Solium
CAPITAL

2005 Annual Report

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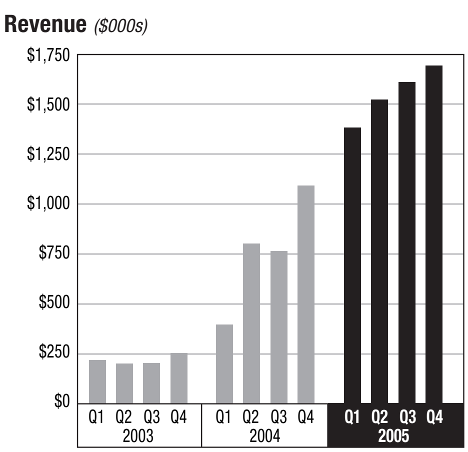
SHAREHOLDERS' ANNUAL AND SPECIAL MEETING

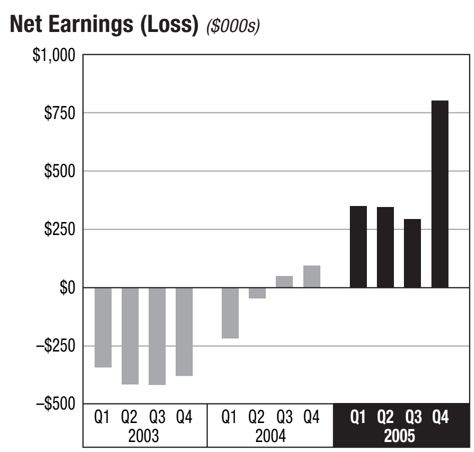
The Annual and Special Meeting of Shareholders of Solium Capital Inc. will be held at 2:30 p.m. in the Bankers Hall Auditorium, Lower Level A, 315 – 8th Avenue S.W., Calgary, Alberta on the 4th day of May, 2006. We encourage all shareholders unable to attend to sign and return the proxy form prior to the meeting or vote their shares via telephone or internet as per the instructions on the proxy form.

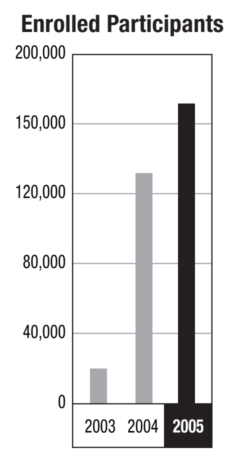
INTRODUCTION

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.







MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders:

Over the past four years I have had the pleasure of serving the shareholders of Solium as President and Chief Executive Officer, with the task of nurturing this young Company to a state of health and maturity. That first phase of our growth is complete – as evidenced by the earnings of $1.77 million we registered in 2005 and cash reserves approaching $2 million. We are now harbouring our attention and energy towards the next phase of Solium's evolution – that of becoming a competitive player in the United States plans administration market. This is a challenge that poses new demands on the Company and we will address these challenges with new leadership at Solium.

A vital skill and commitment of any capable leader is to mature the talent in the organization, and to ultimately develop talent that can supersede one's own capabilities and ambitions. Today I can say with pride and excitement that Solium's newly-knighted President, Jeff English, possesses the leadership, talent and vision to take Solium to the next level, and to sustain Solium's market and financial achievements for the years to come. Jeff English will become the next Chief Executive of Solium, and I welcome the reversal of roles – where I will support Jeff and aid his efforts to guide the success of this Company on its future course. Jeff is an exceptional talent and an outstanding leader, and I hope I can serve Jeff with the same dignity and respect that he has shown towards myself and the other members of Solium's Executive Team. I hope you will all welcome Jeff in his new role, and join me in congratulating Jeff and encouraging Jeff to shape this organization in his own fashion.

My commitment to the Board, shareholders and employees of Solium is to continue to support the Company in any way I can. The Board has specifically requested that I remain active in Solium's business development initiatives and I welcome that challenge. I will retain a role on Solium's Executive Team and I will support Jeff as he adapts to his new role.

I wish to thank all of Solium's shareholders for their commitment to our Company, and for the support I have received over the past four years. I am confident Jeff will be embraced with the same spirit and support, and I believe we will all be rewarded for it.

Sincerely,

Brian Craig
Chief Executive Officer

Solium Capital Inc.

Year In Review

The 2005 fiscal year represents our second year of substantive improvement in the financial health of Solium Capital, our first year of significant profit and more importantly, strong validation of our business model. The emphasis on more rigorous governance related to grant-based instruments and the impact on the financial state of public companies has motivated companies to re-evaluate their current administration methods for their employee equity plans. Solium is ideally situated to offer a better alternative. Additionally, the advent and prominence of online financial services such as discount brokerage and real-time financial content has raised the expectations of all employees participating in corporate equity plans. They want to see their holdings when it is convenient for them, updated and valued in real time. They want the freedom to access their holdings without having to fill in forms and wait weeks to receive their funds. Finally, for the corporate administrators responsible for these plans, accuracy and cost efficiencies are paramount and Solium is able to provide an unmatched set of tools for meeting that objective. These market drivers, well established for Canada and the United States, have created a robust market for the products we sell. The pioneering effort behind Solium's web-based, automated system for administering corporate equity plans not only provides the sector's best solution, it raises the expectation for a higher standard.

I would like to highlight some of the significant accomplishments in 2005:

- Increased annual revenue by 103% over 2004 eclipsing $6.2 million for the year;
- Improved 2005 net income to $1.77 million representing our first year of positive earnings;
- Increased client portfolio by 22 new clients;
- Expanded the number of countries that we serve through our clients to more than 50;
- Continued to gain market share in the vital markets of Ontario and Quebec establishing ourselves as a true national provider;
- Retired $500,000 of remaining demand debenture solidifying a debt free, clean balance sheet and a strong cash reserve;
- Completely re-branded our application under the Shareworks™ banner and re-vamped our website portal; and
- Opened our U.S. office in New York in May 2005 while securing our first U.S. based client.

