



Solium  
CAPITAL

## 2010 First Quarter Report

Leading the Evolution of Global Stock Plan Management



# Management's Discussion and Analysis

For the Quarter Ended March 31, 2010

## Special Note Regarding Forward-Looking Statements

**This Management's Discussion and Analysis ("MD&A") dated as of May 10, 2010, for Solium Capital Inc. ("Solium" or the "Company") should be read in conjunction with the unaudited Consolidated Financial Statements and the accompanying notes for the quarter ended March 31, 2010. 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.**

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include but are not limited to expectations regarding future revenues, earnings, capital expenditures, and operating and other costs; business strategy and objectives; market trends; acquisition and disposition plans; the sufficiency of cash and working capital for future operations; and the timing and the completion of various development projects.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this MD&A, assumptions have been made regarding, among other things, the Company's transition to new products and releases; a continuing increase in the number of customer transactions; the length of the sales cycles; the competitive environment; the ability to maintain or accurately forecast revenue from the Company's products or services; the ability of the Company to identify, hire, train, motivate and retain qualified personnel; currency fluctuations; the ability of the Company to develop, introduce and implement new products as well

as enhancements or improvements for existing products that respond, in a timely fashion, to customer/product requirements and rapid technological change; risks associated with operations; the impact of any changes in the laws and regulations in the jurisdictions in which the Company operates; and the effect of new accounting pronouncements or guidance.

Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements or information because the Company can give no assurance that such expectations will prove to be correct. The forward-looking statements and information are based on Solium's current expectations, estimates and projections, and are subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks and uncertainties include, among others, general business and economic conditions; the overall performance of stock market(s); actions of 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 or information prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company uses future-oriented financial information for budgeting and planning purposes and the information may not be appropriate for other purposes.



## Overall Performance

The first quarter of 2010 was characterized by a moderate recovery of trade activity as the share prices of certain clients gained strength over the prior year. With the increase in transaction volumes, the transaction based revenues that were added to the Company's business model during the previous two years began to exhibit their significance and impact to the profit margin. This factor was the primary contributor to the financial results for the first quarter of 2010 that were the strongest in the history of the Company.

Revenue grew by 21% to \$5.9 million (2009 - \$4.9 million) while expenses grew by 15% to \$4.6 million in the first quarter of 2010 (2009 - \$4.0 million). EBITDA increased by 30% to \$1.4 million in the first quarter of 2010 (2009 - \$1.1 million). After the effect of an income tax provision of \$401,366 (2009 - \$306,073), net earnings for the first quarter of 2010 were \$863,672 (2009 - \$547,578).

Some of the key aspects of the Company's overall performance in the first quarter ended March 31, 2010 were as follows:

- » **Increased trade activity:** Transaction administration revenue was \$1.9 million in the first quarter of 2010 (2009 - \$1.1 million). Transaction fees, along with brokerage access and administration fees, money movement fees and foreign currency margin, all demonstrated growth due to increased trade activity.

Participant trade activity in Canada relative to the number of direct sales participants in the first quarter of 2010 was 85% of the annual average for the previous 5 years.

Included in the transaction administration revenue was brokerage access and administration fees totaling \$498,979 (2009 - \$297,820) in the first three months ended March 31, 2010. Of this amount, \$106,067 was from brokerage partners in the U.S.

- » **Strong organic growth:** The Company continues to experience strong organic growth in the addition of direct sales clients. Canadian plans with annual access fees of approximately \$308,000 (2009 - \$182,000) and U.S. plans with annual access fees of approximately US\$105,000 (2009 - US\$372,000) were implemented onto Shareworks during the first quarter of 2010. New plans were partially offset by client attrition representing annual access fees of approximately \$31,500 in Canada and US\$177,000 in the U.S. The attrition results were attributable to the reorganizations and bankruptcies of a number of clients.

Access fee revenue was \$3.6 million in the first quarter of 2010 (2009 - \$3.4 million). The recurring access fee revenue is largely determined by the number of plan participants and therefore typically are not as variable and volatile as transaction based revenue.

- » **Foreign exchange loss:** The converted value of the Company's U.S. operations is impacted by fluctuations in the U.S. dollar exchange rate relative to the Canadian dollar. In the first quarter of 2010, the Canadian dollar appreciated on average relative to the U.S. dollar. The Company's net earnings were unfavorably impacted by \$56,597 in the first quarter of 2010 (2009 - gain \$105,241) due to the loss associated with the translation of U.S. dollar net monetary assets for presentation in the Company's consolidated balance sheet.
- » **Income taxes:** Positive operating results in the Canadian operations resulted in income tax expense of \$401,366 in the first quarter of 2010 (2009 - \$306,073).

# Summary of Quarterly Results

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

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Grant based participants	174,063	169,140	161,244	160,696	182,672	164,887	162,444	132,660
Share purchase participants <sup>1</sup>	136,217	132,032	123,567	113,673	114,324	108,226	105,695	123,411
Revenues	\$5,874,535	\$5,061,457	\$4,955,850	\$4,801,386	\$4,872,785	\$4,371,511	\$4,162,775	\$4,313,028
Expenses	\$4,609,497	\$4,283,572	\$4,052,400	\$4,261,360	\$4,019,134	\$3,917,753	\$3,972,313	\$3,903,836
EBITDA <sup>2</sup>	\$1,402,940	\$893,228	\$1,078,928	\$723,477	\$1,088,287	\$672,877	\$434,839	\$663,641
Earnings before taxes	\$1,265,038	\$777,885	\$903,450	\$540,026	\$853,651	\$453,758	\$190,462	\$409,192
Net earnings	\$863,672	\$387,058	\$544,271	\$244,067	\$547,578	\$358,173	\$47,595	\$215,974
Per share								
- basic	\$0.028	\$0.012	\$0.018	\$0.008	\$0.018	\$0.012	\$0.002	\$0.007
- diluted	\$0.028	\$0.012	\$0.018	\$0.008	\$0.017	\$0.012	\$0.002	\$0.007

