



Solium  
CAPITAL

➤ 2006 ANNUAL REPORT

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## SHAREHOLDERS' ANNUAL AND SPECIAL MEETING

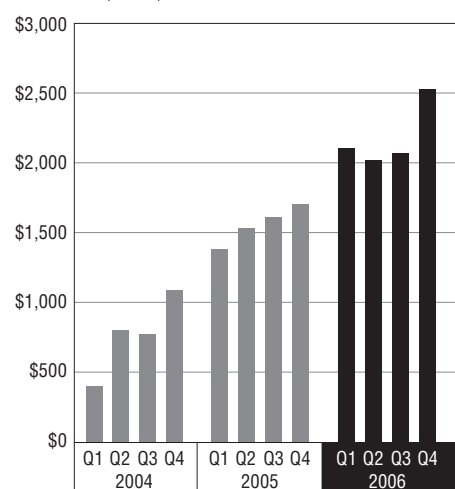
The Annual and Special Meeting of Shareholders of Solium Capital Inc. will be held at 2:30 p.m. in the Bankers Hall Auditorium, Lower Level A, 315 – 8th Avenue S.W., Calgary, Alberta on the 9th day of May, 2007. We encourage all shareholders unable to attend to sign and return the proxy form prior to the meeting or vote their shares via telephone or internet as per the instructions on the proxy form.

## INTRODUCTION

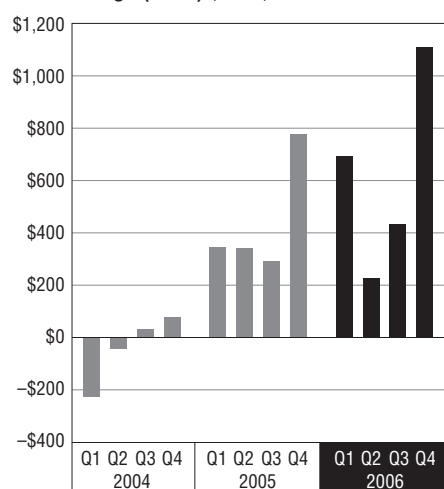
Solium was founded in 1999 and is based in Calgary, Alberta, Canada. Solium is a public company listed on the TSX under the symbol SUM.

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.

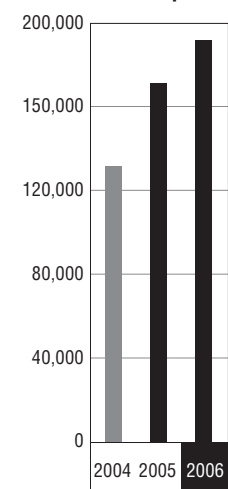
**Revenue (\$000s)**



**Net Earnings (Loss) (\$000s)**



**Enrolled Participants**



### A Look Back

During 2006, Solium continued to prudently build momentum towards becoming a dominant provider of administration services for corporate employee equity plans. Over time, we have refined our organic growth model for the Canadian marketplace and continue to demonstrate that we can consistently win business and increase our already enviable Canadian client roster. We are diligently laying the foundation for sustained growth in the US. Although we have developed an enviable roster of some of Canada's largest and most prominent companies and we have earned new business with early adopter companies in the US, we are just getting started.

We have reached a stage in Solium's life cycle where we are investing more time and energy towards strategic growth to set the stage for exponential expansion both nationally, and more importantly, internationally. Let me summarize some of our key achievements this past year and through the early part of 2007:

- Increased aggregate year over year revenue by 40% to \$8.7 Million
- Increased year over year net earnings by 40% to \$2.5 Million at a time when we have made considerable investments in our US expansion, our Shareworks™ application and scaling of our operations to manage our growth
- Increased our client portfolio by 15 new clients through 2006 and now count 14 of Canada's 20 largest companies by market capitalization as clients of the Company
- Graduated from the TSX Venture Exchange to the TSX
- Initiated a share buy back program to reduce the number of outstanding Solium shares
- Announced the addition of Canaccord Capital Corporation as an additional broker partner, which will offer enhanced automation, greater client choice and another revenue stream to the Company
- Continued to bolster our leadership team with the addition of Russ Waterhouse to lead our emerging US operations, Lisa Fidaleo to lead sales in the US, Rudi Bester to lead sales in Canada and Jeannie Kezama to continue to scale our operations
- Strengthened our Board of Directors with the appointment of Jim Aramanda, a seasoned industry executive with significant insight into the US marketplace
- Enhanced our Shareworks application with the release of version 3.0 in October which now provides an unrivalled suite of compliance, reporting and expensing tools for both Canada and the United States
- Recognized by Deloitte as number 12 in Canada's Technology Fast 50 and number 74 in North America's Fast 500 Technology companies

### Challenges We Face

Although Solium has reached significant milestones and is defining the next set of goals for the company, they come with inherent challenges. Our firm has grown substantially in terms of people, clients and workload in a short period of time. With that growth comes the need to refine operating processes and institute efficient training, orientation and assimilation programs for our newest employees while maintaining the culture of entrepreneurship, innovation and mutual respect that defines us. Many companies are competing for talent in today's hot economy and the leadership team at Solium spends considerable time locating the right talent, training them efficiently and orientating them to our can-do culture. It is a daunting task that every company – particularly in Alberta's strong labor market – faces and we know that it underscores the fact that our firm is thriving and needs to continuously enhance operating capability. Great companies are about great people and we will continue to recruit and cultivate the very best.