Continued Technology Innovation

We recognize the key qualities that separate Solium from its competitors is our proprietary technology coupled with the domain knowledge of our people and the service they provide. It's a powerful combination that is the engine driving our growth momentum. Consequently, we have and will continue to invest in our application to keep our competitive advantage. Today, our development team releases new versions of our technology almost monthly.

In 2005, we undertook and delivered on two significant milestones related to our application.

First, we successfully merged the interface of all the types of equity plans we administer onto one, holistic platform for participants. This now allows our corporate clients to consolidate various incentive programs they offer to their employees into a singular provider, under a singular view. For the client, this simplifies the number of vendors they have to deal with and streamlines the equity programs to their employees. For participants, they can now view equity holdings in one place and access those holdings through one provider with simple to use tools within our Shareworks™ application. This value proposition has resonated with the market and we have had several of our early stock option clients transitioning their share savings plans to Solium to achieve this synergy. Additionally, we have seen a number of companies now initiate Requests for Proposals with the specific intention to locate providers that have the capability to manage all types of equity plans under one service.

Second, we re-branded our application under the Shareworks™ banner to recognize the harmonization of equity administration services and the one-stop capability we offer. As a broader marketing initiative, we also re-vamped our web portal to not only recognize this achievement but to convey to the marketplace our growing market presence and articulate our mission statement and corporate vision. These changes have been very well received and engender further confidence in Solium as the leader in our sector.

Our original vision of a truly web-based service using an ASP model was prescient for Solium. Many of our competitors have witnessed our success and have accepted the need to invest in similar products to keep pace or exit the business. Technology will always be one of the key attributes that differentiate Solium from its peers. The roll out of Solium Share Purchase in mid 2004 and our significant growth in this market through 2005 is clear evidence of our ability to introduce a new business line within our ASP framework and execute on that vision. We will not stop there. We will continue to invest in our proprietary technology and look for ways to broaden our product offering.

Solium in 2006

(a) U.S. Expansion

As we look forward to the year ahead of us, we understand the challenges associated with replicating our Canadian success in the United States. The U.S. is the world's largest equity market, but also the most competitive. In Canada, we will continue to remain focused on growing our market share aggressively in the products we offer and cultivating the client relationships we have rightfully earned but balance this with the need to grow beyond our borders.

It has always been a cornerstone objective of Solium to become a global provider of equity administration services. We are now actively pursuing both direct and channel opportunities in the United States and developing the internal infrastructure as a launching point towards that goal. Since May, our objective has been to learn the marketplace, understand the competitive landscape and establish relationships with key stakeholders. It has validated for us that there is room for Solium in this market and the ability to generate a similar, if not more optimistic, growth profile then we have experienced in Canada. We are not unrealistic in the effort and time it will take to realize meaningful results but we remain resolute in this directive.

(b) Enhanced Automation

It will also be a significant objective for Solium in 2006 to look within our expanding operations and uncover new ways to infuse more automation in our current processes to further leverage our diminishing cost model and expand our yields. It is imperative we maintain this as an ongoing priority to establish best practices, remain competitive and enhance our innate technology attributes and infrastructure. Many elements of our business have been architected with scalability principles in mind from the very beginning, but there is room for improvement. We have already initiated a review of our internal processes to candidly evaluate areas for improvement. Our current margins are admirable for an emerging firm of our size, but nothing can be taken for granted and we feel confident we will uncover more ways to drive margin enhancement and set the stage for accelerated growth.

(c) Expanding the Value Chain

We will examine new ways to participate in value that is generated through our client relationships in plans administration. Solium has clearly demonstrated we offer a product suite that is valued by the marketplace but our positioning as solely a best of breed record-keeper for equity plans means we are unable to leverage the cross product and margin enhancing synergies many of our competitors enjoy. This is a natural evolution for Solium to embrace and our addition of Share Purchase administration is only one example of how this can be achieved. We recognize there is more opportunity in complementary services beyond what we offer today and we will look for ways to incorporate these into the business model. This not only diversifies our product portfolio, it presents new revenue opportunities from a portfolio and market in which we have strong brand equity and which may not have been evident previously. Looking for ways to provide new value added products to our clients is a logical, low risk and cost effective expansion for Solium to pursue.

Each of these broad business objectives will be tackled with a watchful eye on maintaining shareholder value through prudent fiscal management and preservation of an agile and preferential capital structure. Solium can continue to realize solid growth because we are not limited by market size or the quality of our product. It remains a task of execution and a motivated team striving to excel.

Valued Client Relationships

What has really allowed Solium to achieve these accomplishments is the commitment of all the companies to whom I can refer to as valued clients and more importantly, partners in our success. During my time leading the sales effort at Solium, I have been continually impressed with the response clients have shown to our value proposition and the standards we set for ourselves. In 2005, we continued to expand our direct portfolio of truly blue chip Canadian firms, many of which have a global footprint and I sincerely extend my gratitude for their belief and support in our products, our people and our aspirations to reshape an industry. I also extend many thanks to the key partners we work with daily. Through highs and lows, they are steadfast in their willingness to offer solutions and work closely with Solium to provide the very best service.

Committed Employees

For any company at the stage Solium is at in its lifecycle, the challenges and commitment asked of our employees is substantial. They continue to exhibit the highest level of commitment and belief in the values and goals of Solium. They embrace change, challenge the status quo and sincerely want to create the best company and product mix in our sector and aspire to surpass the challenges we impose on ourselves as a collective. I have spoken about how technology differentiates us but our people do as well. We are more than a technology company. We are plans administration professionals that are solution providers to the clients we serve. I look forward to working with so talented a team and thank them for their ongoing individual and team innovation, sacrifice and commitment.

A Time of Change

This year will mark a transition in leadership with Brian Craig's decision to step down as Chief Executive Officer of Solium. During Brian's time as CEO, Solium transformed itself in only four years from a company near financial collapse to an industry-leading enterprise with an invigorated workforce, a robust balance sheet, a loyal and growing client portfolio and an enviable position to stake our claim on an international stage. It was Brian's genuine affinity for the company he represented and the honesty he projected in his capacity as CEO that inspired many of the early adopters to take a chance on Solium. He's been an inspirational leader to the employees of Solium and I am delighted he has chosen to remain a Board member and continue on in a business development role to provide his insight and continuity as we navigate our course towards continued growth.