Notes:

- Share purchase participant totals are inclusive of channel participants.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP financial measure which does not have any standardized meaning prescribed by Canadian 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. Management uses EBITDA in measuring the financial performance of the Company as this measure reflects results that are controllable by management in day-to-day operations. Management monitors EBITDA against budget and past results on a regular basis. The measure is a key component in determining the annual bonus pool for staff and management. The following is a reconciliation of EBITDA to net earnings:

The following is a reconciliation of EBITDA to net earnings:

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
EBITDA	1,402,940	893,228	1,078,928	723,477	1,088,287	672,877	434,839	663,641
Interest expense	(5,354)	(8,324)	(11,339)	(14,354)	(19,648)	(29,938)	(36,462)	(41,800)
Amortization	(132,548)	(107,019)	(164,139)	(169,097)	(214,988)	(189,181)	(207,915)	(212,649)
Income tax expense	(401,366)	(390,827)	(359,179)	(295,959)	(306,073)	(95,585)	(142,867)	(193,218)
Net earnings	863,672	387,058	544,271	244,067	547,578	358,173	47,595	215,974

# 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.

## Market Volatility

Transaction administration fees collected from participants upon the exercising of stock based incentive plans or the withdrawal of assets from share purchase plans are variable in nature. The magnitude of transaction administration fees earned in a period is dependent upon such factors as the overall condition of the stock market, the trading price of the shares of a client, the specific vesting terms within a client's plan and other rules stipulated within a client's plan. Capital market conditions were depressed during the last half of 2008 and did not fully recover relative to strike prices in 2009. During the first three months of 2010, the share prices of Solium's clients showed some recovery relative to the strike prices of their stock compensation awards. Participant trade activity in Canada in 2010 relative to the number of direct sales participants was only 64% of the average annual level in 2007, and was 85% of the average annual level for the previous 5 years.

## Brokerage Access and Administration Fees

The Company has agreements in place with its brokerage partners in Canada and the U.S. (the "Brokers") whereby the Brokers pay to Solium administration fees related to their access to Shareworks. The brokerage access and administration fees from the Brokers vary in line with transactional trade activity. Brokerage access and administration fees have totaled \$498,979, \$297,820, \$313,699, and \$328,638 in the previous consecutive four quarters. Of the amount earned in the first quarter of 2010, \$106,067 is related to brokers in the U.S.

# Results from Operations

## Net Financial Results

The Company had earnings before taxes of \$1,265,038 in the first quarter of 2010 (2009 – \$853,651). After the effect of an income tax provision of \$401,366 (2009 - \$306,073), net earnings for the first quarter of 2010 were \$863,672 (2009 – \$547,578).

## Revenue Overview

Gross revenue in the first quarter of 2010 was \$5,874,535 (2009 - \$4,872,785). This represents an increase of \$1,001,750 or 21% over the results from the first quarter of 2009. Revenue from Canadian operations was \$4,229,580 in the first quarter of 2010 (2009 - \$3,469,455), while revenue from US operations was \$1,644,955 in the first quarter of 2010 (2009 - \$1,403,330).

Monthly access fees from direct sales clients were distributed in the following geographic locations:

	As at March 31,	
	2010 %	2009 %
Canada	72	72
United States	28	28
	<b>100</b>	<b>100</b>

The Company continues to experience strong organic growth in the addition of direct sales clients. Canadian plans with annual access fees of approximately \$308,000 (2009 - \$182,000) and U.S. plans with annual access fees of approximately US\$105,000 (2009 - \$372,000) were implemented onto Shareworks during the three months ended March 31, 2010. New plans were partially offset by client attrition representing annual access fees of approximately \$31,500 in Canada (2009 - \$125,000) and US\$177,000 (2009 - \$27,000) in the U.S. The attrition results were attributable to the reorganizations and bankruptcies of a number of clients.

Participant trade activity in Canada during the first quarter of 2010 relative to the number of direct sales participants was 85% of the average 5-year annual historical level. For comparative purposes, the Canadian book of business represents the bulk of the Company's business and can reasonably be assumed to be indicative of the relative transaction activity expected in the Company's overall book of business. Total transaction administration revenue (including transaction administration fees, brokerage access and administration fees, money movement fees, and foreign currency margin) was \$1,920,953 in the first quarter (2009 - \$1,166,382).

StockVantage contributed positively to the Company's results in the first quarter of 2010. As at March 31, 2010, 297 clients with 14,743 participants were using the StockVantage platform contributing \$284,926 of revenue in the first quarter of 2010 (2009 - \$238,688).

The overall increase to revenues from the prior year is attributable to the changes in the following categories:

	Three months ended March 31,	
	2010 \$	2009 \$
<b>Grant based incentives services</b>		
Direct sales		
Access and implementation fees	<b>2,562,095</b>	2,431,071
Transaction administration revenue	<b>1,097,916</b>	749,471
	<b>3,660,011</b>	3,180,542
<b>Share purchase services</b>		
Direct sales		
Access and implementation fees	<b>1,192,348</b>	1,135,142
Transaction administration revenue	<b>823,037</b>	416,911
Channel	<b>62,499</b>	55,573
	<b>2,077,884</b>	1,607,626
Consulting services and special projects	<b>136,640</b>	84,617
	<b>5,874,535</b>	4,872,785

## Grant Based Incentives

Grant based incentives include stock options, share appreciation rights, and share unit plans.

Access and implementation fees from direct sales clients totaled \$2,562,095 in the first quarter of 2010 (2009 - \$2,431,071).

Total transaction administration revenue generated from grant based incentive plans totaled \$1,097,916 in the first quarter of 2010 (2009 - \$749,471).

