

Consolidated Financial Statements
(Expressed in Canadian dollars)

BELZBERG TECHNOLOGIES INC.

Years ended December 31, 2002 and 2001



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Belzberg Technologies Inc. as at December 31, 2002 and the consolidated statements of operations and deficit and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2001 and 2000 and for the years then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 1, 2002.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Accountants

Toronto, Canada

February 14, 2003

BELZBERG TECHNOLOGIES INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,088,698	\$ 6,361,427
Accounts receivable	3,149,016	4,715,206
Government assistance receivable (note 1(f))	52,706	—
Prepaid expenses and other receivables (note 10)	663,015	970,681
	<u>16,953,435</u>	<u>12,047,314</u>
Capital assets (note 2)	5,835,643	4,647,962
Goodwill (note 1(d))	755,239	755,239
	<u>\$ 23,544,317</u>	<u>\$ 17,450,515</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,444,773	\$ 1,961,393
Accrued restructuring charges (note 11)	523,986	—
Consideration payable (note 3)	—	362,674
Deferred revenue	9,200	786,870
Bank loan (note 4)	553,706	633,211
Current portion of obligations under capital lease (note 5)	1,617,620	1,390,296
	<u>5,149,285</u>	<u>5,134,444</u>
Deferred revenue	—	9,224
Obligations under capital lease (note 5)	1,208,087	1,502,138
	<u>6,357,372</u>	<u>6,645,806</u>
Shareholders' equity:		
Capital stock (note 6)	34,638,877	22,813,253
Contributed surplus (notes 6 and 7)	315,259	—
Warrants (notes 6 and 7)	2,573,085	1,782,900
Deficit	<u>(20,340,276)</u>	<u>(13,791,444)</u>
	17,186,945	10,804,709
	<u>\$ 23,544,317</u>	<u>\$ 17,450,515</u>

Commitments (notes 5 and 12)
Subsequent events (notes 6(b) and 7(d))

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "Sidney H. Belzberg" _____ Director

(signed) "Alicia Belzberg" _____ Director

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Revenue	\$ 29,593,587	\$ 24,460,071	\$ 11,951,029
Cost of revenue	16,340,800	10,811,573	4,544,357
Gross margin	13,252,787	13,648,498	7,406,672
Expenses (income):			
Sales and marketing	4,208,184	4,381,560	2,405,770
Research and development	5,269,721	3,694,903	2,455,637
Government assistance (note 1(f))	(218,646)	—	(1,149,779)
Administration	6,218,283	6,263,562	2,560,605
Foreign exchange gain	(28,717)	(363,249)	(28,667)
Non-recurring Philadelphia expenses (note 11)	302,053	440,564	—
	15,750,878	14,417,340	6,243,566
Earnings (loss) from continuing operations before undernoted items	(2,498,091)	(768,842)	1,163,106
Amortization	2,248,642	1,799,338	841,279
Write-down of leasehold improvements	—	153,195	—
Interest expense (income), net	227,897	154,083	(60,600)
Stock exchange listing costs	—	—	525,198
Restructuring charges (note 11)	1,533,477	—	—
Loss from continuing operations before income taxes	(6,508,107)	(2,875,458)	(142,771)
Income taxes (note 8)	40,725	15,685	5,063
Loss from continuing operations	(6,548,832)	(2,891,143)	(147,834)
Loss from discontinued operations (note 15)	—	(1,193,301)	(198,228)
Loss for the year	(6,548,832)	(4,084,444)	(346,062)
Deficit, beginning of year	(13,791,444)	(9,075,468)	(8,729,406)
Premium on repurchase of common shares (note 6)	—	(631,532)	—
Deficit, end of year	\$ (20,340,276)	\$ (13,791,444)	\$ (9,075,468)
Loss per share from continuing operations:			
Basic and diluted	\$ (0.52)	\$ (0.26)	\$ (0.02)
Loss per share:			
Basic and diluted	\$ (0.52)	\$ (0.37)	\$ (0.04)
Weighted average number of outstanding common shares	12,490,324	10,998,383	9,635,780

See accompanying notes to consolidated financial statements.