On behalf of the employees of Solium I want to thank all of our shareholders for their support in 2005. It was a year in which we accomplished many stated objectives, both financial and strategic, and this has been acknowledged with the strong appreciation in the share price throughout the past year. Although we are far more stable as a company today than we were only a year ago, we are still in the infancy stage of our existence and remembering to occasionally glance in our rear view mirror will be a reminder of what we have endured and how short that path really has been. The intensity and focus remain strong for 2006 and we have charted a clear path for the direction we are pursuing. I look forward to taking on the responsibility of stewarding the talented people at Solium and working closely with our executive team and Board of Directors. I extend a personal invitation to you to contact me directly at 403.515.3910 ext 246 or at jeff.english@solium.com. As we face new challenges and opportunities in 2006, all of us at Solium appreciate your continued belief in our collective vision.

Sincerely,

Jeff English
President

Solium Capital Inc.

This Management's Discussion and Analysis ("MD&A") dated as of March 6, 2006 for Solium Capital Inc. ("Solium" or the "Company") should be read in conjunction with the audited Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2005. 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 and partners, the regulatory environment, 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 the administration and execution of equity-based incentive and savings plans and is setting the industry standard for service excellence, industry knowledge and innovative technical leadership. Solium's technology platform, Shareworks™, is an online solution that integrates the management of multiple equity plan types including stock options, share appreciation rights ("SARs"), share units, and employee share purchase plans on one comprehensive platform ("incentives").

For corporate clients, Shareworks™ streamlines an administrator's workflow with regards to the issuance of incentives, the exercise of incentives, reporting of incentives and day-to-day maintenance of the incentives database. Shareworks™ provides constant online access to reports for securities regulators, internal management and financial disclosure purposes.

Shareworks™ empowers plan participants by providing direct access to the financial markets through Solium's national online brokerage partner, HSBC InvestDirect. Shareworks™ also extends online access to participants to review their stock incentive 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") in Canada. 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 Shareworks™ platform as part of its service delivery to clients in Canada.

The Company also began direct sales activities in the United States ("U.S.") in 2005.

Financial Highlights

	2005	2004	2003
Total revenues	**$ 6,212,177**	$ 3,053,943	$ 872,058
EBITDA[1]	**$ 1,525,078**	$ 159,532	$ (1,235,758)
Net earnings (loss)	**$ 1,771,047**	$ (134,022)	$ (1,518,500)
Per share – basic	**$ 0.062**	$ (0.005)	$ (0.062)
Per share – diluted	**$ 0.060**	$ (0.005)	$ (0.062)
Total assets	**$ 3,514,678**	$ 1,306,440	$ 1,639,287
Total long-term liabilities	**$ 303,733**	$ 57,069	$ 45,328
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):*

	2005	2004	2003
EBITDA	**1,525,078**	159,532	(1,235,758)
Interest expense	**(28,870)**	(100,000)	(100,000)
Amortization	**(175,161)**	(193,554)	(182,742)
Income taxes	**450,000**	–	–
Net earnings (loss)	**1,771,047**	(134,022)	(1,518,500)

Quarterly results for 2005 and 2004

	2005			
	Q4	**Q3**	**Q2**	**Q1**
Stock option participants	**40,514**	**36,195**	**34,216**	**32,164**
Share purchase participants	**123,257**	**119,868**	**116,144**	**115,241**
Revenues	**$ 1,695,910**	**$ 1,608,782**	**$ 1,525,227**	**$ 1,382,258**
Expenses	**$ 1,365,634**	**$ 1,314,622**	**$ 1,178,744**	**$ 1,032,130**
EBITDA[1]	**$ 383,083**	**$ 350,937**	**$ 398,121**	**$ 392,937**
Net earnings (loss)	**$ 780,276**	**$ 294,160**	**$ 346,483**	**$ 350,128**
Per share – basic	**$ 0.027**	**$ 0.010**	**$ 0.012**	**$ 0.012**
Per share – diluted	**$ 0.026**	**$ 0.010**	**$ 0.012**	**$ 0.012**

	2004			
	Q4	Q3	Q2	Q1
Stock option 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 – diluted	$ 0.003	$ 0.001	$ (0.001)	$ (0.008)

Notes:

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

	2005			
	Q4	**Q3**	**Q2**	**Q1**
EBITDA	**383,083**	**350,937**	**398,121**	**392,937**
Interest expense	**–**	**(6,302)**	**(10,068)**	**(12,500)**
Amortization	**(52,807)**	**(50,475)**	**(41,570)**	**(30,309)**
Income taxes	**450,000**	**–**	**–**	**–**
Net earnings (loss)	**780,276**	**294,160**	**346,483**	**350,128**

	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)
Income taxes	–	–	–	–
Net earnings (loss)	81,110	35,273	(34,292)	(216,113)

Factors Affecting Quarterly Results

Seasonality

Fees collected from clients in the form of annual access fees are recurring in nature and are not affected by seasonal factors. However, transaction fees collected from participants upon the exercising of stock based incentive plans or the withdrawal of assets from share purchase plans have displayed a seasonal trend. The Company has experienced increased transaction fees during the first quarters of 2005 and 2004 in line with the seasonal nature of the market.

The Company has also experienced seasonality in its client implementations. Following the completion of year-end reporting activities in the financial and human resource departments of issuers, requests for proposals and sales interest from prospective clients generally peak during the third quarter of the year. Successfully closing sales during the third quarter results in increased implementation activity during the latter part of the year and into the first quarter of the following year for the Company.

Channel Revenue Arrangement

Under a revenue sharing arrangement, GRS Securities utilizes Solium's Shareworks™ platform for the administration of stock option and share purchase plans as part of its service delivery to clients in Canada. Approximately 100,000 employee participants across 47 companies were migrated onto Shareworks™ by the end of April 2004.

The Company experienced an increase of $50,000 per month to channel revenue from GRS Securities beginning in mid February 2005. Revenues collected from GRS Securities until February 2005 included a monthly 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 from April 2004 to February 2005.

