,010,230**	**$ 727,864**	**$ 838,194**	**$ 611,677**
EBITDA[1]	**$ 149,694**	**$ 111,119**	**$ 40,899**	**$ (142,180)**
Net earnings (loss)	**$ 81,110**	**$ 35,273**	**$ (34,292)**	**$ (216,113)**
Per share – basic	**$ 0.003**	**$ 0.001**	**$ (0.001)**	**$ (0.008)**
Per share – fully diluted	**$ 0.003**	**$ 0.001**	**$ N/A**	**$ N/A**

	2003			
	Q4	Q3	Q2	Q1
E-SOAP participants	20,294	13,677	10,974	13,255
Share Purchase participants	–	–	–	–
Revenues	$ 252,329	$ 201,187	$ 200,577	$ 217,965
Expenses	$ 630,461	$ 608,428	$ 603,947	$ 547,722
EBITDA[1]	$ (301,348)	$ (332,816)	$ (329,843)	$ (271,751)
Net earnings (loss)	$ (378,132)	$ (407,241)	$ (403,370)	$ (329,757)
Per share – basic	$ (0.015)	$ (0.019)	$ (0.019)	$ (0.017)
Per share – fully diluted	$ N/A	$ N/A	$ N/A	$ N/A

Notes:

[1] *Reconciliation of EBITDA to net earnings (loss):*

	2004			
	Q4	**Q3**	**Q2**	**Q1**
EBITDA	**149,694**	**111,119**	**40,899**	**(142,180)**
Interest expense	**(25,000)**	**(25,000)**	**(25,000)**	**(25,000)**
Amortization	**(43,584)**	**(50,846)**	**(50,191)**	**(48,933)**
Net earnings (loss)	**81,110**	**35,273**	**(34,292)**	**(216,113)**

	2003			
	Q4	Q3	Q2	Q1
EBITDA	(301,348)	(332,816)	(329,843)	(271,751)
Interest expense	(25,000)	(25,000)	(25,000)	(25,000)
Amortization	(51,784)	(49,425)	(48,527)	(33,006)
Net earnings (loss)	(378,132)	(407,241)	(403,370)	(329,757)

The Company's quarterly results are not significantly impacted by seasonal factors. Quarterly results in 2004, as compared to the same periods in 2003, reflect in general a) the impact of revenue from increased participants enrolled on the E-SOAP system; b) the implementation of GRS Securities' participants onto Share Purchase during the first four months of 2004; c) increased average stock option exercise revenue in 2004; d) the impact on costs associated with the addition of nine new staff members throughout 2004; and e) staff bonuses paid and/or accrued during 2004.

Results from Operations – Comparison of Fiscal Year 2004 to 2003

Net Financial Results

The Company completed 2004 with a net loss of $134,022 compared to a net loss of $1,518,500 in 2003. The Company reached a major milestone in the third quarter of 2004 with its first quarter of positive net earnings. Profits continued during the fourth quarter, with total net earnings of $81,110 for the quarter.

Revenue

Gross revenue in 2004 was $3,053,943 compared to $872,058 in 2003. This represents an increase of $2,181,885 or 250%. The increase is attributable to (1) the introduction of Share Purchase channel revenue beginning in April 2004 from the relationship with GRS Securities; (2) increased E-SOAP and Share Purchase license fees due to the growth of the Company's client base through direct sales; and (3) an increase in transaction fees resulting from greater transaction volume.

Share Purchase channel revenue from GRS Securities totaled $1,315,189 in 2004. During the third quarter of 2004, the Company also began generating revenue from direct sales clients on its Share Purchase application. Corporate Share Purchase license and implementation fees from direct sales clients totaled $19,700 in 2004. As at December 31, 2004, the Company had 102,867 participants generating revenue on the Share Purchase application. Total transaction fees generated from Share Purchase participants totaled $5,381 in 2004.

E-SOAP channel revenue from GRS Securities totaled $71,912 in 2004 compared to $14,311 in 2003. Corporate E-SOAP license and implementation fees from direct sales clients totaled $1,158,919 in 2004 compared with $705,215 in 2003. The Company ended 2004 with 29,906 participants generating revenue on E-SOAP. This represents a growth of 47% from the 20,294 enrolled as at December 31, 2003. Total exercise and special transaction fees generated from E-SOAP participants totaled $459,342 in 2004 compared to $143,970 in 2003.