As at March 31, 2010, the Company had 174,063 grant based incentive plan participants (2009 –182,672) being serviced by the Company. U.S. clients accounted for approximately 60,000 of these participants. The Company implemented six Canadian grant-based incentive plans with approximately 3,027 participants and estimated annual access fees of \$300,000 onto Shareworks and 23 plans with approximately 1,100 participants and estimated annual access fees of \$67,000 onto StockVantage during the first quarter of 2010. Five U.S. grant based incentive plans with approximately 438 participants and estimated annual access fees of \$105,000 were implemented during the first quarter of 2010.

## Share Purchase

Share purchase access and implementation fees from direct sales clients totaled \$1,192,348 in the first quarter of 2010 (2009 - \$1,135,142).

Total transaction administration revenue generated from share purchase plans totaled \$823,037 (2009 - \$416,911) in the first quarter of 2010.

Share purchase channel revenue from GRS Securities totaled \$62,499 in the first quarter of 2010 (2009 - \$55,573).

As at March 31, 2010, the Company had 136,217 share purchase plan participants (2009 – 114,324) being serviced by the Company. 116,203 participants were from direct sales clients (2009 – 103,677) and 20,014 participants (2009 – 10,647) were from the GRS Securities channel relationship. U.S. clients accounted for approximately 20,000 of the direct sales participants. During the first quarter of 2010, the Company implemented one Canadian share purchase plan with approximately 750 participants and estimated annual access fees of \$7,500 onto Shareworks.

## Special Projects

Special projects revenue totaled \$132,702 in the first quarter of 2010 (2009 - \$69,159). Special projects occur as part of the ongoing administration of client plans and include performing tasks associated with special events such as stock splits, or mergers and acquisitions.

## Consulting Services

Consulting services revenue totaled \$3,938 in the first quarter of 2010 (2009 - \$15,458). Consulting services are provided through Solium Equity Consulting Services Inc., a wholly-owned subsidiary that was established in late 2008.

## Expenses Overview

Total operating expenses in the first quarter of 2010 were \$4,609,497 (2009 - \$4,019,134).

Expenses incurred in the U.S. operations were \$1,596,846 in the first quarter of 2010 (2009 - \$1,569,770).

Expenses incurred in connection with StockVantage totaled \$241,676 in the first quarter (2009 - \$146,648).

## Salaries and Wages

Salaries and wages expense was \$3,408,571 in the first quarter of 2010 (2009 - \$2,901,924). The Company ended the first quarter of 2010 with 149 employees (2009 - 128), of which 28 employees were employed by the U.S. operations (2009 – 27).

Stock based compensation expense recognized in the first quarter of 2010 totaled \$192,135 (2009 - \$59,354). RSU grants accounted for \$44,117 of the total stock based compensation for the first quarter of 2010 (2009 - \$1,186). In 2009, stock based compensation expense was decreased by the resignation of the President of the U.S. operations in the middle of January 2009. This change resulted in a reversal of \$100,120 during the first quarter of 2009 of stock based compensation expense previously recognized on his forfeited non-vested stock options.

Bonuses accrued in the first quarter of 2010 totaled \$413,606 (2009 - \$267,915). Bonuses are paid out to staff after the year-end following

finalization of corporate financial performance and review of individual performance. The bonus accrual is adjusted throughout the year as indications of both factors become evident through the year.

## General and Administrative

General and administrative expenses totaled \$1,006,427 in the first quarter of 2010 (2009 - \$987,815). The increase from the prior year is attributable to the changes in the following categories:

	Three months ended March 31,	
	2010 \$	2009 \$
Bad debt	16,502	84,949
Data feeds	36,736	43,464
Directors fees	28,625	21,488
Errors and omissions	44,548	27,625
Insurance	25,840	32,897
IT systems and phones	174,969	137,416
Money movement	93,486	31,851
Professional fees	162,682	172,634
Regulatory compliance	13,999	10,335
Rent and occupancy	187,728	175,634
Travel and entertainment	91,007	130,531
Other	130,305	118,991
	<b>1,006,427</b>	<b>987,815</b>

The decrease to bad debt expense of \$68,447 between the comparable three-month periods of 2009 and 2010 is a reflection of the company's focus on the collection of invoices and reducing its aged receivables.

Money movement costs increased by \$61,635 between the comparable quarters of 2009 and 2010. The increase is due to third party charges relating to the Company's money movement and foreign currency system that was implemented throughout 2009. The money movement costs partially offset the associated revenues which are generated from the Company's new money movement and foreign currency system.

Other general and administrative expenses include, among other things, such costs as office supplies, postage and courier, service charges, business taxes, and marketing and promotion.

## Amortization

Amortization expense was \$132,548 in the first quarter of 2010 (2009 - \$214,988). The decrease between the comparable periods is due to reaching the end of the useful lives of certain assets for accounting purposes.

## Interest on Long-term Debt

Solium obtained a \$3.5 million term loan in 2007 in connection with the acquisition of Solium Capital LLC (formerly known as Allecon Stock Associates LLC). The term loan is due on July 19, 2010, bears interest at the prime rate plus 1% per annum, and is repayable in monthly installments of \$97,223 plus interest. As at March 31, 2010, \$388,864 was outstanding. \$5,354 of interest expense was incurred on this term loan during the first quarter of 2010 (2009 - \$19,648). The average rate of interest for the three months ended March 31, 2010 was 3.25% per annum (2009 - 3.96%).

## Foreign Exchange Loss

A foreign exchange loss of \$56,597 was recorded during the first quarter of 2010 (2009 - gain \$105,241). Foreign exchange risk arises because the amount receivable on revenue or payable on expenditures that are denominated in U.S. dollars (USD) may vary when converted to Canadian dollars (CAD) due to changes in exchange rates arising from timing differences between when the revenue or expense occurs and when actual payment is received or made ("transaction exposures") and because the USD denominated monetary net assets of the Company's U.S. subsidiaries may vary on consolidation and revaluation into CAD ("translation exposure"). The foreign exchange loss during the first quarter of 2010 reflects the weakening of the U.S. dollar against the Canadian dollar during the period. The majority of the foreign exchange loss that the Company experienced was unrealized as it largely resulted from the U.S. dollar denominated net monetary assets being translated to Canadian dollars for presentation in the Company's consolidated balance sheet as at March 31, 2010.