Launch of Solium's Share Purchase Product

During the third quarter of 2004, the Company launched its own branded version of the share purchase product to direct sales clients and began earning access fee revenue from these clients in the same quarter.

Results from Operations – Comparison of Fiscal Year 2005 to 2004

Net Financial Results

The Company completed 2005 with earnings before taxes of $1,321,047 (2004 – net loss of $134,022). After the effect of a future income tax recovery of $450,000, net earnings for 2005 came to $1,771,047. The $450,000 future income tax recovery arose from recording the benefit of certain tax loss carryforwards.

Revenue

Gross revenue in fiscal 2005 was $6,212,177 (2004 – $3,053,943). This represents an increase of $3,158,234 or 103% over the results from 2004. The overall increase in 2005 was due mainly to increased access and implementation fees revenue from direct sales clients of $1,427,519, increased transaction revenue of $513,185, and increased revenue from GRS Securities of $1,141,380. Access fee and transaction revenue of $43,110 was earned in the fourth quarter of 2005 from the first direct sales client in the U.S.

Share Purchase

Share Purchase channel revenue from GRS Securities totaled $2,467,990 in 2005 (2004 – $1,315,189). The Company experienced an increase of $50,000 per month to channel revenue from GRS Securities beginning in mid February 2005. Revenues collected from GRS Securities until February 2005 included a monthly 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 from April 2004 to February 2005. The remainder of the increase between 2005 and 2004 is mainly attributable to increased transaction based revenues collected by GRS, resulting in an increased share for Solium.

Share purchase access and implementation fees from direct sales clients totaled $500,845 in 2005 (2004 – $19,700). Total transaction fees generated from these share purchase plans totaled $138,420 (2004 – $5,381). During 2005, the Company implemented seven corporate share purchase plans onto Shareworks™.

As at December 31, 2005, the Company had 123,257 participants (2004 – 102,867) utilizing the share purchase module of Shareworks™. 20,102 participants were from direct sales clients (2004 – 391) and 103,155 participants (2004 – 102,476) were from the GRS Securities channel relationship.

Stock Options

Stock option channel revenue from GRS Securities totaled $60,491 in 2005 (2004 – $71,912). The decrease year over year resulted from normal participant fluctuations within the stock option plans administered by GRS Securities.

Stock option access and implementation fees from direct sales clients totaled $2,105,293 in 2005 (2004 – $1,158,919). The Company implemented 17 corporate stock option or share unit plans onto Shareworks™ during the year. Favourable conditions in the stock market drove higher volumes of stock option exercises in 2005 compared to 2004. As a result, total exercise and special transaction fees generated from stock option plans increased to $839,488 in 2005 (2004 – $459,342).

The Company finished 2005 with 40,514 participants (2004 – 29,906) utilizing the stock options module of Shareworks™. 38,762 participants (2004 – 27,843) were from direct sales clients and 1,752 participants (2004 – 2,063) were from the GRS Securities channel relationship.

Consulting services

Consulting services revenue totaled $99,650 in 2005 (2004 – $23,500). Consulting services were comprised of special projects associated with the entitlement plans of clients.

Expenses

Total expenses before income taxes in 2005 were $4,891,130 (2004 – $3,187,965). The overall increase in 2005 was due to costs incurred to scale up ongoing operations and to prepare for the additional clients being implemented through the end of the year and into the first quarter of 2006. In addition, expenses totaling approximately $281,000 were incurred in the ongoing development of the U.S. operations.

Salaries and Wages

Salaries and wages expense in 2005 was $2,980,008 (2004 – $2,079,320). The increase between 2005 and 2004 is largely attributable to the net addition of nine new staff members throughout 2005, adding approximately $837,000 in salary and benefits. Stock-based compensation expense recognized in 2005 totaled $152,284 (2004 – $77,694). The Company accrued $349,320 in relation to its annual bonus plan for 2005 (2004 – $379,406).

General and Administrative

General and administrative expenses totaled $1,707,091 in 2005 (2004 – $876,578). The increase from the prior year is attributable to the changes in the following categories:

	2005 **$**	2004 $
Data feeds	**204,347**	129,633
Insurance	**61,501**	47,096
IT systems and phones	**463,825**	147,751
Professional fees	**330,862**	81,603
Regulatory compliance	**32,368**	31,959
Rent and occupancy	**286,290**	184,250
Travel and entertainment	**260,580**	153,357
Other	**67,318**	100,929
	1,707,091	876,578

Data feed expenses increased by $74,714 between 2005 and 2004 as a result of rate increases and increased stock quote usage by participants. This increased usage mirrored the increased transaction revenue activity which occurred between the comparable periods.

Insurance expense increased by $14,405 between 2005 and 2004 due to increased insurance premiums and the addition of certain types of insurance coverage.

IT systems and phone expenses increased by $316,074 between 2005 and 2004 due to increased data services utilized by the Company and increased software license fees for production systems. In addition, call centre phone activity increased in line with increased transaction activity.

Professional fees increased by $249,259 between 2005 and 2004 due to increased legal, audit, consulting and hiring services utilized by the Company. In general, legal fees have increased as the complexity of the Company's business has increased. Audit services increased as the Company has initiated an audit of its internal controls for purposes of satisfying certain clients' requirements under Sarbanes Oxley. Consulting fees paid to a director in connection with the ongoing development of Solium's U.S. market strategy totaled approximately $72,000 during fiscal 2005.

Rent and occupancy costs increased by $102,040 between 2005 and 2004. Effective June 1, 2005, the Company entered into a new lease for its head office expansion in Calgary adding $6,500 in increased rent per month. Additionally, new lease obligations supporting the Company's U.S. operations totaled approximately $30,000.

Travel and entertainment expenses increased by $107,223 between 2005 and 2004. The Company experienced an increase to travel activity for sales and business development in Canada and the U.S.