Our ongoing investment in a world-class, web based ASP solution lays the foundation for a business model, which will exhibit diminishing marginal cost economics as we progressively leverage fixed scaleable investments. Notwithstanding, with the volume of business we service today, we are uncovering inefficiencies in our automated processes not readily apparent when we were a much smaller company. In response, we are sharpening our processes and investing in additional automation enhancements to streamline our work, and further differentiate our service excellence amongst our peer service providers. It is a considerable undertaking that began in 2006 and will accelerate in 2007. We continue to evolve and adapt to the strains put on our expanding business, but our culture of innovation and goal setting equips us well as we mature. Operating excellence will always be balanced with innovative excellence.

Our entrée into the US has already taught us well. In 2006, having satisfied ourselves that Solium has a compelling product for the US market, we began to invest more substantially in that effort. Today we have sales and marketing teams focused on reaching out to the direct market and establishing awareness of Solium and our solutions. Over the last year we significantly enhanced our Shareworks application and in the fall released version 3.0 which provided one of the most robust solutions in the industry for the increasingly stringent compliance rules being placed on every US public company. Finally, we have won business and are now routinely participating in competitive bids against many of the US incumbent providers. The early work is done, but our ascent will take time. We are prudently scaling up our investment to be a major player in the US market while recognizing that we are learning each step of the way. Our competitors in the US are well entrenched, well capitalized and sophisticated. Success will take focus and patience, but for us it has become less a question of whether we can compete, but rather how fast and how far we can reach in realizing our full potential.

### **What is Ahead**

Our transformation continues. Today we are a vibrant, profitable, well-respected provider of equity administration solutions. In Canada, we are less the disruptive newcomer and are now an industry leader setting the standard for our peers to aspire to. We are confident we will fashion the same blueprint in the US over time. Our team of talented people continues to expand as we service a growing roster of blue chip firms both in Canada and the US. Our ability to truly reach the potential of Solium will be a result of the key talent we have assembled to get the job done. I want to thank them for their individual commitment and contribution this past year in building a world-class company poised to make its mark in the US.

Our recent announcement of the creation of StockVantage provides Solium a new and distinct offering for smaller companies that face the same compliance and reporting demands of the largest publicly traded companies but want a simpler, more cost effective tool than the comprehensive capability offered in our Shareworks technology and associated services. Most of these companies have administered their stock plans on spreadsheets internally and expended considerable effort each financial quarter to ensure disclosure reporting was accurate and timely. Now Solium, through StockVantage, can reach out to these companies – whether public or private – and offer an extremely powerful, cost effective alternative to those spreadsheets and our peer service providers. It opens a vast new global market to Solium and I am very optimistic about the potential for growth from our newest initiative.

## MESSAGE FROM THE PRESIDENT *(continued)*

In 2007, Solium's focus will be on continuing to establish a foothold in the US market and refining our product suite to continue to offer an unparalleled solution. We will do this by leveraging our sales and marketing capabilities to the direct market and cultivating potential channel opportunities as they emerge. We will aggressively evaluate ways in which we can realize further efficiencies in our operational and automated processes to improve our margins and elevate the client experience. We will keep a watchful eye for opportunities to expand our product set to our existing clients and diversify our revenue streams. Finally, we will develop the best talent to be the drivers of executing our business strategy and accelerating our leadership position. All of this will be a collaborative undertaking in conjunction with our knowledgeable and supportive Board of Directors who not only guide and represent the interests of our shareholders, but also remain large investors in the company, believing deeply in the need to be fully aligned with stakeholders.

It has been an exciting year for me in the role of President and Chief Executive Officer of Solium. My short tenure has made me appreciate the integrity, intelligence and commitment of all those people within the Company and on the Board that individually contribute to our success. I am enthusiastic about our opportunities in 2007 and beyond, but also recognize we are still early in our evolution and our competitors won't stand still. The work we have done this past year has fortified our competitive resiliency, enriched our brand equity, extended our market reach and further reinforced the foundation of the business. We are financially healthy through unrelenting attention to earnings discipline and we have a keen appreciation for how our technology and strong client empathy has set us apart. We will remain true to those principles and continue to build on our core strengths and values. Thank you to each of our customers and business partners for assisting us in progressively realizing our potential. Thank you to our shareholders for your support of Solium and I look forward to keeping you apprised of our future developments.

Sincerely,



**Jeff English**

*President & Chief Executive Officer*

*Solium Capital Inc.*

*This Management's Discussion and Analysis ("MD&A") dated as of March 5, 2007 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, 2006. 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](http://www.sedar.com) under Solium Capital Inc.*

*All dollar amounts discussed in the MD&A are in Canadian dollars unless otherwise specified.*

### **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").

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

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 and the United States ("U.S."). 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.

### Financial Highlights

	2006	2005	2004
Total revenues	\$ 8,695,784	\$ 6,212,177	\$ 3,053,943
EBITDA <sup>1</sup>	\$ 2,370,132	\$ 1,525,078	\$ 159,532
Earnings before taxes	\$ 2,117,407	\$ 1,321,047	\$ (134,022)
Net earnings (loss)	\$ 2,477,407	\$ 1,771,047	\$ (134,022)
Per share – basic	\$ 0.087	\$ 0.062	\$ (0.005)
Per share – diluted	\$ 0.083	\$ 0.060	\$ (0.005)
Total assets	\$ 6,312,980	\$ 3,514,678	\$ 1,306,440
Total long-term liabilities	\$ 247,244	\$ 303,733	\$ 57,069
Cash dividends declared	\$ Nil	\$ Nil	\$ Nil

Notes:

<sup>1</sup> 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):

