

Consolidated Financial Statements of

BELZBERG TECHNOLOGIES INC.

December 31, 2001 and 2000

(in Canadian dollars)

Auditors' Report

To the Shareholders of
Belzberg Technologies Inc.

We have audited the consolidated balance sheets of Belzberg Technologies Inc. (the "Corporation") as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and of cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Corporation'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 and United States 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"

Chartered Accountants

Toronto, Ontario
March 1, 2002

BELZBERG TECHNOLOGIES INC.

Consolidated Balance Sheets

December 31, 2001 and 2000

(in Canadian dollars)

	<u>2001</u>	<u>2000</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 6,361,427	\$ 5,641,924
Accounts receivable (Note 3)	4,715,206	3,718,582
Government assistance receivable	-	1,149,779
Prepaid expenses and other receivables	970,681	316,708
	<u>12,047,314</u>	<u>10,826,993</u>
RESTRICTED CASH (Note 4)	-	81,000
CAPITAL ASSETS (Note 5)	4,647,962	3,751,182
GOODWILL, net of accumulated amortization of \$142,838 and \$47,711, respectively (Note 6)	755,239	800,350
	<u>\$ 17,450,515</u>	<u>\$ 15,459,525</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,961,393	\$ 1,370,967
Consideration payable (Note 6)	362,674	-
Deferred revenue	786,870	1,031,144
Bank loan (Note 8)	633,211	-
Current portion of obligations under capital lease (Note 9)	1,390,296	862,286
	<u>5,134,444</u>	<u>3,264,397</u>
DEFERRED REVENUE	9,224	112,424
OBLIGATIONS UNDER CAPITAL LEASE (Note 9)	1,502,138	1,418,091
	<u>6,645,806</u>	<u>4,794,912</u>
COMMITMENTS (Note 14)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 10)	22,813,253	17,957,181
WARRANTS (Note 10(d))	1,782,900	1,782,900
DEFICIT	(13,791,444)	(9,075,468)
	<u>10,804,709</u>	<u>10,664,613</u>
	<u>\$ 17,450,515</u>	<u>\$ 15,459,525</u>

APPROVED ON BEHALF OF THE BOARD

(signed) "Lawrence J. Cyna" _____ Director

(signed) "Sidney H. Belzberg" _____ Director

BELZBERG TECHNOLOGIES INC.
Consolidated Statements of Operations and Deficit
Years ended December 31, 2001, 2000, and 1999
(in Canadian dollars)

	2001	2000	1999
REVENUE	\$ 24,460,071	\$ 11,951,029	\$ 5,904,099
COST OF REVENUE	10,512,684	4,529,979	2,172,738
GROSS MARGIN	13,947,387	7,421,050	3,731,361
OPERATING EXPENSES			
Sales and marketing	5,071,933	2,721,046	1,874,096
Research and development			
Expenditures	3,061,699	2,010,663	1,794,081
Government assistance	-	(1,149,779)	-
Administration	6,582,597	2,676,014	2,356,019
	14,716,229	6,257,944	6,024,196
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE UNDERNOTED ITEMS	(768,842)	1,163,106	(2,292,835)
Amortization	1,799,338	841,279	219,591
Write-down of leasehold improvements	153,195	-	112,500
Interest expense	466,048	166,393	25,123
Stock exchange listing costs	-	525,198	-
Interest income	(311,965)	(226,993)	-
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,875,458)	(142,771)	(2,650,049)
INCOME TAXES (Note 11)	15,685	5,063	9,019
LOSS FROM CONTINUING OPERATIONS	(2,891,143)	(147,834)	(2,659,068)
LOSS FROM DISCONTINUED OPERATIONS (Note 7)	(1,193,301)	(198,228)	-
NET LOSS	(4,084,444)	(346,062)	(2,659,068)
DEFICIT, BEGINNING OF YEAR	(9,075,468)	(8,729,406)	(6,070,338)
PREMIUM ON REPURCHASE OF COMMON SHARES (Note 10(a))	(631,532)	-	-
DEFICIT, END OF YEAR	\$(13,791,444)	\$ (9,075,468)	\$ (8,729,406)
LOSS PER SHARE FROM CONTINUING OPERATIONS			
Basic and diluted	\$ (0.26)	\$ (0.02)	\$ (0.38)
LOSS PER SHARE			
Basic and diluted	\$ (0.37)	\$ (0.04)	\$ (0.38)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES	10,998,383	9,635,780	7,015,635

BELZBERG TECHNOLOGIES INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2001, 2000 and 1999
(in Canadian dollars)