Amortization

Amortization expense was $175,161 in 2005 (2004 – $193,554). The decrease in amortization expense reflects the fact that intangible assets were fully amortized during 2004. The decrease associated with the intangible assets was partially offset by the increased amortization of leasehold improvements. During the second quarter of 2005, the Company undertook certain leasehold improvements on its new head office space totaling approximately $300,000. These costs are being amortized over the seven year term of the lease.

Debenture Interest

$28,870 in debenture interest was incurred in 2005 (2004 – $100,000). The decrease is a result of the repayment of $500,000 of demand debentures on December 31, 2004, another $250,000 on May 27, 2005, and a final repayment of $250,000 on September 30, 2005. As at December 31, 2005, the Company had no debt obligations outstanding.

Income Taxes

$450,000 of future income tax recovery was recorded in the fourth quarter of 2005 (2004 – $Nil). The amount arises from recording the benefit of certain Canadian tax loss carryforwards.

Financial Condition, Liquidity and Capital Resources

Cash on hand as at December 31, 2005 was $1,478,400 (2004 – $589,207). Working capital as at December 31, 2005 was $2,106,476 (2004 – $253,432). The strengthened working capital in 2005 is attributable to positive cash flow from operations experienced during the year, and the repayment of the demand debentures beginning in December 2004.

The Company began experiencing net earnings and positive cash flows from operating activities in the third and fourth quarters of 2004. The positive results continued in 2005 and is expected to continue through 2006. Management believes that the Company has sufficient cash to meet all current and expected financial requirements over the next twelve months.

As at December 31, 2005, there were no significant commitments to purchase capital assets. Capital purchases of computer equipment, furniture and fixtures planned for the first and second quarters of 2006 are expected to be less than $100,000.

The Company has a revolving credit facility of $500,000 with a Canadian bank. As at December 31, 2005, no amounts had been drawn on the credit facility.

Transactions with Related Parties

On September 30, 2005, the Company made a final repayment of $250,000 to the holders of the outstanding debentures. A repayment of $500,000 had been made on December 31, 2004, and a second repayment of $250,000 on May 27, 2005. The debentures were held equally by a Director of the Company, and the spouse of the Chief Executive Officer and a Director of the Company. During the year ended December 31, 2005, $28,870 of interest was paid on the debentures (2004 – $100,000).

During the year ended December 31, 2005, the Company utilized legal services totaling $57,785 (2004 – $34,350), plus applicable taxes, which were provided by a firm with which a Director of the Company is a partner. These services were measured at fair market value. As at December 31, 2005, $13,866 (2004 – $16,099) was payable, inclusive of applicable taxes.

During the year ended December 31, 2005, the Company utilized personnel hiring services totaling $13,287 (2004 – $Nil), plus applicable taxes, which were provided by a firm owned by the spouse of the Chief Executive Officer and a Director of the Company. These services were measured at fair market value. As at December 31, 2005, $1,436 was payable, inclusive of applicable taxes.

During the year ended December 31, 2005, the Company paid a Director approximately $75,000 (2004 – $Nil) for consulting services associated with the ongoing development of the business strategy for the U.S.

Critical Accounting Estimates

The Company's significant accounting policies are detailed in Note 2 of the audited consolidated financial statements. In the determination of financial results, the Company must make certain significant accounting estimates as follows:

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 as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net future income tax assets and based on all available evidence, both positive and negative, determines whether it is more likely than not that the remaining net future income tax assets or a portion thereof will be realized.

Historically, prior to 2005, the Company had established a full valuation allowance against the calculated tax benefits, since it was uncertain that these tax benefits were more likely than not to be realized. In determining the valuation allowance to establish against these future tax benefits, the Company considers many factors, including the specific tax jurisdiction, the carry forward period, income tax strategies, and forecasted earnings. A valuation allowance is recognized if, based on the weight of available evidence, the Company concludes that it is more likely than not that some portion or all of the future tax benefits will not be realized. In 2005, the Company determined, on the basis of six consecutive quarters of increasing profitability from 2004 to 2005 and the Company's forecasts of operating results for the foreseeable future, that it was more likely than not that a portion of the future income tax assets would be realized.

Accordingly, in 2005, the Company recorded $450,000 of future income tax recovery relating to the benefit of certain Canadian tax loss carryforwards. In evaluating the realizability of the future income tax asset, estimates of future operating results were made which involved assumptions about the continued ability to service existing clients and add new clients, the sustainability of the capital markets, and the continued ability to manage costs due to growth.

Disclosure Controls

The Company has a Corporate Disclosure Policy in place to ensure that communications with the investing public about the Company are timely, factual and accurate; disseminated in accordance with all applicable legal and regulatory requirements; and that all material information in respect of the Company is communicated to the Chief Executive Officer and the Chief Financial Officer, and where appropriate, the Board of Directors and/or committees thereof. As at December 31, 2005, the Company's disclosure controls and procedures are effective to ensure that any material, or potentially material, information is appropriately disclosed.

Business Prospects and Outlook

Business Prospects

During 2005, 22 corporate clients implemented incentive plans onto Solium's application adding approximately $1.2 million in expected annualized access fee revenue to the Company.

As at December 31, 2005, the Company had in progress, eight corporate plans with approximately $550,000 in expected annualized access fee revenue being implemented onto Shareworks™. Implementation of these plans is expected to be completed during the first and second quarters of 2006.

The Company continues to strengthen the geographic diversity of its direct sales clients. By the end of 2005, monthly access fees were distributed as follows: 57% from Calgary based clients (2004 – 50%), 28% from Toronto based clients (2004 – 44%), 7% from Vancouver based clients (2004 – Nil), 6% from Montreal-based clients (2004 – 6%), and 2% from U.S. based clients (2004 – Nil).

U.S. Market

The Company is continuing to develop its operations in the U.S. In April 2005, the Company appointed its Chief Technology Officer as President of Solium Capital Ltd., the Company's U.S. subsidiary. The Company's Executive Chairman was also engaged to assist in the development of the U.S. market strategy.

The Company began direct sales activities and implemented its first client in the U.S. in the fourth quarter of 2005. Annualized access fee revenue from this U.S. client is expected to be approximately $65,000.