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Cash provided by (used in):			
Operations:			
Loss from continuing operations	\$ (6,548,832)	\$ (2,891,143)	\$ (147,834)
Items not involving cash:			
Amortization of capital assets	2,248,642	1,646,540	793,568
Amortization of goodwill	–	152,798	47,711
Gain on sale and leaseback of capital assets (note 2)	(105,082)	(104,684)	(28,370)
Write-down of leasehold improvements	–	153,195	–
Services rendered for capital stock consideration (note 6)	–	–	200,000
Compensation expense of stock options granted to consultants (note 6(f))	11,625	–	–
Change in non-cash operating working capital (note 9)	2,211,887	1,055,293	(4,974,393)
	(2,181,760)	11,999	(4,109,318)
Financing:			
Repayment of note payable	–	–	(1,154,640)
Repayment of obligations under capital lease	(1,712,966)	(1,122,347)	(815,322)
Proceeds from bank loan	255,558	744,442	–
Repayment of bank loan	(335,063)	(111,231)	–
Net proceeds from issuance of common shares (note 6(a))	12,254,853	4,698,991	7,588,241
Proceeds from issuance of warrants (note 6(a))	847,626	–	1,782,900
Proceeds from the exercise of stock options (note 6(d))	6,000	205,000	3,210,000
Repurchase of common shares (note 6)	(208,411)	(816,011)	–
	11,107,597	3,598,844	10,611,179
Investments:			
Purchase of capital assets	(1,835,892)	(1,466,424)	(1,295,030)
Proceeds from disposal of capital assets	–	–	767,020
Acquisitions, net of cash acquired (note 3)	(362,674)	(683,440)	(183,050)
	(2,198,566)	(2,149,864)	(711,060)
Increase in cash and cash equivalents from continuing operations	6,727,271	1,460,979	5,790,801
Cash used by discontinued operations	–	(741,476)	(131,833)
Increase in cash and cash equivalents	6,727,271	719,503	5,658,968
Cash and cash equivalents, beginning of year	6,361,427	5,641,924	(17,044)
Cash and cash equivalents, end of year	\$ 13,088,698	\$ 6,361,427	\$ 5,641,924

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Cash Flows (continued)
(Expressed in Canadian dollars)

Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Represented by:			
Cash	\$ 6,163,407	\$ 4,705,375	\$ 1,962,776
Cash equivalents	6,925,291	1,656,052	3,679,148
	<hr/>	<hr/>	<hr/>
	\$ 13,088,698	\$ 6,361,427	\$ 5,641,924
Supplemental cash flow information:			
Value of share capital:			
Issued for acquisition of subsidiaries (note 6)	\$ –	\$ –	\$ 675,000
Issued for services (note 6)	–	136,560	256,940
Compensation options issued to consultants (note 6(f))	31,000	–	–
Compensation options issued on private placement (note 6(a))	310,538	–	–
Acquisition of capital assets with capital leases	1,600,431	1,212,681	2,686,533
Interest received	245,604	311,965	–
Interest paid	473,501	466,048	166,393
Income taxes paid	17,761	7,632	–

See accompanying notes to consolidated financial statements.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

Belzberg Technologies Inc. and its wholly owned subsidiaries (the "Corporation") 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.

1. 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) Consolidation:

The consolidated financial statements of the Corporation include the accounts of Belzberg Technologies Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments having an original term to maturity of less than or equal to 90 days.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives at the following terms:

Furniture and equipment	10 years
Computer equipment and software	3 years
Computer equipment and software under capital leases	3 years
Leasehold improvements	Term of lease

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

(d) Goodwill:

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired.

Effective January 1, 2002, the Corporation adopted the new Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3062, Goodwill and Other Intangible Assets ("HB 3062"). Under the new recommendations, goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment is tested by comparing the fair value of goodwill assigned to a particular reporting unit to its carrying value. The Corporation has concluded that no provision for impairment was required at December 31, 2002.

Prior to the adoption of HB 3062, the Corporation reviewed the carrying value of goodwill for potential impairment on an ongoing basis. In order to determine if such a permanent impairment existed, management considered projected future earnings before income taxes, cash flows and market-related values of the acquired businesses.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

Prior to adoption of HB 3062, goodwill was amortized on a straight-line basis over seven years. The following table presents the effect on the prior years as though the Corporation had retroactively adopted the change in accounting policy of not amortizing goodwill:

	2002	2001	2000
Net loss:			
As reported	\$ (6,548,832)	\$ (4,084,444)	\$ (346,062)
Add back goodwill amortization	–	152,798	47,711
Adjusted loss for the year	\$ (6,548,832)	\$ (3,931,646)	\$ (298,351)
Basic and diluted loss per share:			
As reported	\$ (0.52)	\$ (0.37)	\$ (0.04)
Amortization of goodwill	–	0.01	0.01
Adjusted loss for the year	\$ (0.52)	\$ (0.36)	\$ (0.03)

Goodwill as at December 31, 2002 and 2001 was allocated to the Core reporting unit (\$382,049) and the Brokerage reporting unit (\$373,190).

(e) Revenue recognition and deferred revenue:

The Corporation's revenue is derived primarily from:

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

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

Revenue is recognized from subscription fees and transaction fees on a monthly basis as the services are provided once evidence of an arrangement exists, the software has been delivered and accepted, and collectibility is assured.

Transaction fees from the floor brokerage operation are recognized once the trades have been executed and collectibility is assured.

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.