	2001	2000	1999
CASH PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES			
Loss from continuing operations	\$(2,891,143)	\$ (147,834)	\$(2,659,068)
Items not affecting cash			
Amortization of capital assets	1,646,540	793,568	219,591
Amortization of goodwill	152,798	47,711	-
Amortization of gain on sale and leaseback of capital assets	(104,684)	(28,370)	-
Write-down of leasehold improvements	153,195	-	112,500
Services rendered for capital stock consideration (Note 10)	-	200,000	-
Changes in non-cash working capital items (Note 12)	1,055,293	(4,974,393)	898,384
	11,999	(4,109,318)	(1,428,593)
INVESTING ACTIVITIES			
Purchase of capital assets	(1,466,424)	(1,295,030)	(582,592)
Proceeds from disposal of capital assets	-	767,020	-
Acquisitions, net of cash acquired (Note 6)	(683,440)	(183,050)	-
	(2,149,864)	(711,060)	(582,592)
FINANCING ACTIVITIES			
Note payable	-	-	1,154,640
Repayment of note payable	-	(1,154,640)	-
Repayment of obligations under capital lease	(1,122,347)	(815,322)	(146,213)
Proceeds from bank loan	744,442	-	-
Repayment of bank loan	(111,231)	-	-
Net proceeds from issuance of common shares	4,698,991	7,588,241	321,775
Proceeds from the exercise of stock options	205,000	3,210,000	775,757
Repurchase of common stock	(816,011)	-	-
Proceeds on issuance of warrants	-	1,782,900	-
	3,598,844	10,611,179	2,105,959
NET INCREASE IN CASH FROM CONTINUING OPERATIONS	1,460,979	5,790,801	94,774
NET CASH UTILIZED BY DISCONTINUED OPERATIONS	(741,476)	(131,833)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	719,503	5,658,968	94,774
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING OF YEAR	5,641,924	(17,044)	(111,818)
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), END OF YEAR	\$ 6,361,427	\$ 5,641,924	\$ (17,044)
CASH EQUIVALENTS:			
Cash	\$ 4,705,375	\$ 1,962,776	\$ -
Short-term investments	1,656,052	3,679,148	-
	\$ 6,361,427	\$ 5,641,924	\$ -
SUPPLEMENTAL CASH FLOW INFORMATION			
Value of share capital issued for acquisitions of subsidiaries	\$ -	\$ 675,000	\$ -
Value of share capital issued for services	\$ -	\$ 200,000	\$ -
Value of share capital recorded for compensation expense (Note 6)	\$ 136,560	\$ 56,940	\$ -
Acquisition of capital assets with debt	\$ 1,212,681	\$ 2,686,533	\$ -
Interest paid	\$ 466,048	\$ 166,393	\$ 104,365
Income taxes paid	\$ 7,632	\$ -	\$ 9,019

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

1. DESCRIPTION OF BUSINESS

Belzberg Technologies Inc. and its wholly-owned subsidiaries (the "Corporation" or "Belzberg") is a leading provider of trade execution, order management and routing software for the financial industry. The Corporation's customers, who include both broker-dealers and their customers, use Belzberg trading software to buy and sell equities and stock options on a variety of stock exchanges, electronic markets known as ECNs, and NASDAQ market makers. Belzberg products enable traders to execute and manage large volumes of transactions at high speed, with reliability and security.

The Corporation also operates a floor brokerage that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

The Corporation's name was changed from Belzberg Financial Markets & News International Inc. to Belzberg Technologies Inc. in July 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies. A reconciliation of the differences between Canadian GAAP and GAAP in the United States of America ("U.S. GAAP") is presented in Note 18.

Consolidation

The consolidated financial statements of the Corporation include the accounts of Belzberg Technologies Inc. and its wholly-owned subsidiaries, Belzberg Financial Markets & News Inc., Belzberg Technologies (USA) Inc., eContracts, Inc., Electronic Brokerage Systems, Inc., Belzberg Technologies (Philadelphia) Inc., Belzberg Technologies (UK) Limited and Robert C. Sheehan & Associates, Inc. All intercompany transactions and balances have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents includes short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives at the following rates:

Furniture and equipment	-	10 year straight-line
Computer equipment	-	3 year straight-line
Computer equipment under capital lease	-	3 year straight-line
Leasehold improvements	-	lesser of straight-line over term of lease and useful life

The gain on sale and lease-back of computer equipment is recorded as deferred revenue and is amortized on a straight-line basis over the term of the lease.

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in business combinations accounted for as purchases. Amortization is recorded on a straight-line basis over seven years.

The Corporation reviews the carrying value of goodwill for potential impairment on an ongoing basis. In order to determine if such a permanent impairment exists, management considers projected future earnings before income taxes, cash flows and market-related values of the acquired businesses. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment occurs.

In 2001, The Canadian Institute of Chartered Accountants (CICA) approved a new Handbook Section 3062 - Goodwill and Other Intangible Assets. Intangible assets other than goodwill acquired in a business combination or other transaction after June 30, 2001 are to be amortized based on the useful life to an enterprise, unless the life is determined to be indefinite in which case the intangible asset will not be amortized. Goodwill acquired in a business combination after June 30, 2001 should not be amortized. Existing goodwill at June 30, 2001 continued to be amortized until December 31, 2001. Effective January 1, 2002 all goodwill will no longer be required to be amortized but will be subject to an annual impairment test in accordance with the provisions of this Section.