	2006	2005	2004
EBITDA	2,370,132	1,525,078	159,532
Interest expense	–	(28,870)	(100,000)
Amortization	(252,725)	(175,161)	(193,554)
Income tax recovery	360,000	450,000	–
Net earnings (loss)	2,477,407	1,771,047	(134,022)

### Summary of Quarterly Results

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

	2006			
	Q4	Q3	Q2	Q1
Stock option participants	47,822	47,114	47,354	49,711
Share purchase participants	140,622	136,293	134,860	133,167
Revenues	\$ 2,518,169	\$ 2,067,056	\$ 2,010,179	\$ 2,100,380
Expenses	\$ 1,695,494	\$ 1,645,731	\$ 1,749,876	\$ 1,487,276
EBITDA <sup>1</sup>	\$ 891,943	\$ 484,701	\$ 322,700	\$ 670,788
Earnings before taxes	\$ 822,675	\$ 421,325	\$ 260,303	\$ 613,104
Net earnings	\$ 1,112,902	\$ 437,374	\$ 231,478	\$ 695,653
Per share – basic	\$ 0.039	\$ 0.015	\$ 0.008	\$ 0.025
Per share – diluted	\$ 0.038	\$ 0.015	\$ 0.008	\$ 0.024

	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 <sup>1</sup>	\$ 383,083	\$ 350,937	\$ 398,121	\$ 392,937
Earnings before taxes	\$ 330,276	\$ 294,160	\$ 346,483	\$ 350,128
Net earnings	\$ 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

Note:

<sup>1</sup> Earnings before interest, taxes, depreciation and amortization ("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 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:

	2006			
	Q4	Q3	Q2	Q1
EBITDA	891,943	484,701	322,700	670,788
Interest expense	–	–	–	–
Amortization	(69,268)	(63,376)	(62,397)	(57,684)
Income tax (expense) recovery	290,227	16,049	(28,825)	82,549
Net earnings	1,112,902	437,374	231,478	695,653

	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 tax (expense) recovery	450,000	–	–	–
Net earnings	780,276	294,160	346,483	350,128

## **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 typically experiences increased transaction revenue during the first quarter of the year in line with the seasonal nature of participant transaction activity.

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.

## **Results from Operations**

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

The Company completed the year with earnings before taxes of \$2,117,407 (2005 – \$1,321,047). After the effect of a future income tax recovery of \$360,000 (2005 – \$450,000), net earnings for 2006 were \$2,477,407 (2005 – \$1,177,047). Net earnings were comprised of \$2,987,665 (2005 – \$2,009,305) from Canadian operations and a loss of \$510,258 (2005 – loss \$238,258) from U.S. operations.

### ***Revenue***

Total revenue in fiscal 2006 was \$8,695,784 (2005 – \$6,212,177). This represents an increase of 40% over the results from 2005. The increase was due mainly to increased access fees from direct sales clients, increased transaction fees from both stock option and share purchase participants, and increased consulting fees. Revenue of \$8,400,990 (2005 – \$6,169,067) was from Canadian operations and \$294,794 (2005 – \$43,110) was from U.S. operations.

### ***Share Purchase***

Share purchase channel revenue from GRS Securities totaled \$2,671,878 in 2006 (2005 – \$2,467,990). The increase is mainly attributable to increased transaction based revenues collected by GRS Securities, resulting in an increased share for Solium.

Share purchase access and implementation fees from direct sales clients totaled \$1,289,926 in 2006 (2005 – \$500,845). Total transaction fees generated from these share purchase plans totaled \$504,803 in 2006 (2005 – \$138,420). The Company implemented 12 corporate share purchase plans onto Shareworks™ during 2006 (2005 – 7).

As at December 31, 2006, the Company had 140,622 participants (2005 – 123,257) utilizing the share purchase module of Shareworks™. 35,275 participants were from direct sales clients (2005 – 20,102) and 105,347 participants (2005 – 103,155) were from the GRS Securities channel relationship.

***Stock Options***

Stock option channel revenue from GRS Securities totaled \$53,528 in 2006 (2005 – \$60,491). The decrease 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 \$2,812,278 in 2006 (2005 – \$2,105,293). The Company implemented 13 corporate stock option, share appreciation rights or share unit plans onto Shareworks during 2006 (2005 – 17). Total exercise and transaction fees generated from stock option plans totaled \$958,301 in 2006 (2005 – \$839,488).

As at September 30, 2006, the Company had 47,822 participants (2005 – 40,514) utilizing the stock options module of Shareworks™. 46,381 participants (2005 – 38,762) were from direct sales clients and 1,441 participants (2005 – 1,752) were from the GRS Securities channel relationship.

The number of direct sales participants utilizing the stock options module in Shareworks™ decreased from 49,711 at the end of the first quarter of 2006. Solium has experienced the loss of certain clients due to corporate merger and acquisition activity relating to those clients as well as a reduction in the size of certain client option plans. These reductions were partially offset with the addition of new clients over that period.

***Consulting services***

Consulting services revenue totaled \$405,070 in 2006 (2005 – \$99,650). Consulting services were comprised of special projects for clients related to designing new entitlement plans, amending existing entitlement plans, or performing tasks associated with special events such as stock splits, or mergers and acquisitions. In the fourth quarter of 2006, a consulting project totaling \$171,690 was completed in the U.S.

***Expenses***

Total expenses were \$6,578,377 in 2006 (2005 – \$4,891,130). The overall increase is primarily due to costs associated with the ongoing scale up of operations as required by the addition of direct sales clients and increased transactional volumes. The Company also continues to make investments in its technology with the addition of software development staff. Also contributing to the increase were expenses totaling \$805,052 (2005 – \$281,368) relating to the development of the U.S. operations.