At the end of 2004, the Company's direct client list included:

- Adeptron Technologies Corp.
- ARC Resources Ltd.
- ATI Technologies Inc.
- Big Rock Brewery
- CSI Wireless Inc.
- Dofasco Inc.
- Domtar Inc.
- Enbridge Inc.
- EnCana Corporation
- Enerflex Systems Ltd.
- Elk Valley Coal Corporation (formerly Fording Coal Limited)
- EXFO Inc.
- Flint Energy Services Ltd.
- Gabriel Resources Ltd.
- Geac Computer Corporation Limited
- Hydrogenics Corporation
- Inco Limited
- The Manufacturers Life Assurance Company
- MDS Inc.
- Mitec Telecom
- Molson Inc.
- Pason Systems Inc.
- Petro-Canada
- Progress Energy Ltd.
- Shell Canada Limited
- SR Telecom Inc.
- Sun Life Assurance Company of Canada
- Suncor Energy Inc.
- Talisman Energy Inc.
- Telesystem International Wireless
- Thunder Energy Inc.
- TransAlta Corporation
- TSX Group Inc.

Consulting services revenue totaled $23,500 in 2004 compared to $8,562 in 2003.

Expenses

Total expenses in 2004 were $3,187,965 compared to $2,390,558 in 2003. This represents an increase of 33%.

Salaries and wages expense in 2004 was $2,079,320 compared to $1,388,908 in 2003. The increase is largely attributable to employee bonuses of $379,000. A bonus of $212,000 was 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. Additional incentive bonuses for the remainder of 2004 in the amount of $167,000 have been accrued and booked in the fourth quarter of 2004.

Also a factor in the increase to salaries and wages expense is the addition of nine employees during 2004. The Company had an employee base of 31 people at the end of 2004 compared to 22 people at the end of 2003. Stock options granted during the year also caused an increase in stock-based compensation expense, totaling $77,694 in 2004 compared to $29,762 in 2003.

General and administrative expense totaled $876,578 in 2004 compared to $793,043 in 2003. The increase of $83,535 is attributable to the changes in the following categories:

	2004 **$**	2003 $
Data feeds	**129,633**	176,765
Insurance	**47,096**	32,766
IT systems and phones	**147,751**	133,282
Professional fees	**81,603**	72,602
Regulatory compliance	**31,959**	27,003
Rent and occupancy	**184,250**	194,752
Travel and entertainment	**153,357**	106,796
Other	**111,525**	97,390
Operating interest revenue	**(10,596)**	(48,313)
	876,578	793,043

Amortization expense was $193,554 in 2004 compared to $182,742 in 2003. During 2004, the Company made capital asset purchases totaling $64,859 compared to $71,394 in 2003.

$100,000 in debenture interest was incurred in both 2004 and 2003 in relation to the $1,000,000 demand debentures that were outstanding throughout the two-year period. On December 31, 2004, the Company repaid $500,000 of the demand debentures.

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 letter of intent for the proposed transaction 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 2004, the Company recorded $61,487 in net tax credit refunds relating to scientific research and development performed by the Company in 2000. The Company had net tax credit refunds of $262,182 in 2003.

Financial Condition, Liquidity and Capital Resources

Cash on hand as at December 31, 2004 was $589,207 compared to $1,222,607 as at December 31, 2003. Working capital as at December 31, 2004 was $253,432 compared to $153,331 as at December 31, 2003. The Company has experienced net earnings and positive cash flows from operating activities in the third and fourth quarters of 2004. The Company anticipates that this trend will continue in 2005. Management believes that the Company has sufficient cash to meet all current and expected financial requirements over the next twelve months.

On December 30, 2004, the Company finalized a revolving credit facility of $500,000 with a Canadian bank. The credit facility is secured by a fixed and floating charge on the assets of the Company. Interest is charged at the bank's prime rate plus 1% per annum. The provisions under this facility require the maintenance of certain financial ratios. In connection with the credit facility, the holders of the demand debentures have assigned and postponed their security in favor of the bank. The credit facility will be utilized to fund working capital requirements as operations continue to expand. As at December 31, 2004, no amounts had been drawn on the credit facility.

Subject to the continued financial strength of the Company, Management plans to repay the remaining $500,000 of the outstanding demand debentures in 2005.