## Income Taxes

\$401,366 of income tax expense was recorded in the first quarter of 2010 (2009 - \$306,073) mainly due to the positive operating results generated in the Canadian operations.

# Financial Condition, Liquidity and Capital Resources

## Cash and Working Capital

Cash on hand as at March 31, 2010 was \$3,783,320 (December 31, 2009 - \$5,871,245). Working capital as at March 31, 2010 was \$5,764,829 (December 31, 2009 - \$4,652,024).

## Cash Flows

Overall, the Company experienced a cash outflow of \$2,087,925 during the first quarter of 2010 (2009 - inflow \$263,415).

2009 performance bonuses for staff and the balance of 2009 income taxes were paid out in the first quarter of 2010 contributing to a usage of cash totaling \$2,911,339 for previously accrued items. Cash generated from operations was \$1,151,153 in the first quarter of 2010 (2009 - \$788,106).

Cash used in financing activities was \$297,510 in the first quarter of 2010 (2009 - usage \$83,419) mainly due to the repayment of long-term debt in the amount of \$291,669.

Cash used in investing activities was \$54,300 in the first quarter of 2010

(2009 - \$28,713) as a result of the purchase of capital assets.

## Liquidity

It is expected that the Company will generate enough cash and working capital from operations to fund ongoing operations and growth strategies. Based on current covenants and commitments, the Company does not foresee any material fluctuations in its liquidity or working capital position and based on the present level of recurring revenue and expenses, does not foresee any significant change to its working capital requirements.

## Contractual Obligations

	Payments Due by Fiscal Period			
	Total	2010	2011	2012
Operating leases	529,624	219,031	226,031	84,562
Long-term debt obligations <sup>1</sup>	388,864	388,864	-	-
<b>Total Contractual Obligations</b>	<b>918,488</b>	<b>607,895</b>	<b>226,031</b>	<b>84,562</b>

1. Long-term debt is due on July 19, 2010 and is repayable in monthly installments of \$97,223

## Capital Expenditures

Capital expenditures of \$290,682 in the first quarter of 2010 (2009 - \$50,756) were comprised of computer hardware, computer software, and office furniture.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities.

## Capital Resources

The Company has a demand operating credit facility of \$1,500,000 available through a Canadian bank. To date, no amounts have been drawn on this credit facility. This facility bears interest at prime rate plus 0.75% per annum. The Company is currently in compliance with the financial covenants associated with this credit facility. Current economic conditions have not caused a change in the company's objectives, policies or procedures for managing capital.

## Share Capital

During the second quarter of 2009, the Company initiated an NCIB program until June 21, 2010. Approval was received from the Toronto Stock Exchange to purchase, for cancellation, up to 502,000 common shares representing 1.6% of the issued and outstanding common shares at the time of approval. Any purchases undertaken are made on the open market through the Toronto Stock Exchange at the market price of such shares at the time of acquisition. 24,700 common shares were purchased during the three months ended March 31, 2010 at a cost of \$31,512. A cumulative total of 143,100 common shares have been purchased up to March 31, 2010 since the inception of the NCIB at a total cost of \$171,942.

## Transactions with Related Parties

The Company utilized legal services for general corporate matters totaling \$50,997 in the first quarter of 2010 (2009 - \$35,906). These services were provided by a firm in which a Director of the Company is a partner and were measured at fair market value. As at March 31, 2010, \$7,008 (2009 - \$22,847) was payable, inclusive of applicable taxes.

## Critical Accounting Estimates

The Company's significant accounting policies are detailed in Note 2 of the December 31, 2009 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, using substantively enacted rates, 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.

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 profitability 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.

### Intangible Assets and Goodwill

Goodwill is not amortized but is evaluated for impairment annually during the fourth quarter or more often if events or circumstances indicate there may be impairment. The impairment test for goodwill is based on a comparison of the carrying amount of the business unit, including the goodwill, with its fair value. When the carrying amount of a business unit exceeds its fair value, any impairment of goodwill is measured by comparing the carrying value of the goodwill with its implied fair value. The implied fair value of goodwill is the excess of the fair value of the business unit over the fair value of its net tangible and other intangible

assets.

Intangible assets with a finite life are amortized over their estimated useful lives and are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to recover its carrying amount.

The valuation approaches used to test for impairment use key judgments and assumptions that are sensitive to change, which include appropriate sales growth rates, operating margins, weighted average costs of capital (WACC), and comparable company market multiples. When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the estimated fair value of the business unit or intangible assets. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and key judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. For example, should a significant or prolonged deterioration in economic conditions occur, key judgments and assumptions could be impacted. A decline in estimated operating income or an increase in WACC or a prolonged decline in market conditions could result in an additional indication of impairment.

The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. At the end of fiscal 2009, the market capitalization of Solium was \$35 million compared to a book value of \$12 million. Consequently, a potential impairment of goodwill and intangible assets was not more than likely.

Based on results of the impairment tests as at December 31, 2009, the carrying values of goodwill for the U.S. operations and intangible assets exceeded their fair values and no impairment existed.

## Changes in Accounting Policies Including Initial Adoption

No changes in accounting policies occurred during the first quarter of 2010.

## Future Accounting Pronouncements

### Financial Instruments - Recognition and Measurement

In June, 2009, the Accounting Standards Board of Canada ("AcSB") released *Embedded Derivatives on Reclassification of Financial Assets*, for amendments to Section 3855, *Financial Instruments – Recognition and Measurement*. The amendment indicates that contracts with embedded derivatives cannot be reclassified out of the held for trading category if the embedded derivative cannot be fair valued. This standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

## Business Combinations

In January 2009, CICA Handbook Section 1582 – *Business Combinations* was issued replacing the former Section 1581 – *Business Combinations*. This section establishes standards for the accounting for a business combination under the acquisition method. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – *Business Combinations*. This new section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company will adopt the new standards for any acquisitions occurring in the fiscal year beginning January 1, 2011.