In 2006, the Company plans to begin a marketing program to build market awareness of the Solium brand, establish a value proposition for prospective clients, and create demand for the Company's products and services. In addition, the Company plans on building out a direct sales team in the U.S. to begin cultivating a sales pipeline.

The Company will also continue to explore channel opportunities in the U.S.

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 28,444,369 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 2,973,195 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 41% of its revenue in the 2005 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.

Dependence on Partners

The Company has engaged certain partners as part of the delivery of its solutions. Although Solium believes that it has a good relationship with its partners, the termination of these relationships for any reason whatsoever could have a material adverse effect on the Company's business, results of operation and financial condition.

Regulatory Environment

The Company conducts business in a highly regulated industry. Any changes in regulations could have an 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
Chief Executive Officer

Lynn Leong, CA
Chief Financial Officer

April 4, 2006

AUDITORS' REPORT

To the Shareholders of Solium Capital Inc.:

We have audited the consolidated balance sheets of **Solium Capital Inc.** as at December 31, 2005 and 2004 and the consolidated statements of operations 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 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, 2005 and 2004 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
February 10, 2006

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years Ended December 31, 2005 and 2004	**2005** **$**	2004 $
Revenue		
Stock option services	**3,005,272**	1,690,173
Share purchase services	**3,107,255**	1,340,270
Consulting services	**99,650**	23,500
	6,212,177	3,053,943
Expenses		
Salaries and wages *(Note 9)*	**2,980,008**	2,079,320
General and administrative	**1,707,091**	876,578
Amortization	**175,161**	193,554
Debenture interest *(Note 12(a))*	**28,870**	100,000
Tax credit refunds *(Note 10)*	**–**	(61,487)
	4,891,130	3,187,965
Earnings (loss) before taxes	**1,321,047**	(134,022)
Income taxes *(Note 11)*		
Current	**–**	–
Future income tax recovery	**450,000**	–
	450,000	–
Net earnings (loss)	**1,771,047**	(134,022)
Deficit, beginning of year	**(9,470,128)**	(9,336,106)
Deficit, end of year	**(7,699,081)**	(9,470,128)
Net earnings (loss) per share		
Basic	**0.062**	(0.005)
Diluted	**0.060**	(0.005)

See Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004	**2005** **$**	2004 $
Assets		
Current		
Cash and cash equivalents	**1,478,400**	589,207
Accounts receivable	**982,360**	468,963
Prepaid expenses	**134,759**	136,005
Future income taxes *(Note 11)*	**450,000**	–
	3,045,519	1,194,175
Capital assets *(Note 3)*	**469,159**	112,265
	3,514,678	1,306,440
Liabilities		
Current		
Accounts payable and accrued liabilities	**823,033**	384,330
Current portion of deferred revenue	**81,010**	56,413
Current portion of deferred tenant inducement *(Note 4)*	**35,000**	–
Demand debentures *(Note 5)*	**–**	500,000
	939,043	940,743
Deferred tenant inducement *(Note 4)*	**189,560**	–
Deferred revenue	**114,173**	57,069
	1,242,776	997,812
Shareholders' Equity		
Share capital *(Note 7)*	**9,703,725**	9,659,089
Contributed surplus *(Note 8)*	**267,258**	119,667
Deficit	**(7,699,081)**	(9,470,128)
	2,271,902	308,628
	3,514,678	1,306,440

See Notes to the Consolidated Financial Statements

APPROVED BY THE BOARD:

Anthony Webb
Director

Michael Broadfoot
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004	**2005** **$**	2004 $
Cash flows related to the following activities:		
Operating		
Net earnings (loss)	**1,771,047**	(134,022)
Adjustments for:		
Future income taxes	**(450,000)**	–
Amortization of capital assets	**175,161**	193,554
Stock-based compensation expense *(Note 9)*	**152,284**	77,694
Amortization of tenant inducement *(Note 4)*	**(20,415)**	–
Loss on disposal of capital assets	**9,517**	–
	1,637,594	137,226
Changes in non-cash working capital *(Note 15)*	**(33,419)**	(177,070)
	1,604,175	(39,844)
Financing		
Repayment of demand debentures	**(500,000)**	(500,000)
Issuance of common shares, net of issue costs	**39,943**	15,993
Changes in non-cash working capital *(Note 15)*	**–**	(31,169)
	(460,057)	(515,176)
Investing		
Purchase of capital assets	**(541,752)**	(64,859)
Proceeds on disposal of capital assets	**180**	–
Tenant inducement *(Note 4)*	**244,975**	–
Changes in non-cash working capital *(Note 15)*	**41,672**	(13,521)
	(254,925)	(78,380)
Net increase (decrease) in cash and cash equivalents	**889,193**	(633,400)
Cash and cash equivalents, beginning of year	**589,207**	1,222,607
Cash and cash equivalents, end of year	**1,478,400**	589,207

See Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS

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

Solium specializes in technology and services for the administration of equity-based incentive and savings programs for public corporations and their employees. Solium services its clients through a web-based, real-time application called Shareworks™.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Translation of foreign currencies

For domestic and integrated foreign operations, assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year with the exception of depreciation which is translated at historical exchange rates. Exchange gains or losses are included in earnings.

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.

Impairment of long-lived assets

The Company reviews both long-lived assets to be held and used and identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the assets, whereas such assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. As at December 31, 2005, the Company determined that there were no other triggering events requiring impairment analysis.

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 basis as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net future income tax assets and based on all available evidence, both positive and negative, determines whether it is more likely than not that the remaining net future income tax assets or a portion thereof will be realized.

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 36 months. 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 using the cost reduction method 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, 2005 and 2004.

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.

3. CAPITAL ASSETS

	2005		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Computer equipment	**390,627**	**287,793**	**102,834**
Furniture and office equipment	**245,130**	**199,277**	**45,853**
Intangibles	**152,457**	**152,457**	**–**
Computer software	**148,830**	**127,252**	**21,578**
Leasehold improvements	**327,157**	**28,263**	**298,894**
Trademarks	**2,823**	**2,823**	**–**
	1,267,024	**797,865**	**469,159**

	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	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

4. DEFERRED TENANT INDUCEMENT

Effective June 1, 2005, the Company entered into a lease for new head office space. During the quarter ended June 30, 2005, the Company undertook certain leasehold improvements on this new office space. A tenant inducement in the amount of $244,975 was received from the landlord with respect to the leasehold improvements. The tenant inducement has been deferred and is being recognized as a reduction of rent during the seven year term of the lease.