Transactions with Related Parties

On August 24, 2004, holders of the 2,500,000 preferred shares converted their 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.

During the year, the Company had demand debentures outstanding in the amount of $1,000,000. $500,000 of the debentures was owing to a Director of the Company. The other $500,000 debenture was owing to the spouse of the President and Chief Executive Officer and a Director of the Company. On December 31, 2004, the Company repaid $250,000 to each of the debenture holders. During the year ended December 31, 2004, $100,000 of interest was paid on the debentures.

During the year ended December 31, 2004, the Company utilized legal services totaling $34,350, plus applicable taxes, which were provided by a firm with which a Director of the Company is a partner. As at December 31, 2004, $16,099 was payable, inclusive of applicable taxes.

Business Prospects and Outlook

Business Prospects

In 2004, Solium added ten corporate clients with approximately 10,000 participants through direct sales onto E-SOAP and three corporate clients with approximately 2,200 participants through direct sales onto Share Purchase. As at December 31, 2004, the Company had in progress, eight direct sales clients with approximately 6,800 participants being implemented onto E-SOAP and three direct sales clients with approximately 11,000 participants being implemented onto Share Purchase. Implementation of these clients is expected to be completed by the end of the first quarter in 2005.

Revenue from GRS Securities

Revenues from the arrangement with GRS Securities are expected to increase by at least $50,000 per month beginning in March 2005. Revenues collected from GRS Securities since April 2004 included an adjustment which was attributable to extraordinary service delivery charges incurred by GRS Securities from a previous system provider. Under Solium's agreement with GRS Securities, a portion of this extraordinary service delivery charge was netted against Solium's share of revenue for the 11-month period.

Market Conditions in Share Entitlements Industry

The share entitlements industry continues to become increasingly more complex. This complexity is viewed by management as being an opportunity for Solium. The Company continues to see an increased usage in the market of alternative stock compensation arrangements such as SARs, tandem SARs, cash units, restricted stock units, performance units and deferred stock units. Enhancements were made in 2003 and 2004 to the Company's applications to allow for the administration of these alternative stock compensation arrangements.

The Share Purchase and group savings industry is substantially larger than the options industry. Solium's Share Purchase application brings about a shift in the administration of share purchase plans from traditional paper-based manual processes, to a real-time, automated, web-based system. Solium plans to continue to aggressively pursue this market over the next year. It is expected that additional staff will continue to be needed to support the operational infrastructure of Share Purchase clients as more significant clients are implemented onto the system.

Geographic Expansion

The Company intends to expand geographically, first to the United States, and then to the United Kingdom.

The Company has been exploring the establishment of a small business office in New York in 2005 to begin seeking out sales in the United States.

Due to the introduction of new accounting rules making the expensing of stock-based compensation costs in the United States mandatory for reporting periods starting July 1, 2005, the Company expects to see an interest in the E-SOAP product among U.S. companies who find the complex logistics of the expense calculations too onerous to handle through traditional methods. This is similar to the increased interest that was seen in Canada when expensing of stock-based compensation costs became mandatory beginning on January 1, 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 28,292,428 common 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 2,810,468 options outstanding.

Risk Assessment

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware of.

Dependence on Market Growth

There can be no assurance that the market for the Company's existing solutions will continue to grow, that customers will continue to adopt the Company's solutions or that the Company will be successful in establishing markets for its new products. If the various markets in which the Company's products fail to grow, or grow more slowly than the Company currently anticipates, or if the Company is unable to establish markets for its new products, the Company's business, operating results and financial condition could be materially adversely affected.

Dependence on GRS Securities

The Company derived 45% of its revenue in the 2004 fiscal year from its relationship with GRS Securities. Although Solium believes that it has a good relationship with GRS Securities, the termination of this relationship for any reason whatsoever could have a material adverse effect on the Company's business, results of operation and financial condition.

Limited Operating History

There is very little significant historical basis to assess how the Company, as a company whose business involves new and rapidly developing technologies, will respond to competitive, economic and technological challenges. If the Company fails to meet any of these challenges, its operating results could suffer. To continue its profitability, the Company must generate and sustain increased revenues and control future expense levels.