## Consolidated Financial Statements

In January 2009, CICA Handbook Section 1601 – *Consolidated Financial Statements* was issued which, together with new Section 1602 – *Non-controlling Interests*, replaces the former Section 1600 – *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – *Consolidated and Separate Financial Statements*. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company does not anticipate that these sections will have a material impact on its consolidated financial statements.

## Convergence of Canadian GAAP with International Financial Reporting Standards

The CICA's Accounting Standards Board announced in 2008 that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2011 with appropriate comparative IFRS financial information for 2010.

The Company has identified the following four phases of its conversion plan to IFRS: diagnostic, detailed assessment, solution development, and implementation.

The diagnostic phase has been completed and involved the preliminary identification of the major accounting differences between Canadian GAAP and IFRS that is expected to affect Solium. The detailed assessment phase is currently in progress and involves a more thorough review of the accounting differences identified in the diagnostic phase to quantify the financial statement impact of the differences, evaluate the transitional options available under IFRS at the adoption date, and determine the most appropriate long-term accounting policies when there is a choice available. In addition, internal process, systems and financial reporting control changes required to affect dual reporting in 2010 and full convergence in 2011 are also being reviewed. System changes that require development or purchase will occur in the solution development phase and will progress concurrently with the detailed assessment phase.

Based on work to-date, significant accounting differences which will likely result in adjustments upon adoption of IFRS are as follows:

- » **Business Combinations:** Under IFRS 3, *Business Combinations* ("IFRS 3") business combinations must be accounted for by applying the acquisition method. Shares issued as consideration for a business combination transaction must be measured based on the fair value at the acquisition date. Acquisition-related costs such as finders' fees and legal fees must be expensed at the acquisition date. The acquisition date is defined as the date on which the acquirer obtains control over the acquired entity or business. Under IFRS 1, *First-time Adoption of IFRS* ("IFRS 1"), an entity has the option to retroactively apply IFRS 3 to all business combinations or may elect to apply the standard prospectively only to those business combinations that occur after a chosen date. The Company currently expects to apply the elective exemption for acquisitions that occurred prior to January 1, 2003. Upon transition to IFRS, the Company expects to restate share capital, goodwill and opening retained earnings as a result of applying IFRS 3 to acquisitions that occurred subsequent to January 1, 2003.
- » **Foreign Currency Translation:** Under IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), an entity's functional currency is the currency of the primary economic environment in which it operates. Upon transition to IFRS, it is expected that the functional currency for the Company's U.S. operations will be USD and that translation to CAD on consolidation will occur using the current method whereby all assets and liabilities are translated at the closing rate at the end of the reporting period. Under Canadian GAAP, the Company currently classifies its foreign operations as integrated foreign operations and uses the temporal method of translation whereby monetary items on the balance sheet are translated at the prevailing exchange rate at the end of the reporting period and non-monetary items are translated at the exchange rates prevailing at the transaction dates. Under IFRS 1, an entity has the option to deem the cumulative translation gains or losses at the date of transition to IFRS to be zero. The Company currently expects to apply the elective exemption upon adoption to IFRS.
- » **Share-Based Compensation:** Canadian GAAP allows entities the option of recognizing equity instruments that vest in instalments ("graded vesting") as separate arrangements or as a single pool with a fair value based on the average life of the instruments. Under IFRS 2, *Share-Based Payments* ("IFRS 2"), each instalment must be accounted for as a separate arrangement with its own distinct fair value measurement. Compensation cost for each vesting tranche is recognized over its own distinct vesting period. Under IFRS 1, an entity has the option to not apply IFRS 2 to equity instruments granted on or before November 7, 2002 or which vested before the company's date of transition to IFRS. The Company currently expects to apply the elective exemption upon adoption to IFRS on January 1, 2011.

In addition to the items noted above, there is significantly more disclosure required in many areas, which is not anticipated to have a material impact upon the consolidated financial statements.

The IASB is currently undertaking several IFRS projects which will likely result in significant changes to existing IFRS standards in areas such as financial statement presentation, leases, revenue recognition, post-employment benefits, taxes, and financial instruments. The progress and recommendations of these IASB projects are being monitored closely

to ensure that any potential impacts to the convergence project can be addressed.

The Company continues to assess the impact of IFRS 1 and the differences between Canadian GAAP and IFRS. The above disclosures relating to IFRS are based on management's current interpretation of requirements and may change as new information becomes available.

## Financial Instruments

Exposure to counterparty credit risk, interest rate risk and foreign currency risk arises in the normal course of the Company's business. The Company currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Company's operations.

The Company has credit risk as a result of its trade accounts receivable. The Company mitigates this risk by dealing with financially sound companies and, accordingly, does not anticipate any significant credit losses.

The Company has foreign exchange risk because it is exposed to foreign currency fluctuations due to its operations in the United States.

The Company has interest rate risk because the Company is exposed to fluctuations in interest rates from its long-term debt.

## Disclosure Controls

The Company has a Corporate Disclosure Policy in place to ensure that communications with the 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 Executive Vice President (EVP), Finance, and where appropriate, the Board of Directors and/or committees thereof. As at March 31, 2010, the Company's Chief Executive Officer and EVP, Finance 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 EVP, Finance 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 Control Over Financial Reporting

The Chief Executive Officer and EVP, Finance 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.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective based on the criteria established in the *Internal Control – Integrated Framework*. Also, management determined that there were no material weaknesses in Solium's internal control over financial reporting as of December 31, 2009.

No changes were made in the Company's internal control over financial reporting during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Outlook

### Business Prospects

Currently, the Company has approximately 18,000 participants and \$735,000 in expected annualized access fee revenue in the implementation pipeline.

### U.S. Market

Approximately 3,800 of the above-mentioned participants awaiting implementation are from U.S. based clients. Approximately \$300,000 of expected annualized access fee revenue is estimated from these U.S. based clients. As the Company gains success in the U.S. marketplace, management expects that direct sales in the U.S. will continue to be an increasing proportion of the Company's overall business.