Revenue recognition and deferred revenue

The Corporation's revenues are derived primarily from:

- (i) Subscription fees - the provision of the Corporation's routing software and services, on a flat fee per terminal or per month basis, used for equity and option trading ;
- (ii) Transaction fees - the provision of the Corporation's routing software and services, on a per share/option or per trade basis used for equity and option trading;
- (iii) Commission income - fees for the execution of exchange traded equity and index options from the floor brokerage business;
- (iv) Software development and installation revenue - the development and installation of software for equity and options trading execution; and
- (v) Other revenue - the distribution of financial information and other services.

The Company recognizes revenue from subscription fees and from transaction fees in accordance with American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition* as amended. Revenue is recognized from subscription fees and transaction fees on a monthly basis as the services are provided once a contract has been signed, the software has been delivered and accepted, and collectibility is assured.

Commission income from the floor brokerage operation is recognized once the trades have been executed and collectibility is assured.

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

Revenue derived from the development and installation of software for equity and options trading execution is recognized on a percentage of completion basis.

Revenue from the distribution of financial information and other services is recognized on a monthly basis as the services are provided once a contract has been signed and collectibility is assured.

Deferred revenue represents billings in advance of the provision of services.

Research and development and government assistance

The Corporation expenses research and development costs as incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Government assistance for research and development is recognized when earned and when the amount and timing of realization is reasonably determinable.

At December 31, 2000, the Government of Canada completed their assessment of the Corporation's claims for assistance comprised of scientific research and experimental development tax credits and agreed to refund \$1,149,779 related to the taxation years 1996 to 1999. Accordingly, this recoverable amount was recorded in fiscal 2000 and received in fiscal 2001.

Since the Corporation is now a public company as defined in the Income Tax Act of Canada, future tax credits will reduce income taxes otherwise payable rather than result in refunds.

Foreign currency translation

The Corporation's foreign operating subsidiaries are considered to be integrated operations and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities, and average rates for revenues and expenses, except amortization which is translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income.

Current monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Any resulting foreign currency translation gains or losses are included in the consolidated statements of earnings in the current period.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Valuation allowances are established when necessary to reduce future income tax assets to the amounts expected to be realized. Income tax expense consists of the income taxes payable for the period and the change during the period in future income tax assets and liabilities.

Stock-based compensation

The Corporation has a stock-based compensation plan, as described in Note 10. No compensation expense is recognized when stock options are issued. Any consideration paid by employees on the exercise of stock options is credited to share capital.

Fair value, as represented by the most recent stock price at which shares are exchanged in the market place, is used as the basis for recording stock issued as compensation.

Warrants are valued at fair value on the date of issuance using the Black-Scholes pricing model.

The CICA also recently issued new Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions, effective January 1, 2002 and applied to awards granted on or after that date.

Earnings per share

Effective January 1, 2001 the Corporation adopted the CICA standard for calculating earnings per share. This standard adopts the treasury stock method of calculating the dilutive effect of options on earnings per share instead of the imputed earnings approach. The Corporation has adopted this method on a retroactive basis. There was no effect on previous periods reported.

Accounting 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

3. ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts of \$260,679 at December 31, 2001 (2000 – \$52,708).

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

4. RESTRICTED CASH

The Corporation was required to maintain a term deposit of \$81,000 with its bank in order to secure any balance which may have been outstanding from time to time on credit cards issued to employees. The security interest was released and discharged by the bank effective August 8, 2001.

5. CAPITAL ASSETS

	2001		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 534,739	\$ 123,562	\$ 411,177
Computer equipment	1,203,129	732,762	470,367
Computer equipment under capital lease	4,280,810	1,715,211	2,565,599
Leasehold improvements	1,255,505	54,686	1,200,819
	\$7,274,183	\$2,626,221	\$4,647,962

	2000		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 343,894	\$ 77,671	\$ 266,223
Computer equipment	968,520	393,056	575,464
Computer equipment under capital lease	3,160,393	510,935	2,649,458
Leasehold improvements	294,493	34,456	260,037
	\$4,767,300	\$1,016,118	\$3,751,182

In 2000, the Corporation sold and leased-back certain computer equipment. The gain on sale of approximately \$259,000 was recorded as deferred revenue and is amortized on a straight-line basis over the thirty-month period of the lease. The Corporation recognized \$104,684 of the gain in 2001 (2000 - \$28,370).

Amortization of computer equipment under capital lease amounted to \$1,204,276 for the year ended December 31, 2001 (2000 - \$428,536; 1999 - \$59,356).

6. ACQUISITIONS

2001 Acquisition

On April 1, 2001 the Corporation acquired all of the outstanding common shares of Robert C. Sheehan & Associates, Inc. for consideration of \$1,687,631 cash. As of December 31, 2001, \$362,674 of the cash consideration remained payable to the vendor, which was subsequently paid in January 2002. In addition, 153,000 options were granted to certain employees at the fair market value on the date of grant. These options are included in Note 10(e).