Dependence on Key Personnel

The success of the Company is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact on the Company's growth and profitability. Competition for highly skilled management, technical and other employees is intense. The departure of any of the members of the Company's executive team and key directors could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure to Manage Growth Successfully

The Company's business has grown rapidly in the last several years. The accelerated growth of the Company's revenue places a strain on managerial and financial resources. The Company's recent expansion has resulted in substantial growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations, resulting in increased responsibility for both existing and new management personnel. The Company's future growth will depend upon a number of factors, including the ability to:

- build and train sales and marketing staff to create an expanding presence in the evolving marketplace for Solium's solutions, and to keep staff informed regarding the technical features, issues and key selling points of Solium's solutions;
- attract and retain qualified technical personnel to continue to develop reliable and scalable solutions and services that respond to evolving customer needs and technological developments; and
- expand Solium's internal management and enhance financial controls significantly to maintain control over operations and provide support to other functional areas within Solium.

Solium's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results.

Competition

The market for the administration of alternative stock compensation arrangements for public companies and their employees is highly competitive. The Company has experienced and will continue to experience intense competition from other organizations with more established sales and marketing presence, more technical services and greater financial resources. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Furthermore, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operation and financial condition.

Risk Associated with a Change in the Company's Pricing Model

The competitive market in which the Company conducts business may require Solium to change its pricing model. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a reduction of gross margins and could adversely affect the Company's operating results.

Risks Associated with International Growth

Management of the Company believes that its continued growth will require additional expansion of its sales in foreign markets. Initially, the Company plans to expand its operations in the United States and the United Kingdom. This expansion has required, and will continue to require, significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish foreign operations, and hire additional personnel. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services.

Failure to Continue to Adapt to Technological Change and New Product Development

Solium believes that the future success of the Company depends upon its ability to enhance current products or develop and introduce new products. The Company's inability, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's business, results of operations and financial condition. The ability of the Company to compete successfully will depend in large measure on its ability to maintain technically competent research and development staff and to adapt to technological changes and advances in the industry. There can be no assurance that the Company will be successful in these efforts.

Lengthy Sales Cycle

The Company's sales cycle, beginning with an interested customer and culminating in entering into a commercial agreement with the customer, typically ranges from one to twelve months and may be significantly longer. The purchaser typically needs to obtain approval at a number of management levels, which may delay a decision to purchase any of the Company's solutions.

Intellectual Property Risks

In part, the Company's operations and value lies in its ownership and use of intellectual property. As such, its failure to protect its intellectual property may negatively affect its operations and value. Solium regards its software as proprietary and attempts to protect it with copyrights, trademarks and trade secret measures, including restrictions on disclosure and technical measures. Despite these precautions, it may be possible for third parties to copy Solium's programs or aspects of its trade secrets. Solium has no patents, and existing legal and technical precautions afford only limited practical protection. Solium could incur substantial costs in protecting and enforcing its intellectual property rights.

Although Solium is not aware that any of its products infringe the proprietary rights of third parties, there can be no assurance that third parties will not assert patent, trademark, copyright and other intellectual property rights to technologies that are important to Solium. In such event, Solium may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that Solium pay damages or obtain a license of a third party's proprietary rights in order to continue licensing its products as currently offered, or, if such license is required, that it will be available on terms acceptable to Solium.

Risk of Defects in the Company's Solution

Software products as complex as those offered by the Company may contain errors or defects, especially when first introduced or when new versions or updates are released. The Company regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Company and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial deployment. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Company and its products, harm to the Company's reputation, loss or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Company's business, results of operations and financial condition.

Reliance on Third Party Licenses

The Company relies on certain software that it licenses from third parties. There can be no assurance that these third-party licenses will continue to be available to the Company on commercially reasonable terms. The loss of, or inability to maintain, any of these licenses, could result in delays or reductions in product and service deployment until equivalent software can be developed, identified, licensed and integrated, which could materially adversely affect the Company's business, results of operations and financial condition.

MANAGEMENT'S REPORT

The accompanying financial statements and all other information included in this annual report are the responsibility of the Company's management. The 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 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 financial statements before they are presented to the Board for approval. The Board has approved the Company's financial statements on the recommendation of the Audit Committee.

The Company's external auditors, Deloitte & Touche LLP, have audited the 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 financial statements.