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

In April 2010, the Company launched Shareworks DIRECT ("DIRECT") in the U.S. market. DIRECT is a self-serve alternative for clients to administer corporate stock incentive plans. The product allows companies to maintain direct internal control and ownership of their plan's administration, while allowing full access to real-time recordkeeping capabilities and online participant execution through Solium's brokerage partners.

### StockVantage Inc.

Since March 31, 2010, StockVantage has added an additional 14 contracts representing approximately 656 participants and \$46,000 in annualized access fee revenue.

## 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 31,112,928 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 2,119,453 options outstanding.

Employees have been granted rights to receive common shares under a share award incentive plan. As at the date of this MD&A, there were 516,190 restricted share units 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 risks that could affect the Company have been described in the MD&A of the Company for the year ended December 31, 2009. The risks identified therein do not constitute an exhaustive list of all possible risks as there may be additional risks of which management is currently unaware of. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on the business could be materially different from anticipated.

# Interim Consolidated Financial Statements

For the three months ended March 31, 2010

UNAUDITED



## Auditor's Review of Interim Financial Statements

FOR THE THREE MONTHS ENDED MARCH 31, 2010

The interim consolidated financial statements for the period ended March 31, 2010 have not been reviewed by the Company's auditors, Deloitte & Touche LLP. The Company did not engage its auditors to provide a Review Engagement Report on the interim financial statements, and therefore, no such report was issued by the auditors for the period ended March 31, 2010.

**Jeff English**  
President & Chief Executive Officer

**Lynn Leong**  
Executive Vice President, Finance & Administration

## Consolidated Statements of Earnings, Comprehensive Income and Deficit

UNAUDITED

	Three Months Ended	
	March 31, 2010 \$	March 31, 2009 \$
<b>REVENUE</b>		
Grant based incentive services	3,660,011	3,180,542
Share purchase services	2,077,884	1,607,626
Consulting services and special projects	136,640	84,617
	<b>5,874,535</b>	<b>4,872,785</b>
<b>EXPENSES</b>		
Salaries and wages	3,408,571	2,901,924
General and administrative	1,006,427	987,815
Amortization of capital assets	91,069	120,593
Amortization of intangible assets	41,479	94,395
Interest on long-term debt	5,354	19,648
Foreign exchange loss (gain)	56,597	(105,241)
	<b>4,609,497</b>	<b>4,019,134</b>
<b>EARNINGS BEFORE TAXES</b>	<b>1,265,038</b>	<b>853,651</b>
<b>INCOME TAX EXPENSE</b>		
Current income tax expense	429,798	306,818
Future income tax (recovery) expense	(28,432)	(745)
	<b>401,366</b>	<b>306,073</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>863,672</b>	<b>547,578</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(1,580,142)</b>	<b>(3,303,116)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>(716,470)</b>	<b>(2,755,538)</b>
<b>NET EARNINGS PER SHARE</b>		
Basic	<b>0.028</b>	0.018
Diluted	<b>0.028</b>	0.017

The accompanying notes are an integral part of these financial statements.

## Consolidated Balance Sheets

	As At	
	March 31, 2010 (unaudited) \$	December 31, 2009 (audited) \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	3,783,320	5,871,245
Accounts receivable	3,565,426	2,628,116
Prepaid expenses	380,627	366,695
Current portion of deferred charges	114,791	120,221
	<b>7,844,164</b>	<b>8,986,277</b>
Future income taxes	105,483	160,167
Deferred charges	160,253	203,105
Capital assets	669,819	470,207
Intangible assets	1,211,369	1,252,848
Goodwill	6,749,081	6,749,081
	<b>16,740,169</b>	<b>17,821,685</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	1,336,472	3,059,021
Current portion of deferred revenue	315,613	557,275
Current portion of deferred tenant inducement	38,927	38,927
Current portion of long-term debt	388,323	679,030
	<b>2,079,335</b>	<b>4,334,253</b>
Deferred revenue	883,987	666,379
Deferred tenant inducement	46,717	56,447
Future income taxes	436,093	519,210
	<b>3,446,132</b>	<b>5,576,284</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 3)	12,503,716	12,472,447
Contributed surplus	1,506,791	1,353,096
Deficit	(716,470)	(1,580,142)
	<b>13,294,037</b>	<b>12,245,401</b>
	<b>16,740,169</b>	<b>17,821,685</b>

APPROVED BY THE BOARD:

*O. a. Webb*

**Anthony Webb**  
Director

*M. Broadfoot*

**Michael Broadfoot**  
Director

## Consolidated Statements of Cash Flows

UNAUDITED

	Three Months Ended	
	March 31, 2010 \$	March 31, 2009 \$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net earnings	863,672	547,578
Adjustments for items not involving cash:		
Future income taxes	(28,432)	(26,947)
Amortization of capital assets	91,069	120,593
Amortization of intangible assets	41,479	94,395
Stock-based compensation expense	192,135	59,354
Amortization of tenant inducement	(9,732)	(9,737)
Deferred financing costs	962	2,870
	<b>1,151,153</b>	<b>788,106</b>
Future income taxes	-	16,844
Changes in non-cash working capital	(2,910,009)	(413,352)
	<b>(1,758,856)</b>	<b>391,598</b>
<b>FINANCING</b>		
Repayments of long-term debt	(291,669)	(291,669)
Issuance of common shares (Note 3)	24,341	208,250
Purchase of common shares in issuer bid (Note 3)	(31,512)	-
	<b>(298,840)</b>	<b>(83,419)</b>
<b>INVESTING</b>		
Purchase of capital assets	(290,682)	(50,756)
Changes in non-cash working capital	236,382	22,043
	<b>(54,300)</b>	<b>(28,713)</b>
Effect of foreign exchange on cash held in foreign currency	24,071	(16,051)
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(2,087,925)</b>	<b>263,415</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>5,871,245</b>	<b>2,249,317</b>
<b>CASH, END OF PERIOD</b>	<b>3,783,320</b>	<b>2,512,732</b>
<b>Supplemental cash flow information:</b>		
Interest paid	4,579	17,785
Income taxes paid	1,189,574	174,775

The accompanying notes are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements (Unaudited)

## 1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of Solium Capital Inc. (the "Company" or "Solium") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements, and do not include all of the disclosures normally found in the annual financial statements for the Company. These interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2009.