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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(in Canadian dollars)

6. ACQUISITIONS (continued)

The acquisition was recorded as follows:

Accounts receivable	\$ 786,300
Cash	670,063
Office furniture and equipment	18,558
Other assets	11,585
Accounts payable and accrued liabilities	(188,302)
Goodwill	417,973
Cost of acquisition	\$1,716,177
<hr/>	
Consideration paid	
Cash	\$1,324,957
Due to vendor	362,674
Acquisition costs	28,546
	\$1,716,177

2000 Acquisitions

On July 7, 2000, the Corporation acquired all of the outstanding common shares of eContracts, Inc. ("eContracts") for consideration of \$150,000 cash plus the issuance of up to 46,500 common shares at \$9 per share. Of the share consideration, 25,000 shares were issued to December 31, 2000, and the issuance of the remaining shares were contingent upon the vendor remaining employed by the Corporation as follows:

	<u>Common Shares</u>
December 31, 2001	12,500
July 31, 2002	9,000
Total	21,500

The Corporation was recording the compensation expense relating to these shares over the period of the employment agreement. On September 30, 2001 the Corporation ceased the operations of eContracts and issued the 21,500 shares to the vendor resulting in compensation expense of \$136,560 being recorded in the current fiscal year (December 31, 2000 - \$56,940). This compensation expense is included in the loss from discontinued operations (Note 7) and in share capital (Note 10).

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

6. ACQUISITIONS (continued)

The acquisition was recorded as follows:

Office furniture and equipment	\$ 9,989
Goodwill	367,957
Cost of acquisition	\$ 377,946
Consideration paid	
Cash	\$ 150,000
25,000 common shares	225,000
Acquisition costs	2,946
	\$ 377,946

On July 17, 2000, the Corporation acquired the remaining 25% minority interest in Electronic Brokerage Systems, Inc. from an individual, who holds options in Belzberg Technologies Inc., in return for the issuance of 50,000 common shares having a market value of \$9 per share. The exchange amount represents the value agreed to by the Corporation and the shareholder. Allocation of the purchase price based on the fair values of the net assets acquired resulted in the recording of goodwill of \$480,104 including acquisition costs of \$30,104.

7. DISCONTINUED OPERATIONS

On September 30, 2001 the Corporation ceased operations of its wholly-owned subsidiary, eContracts, Inc., a developer and supplier of on-line procurement and supply chain integration solutions. Accordingly, the Corporation's consolidated financial statements for all periods presented have been reclassified to reflect eContracts as a discontinued business segment in accordance with CICA Section 3475.

Summarized financial information for the discontinued operation is as follows:

	Years ended December 31,		
	2001	2000	1999
Revenues	\$ 30,668	\$ -	\$ -
Loss before the following	746,451	141,288	-
Stock compensation expense (Note 6)	136,560	56,940	-
Impairment charge for goodwill	310,290	-	-
Net loss from discontinued operations	\$ 1,193,301	\$ 198,228	\$ -
Assets and liabilities			
Current assets	\$ 26,450	\$ 28,555	\$ -
Capital assets	\$ -	\$ 8,589	\$ -
Goodwill, net of accumulated amortization of \$18,247	\$ -	\$ 349,710	\$ -
Current liabilities	\$ 14,418	\$ 8,459	\$ -

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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8. BANK LOAN

The Corporation has a demand operating facility of \$1 million Canadian that may be used to finance corporate requirements and an additional \$625,000 U.S. that may be used to finance leasehold improvements. In 2001 the Corporation used \$744,442 of the Canadian facility, repayable in blended monthly payments of principal and interest of approximately \$31,000. The loan bears interest at the bank's prime rate plus 1.125%. The loan is secured by a general security agreement on the Corporation's assets. The agreement requires that the Corporation maintain a minimum tangible net worth of \$10 million.

9. OBLIGATIONS UNDER CAPITAL LEASE

The Corporation is committed to the following minimum payments under capital lease obligations:

	<u>2001</u>	<u>2000</u>
2001	\$ -	\$1,210,542
2002	1,710,448	1,065,510
2003	1,215,244	577,479
2004	391,588	-
	<u>3,317,280</u>	<u>2,853,531</u>
Less interest portion at average annual rates of approximately 11%	424,846	573,154
	<u>2,892,434</u>	<u>2,280,377</u>
Less current portion	1,390,296	862,286
	<u>\$1,502,138</u>	<u>\$1,418,091</u>

Interest expense on capital lease obligations amounted to \$451,573 for the year ended December 31, 2001 (2000 - \$166,393; 1999 - \$25,123).

BELZBERG TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000
(in Canadian dollars)

10. CAPITAL STOCK AND STOCK OPTIONS

All references to common shares reflect a five for one split which occurred in July 2000. The following summarizes authorized and issued capital stock:

Authorized

Unlimited number of common shares

Issued

	Common Shares	
	Number	Amount
Balance, January 1, 2000	7,703,590	\$ 6,227,000
Issue of common shares for cash	2,013,800	7,974,241
Share issuance costs	-	(386,000)
Issue of common shares in connection with acquisition of eContracts, Inc. (Note 6)	25,000	225,000
Compensation expense (Note 6)	-	56,940
Issue of common shares in connection with acquisition of Electronic Brokerage Systems, Inc. (Note 6)	50,000	450,000
Exercise of options for cash	899,000	3,210,000
Issue of common shares for services rendered	40,000	200,000
Balance, December 31, 2000	10,731,390	17,957,181
Issue of common shares for cash	333,334	5,000,000
Share issuance costs	-	(301,009)
Exercise of options for cash	66,600	205,000
Compensation expense (Note 6)	21,500	136,560
Repurchase of common shares for cancellation	(91,900)	(184,479)
Balance, December 31, 2001	11,060,924	\$22,813,253