Brian Craig
President and Chief Executive Officer

Lynn Leong, CA
Chief Financial Officer

January 28, 2005

AUDITORS' REPORT

To the Shareholders of Solium Capital Inc.:

We have audited the balance sheets of **Solium Capital Inc.** as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 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 28, 2005

STATEMENTS OF OPERATIONS AND DEFICIT

Years Ended December 31,	**2004** **$**	2003 $
Revenue		
E-SOAP services	**1,690,173**	863,496
Share purchase services	**1,340,270**	–
Consulting services	**23,500**	8,562
	3,053,943	872,058
Expenses		
Salaries and wages *(Note 9)*	**2,079,320**	1,388,908
General and administrative	**876,578**	793,043
Write-off of goodwill *(Note 4)*	**–**	188,047
Amortization	**193,554**	182,742
Debenture interest *(Note 7)*	**100,000**	100,000
Tax credit refunds *(Note 10)*	**(61,487)**	(262,182)
	3,187,965	2,390,558
Net earnings (loss)	**(134,022)**	(1,518,500)
Deficit, beginning of year	**(9,336,106)**	(7,817,606)
Deficit, end of year	**(9,470,128)**	(9,336,106)
Net earnings (loss) per share	**(0.005)**	(0.062)

See Notes to the Financial Statements

BALANCE SHEETS

As at December 31,	**2004** **$**	2003 $
Assets		
Current		
Cash and cash equivalents	**589,207**	1,222,607
Accounts receivable	**468,963**	64,523
Prepaid expenses	**136,005**	88,654
	1,194,175	1,375,784
Capital assets *(Notes 4 and 6)*	**112,265**	263,503
	1,306,440	1,639,287
Liabilities		
Current		
Accounts payable and accrued liabilities	**384,330**	133,606
Current portion of deferred revenue	**56,413**	88,847
Demand debentures *(Note 7)*	**500,000**	1,000,000
	940,743	1,222,453
Deferred revenue	**57,069**	45,328
	997,812	1,267,781
Shareholders' Equity		
Share capital *(Note 8)*	**9,659,089**	9,665,639
Contributed surplus *(Notes 5(b) and 9)*	**119,667**	41,973
Deficit	**(9,470,128)**	(9,336,106)
	308,628	371,506
	1,306,440	1,639,287

See Notes to the Financial Statements

APPROVED BY THE BOARD:

Michael Broadfoot
Director

Brian Craig
Director

STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2004** **$**	2003 $
Cash flows related to the following activities:		
Operating		
Net loss	**(134,022)**	(1,518,500)
Adjustments for:		
Amortization	**193,554**	182,742
Stock-based compensation expense *(Note 9)*	**77,694**	29,762
Write-off of goodwill *(Note 4)*	**–**	188,047
Loss on sale of capital assets	**–**	24,250
	137,226	(1,093,699)
Changes in non-cash working capital *(Note 15)*	**(177,070)**	(59,003)
	(39,844)	(1,152,702)
Financing		
Repayment of demand debentures	**(500,000)**	–
Issuance of common shares, net of issue costs	**15,993**	1,254,730
Loan repayment received *(Note 5(a))*	**–**	29,471
Changes in non-cash working capital *(Note 15)*	**(31,169)**	25,034
	(515,176)	1,309,235
Investing		
Purchase of capital assets	**(64,859)**	(71,394)
Proceeds on disposal of capital assets	**–**	23,940
Cash acquired on purchase of subsidiary, net of acquisition costs incurred *(Note 4)*	**–**	195,750
Changes in non-cash working capital *(Note 15)*	**(13,521)**	(5,547)
	(78,380)	142,749
Net (decrease) increase in cash and cash equivalents	**(633,400)**	299,282
Cash and cash equivalents, beginning of year	**1,222,607**	923,325
Cash and cash equivalents, end of year	**589,207**	1,222,607

See Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2004 and 2003

1. DESCRIPTION OF BUSINESS

Solium Capital Inc. (the "Company" or "Solium") was incorporated under the Business Corporations Act of Alberta. Effective December 31, 2003, Solium and its wholly-owned subsidiaries Stormworks Ltd. ("Stormworks") and Bitonic Solutions Inc. ("Bitonic") were amalgamated into Solium Capital Inc.

Solium specializes in technology and services for the administration of equity-based incentive and savings programs for public corporations and their employees. Solium's flagship products are Employee Stock Option Administration Platform (E-SOAP) and Share Purchase. Both are web-based and real-time applications.