***Salaries and Wages***

Salaries and wages expense in 2006 was \$4,140,524 (2005 – \$2,980,008). The increase is largely attributable to the net addition of nine new staff members throughout 2005 and 29 new staff members throughout 2006. Stock-based compensation expense recognized in 2006 totaled \$216,587 (2005 – \$152,284), which also contributed to the change in total salaries and wages expense. The Company accrued \$457,000 in relation to its annual bonus plan for 2006 (2005 – \$349,320).

*General and Administrative*

General and administrative expenses totaled \$2,185,128 in 2006 (2005 – \$1,707,091). The increase from the prior year is attributable to the following categories:

	2006 \$	2005 \$
Data feeds	177,895	204,347
Insurance	73,572	61,501
IT systems and phones	298,621	259,479
Professional fees	653,275	330,862
Regulatory compliance	44,069	32,368
Rent and occupancy	346,498	286,290
Travel and entertainment	249,381	260,580
Other	341,817	271,664
	<b>2,185,128</b>	1,707,091

Fees for data feeds of stock market quotes obtained from the various stock exchanges decreased by \$26,452 between 2006 and 2005 due to a change in the way that Shareworks™ uses stock market quotes.

IT systems and phone expenses increased by \$39,142 between 2006 and 2005. Generally, the Company utilized increased data services and software licenses for production systems in 2006 compared to 2005. In addition, call centre phone activity increased in line with increased transaction activity.

Professional fees increased by \$322,413 between 2006 and 2005 due to increased legal, audit, hiring and consulting services utilized by the Company.

- Legal fees increased by \$96,848 mainly due to legal fees associated with setting up operational infrastructure in the United States.
- Accounting and audit fees increased by \$82,439. In 2006, the Company initiated a recurring audit of its internal controls under SAS 70 guidelines of the American Institute of Certified Public Accountants (AICPA) for purposes of satisfying certain clients' requirements under The Sarbanes Oxley Act of 2002. In addition, temporary accounting staff was utilized during a portion of the year.
- Hiring fees increased by \$88,729. The Company utilized personnel hiring services throughout 2006 for new hires. In addition, finder's fees were paid during the second quarter of 2006 relating to the positions of Vice President, Sales in the U.S. and Vice President, Market Development in Canada.
- Consulting fees increased by \$54,397 largely due to the fees paid to a Director beginning in May 2005 in connection with the ongoing development of Solium's U.S. market strategy. Also included in consulting fees was approximately \$25,000 in fees incurred in 2006 relating to a business process re-engineering project the Company initiated to increase operational efficiencies.

Rent and occupancy expenses increased by \$60,208. Effective June 1, 2005, the Company entered into a new lease for its head office in Calgary adding \$6,500 in rent per month. This is offset by the amortization of a tenant inducement against rent expense of approximately \$3,000 per month. Additionally, new office space relating to the Company's U.S. operations was leased at the end of the first quarter of 2006, adding approximately \$4,500 per month in rent expense.

Travel and entertainment expenses decreased by \$11,199. The Company incurs travel expenses due to sales and business development in Canada and the U.S., and due to travel associated with clients located in various geographical locations. On an overall basis, this activity held relatively constant compared to 2005.

***Amortization***

Amortization expense was \$252,725 in 2006 (2005 – \$175,161). The increase is attributable to the amortization of leasehold improvements undertaken in the third quarter of 2005, and to the amortization of capital assets purchased throughout 2005 and 2006. During 2006, capital asset purchases totaled \$317,628 (2005 – \$541,752).

***Debenture Interest***

The Company did not incur any debenture interest during 2006 (2005 – \$28,870). The decrease is a result of the full repayment of the demand debentures in 2005.

***Income Taxes***

\$360,000 of future income tax recovery was recorded in 2006 (2005 – \$450,000). The Company has recorded the benefit of certain Canadian tax loss carryforwards. The Company currently maintains a future tax asset on its balance sheet calculated based on the net earnings of its prior four quarters. Any change to this future tax asset from period to period is reflected as a change in the valuation allowance for the asset and is reflected as a future income tax expense or recovery.

**Financial Condition, Liquidity and Capital Resources**

Cash on hand as at December 31, 2006 was \$3,074,767 (2005 – \$1,478,400). Working capital as at December 31, 2006 was \$4,472,636 (2005 – \$2,106,476). Working capital is expected to remain strong throughout 2007 as a result of positive cash flow from operations expected through the new year.

As at December 31, 2006, there were no significant commitments to purchase capital assets. Capital purchases of computer equipment, and furniture and fixtures for 2007 are expected to be less than \$500,000.

In December 2006, the Company initiated a Normal Course Issuer Bid through the facilities of the TSX Venture Exchange. As at December 31, 2006, 177,500 common shares had been purchased by the Company at a cost of \$248,120. These shares have been cancelled from treasury effective January 5, 2007. An additional 89,100 common shares were purchased at a cost of \$130,367 subsequent to year-end and have been cancelled from treasury effective January 15, 2007.

The Company has a revolving credit facility of \$500,000 with a Canadian bank. As at December 31, 2006, no amounts had been drawn on the credit facility.

**Transactions with Related Parties**

During the year ended December 31, 2006, the Company utilized legal services totaling \$74,213 (2005 – \$57,785) plus applicable taxes, which were provided by a firm in which a Director of the Company is a partner. These services were measured at fair market value. As at December 31, 2006, \$21,414 (2005 – \$13,866) was payable, inclusive of applicable taxes.