- (a) On January 26, 2001, the Corporation received a private placement of \$5 million for the issuance of 333,334 common shares from treasury and issued 30,000 options at the fair market value on the date of grant. During the year ended December 31, 2001, the Corporation, pursuant to a Normal Course Issuer Bid, repurchased and cancelled 91,900 common shares for a total cash consideration of \$816,011. The excess of the purchase cost of these shares over their historical carrying value (\$631,532) was charged to the deficit.
- (b) In February 2002, The Toronto Stock Exchange approved a Normal Course Issuer Bid for the Corporation to repurchase up to 553,000 of its common shares over the ensuing year.
- (c) The Corporation has a stock option plan under which the board of directors may grant to employees, officers, directors and consultants stock options to purchase from treasury up to 6,000,000 common shares of the Corporation of which 5,993,750 at December 31, 2001 (2000 – 4,788,500) have been granted net of cancellations.

BELZBERG TECHNOLOGIES INC.
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10. CAPITAL STOCK AND STOCK OPTIONS (continued)

- (d) There was a total of 1,800,000 share purchase warrants issued in 2000 for proceeds of \$1,782,900 in relation to the private placements as follows:

Number of Warrants	Price of Common Share to be Purchased Per Warrant	Expiry Date
650,000	\$ 4.00	February 10, 2005
600,000	10.00	February 14, 2003
500,000	5.00	February 14, 2005
50,000	7.76	March 31, 2002
1,800,000	\$ 6.38 (weighted average)	

- (e) Summarized information relative to the Corporation's stock option plan is as follows:

	2001	Weighted Average Exercise Price	2000	Weighted Average Exercise Price
Options outstanding, beginning of year	3,889,500	\$ 6.83	3,397,500	\$ 4.38
Options granted	1,582,050	6.05	1,391,000	10.58
Options exercised	(66,600)	3.08	(899,000)	3.57
Options cancelled	(376,800)	9.98	-	-
Options outstanding, end of year	5,028,150	\$ 6.44	3,889,500	\$ 6.83
Options exercisable, end of year	3,597,067	\$ 6.17	3,130,500	\$ 6.11

BELZBERG TECHNOLOGIES INC.
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10. CAPITAL STOCK AND STOCK OPTIONS (continued)

(f) The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Life (*)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$3.00 - \$5.00	3,338,650	5.29	\$ 4.64	2,504,400	\$ 4.71
\$5.50 - \$9.00	1,127,500	4.00	7.83	762,000	7.86
\$10.00 - \$18.00	562,000	4.31	14.32	330,667	13.38
	5,028,150	4.89	\$ 6.44	3,597,067	\$ 6.17

(*) Weighted average contractual remaining life in years.

11. INCOME TAXES

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to income before taxes for the following reasons:

	2001	2000	1999
Loss before income taxes	\$ (4,068,759)	\$ (340,999)	\$ (2,650,049)
Combined basic federal and provincial rates	41.75%	43.90%	44.62%
Benefit based on statutory income tax rate	(1,698,707)	(149,700)	(1,182,450)
Decrease in tax benefit resulting from:			
Losses and temporary differences incurred in the year not tax affected	1,668,900	124,900	1,182,450
Permanent differences	29,807	24,800	-
U.S. corporate and minimum tax	15,685	5,063	9,019
	\$ 15,685	\$ 5,063	\$ 9,019

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11. INCOME TAXES (continued)

The Corporation has accumulated income tax losses of approximately \$12,059,000 as at December 31, 2001 that may be used to reduce future taxable income. The benefit of these losses has not been reflected in these financial statements. The loss carryforwards expire as follows:

	<u>Canada</u>	<u>United States</u>	<u>Total</u>
2004	\$ 91,000	\$ -	\$ 91,000
2006	1,935,000	-	1,935,000
2007	667,000	-	667,000
2008	872,000		872,000
2011	-	287,000	287,000
2012	-	2,147,000	2,147,000
2018	-	242,000	242,000
2019	-	519,000	519,000
2020	-	2,405,000	2,405,000
2021		2,894,000	2,894,000
	<u>\$ 3,565,000</u>	<u>\$ 8,494,000</u>	<u>\$12,059,000</u>

The Corporation adopted January 1, 2000 the asset and liability method to recognize future tax assets and liabilities. The tax effect of loss carryforwards and significant temporary differences representing future tax assets at December 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Tax benefit of losses carryforward	\$ 4,471,740	\$ 3,189,600
Capital assets	187,165	94,900
Share issue costs	237,203	268,000
Other	213,865	-
Total future tax asset	5,109,973	3,552,500
Valuation allowance	5,109,973	3,552,500
Future tax asset or liability	<u>\$ -</u>	<u>\$ -</u>

The Corporation has determined that realization of the future income tax asset does not meet the "more likely than not" criteria for recognition and therefore a valuation allowance has been recorded against this future income tax asset.