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 continuing its profitable operations. The Company has experienced net earnings and positive cash flows from operating activities in the third and fourth quarters of 2004. The Company anticipates that this trend will continue in 2005. Should the Company require short-term working capital, it has the ability to draw on a credit facility established with a Canadian bank (see Note 7).

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. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Cash equivalents

Cash equivalents include short-term, highly liquid investments that have an original maturity of three months or less. They are recorded at cost, which approximates market value.

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 programming libraries used in the development of the Company's software products.

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 balance sheet and their tax bases.

Revenue recognition

The Company derives revenues from corporate solutions for the administration of employee stock compensation plans. 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. Transaction fees are recognized as transactions are completed.

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 income in the year of receipt.

Stock-based compensation plan

The Company has a stock-based compensation plan which is described in Note 9. 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 chose the prospective application of the fair value based method, and accordingly, the results of prior years were not restated. For stock options granted prior to January 1, 2003, no compensation expense was recognized by Solium at the time of grant.

Financial instruments

The Company's accounts 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, 2004 and 2003.

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

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 Solium's software products 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 before acquisition costs.

The acquisition of Bitonic was initiated by the management of Solium in order to internalize the development of the Company's products and 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 current Director of the Company.

Solium obtained the following net assets when Bitonic was acquired:

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

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

Pursuant to an escrow agreement dated February 27, 2003 in connection with the acquisition of Bitonic, 291,667 issued and outstanding common shares of the Company were to be released from escrow on December 1, 2004 subject to criteria associated with the retention of certain Bitonic employees. On December 1, 2004, 112,714 common shares were cancelled due to the turnover of an employee (see Note 8). As a result, the original purchase price has been reduced by $22,543, which has been recorded as a reduction to the cost of the capital assets acquired (see Note 6).

5. LOANS RECEIVABLE

a) In 2003, 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.

b) During 2003, 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 8). 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.

6. CAPITAL ASSETS

	2004		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Computer equipment	**235,862**	**189,837**	**46,025**
Furniture and office equipment	**207,427**	**154,443**	**52,984**
Intangibles *(Note 4)*	**152,457**	**152,457**	**–**
Computer software	**126,103**	**125,541**	**562**
Leasehold improvements	**30,259**	**17,565**	**12,694**
Trademarks	**2,823**	**2,823**	**–**
	754,931	**642,666**	**112,265**

	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	–
	712,615	449,112	263,503

7. DEMAND DEBENTURES AND CREDIT FACILITY

In December 2002, the Company issued two $500,000 debentures to a current Director and a former Director of the Company (see Note 12(b)). 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. On December 31, 2004, $250,000 was repaid on each of the debentures, for a total repayment of $500,000.

	2004 $	2003 $
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.	**500,000**	1,000,000

On December 30, 2004, the Company finalized a revolving credit facility of $500,000 with a Canadian bank. The credit facility is secured by a fixed and floating charge on the assets of the Company. Interest is charged at the bank's prime rate plus 1% per annum. The provisions under this facility require the maintenance of certain financial ratios. In connection with the credit facility, the holders of the demand debentures have assigned and postponed their security in favor of the bank. As at December 31, 2004, no amounts had been drawn on the credit facility.

8. SHARE CAPITAL

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

	Number of Shares	**Amount $**
Issued – common shares		
Balance, December 31, 2002	18,780,338	**7,362,970**
Issued through private placement *(Note 8(b))*	1,287,500	**515,000**
Issued on acquisition of Bitonic *(Note 4)*	2,830,415	**566,083**
Cancelled as repayment of loan receivable *(Note 5(b))*	(49,440)	**(18,144)**
Issued on exercise of warrants *(Note 8(c))*	2,600,000	**650,000**
Issued on exercise of stock options *(Note 9)*	384,528	**96,132**
Share issue costs	–	**(6,402)**
Balance, December 31, 2003	25,833,341	**9,165,639**
Issued on conversion of preferred shares *(Note 8(a))*	2,500,000	**500,000**
Issued on exercise of stock options *(Note 9)*	63,971	**15,993**
Cancelled pursuant to escrow agreement *(Note 4)*	(112,714)	**(22,543)**
Balance, December 31, 2004	28,284,598	**9,659,089**
Issued – preferred shares		
Balance, December 31, 2002 and 2003	2,500,000	**500,000**
Cancelled on conversion to common shares *(Note 8(a))*	(2,500,000)	**(500,000)**
Balance, December 31, 2004	–	**–**
Common shares – fully diluted		
Balance, December 31, 2004	28,284,598	**9,659,089**
Stock options outstanding *(Note 9)*	2,818,298	**901,855**
Total common shares – fully diluted	31,102,896	**10,560,944**

a) On August 24, 2004, holders of the 2,500,000 preferred shares converted their shares into 2,500,000 common shares of the Company (see Note 12(a)). 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.