During the year ended December 31, 2006, the Company utilized consulting services totaling \$63,934 (2005 – \$13,287) plus applicable taxes, which were provided by a firm owned by the spouse of a Director of the Company. These services were measured at fair market value. As at December 31, 2006, \$38,224 (2005 – \$1,436) was payable, inclusive of applicable taxes.

During the year ended December 31, 2006, the Company paid a Director \$107,740 (2005 – \$75,000) for consulting services associated with the ongoing development of the business strategy for the United States.

**Critical Accounting Estimates**

The Company's significant accounting policies are detailed in Note 2 of the December 31, 2006 audited consolidated financial statements which are incorporated herein by reference. 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. On the basis of consecutive quarters of increasing profitability from 2004 through 2006 and the Company's forecasts of operating results for the foreseeable future, it has determined that it is more likely than not that a portion of the future income tax assets will be realized.

In evaluating the realizability of the future income tax asset, the financial results of the last four financial quarters are used as a key indicator. In addition, 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 are inherent in estimating the realizability of the future tax benefits.

**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, 2006, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Solium is made known to them for disclosure purposes.

It should be noted that while the Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

## **Internal Controls over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer of Solium are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of the internal controls over financial reporting was assessed as of December 31, 2006. Management has identified certain material weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of accounting staff at Solium, it was not possible to achieve a segregation of duties; and
- b) Due to the legacy systems that were established at Solium when it was a smaller company, Solium did not have a sophisticated accounting system in place with strong user security controls.

These weaknesses in Solium's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement in financial reporting by segregating duties as much as possible under the current circumstances. Improvements over these weaknesses are expected during 2007 through the hiring of additional staff and the implementation of a new accounting system. In spite of management's best efforts, there can be no assurance that the risk of material misstatement can be reduced to less than a remote likelihood.

## **Business Prospects and Outlook**

### ***Business Prospects***

During 2006, 23 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, 2006, the Company had in progress 19 corporate plans with approximately \$600,000 in expected annualized access fee revenue being implemented onto Shareworks™. Implementation of these plans is expected to be completed throughout the first half of 2007.

As at December 31, 2006, monthly access fees were distributed in the following geographic locations: 60% from Alberta based clients (2005 – 57%), 23% from Ontario based clients (2005 – 28%), 10% from Quebec based clients (2005 – 6%), 5% from British Columbia based clients (2005 – 7%), and 2% from U.S. based clients (2005 – 2%).

### ***U.S. Market***

The Company is continuing to develop its operations in the U.S. with a measured increase in investment in people and infrastructure to fulfill execution of the Company's strategic plan.

In 2006, the Company initiated a marketing program focused on increasing market awareness of the Solium brand in the U.S., establishing a value proposition for prospective clients, and creating demand for the Company's products and services.

During the year, Solium increased the size of the development team to accommodate continued enhancement of the Shareworks™ application to support U.S. plan administration requirements. Functionality required to administer U.S. based stock option plans was released in the fourth quarter of 2006.

The Company currently has direct sales capability in the U.S. with the addition of the Vice President, Sales in the second quarter of 2006. One corporate client was implemented onto Solium's application in the fourth quarter of 2006 with expected annualized access fee revenue of approximately \$20,000. As at December 31, 2006, an additional two clients with approximately \$30,000 in expected annualized access fee revenue were in implementation. Implementation of these plans is expected to be completed during the first half of 2007.

In addition to direct sales efforts, 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, issuable in series. As at the date of this MD&A, there were 28,337,299 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 options outstanding to acquire 3,276,999 common shares.

### **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 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.

## 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.



**Jeff English**

*President & Chief Executive Officer*

*April 9, 2007*



**Lynn Leong, CA**

*Chief Financial Officer*

## AUDITORS' REPORT

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

We have audited the consolidated balance sheets of **Solium Capital Inc.** as at December 31, 2006 and 2005 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, 2006 and 2005 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 16, 2007*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

<i>Years Ended December 31,</i>	<b>2006</b>	2005
	\$	\$
<b>Revenue</b>		
Stock option services	<b>3,824,107</b>	3,005,272
Share purchase services	<b>4,466,607</b>	3,107,255
Consulting services	<b>405,070</b>	99,650
	<b>8,695,784</b>	6,212,177
<b>Expenses</b>		
Salaries and wages <i>(Note 8)</i>	<b>4,140,524</b>	2,980,008
General and administrative	<b>2,185,128</b>	1,707,091
Amortization	<b>252,725</b>	175,161
Debenture interest <i>(Note 10(d))</i>	–	28,870
	<b>6,578,377</b>	4,891,130
<b>Earnings before taxes</b>	<b>2,117,407</b>	1,321,047
<b>Income taxes</b> <i>(Note 9)</i>		
Current	–	–
Future income tax recovery	<b>360,000</b>	450,000
	<b>360,000</b>	450,000
<b>Net earnings</b>	<b>2,477,407</b>	1,771,047
<b>Deficit, beginning of year</b>	<b>(7,699,081)</b>	(9,470,128)
<b>Deficit, end of year</b>	<b>(5,221,674)</b>	(7,699,081)
<b>Net earnings per share</b>		
Basic	<b>0.087</b>	0.062
Diluted	<b>0.083</b>	0.060

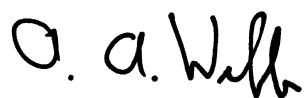
*See Notes to the Consolidated Financial Statements*