The preparation of interim financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and the accompanying notes. Actual results could differ from these estimates and the operating results for the interim period presented are not necessarily indicative of the results expected for the full year.

These interim financial statements have been prepared on a basis consistent with the audited financial statements for the year ended December 31, 2009.

## 2. ACCOUNTING CHANGES

### Future Accounting Pronouncements

There have been no new accounting pronouncements issued since December 31, 2009 that are expected to have a significant impact to the Company's financial statements.

## 3. SHARE CAPITAL

	Number of Shares	Amount \$
<i>Issued - common shares</i>		
Balance, December 31, 2009	31,105,279	12,472,447
Issued on exercise of stock options (Note 4)	25,000	18,750
Issued on exercise of share units (Note 4)	6,578	5,591
Adjustment on exercise of stock options	-	16,808
Shares purchased in issuer bid	(24,700)	(9,880)
<b>Balance, March 31, 2010</b>	<b>31,112,157</b>	<b>12,503,716</b>
	<b>March 31, 2010</b>	March 31, 2009
Weighted average shares outstanding	31,095,061	31,073,679
Effect of dilutive stock options	58,210	260,121
Diluted weighted average shares outstanding	31,153,271	31,333,800

During the three months ended March 31, 2010, the Company purchased 24,700 common shares at a cost of \$31,512 in the open market as a result of its Normal Course Issuer Bid. \$9,880 has been applied against share capital representing the book value of such shares. The remaining \$21,632 was applied against contributed surplus.

## 4. STOCK-BASED COMPENSATION

Stock option activity with respect to the Company's stock option plan for the three months ended March 31, 2010 is shown below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, December 31, 2009	2,184,623	2.00
Granted	13,580	1.39
Exercised	(25,000)	0.75
Forfeited	(23,750)	1.79
<b>Outstanding, March 31, 2010</b>	<b>2,149,453</b>	<b>2.01</b>

As at March 31, 2010, 517,592 restricted share unit awards ("RSUs") were outstanding to employees of StockVantage Inc. ("StockVantage"), a wholly-owned subsidiary of the Company. Payment in respect of the share units is made by delivering common shares of the Company on the vesting dates. On March 31, 2010, 9,285 RSUs had vested. 6,578 common shares were issued in connection with this vesting, and 2,707 RSUs were forfeited in lieu of the income tax withholdings remitted in cash by the Company to tax authorities on behalf of the employees.

## 5. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

- » Maintain financial flexibility in order to preserve its ability to meet financial obligations, including potential obligations arising from additional acquisitions;
- » Deploy capital to provide an appropriate investment return to its shareholders; and
- » Maintain a capital structure that allows multiple financing options to the Company should a financing need arise.

The Company defines its capital as shareholders' equity and long-term debt, including the current portion.

	March 31, 2010 \$	December 31, 2009 \$
Shareholders' equity	13,294,037	12,245,401
Long-term debt (principal payments outstanding)	388,864	680,533
<b>Total capital</b>	<b>13,682,901</b>	<b>12,925,934</b>

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, or raise debt.

The Company periodically monitors capital as required under the financial covenants of its credit facility using the following financial metric:

- » Total debt to EBITDA (earnings before interest, taxes, depreciation and amortization)

Total debt is the balance of principal payments outstanding on long-term debt (including the current portion). EBITDA, a non-GAAP measure, is calculated as earnings from operations plus interest, taxes, depreciation and amortization.

The following table illustrates the financial ratios calculated on a trailing twelve-month basis ended March 31, 2010 compared to fiscal 2009:

	Guidelines	Twelve months ended	
		March 31, 2010	December 31, 2009
Net earnings from operations		2,039,068	1,722,974
Plus:			
interest		39,371	53,665
amortization		572,803	655,243
income tax expense		1,447,331	1,352,038
EBITDA		4,098,573	3,783,920
Long-term debt (including the current portion)		388,864	680,533
EBITDA		4,098,573	3,783,920
Total Debt to EBITDA	Less than 3:1	0.09	0.18

The financial covenants in the Company's credit facility arrangements are measured on a quarterly basis. The Company is in compliance with all financial covenants.

The Company believes that its ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives.

## 6. FINANCIAL INSTRUMENTS

	March 31, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
Cash equivalents	3,783,320			5,871,245		
Accounts receivable	3,565,426			2,628,116		
Accounts payable and liabilities	1,336,472			3,059,021		
Long-term debt	388,323			679,030		

The three levels of the fair value hierarchy are described as follows:

- Level 1:** Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2:** Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3:** Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

## 7. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

Exposure to credit risk, interest rate risk, foreign currency risk and liquidity risk arises in the normal course of the Company's business. The Company currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Company's operations.

### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company has credit risk as a result of its accounts receivable. The Company mitigates this risk by dealing with financially sound companies and, accordingly, has not experienced significant credit losses in the past. In the three months ended March 31, 2010, the Company recorded \$16,448 in bad debt expense.

Total accounts receivable (net of allowances) held by the Company at March 31, 2010 amounted to \$3,565,426. Allowances are provided against accounts receivable based on estimated unrecoverable amounts. In determining the recoverability of an account receivable, the Company considers the client's financial position, service history and payment history.

Accounts receivable consist of a large number of customers, spread across diverse industries. The Company does not have significant credit risk exposure to any single counterparty. Of the accounts receivable balance at March 31, 2010, \$157,704 is due from the Company's largest direct sales client. No other customer had an outstanding balance greater than 5% of the total balance of accounts receivable.