b) 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.

c) On September 25, 2003, 2,600,000 warrants were exercised at $0.25 per share for proceeds of $650,000. 1,250,000 of these detachable warrants had been issued in conjunction with the purchase of Stormworks on May 1, 2002. The other 1,350,000 detachable warrants had been issued in conjunction with a private placement of common shares on May 23, 2002 (see Note 12(d)).

Escrowed shares

At December 31, 2003, 257,250 issued and outstanding common shares were subject to an escrow agreement dated May 10, 2001. Pursuant to the escrow agreement, these common shares were released on November 11, 2004.

At December 31, 2003, 291,667 issued and outstanding common shares were subject to an escrow agreement dated February 27, 2003 in connection with the acquisition of Bitonic. Pursuant to the escrow agreement, these shares were subject to criteria associated with the retention of certain Bitonic employees. 178,953 common shares were released on December 1, 2004. 112,714 common shares were cancelled (see Note 4).

9. STOCK-BASED COMPENSATION PLAN

The Company has a stock option plan open to Directors, officers, employees, consultants and other key personnel of the Company and its subsidiaries. Under this plan, options granted to Directors, officers, employees and consultants may not exceed a total of 3,878,327 without additional shareholder approval. Options expire in five years from the date of grant. Options granted prior to August 1, 2004 vest in equal proportions over the first three years of the term ("Old Vesting Schedule"). Options granted subsequent to August 1, 2004 vest 50% on the second anniversary, and an additional 25% on each of the third and fourth anniversaries from the original grant date ("New Vesting Schedule").

The following table summarizes the stock option activity with respect to all of the Company's stock options for the years ended December 31, 2004 and 2003:

	Number of Options $	Weighted Average Exercise Price $
Outstanding options		
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
Outstanding, December 31, 2003	**2,306,871**	0.27
Granted	937,000	0.47
Exercised	(63,971)	0.25
Forfeited	(361,602)	0.37
Outstanding, December 31, 2004	**2,818,298**	0.32
Vested options		
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
Vested options, December 31, 2003	**560,127**	0.27
Vested during the year	657,059	0.25
Director options unvested under New Vesting Schedule	(206,926)	0.25
Exercised	(63,971)	0.25
Forfeited	(6,602)	0.90
Vested options, December 31, 2004	**939,687**	0.26

Effective August 31, 2004, the Board amended the vesting schedule of all options previously granted to Directors. These options originally vested under the Old Vesting Schedule. The vesting schedule was retroactively amended to the New Vesting Schedule. This amendment was made to reflect the long-term commitment of the Directors to the Company. 620,770 options originally granted on July 19, 2002 with an exercise price of $0.25 per share, 79,230 options originally granted on March 31, 2003 with an exercise price of $0.25 per share, and 100,000 options originally granted on October 17, 2003 with an exercise price of $0.35 per share, were amended. As a result of the amendment, 206,926 options previously vested as at December 31, 2003 became unvested.

The following table summarizes additional information relating to stock options outstanding and vested as at December 31, 2004 and 2003:

		2004		
Exercise Price	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Number Vested	Weighted Average Exercise Price
$ 0.25	**1,823,232**	**32 months**	**931,621**	**$ 0.25**
$0.26 to $0.50	**900,000**	**53 months**	**–**	**–**
$0.51 to $0.75	**87,000**	**58 months**	**–**	**–**
$0.76 to $1.00	**8,066**	**13 months**	**8,066**	**$ 0.90**
	2,818,298	**39 months**	**939,687**	**$ 0.26**

		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
	2,306,871	46 months	560,127	$ 0.27

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, $77,694 was recorded as total stock-based compensation expense and charged to contributed surplus for the year ended December 31, 2004 (2003 – $29,762).