## CONSOLIDATED BALANCE SHEETS

December 31,	2006 \$	2005 \$
<b>Assets</b>		
Current		
Cash	3,074,767	1,478,400
Accounts receivable	1,663,623	982,360
Prepaid expenses	218,956	134,759
Future income taxes (Note 9)	810,000	450,000
	5,767,346	3,045,519
Future income taxes (Note 9)	11,572	–
Capital assets (Note 3)	534,062	469,159
	<b>6,312,980</b>	<b>3,514,678</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	1,174,011	823,033
Current portion of deferred revenue	85,699	81,010
Current portion of deferred tenant inducement (Note 4)	35,000	35,000
	1,294,710	939,043
Deferred tenant inducement (Note 4)	154,564	189,560
Deferred revenue	92,680	114,173
	1,541,954	1,242,776
Commitments (Note 11 and 14)		
<b>Shareholders' Equity</b>		
Share capital (Note 6)	9,780,085	9,703,725
Contributed surplus (Note 7)	460,735	267,258
Shares held for cancellation (Note 6)	(248,120)	–
Deficit	(5,221,674)	(7,699,081)
	4,771,026	2,271,902
	<b>6,312,980</b>	<b>3,514,678</b>

See Notes to the Consolidated Financial Statements

APPROVED BY THE BOARD:



**Anthony Webb**  
Director



**Michael Broadfoot**  
Director

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	<b>2006</b>	2005
	\$	\$
Cash flows related to the following activities:		
<b>Operating</b>		
Net earnings	2,477,407	1,771,047
Items not affecting cash:		
Future income taxes	(360,000)	(450,000)
Amortization of capital assets	252,725	175,161
Stock-based compensation expense <i>(Note 8)</i>	216,587	152,284
Amortization of tenant inducement <i>(Note 4)</i>	(34,996)	(20,415)
Loss on disposal of capital assets	-	9,517
	<b>2,551,723</b>	1,637,594
Future income taxes <i>(Note 9)</i>	(11,572)	-
Changes in non-cash working capital <i>(Note 12)</i>	(427,530)	(33,419)
	<b>2,112,621</b>	1,604,175
<b>Financing</b>		
Repayment of demand debentures	-	(500,000)
Issuance of common shares, net of issue costs	53,250	39,943
Purchase of common shares in issuer bid, net of purchase costs	(248,120)	-
Changes in non-cash working capital <i>(Note 12)</i>	15,075	-
	<b>(179,795)</b>	(460,057)
<b>Investing</b>		
Purchase of capital assets	(317,628)	(541,752)
Proceeds on disposal of capital assets	-	180
Tenant inducement <i>(Note 4)</i>	-	244,975
Changes in non-cash working capital <i>(Note 12)</i>	(18,831)	41,672
	<b>(336,459)</b>	(254,925)
<b>Net increase in cash</b>	<b>1,596,367</b>	889,193
<b>Cash, beginning of year</b>	<b>1,478,400</b>	589,207
<b>Cash, end of year</b>	<b>3,074,767</b>	1,478,400

*See Notes to the Consolidated Financial Statements*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

## 1. DESCRIPTION OF BUSINESS

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Solium Capital Inc. (the "Company" or "Solium") is a corporation existing under the laws 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

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### *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 90 days or less at the time of purchase. 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:

Computer equipment	3 years
Furniture and office equipment	5 years
Leasehold improvements	5 to 7 years
Computer software	1 year
Intangibles	2 years
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, 2006, 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 and amortized on a systematic basis, when possible, to the sale or use of the product or process.

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 8. The Company applies the fair value based method of accounting for stock options. Compensation expense is recognized on a straight-line basis over the vesting period of the stock options.

***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, 2006 and 2005.

***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. Significant estimates are used in determining the allowance for doubtful accounts, useful lives of long-lived assets, long-lived asset impairment testing, realization of future tax assets, and valuation of stock-based compensation. Management makes its estimates based on historical experience and on various other assumptions it believes are reasonable. Actual results could differ from these estimates.

**3. CAPITAL ASSETS**

	2006		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computer equipment	561,234	420,540	140,694
Furniture and office equipment	333,370	253,115	80,255
Leasehold improvements	327,156	74,771	252,385
Computer software	207,611	146,883	60,728
Intangibles	152,457	152,457	–
Trademarks	2,823	2,823	–
	<b>1,584,651</b>	<b>1,050,589</b>	<b>534,062</b>

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

	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
Leasehold improvements	327,157	28,263	298,894
Computer software	148,830	127,252	21,578
Intangibles	152,457	152,457	–
Trademarks	2,823	2,823	–
	1,267,024	797,865	469,159

#### 4. DEFERRED TENANT INDUCEMENT

In 2005, the Company undertook certain leasehold improvements on new head 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 was deferred and is being recognized as a reduction of rent during the seven year term of the lease.

#### 5. 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, 2006 and 2005, no amounts had been drawn on the credit facility.

#### 6. SHARE CAPITAL

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

	Number of Shares	Amount \$
<b>Issued – common shares</b>		
Balance, December 31, 2004	28,284,598	<b>9,659,089</b>
Issued on exercise of stock options <i>(Note 8)</i>	159,771	<b>39,943</b>
Adjustment on exercise of stock options <i>(Note 7)</i>	–	<b>4,693</b>
Balance, December 31, 2005	28,444,369	<b>9,703,725</b>
Issued on exercise of stock options <i>(Note 8)</i>	159,530	<b>53,250</b>
Adjustment on exercise of stock options <i>(Note 7)</i>	–	<b>23,110</b>
<b>Balance, December 31, 2006</b>	<b>28,603,899</b>	<b>9,780,085</b>

In December 2006, Solium initiated a Normal Course Issuer Bid through the facilities of the TSX-Venture Exchange. As at December 31, 2006, 177,500 common shares had been purchased by the Company at a cost of \$248,120. These shares were subsequently cancelled from treasury effective January 5, 2007 (see Note 15(a)).