As at March 31, 2010, accounts receivable totaled \$2,556,250 in Canada and \$1,009,176 in the U.S.

Aging of trade accounts receivable that are past due but not impaired:

	March 31, 2010	December 31, 2009
	\$	\$
61 - 90 days	24,558	146,423
91 - 120 days	40,603	52,193
Greater than 120 days	29,436	65,062
Total	94,597	263,678

The balance in allowance for doubtful accounts as at March 31, 2010 was \$Nil (December 31, 2009 - \$Nil).

### Interest Rate Risk

The Company is exposed to interest rate risk because the cash flows associated with its floating rate long-term debt will fluctuate with changes in Canadian interest rates.

Increases of 0.5% in annual Canadian interest rates would have had an adverse effect on earnings before taxes of approximately \$479 for the three months ended March 31, 2010. This calculation is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole period.

## Foreign Currency Risk

The Company operates in Canada and the United States. The functional currency of the parent company is Canadian dollars (CAD) and the reporting currency is CAD. Foreign exchange risk arises because the amount receivable on revenue or payable on expenditures that are denominated in U.S. dollars (USD) may vary when converted to Canadian dollars (CAD) due to changes in exchange rates arising from timing differences between when the revenue or expense occurs and when actual payment is received or made ("transaction exposures") and because the USD denominated monetary net assets of the Company's U.S. subsidiaries may vary on consolidation and revaluation into CAD ("translation exposure").

The carrying amounts of the Company's USD denominated monetary assets and monetary liabilities at March 31, 2010 is as follows:

	March 31, 2010 USD	December 31, 2009 USD
Monetary assets	1,791,748	1,248,956
Monetary liabilities	133,563	360,241
Net monetary assets exposed to foreign currency risk	1,658,185	888,715

Based on the balance of net monetary assets as at March 31, 2010 an increase of 1% in the exchange rate of USD to CAD would, everything else being equal, have had a positive effect on earnings before taxes for the three months ended March 31, 2010 of approximately \$16,582.

## Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its obligations as they come due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents balances and through the availability of funding from committed credit facilities. As at March 31, 2010, the Company had cash of \$3,783,320 on hand and a \$1.5 million credit facility available to be drawn against.

The following are the contractual maturities of financial liabilities as at March 31, 2010:

	Carrying Amount	Contractual Cash Flows	0 to 6 months	6 to 12 months	After 12 months
Accounts payable and accrued liabilities	1,336,472	1,336,472	1,336,472	-	-
Long-term debt	388,323	388,864	388,864	-	-
Total	1,724,795	1,725,336	1,725,336	-	-

Management believes that future cash flows from operations and availability under existing banking arrangements will be adequate to support these financial liabilities.

## 8. SEGMENTED INFORMATION

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

	Three months ended	
	March 31, 2010 \$	March 31, 2009 \$
<b>Revenue</b>		
Canada	4,229,580	3,469,455
United States	1,644,955	1,403,330
	5,874,535	4,872,785
<b>Earnings (loss) before income taxes</b>		
Canada <sup>(a)</sup>	1,216,929	1,020,091
United States <sup>(a)</sup>	48,109	(166,440)
	1,265,038	853,651
<b>Net earnings (loss)</b>		
Canada <sup>(a)</sup>	802,483	687,816
United States <sup>(a)</sup>	61,189	(140,238)
	863,672	547,578
<b>Capital expenditures</b>		
Canada	280,297	47,828
United States	10,385	2,928
	290,682	50,756

	As At	
	March 31, 2010 \$	December 31, 2009 \$
<b>Total assets</b>		
Canada	6,638,587	8,198,119
United States <sup>(b)</sup>	10,101,582	9,623,566
	16,740,169	17,821,685
<b>Capital assets</b>		
Canada	571,280	368,056
United States	98,539	102,151
	669,819	470,207

a) A formal transfer pricing model was introduced effective January 1, 2009. As a result, \$444,248 (2009 - \$403,357) was charged from the Canadian operations to the U.S. operations for technology and shared operational and development resources in the three months ended March 31, 2010. The financial results for the first quarter of 2010 also included interest charges on intercompany balances due from the U.S. subsidiaries, which total \$113,542 (2009 - \$19,648).

b) Total assets in the U.S. include goodwill resulting from the acquisition of Solium Capital LLC (formerly known as Allecon Stock Associates, LLC).

## 9. SUBSEQUENT EVENTS

- a) Subsequent to March 31, 2010, 31,300 common shares were purchased in the Company's Normal Course Issuer Bid at a cost of \$35,740.
- b) On April 30, 2010, 1,402 RSUs vested. 1,071 common shares were issued in connection with this vesting, and 331 RSUs were forfeited in lieu of income tax withholdings remitted in cash by the Company to tax authorities on behalf of the employees.

# Corporate Information

## Executive Officers

**Rudolph Bester**

Executive Vice President, Sales and Marketing

**June Davenport**

Executive Vice President, Business Integration

**Jeff English**

President and Chief Executive Officer and Managing Director

**Jeannie Kezama**

Executive Vice President, Service Operations

**Lynn Leong**

Executive Vice President, Finance and Administration

**Marcos Lopez**

Managing Director

## Solium Capital LLC

**Vincent Alessi**

Vice President

**Stephanie Ceglia**

Vice President, Strategic Integration - U.S.

**Chris Groot and Pam Ellis**

Vice President and General Manager

## StockVantage Inc.

**Kobe Davis**

Vice President, Development

**Chris Groot**

Vice President, Sales and Marketing

## Solium Equity Consulting Services Inc.

**Jim McBride**

Managing Principal

## Directors

**Michael Broadfoot**

Managing Director, Solium Capital Inc.

**Brian Craig**

Managing Director, Solium Capital Inc.

**Michael Deleray**

Partner, Bendigo Partners, LLC.

**Jeff English**

President and CEO and Managing 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

## Investor Information

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**Legal Counsel**

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**Stock Listing and Symbol**

TSX

Symbol: SUM

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