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:

	2004	2003
Weighted-average fair value (per share) of options granted	**$ 0.4346**	$ 0.2047
Dividend yield	**0%**	0%
Expected volatility	**160.41%**	200.00%
Risk-free interest rate	**2.64%**	3.33%
Expected life	**3.23 years**	3 years

The following table illustrates the effect on net income and earnings per share as if the fair value method had also been applied to all those outstanding and unvested awards granted in 2002.

	2004 **$**	2003 $
Net loss, as reported	134,022	1,518,500
Total additional stock-based compensation expense determined under fair value based method	61,189	51,600
Pro-forma net loss	195,211	1,570,100
Pro-forma basic loss per share	0.007	0.064

10. 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, a portion of 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 were 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.

In the second quarter of 2004, the remainder of the Company's 2000 claim was approved by CCRA in the amount of $81,982. Professional fees of $20,495 were offset against the refund, resulting in net proceeds of $61,487 to the Company.

11. INCOME TAXES

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

Expiry	$
2006	30,000
2007	1,100,000
2008	2,800,000
2009	1,700,000
2010	1,600,000
	7,230,000

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

The Company has approximately $670,000 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.

12. RELATED PARTY TRANSACTIONS

a) On August 24, 2004, holders of the 2,500,000 preferred shares converted their shares into 2,500,000 common shares of the Company (see Note 8(a)). 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.

b) During the year ended December 31, 2004, the Company had demand debentures outstanding in the amount of $1,000,000 (2003 – $1,000,000 – see Note 7). $500,000 of the debentures was owing to a Director of the Company. The other $500,000 debenture was owing to the spouse of the President and Chief Executive Officer of the Company. Both holders of the debentures are also current shareholders of the Company. On December 31, 2004, the Company repaid $250,000 to each of the debenture holders. During the year ended December 31, 2004, $100,000 of interest was paid on the debentures (2003 – $100,000).

c) During the year ended December 31, 2004, the Company utilized legal services totaling $34,350 (2003 – $46,442), plus applicable taxes, which were provided by a firm with which a Director of the Company is a partner. As at December 31, 2004, $16,099 (2003 – $6,169) was payable, inclusive of applicable taxes.

d) On September 25, 2003, 2,600,000 warrants were exercised at $0.25 per share for proceeds of $650,000 (see Note 8(c)). 1,250,000 of the warrants were exercised by the President and Chief Executive Officer of the Company, who is also a Director of the Company. 1,350,000 warrants were exercised by the Chairman of the Company.

e) 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 acquired Bitonic in order to internalize the development of and the intellectual capital associated with the Company's products. The acquisition was recorded at the exchange amount, which was fair market value.

13. CONTINGENCIES AND COMMITMENTS

Operating leases

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

	$
2005	139,988
2006	140,125
2007	133,756
2008	131,674
2009	134,736
	680,279

14. 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 financial statements with respect to these indemnification guarantees.

15. CHANGES IN NON-CASH WORKING CAPITAL

	2004 **$**	2003 $
(Increase) decrease in accounts receivable	**(404,440)**	(2,123)
(Increase) decrease in prepaid expenses	**(47,351)**	(25,163)
Increase (decrease) in accounts payable	**295,414**	(111,057)
Increase (decrease) in deferred revenue	**(20,693)**	79,340
Changes in non-cash operating working capital	**(177,070)**	(59,003)
Increase (decrease) in accounts payable	**(31,169)**	25,034
Changes in non-cash financing working capital	**(31,169)**	25,034
Increase (decrease) in accounts payable	**(13,521)**	(5,547)
Changes in non-cash investing working capital	**(13,521)**	(5,547)
Total changes in non-cash working capital	**(221,760)**	(39,516)

CORPORATE INFORMATION

OFFICERS

Brian Craig
President and Chief Executive Officer

June Davenport
Chief Products Officer

Jeff English
Vice President, Market Development

Lynn Leong
Chief Financial Officer

Marcos Lopez
Chief Technology Officer

DIRECTORS

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Chairman,
Solium Capital Inc.

Brian Craig
President and Chief Executive Officer,
Solium Capital Inc.

Justin Ferrara
Partner,
Macleod Dixon LLP

William Kyle
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GRS Securities Inc.

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Stock Listing and Symbol
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Symbol: SUM

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