*Earnings per share*

Earnings per common share is calculated by dividing the earnings applicable to common shareholders by the weighted average number of common shares outstanding. The treasury stock method is used to determine the dilutive impact of stock options. This method assumes that any proceeds from the exercise of stock options would be used to purchase common shares at the average market price during the period.

	2006	2005
Weighted average shares outstanding	28,509,105	28,381,923
Effect of dilutive stock options	1,271,756	1,279,386
Diluted weighted average shares outstanding	29,780,861	29,661,309

**7. CONTRIBUTED SURPLUS**

	Amount \$
Balance, December 31, 2004	119,667
Stock-based compensation expense for the year <i>(Note 8)</i>	152,284
Adjustment on exercise of stock options during the year <i>(Note 6)</i>	(4,693)
Balance, December 31, 2005	267,258
Stock-based compensation expense for the year <i>(Note 8)</i>	216,587
Adjustment on exercise of stock options during the year <i>(Note 6)</i>	(23,110)
<b>Balance, December 31, 2006</b>	<b>460,735</b>

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.

**8. 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. 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.

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

The following table summarizes the stock option activity with respect to all of the Company's stock options for the years ended December 31, 2006 and 2005:

	Number of Options	Weighted Average Exercise Price \$
<b>Outstanding options</b>		
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
Granted	570,000	1.25
Exercised	(159,530)	0.33
Forfeited	(189,166)	0.99
<b>Outstanding, December 31, 2006</b>	<b>3,104,499</b>	<b>0.52</b>
<b>Vested options</b>		
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
Vested during the year	706,673	0.37
Exercised	(159,530)	0.33
<b>Vested options, December 31, 2006</b>	<b>1,971,359</b>	<b>0.30</b>

The following table summarizes additional information relating to stock options outstanding and vested as at December 31, 2006:

Exercise Price	Remaining Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Vested	Weighted Average Exercise Price
\$ 0.25	1,524,499	9 months	\$ 0.25	1,504,691	\$ 0.25
\$ 0.26 to \$ 0.50	775,000	29 months	\$ 0.45	441,668	\$ 0.44
\$ 0.51 to \$ 0.75	245,000	39 months	\$ 0.71	25,000	\$ 0.53
\$ 1.00 to \$ 1.25	560,000	51 months	\$ 1.25	-	-
	<u>3,104,499</u>	<u>24 months</u>	<u>\$ 0.52</u>	<u>1,971,359</u>	<u>\$ 0.30</u>

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 chose prospective application of the fair value based method.

In accordance with the provisions of Section 3870, \$216,587 was recorded as total stock-based compensation expense and charged to contributed surplus for the year ended December 31, 2006 (2005 – \$152,284).

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

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:

	2006	2005
Weighted-average fair value (per share) of options granted	\$ 0.9141	\$ 0.8781
Dividend yield	0%	0%
Expected volatility	133.72%	158.47%
Risk-free interest rate	4.14%	3.06%
Expected life	4 years	4 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:

	2006 \$	2005 \$
Net earnings, as reported	2,477,407	1,771,047
Total additional stock-based compensation expense determined under the fair value based method	(9,876)	(27,697)
Pro-forma net earnings	2,467,531	1,743,350
Pro-forma net earnings per share:		
Basic	0.087	0.061
Diluted	0.083	0.059

### 9. INCOME TAXES

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

	2006 \$	2005 \$
Earnings before income taxes	2,117,407	1,321,047
Corporate income tax rate	32.1%	33.62%
Computed income tax provision	679,688	444,136
Increase (decrease) resulting from:		
Non-deductible stock based compensation expense	69,524	51,198
Other expenses not deductible for tax	10,321	4,973
Share issue costs deductible	(1,812)	(35,818)
Benefit of previously unrecorded loss carryforwards	(885,617)	(464,489)
Carryforward of unrecorded loss to future periods	127,896	—
Change in income tax rate for future income taxes	6,840	—
Change in valuation allowance	353,160	450,000
Total income tax recovery	360,000	450,000
Current	—	—
Future	360,000	450,000
	360,000	450,000

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

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

	2006	2005
	\$	\$
Future income tax assets		
Differences in accounting and tax basis of capital assets	69,971	–
Difference in accounting and tax basis of tenant inducement	60,850	75,497
Alternative minimum tax	11,572	
Non-capital loss carryforwards	1,020,098	2,127,946
Capital loss carryforwards	4,615	4,875
Research and development expenditure tax pool	438,267	225,254
Investment tax credits, net	162,777	–
	<b>1,768,150</b>	<b>2,433,572</b>
Future income tax liabilities		
Differences in accounting and tax basis of capital assets	–	2,759
	<b>1,768,150</b>	<b>2,430,813</b>
Valuation allowance	<b>(946,578)</b>	<b>(1,980,813)</b>
Net future income tax assets	<b>821,572</b>	<b>450,000</b>
Current future income tax assets	<b>810,000</b>	450,000
Non-current future income tax assets	<b>11,572</b>	–
	<b>821,572</b>	<b>450,000</b>

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

Expiry	\$
2009	<b>1,117,607</b>
2010	<b>1,349,621</b>
	<b>2,467,228</b>

The Company also has U.S. federal net operating loss carryforwards of approximately \$555,000, which begin to expire in 2025.

The Company has approximately \$1,365,000 in a research and development expenditure tax pool available to offset future Canadian business income.

The Company has approximately \$240,000 in investment tax credits available to offset future Canadian income taxes payable.