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12. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

The changes in non-cash working capital items consist of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Accounts receivable	\$ (208,195)	\$ (2,309,497)	\$ (250,386)
Government assistance receivable	1,149,779	(1,023,706)	-
Prepaid and other receivables	(642,388)	(208,810)	79,076
Accounts payable and accrued liabilities	917,887	(1,293,244)	713,230
Deferred revenue	(242,790)	(139,136)	356,464
Restricted cash (Note 4)	81,000	-	-
	<u>\$ 1,055,293</u>	<u>\$ (4,974,393)</u>	<u>\$ 898,384</u>

13. RELATED PARTY TRANSACTIONS

During 1999, the Corporation paid rent to a company controlled by certain directors and officers of the Corporation in the amount of \$165,996. No rent was paid to these companies in the years ended December 31, 2001 and December 31, 2000.

Prepaid expenses and other receivables include loans to officers of \$496,636 (2000 - \$18,033) and loans to employees of \$42,492 (2000 - \$3,235) for the purchase of shares in the Corporation. Subsequent to the year-end \$508,104 has been repaid and the remaining loans are due July 2002.

14. COMMITMENTS

The Corporation's commitments, primarily for occupancy costs, require future minimum payments as summarized below at December 31, 2001:

2002	\$ 1,207,274
2003	1,132,234
2004	1,071,326
2005	1,104,510
2006	1,106,820
Thereafter	<u>2,327,624</u>
	<u>\$ 7,949,788</u>

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15. SEGMENTED INFORMATION

The Corporation operates and manages its business in one industry – the financial services sector. The Corporation has two reportable segments being the Core business and the Brokerage business. In the Core business the Corporation creates and provides to institutional customers trade execution software and a network for connecting to various exchanges and other markets in North America. The Brokerage business involves the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 2). The Corporation evaluates performance of the Core business and the Brokerage business based on several factors, of which the primary financial measures are revenue and operating earnings (loss) from continuing operations. The Corporation defines operating earnings (loss) as earnings (loss) from continuing operations before amortization, interest expense, interest income, income taxes and other non-recurring items.

(a) Industry segments

	Year ended December 31, 2001		
	Core	Brokerage	Total
External revenues			
Subscription fees	\$10,595,561	\$ -	\$10,595,561
Transaction fees	8,900,156	-	8,900,156
Commissions	-	3,593,898	3,593,898
Software development and installation	771,996	-	771,996
Other	519,147	79,313	598,460
Total external revenues	\$20,786,860	\$ 3,673,211	\$24,460,071
Operating earnings (loss)			
from continuing operations	\$ (933,546)	\$ 164,704	\$ (768,842)
Amortization			1,799,338
Write-down of leasehold improvements			153,195
Interest expense			466,048
Interest income		-	(311,965)
Loss from continuing operations before income taxes			\$ (2,875,458)
Total assets	\$14,628,382	\$ 2,822,133	\$17,450,515
Capital asset expenditures	2,670,243	8,862	2,679,105
Goodwill additions	-	417,973	417,973

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15. SEGMENTED INFORMATION (continued)

For the years ended December 31, 2000 and 1999 the Brokerage business was not in existence and thus only information relating to the Core business is presented in the following table:

	2000 Core	1999 Core
	<u> </u>	<u> </u>
External revenues		
Subscription fees	\$ 6,080,239	\$ 4,526,458
Transaction fees	3,276,096	643,227
Software development and installation	2,059,348	667,150
Other	535,346	67,264
Total external revenues	\$ 11,951,029	\$ 5,904,099
Operating earnings (loss) from continuing operations	\$ 1,163,106	\$ (2,292,835)
Amortization	841,279	219,591
Write-down of leasehold improvements	-	112,500
Interest expense	166,393	25,123
Stock exchange listing costs	525,198	-
Interest income	(226,993)	-
Loss from continuing operations before income taxes	\$ (142,771)	\$ (2,650,049)
Total assets	\$ 15,459,525	\$ 2,869,254
Capital asset expenditures	3,981,563	582,592
Goodwill additions	480,104	-

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15. SEGMENTED INFORMATION (continued)

(b) Geographic segments

The Corporation's external revenues by geographic region are based on the region in which the revenue is transacted. The total assets and capital assets are based on the geographic area in which the Corporation operates:

	2001		
	Canada	United States	Total
External revenues			
Subscription fees	\$ 6,511,498	\$ 4,084,063	\$ 10,595,561
Transaction fees	1,336,558	7,563,598	8,900,156
Commissions	-	3,593,898	3,593,898
Software development and installation	446,895	325,101	771,996
Other	489,850	108,610	598,460
Total external revenues	\$ 8,784,801	\$ 15,675,270	\$ 24,460,071
Total assets	\$ 8,512,615	\$ 8,937,900	\$ 17,450,515
Capital assets	\$ 3,745,797	\$ 902,165	\$ 4,647,962
	2000		
	Canada	United States	Total
External revenues			
Subscription fees	\$ 3,213,497	\$ 2,866,742	\$ 6,080,239
Transaction fees	558,018	2,718,078	3,276,096
Software development and installation	1,782,546	276,802	2,059,348
Other	523,371	11,975	535,346
Total external revenues	\$ 6,077,432	\$ 5,873,597	\$ 11,951,029
Total assets	\$ 11,831,898	\$ 3,627,627	\$ 15,459,525
Capital assets	\$ 3,112,179	\$ 639,003	\$ 3,751,182
	1999		
	Canada	United States	Total
External revenues			
Subscription fees	\$ 2,012,436	\$ 2,514,022	\$ 4,526,458
Transaction fees	202,527	440,700	643,227
Software development and installation	415,400	251,750	667,150
Other	50,011	17,253	67,264
Total external revenues	\$ 2,680,374	\$ 3,223,725	\$ 5,904,099
Total assets	\$ 2,067,073	\$ 802,181	\$ 2,869,254
Capital assets	\$ 958,500	\$ 186,698	\$ 1,145,198

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16. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Accounts receivable, government assistance receivable, accounts payable and accrued liabilities and bank loan are all short-term in nature and, as such, their carrying values approximate fair value. Other financial instruments are recorded at amounts which approximate fair value.

Foreign currency risk

The Corporation operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Corporation does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

Interest rate risk

The Corporation is subject to interest rate risk on its short-term investments. Fluctuations in interest rates impact the market value of the short-term investments. Any increase or decrease in the market value affects short-term investments to the extent they are converted to cash prior to maturity.

The Corporation is subject to interest rate price risk on the bank loan. The Corporation does not use derivative instruments to reduce its exposure to interest rate risk.

Credit risk

The Corporation is subject to risk of non-payment of accounts receivable. The Corporation mitigates this risk by monitoring the credit worthiness of its clientele monthly as subscription and transaction fees are generated. At December 31, 2001, amounts due from five customers accounted for 47.0% of total accounts receivable (December 31, 2000 – two customers for 26.8%). For the year ended December 31, 2001, one customer accounted for approximately 10% of total revenues (December 31, 2000 – one customer for approximately 16%).

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

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18. UNITED STATES ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with Canadian GAAP, which conform in all material respects applicable to the Corporation with those in the United States during the periods presented except with respect to the following:

- (a) On June 29 2001, the Financial Accounting Standard Board (“FASB”) approved for issuance Statement of Financial Accounting Standards (“SFAS”) No. 141, “*Business Combinations*” and SFAS No. 142, “*Goodwill and Other Intangible Assets*”. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the pooling-of-interests will be prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon the adoption of this Statement which, for the Corporation will be January 1, 2002; however, for any acquisitions completed after June 30, 2001, goodwill and intangible assets with an indefinite life will not be amortized.

The FASB approved for issuance SFAS 143 “*Accounting for Asset Retirement Obligations*” and SFAS 144 “*Accounting for the Impairment or Disposal of Long-Lived Assets*”. The Corporation has determined that the adoption of these standards will not have an impact on the Corporation.

- (b) Under Canadian GAAP, there is no requirement to record compensation expense on the issue of stock options to employees or directors.

Under U.S. GAAP, SFAS No. 123, “*Accounting for Stock-based Compensation*”, establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by the Statement, the Corporation has elected to follow the intrinsic value method of accounting for stock-based compensation arrangements with employees, as provided for in APB Opinion No. 25. During the year ended December 31, 2001 and 2000, certain compensatory stock options were issued to consultants. The estimated fair market value of the options is recorded as deferred stock compensation expense (recovery) and is amortized into earnings over the life of the options.

For purposes of reconciliation to U.S. GAAP, the estimated fair market value of \$2,207,908 (2000 - \$5,398,607) would be recorded as additional paid-in capital and deferred stock compensation and the related amortization of the deferred stock compensation expense of \$1,861,237, for the year ended December 31, 2001 (2000 – \$460,841) would be recorded as a recovery (expense) in the statement of operations. The fair market value of the options issued in connection with the private placement were recorded as a reduction of capital stock with a corresponding increase in additional paid in capital. The fair value of the options was estimated as at the date of the option grants using the Black-Scholes option pricing model with the following weighted average assumptions for the measurement dates: risk-free interest rates of 2.5% to 4.9% (2000 - 5.94%), expected life of the options of 1.89 to 5 years (2000 – 5 years); expected volatility of 34% (2000 – 35%) and a dividend yield of zero (2000 – zero).

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18. UNITED STATES ACCOUNTING PRINCIPLES (continued)

- (c) Under U.S. GAAP, government research and development assistance would be recorded as a reduction of the income tax provision. Canadian GAAP requires the assistance to be recorded as a reduction of research and development expense.

In 2000, the Corporation recorded government research and development assistance of \$1,149,779. There was no research and development assistance recorded during the years ended December 31, 2001 and 1999.

- (d) The Corporation has presented the costs incurred in the stock exchange listing, amortization, interest expense, interest income and the write-down of leasehold improvements as other items in the income statement. Under U.S. GAAP, these costs would be included in administrative expenses within operating expenses.
- (e) The following table reconciles the net loss for the year ended December 31, 2001 and 2000 with that which would have been reported had the financial statements been presented in accordance with U.S. GAAP. There were no material adjustments to report for the year ended December 31, 1999.