5. DEMAND DEBENTURES

In December 2002, the Company issued two $500,000 debentures 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. On May 27, 2005, $125,000 was repaid on each of the debentures, for a total repayment of $250,000. On September 30, 2005, the Company made a final repayment of $125,000 to the holders of each of the debentures, for a total repayment of $250,000 (see Note 12(a)). As a result of the final repayment, the holders' security interest in all of the Company's present and after-acquired property was discharged.

	2005 **$**	2004 $
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

6. CREDIT FACILITY

The Company has 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. As at December 31, 2005 and 2004, no amounts had been drawn on the credit facility.

7. 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, 2003	25,833,341	**9,165,639**
Issued on conversion of preferred shares *(Note 7(a))*	2,500,000	**500,000**
Issued on exercise of stock options *(Note 9)*	63,971	**15,993**
Cancelled pursuant to escrow agreement *(Note 7(b))*	(112,714)	**(22,543)**
Balance, December 31, 2004	28,284,598	**9,659,089**
Issued on exercise of stock options *(Note 9)*	159,771	**39,943**
Adjustment on exercise of stock options *(Note 8)*	–	**4,693**
Balance, December 31, 2005	28,444,369	**9,703,725**
Common shares – diluted		
Balance, December 31, 2005	28,444,369	**9,703,725**
Stock options outstanding *(Note 9)*	2,883,195	**1,153,278**
Total common shares – diluted	31,327,564	**10,857,003**

a) On August 24, 2004, holders of 2,500,000 preferred shares converted their shares into 2,500,000 common shares of the Company (see Note 12(b)). As at December 31, 2005 and 2004, there were no preferred shares issued and outstanding.

b) 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 Solutions Inc. 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.

8. CONTRIBUTED SURPLUS

	Amount $
Balance, December 31, 2003	**41,973**
Stock-based compensation expense for the year *(Note 9)*	**77,694**
Balance, December 31, 2004	**119,667**
Stock-based compensation expense for the year *(Note 9)*	**152,284**
Adjustment on exercise of stock options during the year *(Note 7)*	**(4,693)**
Balance, December 31, 2005	**267,258**

Amounts recorded as stock-based compensation expense are recorded as a corresponding increase to contributed surplus. To the extent that they have been expensed, when the stock options are exercised the fair value amount is removed from contributed surplus and credited to share capital.

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 4,252,864 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, 2005 and 2004:

	Number of Options $	Weighted Average Exercise Price $
Outstanding options		
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
Granted	375,000	0.88
Exercised	(159,771)	0.25
Forfeited	(150,332)	0.49
Outstanding, December 31, 2005	**2,883,195**	**0.40**
Vested options		
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
Vested during the year	644,300	0.28
Exercised	(159,771)	0.25
Vested options, December 31, 2005	**1,424,216**	**0.27**

Effective August 31, 2004, each of the Directors agreed to the amendment of the vesting schedule of all options previously granted to them 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, 2005:

2005					
Exercise Price	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Vested	Weighted Average Exercise Price
$ 0.25	**1,630,129**	**20 months**	**$ 0.25**	**1,291,149**	**$ 0.25**
$ 0.26 to $ 0.50	**850,000**	**41 months**	**$ 0.45**	**125,001**	**$ 0.38**
$ 0.51 to $ 0.75	**245,000**	**51 months**	**$ 0.71**	**–**	**–**
$ 0.76 to $ 1.00	**108,066**	**52 months**	**$ 0.99**	**8,066**	**$ 0.90**
$ 1.00 to $ 1.25	**50,000**	**57 months**	**$ 1.25**	**–**	**–**
	2,883,195	**31 months**	**$ 0.40**	**1,424,216**	**$ 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, $152,284 was recorded as total stock-based compensation expense and charged to contributed surplus for the year ended December 31, 2005 (2004 – $77,694).

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:

	2005	2004
Weighted-average fair value (per share) of options granted	**$ 0.8781**	$ 0.4346
Dividend yield	**0%**	0%
Expected volatility	**158.47%**	160.41%
Risk-free interest rate	**3.06%**	2.64%
Expected life	**4 years**	3.23 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:

	2005 $	2004 $
Net earnings (loss), as reported	**1,771,047**	(134,022)
Total additional stock-based compensation		
expense determined under the fair value based method	**(27,697)**	(61,189)
Pro-forma net earnings (loss)	**1,743,350**	(195,211)
Pro-forma net earnings (loss) per share:		
Basic	**0.061**	(0.007)
Diluted	**0.059**	(0.007)

10. TAX CREDIT REFUNDS

In the second quarter of 2004, the Company received $81,982 in refunded investment tax credits associated with scientific research and development performed in the year 2000. Professional fees of $20,495 associated with the successful filing of the claim were offset against the refund, resulting in net proceeds of $61,487 to the Company.

11. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory rates as follows:

	2005	2004
	$	$
Earnings (loss) before income taxes	**1,321,047**	(134,022)
Corporate income tax rate	**33.62%**	33.87%
Computed income tax provision	**444,136**	(45,393)
Increase (decrease) resulting from:		
Non-deductible items, net	**63,034**	32,052
Non-taxable items	**(6,863)**	(24,179)
Share issue costs deductible	**(35,818)**	(49,165)
Benefit of previously unrecorded loss carryforwards	**(464,489)**	–
Future income taxes – change in valuation allowance	**450,000**	–
Carryforward of unrecorded loss to future periods	**–**	86,685
Total income tax recovery	**450,000**	–
Current	**–**	–
Future	**450,000**	–
	450,000	–

The Company's future income tax assets and liabilities consist of the following:

	2005	2004
	$	$
Future income tax assets		
Differences in accounting and tax basis of capital assets	**–**	67,553
Difference in accounting and tax basis of tenant inducement	**75,497**	–
Non-capital loss carryforwards	**2,127,946**	2,606,813
Capital loss carryforwards	**4,875**	4,911
Research and development expenditure tax pool	**225,254**	226,929
	2,433,572	2,906,206
Future income tax liabilities		
Differences in accounting and tax basis of capital assets	**(2,759)**	–
	2,430,813	2,906,206
Valuation allowance	**(1,980,813)**	(2,906,206)
Net future income tax assets	**450,000**	–
Current future income tax assets	**450,000**	–
Non-current future income tax assets	**–**	–
	450,000	–

At December 31, 2005, the Company has recognized the benefit of unused tax loss carryforwards of approximately $450,000.