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

The Company has paid \$11,572 in alternative minimum tax which is available to offset future income taxes payable in a particular province of Canada.

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

### 10. RELATED PARTY TRANSACTIONS

- a) During the year ended December 31, 2006, the Company utilized legal services totaling \$74,213 (2005 – \$57,785) plus applicable taxes, which were provided by a firm in which a Director of the Company is a partner. These services were measured at fair market value. As at December 31, 2006, \$21,414 (2005 – \$13,866) was payable, inclusive of applicable taxes.
- b) During the year ended December 31, 2006, the Company utilized consulting services totaling \$63,934 (2005 – \$13,287) plus applicable taxes, which were provided by a firm owned by the spouse of a Director of the Company. These services were measured at fair market value. As at December 31, 2006, \$38,224 (2005 – \$1,436) was payable, inclusive of applicable taxes.
- v) During the year ended December 31, 2006, the Company paid a Director \$107,740 (2005 – \$75,000) for consulting services associated with the ongoing development of the business strategy for the United States.
- d) On September 30, 2005, the Company made a final repayment of \$250,000 to the holders of outstanding debentures. 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.

### 11. COMMITMENTS

#### *Operating leases*

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

	\$
2007	192,286
2008	186,641
2009	134,736
2010	139,023
2011	142,086
	<b>794,772</b>

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

	2006 \$	2005 \$
(Increase) decrease in accounts receivable	(681,263)	(513,397)
(Increase) decrease in prepaid expenses	(84,197)	1,246
Increase (decrease) in accounts payable	354,734	397,031
Increase (decrease) in deferred revenue	(16,804)	81,701
Changes in non-cash operating working capital	(427,530)	(33,419)
Increase (decrease) in accounts payable	15,075	–
Changes in non-cash financing working capital	15,075	–
Increase (decrease) in accounts payable	(18,831)	41,672
Changes in non-cash investing working capital	(18,831)	41,672
<b>Total changes in non-cash working capital</b>	<b>(431,286)</b>	<b>8,253</b>

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

### 13. 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 31% (2005 – 41%) 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:

<i>Year ended December 31,</i>	<b>2006</b> \$	2005 \$
<b>Revenue</b>		
Canada	<b>8,400,990</b>	6,169,067
United States	<b>294,794</b>	43,110
	<b>8,695,784</b>	6,212,177
<b>Net earnings (loss) before income taxes</b>		
Canada	<b>2,627,665</b>	1,559,305
United States	<b>(510,258)</b>	(238,258)
	<b>2,117,407</b>	1,321,047
<b>Net earnings (loss)</b>		
Canada	<b>2,987,665</b>	2,009,305
United States	<b>(510,258)</b>	(238,258)
	<b>2,477,407</b>	1,771,047
<b>Capital expenditures</b>		
Canada	<b>316,533</b>	535,035
United States	<b>1,095</b>	6,717
	<b>317,628</b>	541,752
<i>As at December 31,</i>	<b>2006</b> \$	2005 \$
<b>Total assets</b>		
Canada	<b>5,949,247</b>	3,428,783
United States	<b>363,733</b>	85,895
	<b>6,312,980</b>	3,514,678
<b>Capital assets</b>		
Canada	<b>523,953</b>	463,211
United States	<b>10,109</b>	5,948
	<b>534,062</b>	469,159

**14. GUARANTEES**

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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. SUBSEQUENT EVENTS**

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- a) Effective January 5, 2007, the 177,500 common shares purchased pursuant to the Normal Course Issuer Bid initiated in December (see Note 6) were cancelled from treasury. Upon cancellation, \$60,690 has been applied against share capital representing the book value of such shares. The remaining \$187,430 has been applied against contributed surplus.
- b) In January 2007, pursuant to the Normal Course Issuer Bid, the Company purchased a further 89,100 common shares at a cost of \$130,367. These shares were cancelled from treasury effective January 15, 2007. Upon cancellation, \$30,465 has been applied against share capital representing the book value of such shares. The remaining \$99,902 has been applied against contributed surplus.
- c) Subsequent to December 31, 2006, 82,500 stock options with an exercise price of \$1.50 per share, and 90,000 stock options with an exercise price of \$2.18 were granted to certain employees.

## CORPORATE INFORMATION

### OFFICERS

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**Rudolph Bester**

*Vice President, Market Development (Canada)*

**Brian Craig**

*Executive Director*

**June Davenport**

*Chief Products Officer*

**Jeff English**

*President and Chief Executive Officer*

**Lisa Fidaleo**

*Vice President, Sales (U.S.), Solium Capital Ltd.*

**Jeannie Kezama**

*Vice President, Service Operations*

**Lynn Leong**

*Chief Financial Officer*

**Marcos Lopez**

*Executive Vice President,  
Corporate Strategy and Business Development*

**Lance Titchkosky**

*Vice President, Software Development*

**Russ Waterhouse**

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

### DIRECTORS

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**James Aramanda**

*Director,  
Solium Capital Inc.*

**Michael Broadfoot**

*Director,  
Solium Capital Inc.*

**Brian Craig**

*Executive Director,  
Solium Capital Inc.*

**Justin Ferrara**

*Partner,  
Macleod Dixon LLP*

**Russ Waterhouse**

*Director,  
Solium Capital Inc.*

**Anthony Webb**

*Former President and Chief Executive Officer,  
Royal Trust*

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### INVESTOR INFORMATION

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**Transfer Agent**

Valiant Trust Company

**Legal Counsel**

Macleod Dixon LLP

**Auditors**

Deloitte & Touche LLP

**Stock Listing and Symbol**

TSX  
Symbol: SUM

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