	<u>2001</u>	<u>2000</u>
Net loss in conformity with Canadian GAAP	\$ (4,084,444)	\$ (346,062)
Stock compensation expense, included in administrative expenses (Note 18(b))	1,861,237	460,841
Net loss in conformity with U.S. GAAP	\$ (5,945,681)	\$ (806,903)
Loss per share from continuing operations		
Basic and diluted – U.S. GAAP	\$ (0.43)	\$ (0.06)
Loss per share		
Basic and diluted – U.S. GAAP	\$ (0.54)	\$ (0.08)

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18. UNITED STATES ACCOUNTING PRINCIPLES (continued)

(e) (continued)

Had the financial statements been prepared in accordance with U.S. GAAP, the amounts on the balance sheet as at December 31, 2001 and 2000 which differ from those reported under Canadian GAAP would be as follows:

December 31, 2001	Canadian GAAP	Adjustment	U.S. GAAP
Shareholders' equity			
Capital stock	\$ 22,813,253	\$ (188,891)	\$ 22,624,362
Warrants	1,782,900	-	1,782,900
Deferred stock compensation	-	(1,855,575)	(1,855,575)
Additional paid in capital	-	4,366,544	4,366,544
Deficit	(13,791,444)	(2,322,078)	(16,113,522)
	\$ 10,804,709	\$ -	\$ 10,804,709

December 31, 2000	Canadian GAAP	Adjustment	U.S. GAAP
Shareholders' equity			
Capital stock	\$ 17,957,181	\$ -	\$ 17,957,181
Warrants	1,782,900	-	1,782,900
Deferred stock compensation	-	(4,937,766)	(4,937,766)
Additional paid in capital	-	5,398,607	5,398,607
Deficit	(9,075,468)	(460,841)	(9,536,309)
	\$ 10,664,613	\$ -	\$ 10,664,613

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18. UNITED STATES ACCOUNTING PRINCIPLES (continued)

- (f) Under U.S. GAAP the statement of cash flows for the year ended December 31, 2001 and 2000 would report the same amount for cash used in operating activities as reported under Canadian GAAP as follows:

	<u>2001</u>	<u>2000</u>
Operating activities		
Net loss	\$ (5,945,681)	\$ (806,903)
Loss from discontinued operations	1,193,301	198,228
Items not affecting cash		
Amortization of capital assets	1,646,540	793,568
Amortization of goodwill	152,798	47,711
Amortization of gain on disposal of capital assets	(104,684)	(28,370)
Services rendered for capital stock consideration	-	200,000
Write-down of leasehold improvements	153,195	-
Amortization of stock based compensation	1,861,237	460,841
Change in non-cash working capital items	1,055,293	(4,974,393)
	<u>\$ 11,999</u>	<u>\$ (4,109,318)</u>

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18. UNITED STATES ACCOUNTING PRINCIPLES (continued)

(g) Under U.S. GAAP, Consolidated Statements of Shareholders' Equity are also presented as follows:

	Number of Common Shares	Number of Warrants	Amount	Additional Paid-in Capital	Deferred Stock Compensation	Deficit	Total
Balance, December 31, 1999	7,703,590	-	\$ 6,227,000	\$ -	\$ -	\$ (8,729,406)	\$ (2,502,406)
Issuance of common shares							
For cash	2,912,800	-	10,798,241	-	-	-	10,798,241
For acquisition of subsidiaries	75,000	-	675,000	-	-	-	675,000
As compensation expense	40,000	-	200,000	-	-	-	200,000
As compensation expense (Note 6)	-	-	56,940	-	-	-	56,940
Issuance of warrants							
For cash	-	1,800,000	1,782,900	-	-	-	1,782,900
Issuance of compensatory options	-	-	-	5,398,607	(5,398,607)	-	-
Amortization of deferred stock compensation	-	-	-	-	460,841	-	460,841
Net loss	-	-	-	-	-	(806,903)	(806,903)
Balance, December 31, 2000	10,731,390	1,800,000	19,740,081	5,398,607	(4,937,766)	(9,536,309)	10,664,613
Issuance of common shares							
For cash	399,934	-	4,715,100	188,891	-	-	4,903,991
As compensation expense (Note 6)	21,500	-	136,560	-	-	-	136,560
Repurchase of common shares	(91,900)	-	(184,479)	-	-	-	(184,479)
Premium on repurchase of common shares	-	-	-	-	-	(631,532)	(631,532)
Issuance of compensatory options	-	-	-	2,207,908	(2,207,908)	-	-
Amortization (recovery) of deferred stock compensation	-	-	-	(3,428,862)	5,290,099	-	1,861,237
Net loss	-	-	-	-	-	(5,945,681)	(5,945,681)
Balance, December 31, 2001	11,060,924	1,800,000	\$ 24,407,262	\$ 4,366,544	\$ (1,855,575)	\$ (16,113,522)	\$ 10,804,709

19. SUBSEQUENT EVENT

On March 1, 2002, the Corporation ended its relationship with its new president and closed its Philadelphia office. Lease termination and employee severance costs are estimated to be \$900,000.