The Company has unused non-capital losses carried forward for Canadian tax purposes as follows:

Expiry	$
2008	**2,300,000**
2009	**1,900,000**
2010	**1,600,000**
2011	**240,000**
	6,040,000

The Company also has a U.S. federal net operating loss carryforward of approximately $200,000, which expires in 2025.

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

The Company has approximately $670,000 in a research and development expenditure tax pool available to offset future Canadian business income.

12. RELATED PARTY TRANSACTIONS

a) On September 30, 2005, the Company made a final repayment of $250,000 to the holders of the outstanding debentures. A repayment of $500,000 had been made on December 31, 2004 and a second repayment of $250,000 on May 27, 2005. These debentures were held equally by a Director of the Company, and the spouse of the Chief Executive Officer and a Director of the Company. During the year ended December 31, 2005, $28,870 of interest was paid on the debentures (2004 – $100,000).

b) On August 24, 2004, holders of 2,500,000 preferred shares converted their shares into 2,500,000 common shares of the Company. 1,250,000 of these preferred shares were held by the Chief Executive Officer and a Director of the Company. The other 1,250,000 preferred shares were held by a Director of the Company.

c) During the year ended December 31, 2005, the Company utilized legal services totaling $57,785 (2004 – $34,350) plus applicable taxes, which were provided by a firm with which a Director of the Company is a partner. These services were measured at fair market value. As at December 31, 2005, $13,866 (2004 – $16,099) was payable, inclusive of applicable taxes.

d) During the year ended December 31, 2005, the Company utilized personnel hiring services totaling $13,287 (2004 – $Nil) plus applicable taxes, which were provided by a firm owned by the spouse of the Chief Executive Officer and a Director of the Company. These services were measured at fair market value. As at December 31, 2005, $1,436 was payable, inclusive of applicable taxes.

e) During the year ended December 31, 2005, the Company paid a Director approximately $75,000 (2004 – $Nil) for consulting services associated with the ongoing development of the business strategy for the United States.

13. CONTINGENCIES AND COMMITMENTS

Operating leases

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

	$
2006	**197,010**
2007	**192,165**
2008	**186,528**
2009	**134,736**
2010	**139,023**
	849,462

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

	2005 **$**	2004 $
(Increase) decrease in accounts receivable	**(513,397)**	(404,440)
(Increase) decrease in prepaid expenses	**1,246**	(47,351)
Increase (decrease) in accounts payable	**397,031**	295,414
Increase (decrease) in deferred revenue	**81,701**	(20,693)
Changes in non-cash operating working capital	**(33,419)**	(177,070)
Increase (decrease) in accounts payable	**–**	(31,169)
Changes in non-cash financing working capital	**–**	(31,169)
Increase (decrease) in accounts payable	**41,672**	(13,521)
Changes in non-cash investing working capital	**41,672**	(13,521)
Total changes in non-cash working capital	**8,253**	(221,760)

16. SEGMENTED INFORMATION

The Company's operations fall into one dominant industry segment, the administration of equity-based incentive and savings programs for public corporations and their employees. Operations are located in Canada and the United States. Executive management assesses the performance of each segment based on income before income taxes.

Approximately 41% (2004 – 45%) of total sales originated from the Company's channel relationship.

The accounting policies used in these segments are the same as those described in Note 2 to the consolidated financial statements. Where applicable, inter-segment transactions are reflected at the exchange value, which is the amount agreed to by the parties.

The following is a breakdown of financial information by geographic segment:

Year ended December 31,	**2005 $**	2004 $
Revenue		
Canada	**6,169,067**	3,053,943
United States	**43,110**	–
	6,212,177	3,053,943
Net earnings (loss)		
Canada	**2,009,305**	(134,022)
United States	**(238,258)**	–
	1,771,047	(134,022)
Capital expenditures		
Canada	**535,035**	64,859
United States	**6,717**	–
	541,752	64,859

As at December 31,	**2005 $**	2004 $
Total assets		
Canada	**3,428,783**	1,306,440
United States	**85,895**	–
	3,514,678	1,306,440
Capital assets		
Canada	**463,211**	112,265
United States	**5,948**	–
	469,159	112,265

CORPORATE INFORMATION

OFFICERS

Brian Craig
Chief Executive Officer

June Davenport
Chief Products Officer

Jeff English
President

Lynn Leong
Chief Financial Officer

Marcos Lopez
Chief Technology Officer, Solium Capital Inc.
President, Solium Capital Ltd.

Ron Ratzlaff
Vice President, Customer Operations

Russ Waterhouse
Executive Chairman

DIRECTORS

Michael Broadfoot
Director,
Solium Capital Inc.

Brian Craig
Chief Executive Officer,
Solium Capital Inc.

Justin Ferrara
Partner,
Macleod Dixon LLP

Russ Waterhouse
Executive Chairman,
Solium Capital Inc.

Anthony Webb
Former President and Chief Executive Officer,
Royal Trust

OFFICES

Head Office
200, 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

Transfer Agent
Valiant Trust Company

Legal Counsel
Macleod Dixon LLP

Auditors
Deloitte & Touche LLP

Stock Listing and Symbol
TSX Venture Exchange
Symbol: SUM

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

Website
www.solium.com

Solium
CAPITAL

200, 805-8TH AVE SW,
CALGARY AB, T2P 1H7
PHONE: 403.515.3910
FAX: 403.515.3919