(f) Research and development and government assistance:

The Corporation expenses research and development costs as incurred unless they meet the criteria under 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.

During 2002 the Corporation recognized research and experimental development tax credits of \$218,646 (2001 - nil; 2000 - \$1,149,779) after successfully appealing the 1999 assessment to Canada Customs and Revenue Agency. As at December 31, 2002, \$165,940 of the receivable amount has been refunded in cash with the balance of \$52,706 to be received in 2003.

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.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(g) 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 revenue 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. Revenue 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 operations in the current year.

(h) 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.

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 year and the change during the year in future income tax assets and liabilities.

(i) Stock-based compensation:

The Corporation has a stock-based compensation plan, as described in note 6. 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.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

Share purchase warrants are valued at fair value on the date of issuance using the Black-Scholes option pricing model.

Effective January 1, 2002, the Corporation adopted CICA Handbook Section 3870, Stock-based Compensation and Other Stock-Based Payments ("HB 3870"), which establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash and other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments.

The new standard permits the Corporation to continue its existing policy of not recording compensation cost on the grant of stock options to employees but disclosing on a pro forma basis, net earnings and earnings per share had the Corporation adopted the fair value method for accounting for options granted to employees. No restatement of prior periods is required as a result of the adoption of the new standard. Refer to note 6 for the disclosure required by the new standard.

(j) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options, if dilutive ("dilutive securities"). The number of additional shares is calculated by assuming that outstanding dilutive securities were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(k) Derivative financial instruments:

The Corporation enters into foreign exchange contracts to hedge foreign currency net asset exposures. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. Gains and losses on the foreign exchange contracts are recognized in the consolidated statement of operations and deficit on settlement of the contracts.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(l) Accounting estimates:

The preparation of financial statements in conformity with 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 revenue and expenses during the year. Actual results could differ from such estimates.

2. Capital assets:

2002	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 646,797	\$ 184,115	\$ 462,682
Computer equipment and software	2,695,318	1,110,783	1,584,535
Computer equipment and software under capital lease	5,860,727	3,343,853	2,516,874
Leasehold improvements	1,504,171	232,619	1,271,552
	<u>\$ 10,707,013</u>	<u>\$ 4,871,370</u>	<u>\$ 5,835,643</u>

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

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 \$105,082 of the gain in 2002 (2001 - \$104,684; 2000 - \$28,370).

Amortization of computer equipment and software under capital lease amounted to \$1,628,641 for the year ended December 31, 2002 (2001 - \$1,204,276; 2000 - \$428,536).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

3. Acquisitions:

2001:

On April 1, 2001, the Corporation acquired all of the outstanding common shares of Robert C. Sheehan & Associates, Inc. ("RCS") for consideration of \$1,687,631 cash. The acquisition has been accounted for under the purchase method, whereby the results of operations of RCS are included in the Corporation's results from the date of acquisition. As of December 31, 2001, \$362,674 of the cash consideration remained payable to the vendor, which was subsequently paid in January 2002.

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
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Consideration paid:	
Cash	\$ 1,324,957
Due to vendor	362,674
Acquisition costs	28,546
	<hr/>
	\$ 1,716,177

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

4. Bank loan:

The Corporation has a demand operating facility of \$1,000,000 that may be used to finance corporate requirements and an additional U.S. \$625,000 that may be used to finance leasehold improvements. The Corporation has fully utilized 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 \$10,000,000.

5. Obligations under capital lease:

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

2003	\$ 1,828,155
2004	971,168
2005	319,291
	<hr/> 3,118,614
Less interest at average annual rate of 12%	292,907
	<hr/> 2,825,707
Less current portion	1,617,620
	<hr/> \$ 1,208,087

Interest expense on capital lease obligations amounted to \$415,461 for the year ended December 31, 2002 (2001 - \$451,573; 2000 - \$166,393).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

6. Capital stock and stock options:

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

Authorized:

Unlimited common shares

Issued:

	Number of common shares	Amount	Number of warrants	Amount	Contributed surplus	Deficit	Total
Balance, December 31, 1999	7,703,590	\$ 6,227,000	–	\$ –	\$ –	\$ (8,729,406)	\$ (2,502,406)
Issue of common shares:							
For cash in private placement (6(a))	2,013,800	7,974,241	–	–	–	–	7,974,241
Share issuance costs (6(a))	–	(386,000)	–	–	–	–	(386,000)
For acquisition of subsidiaries (6(a))	75,000	675,000	–	–	–	–	675,000
Exercise of stock options (6(d))	899,000	3,210,000	–	–	–	–	3,210,000
As compensation expense (6(a))	40,000	200,000	–	–	–	–	200,000
As compensation expense (6(a))	–	56,940	–	–	–	–	56,940
Issue of warrants:							
For cash in private placement (6(a))	–	–	1,800,000	1,782,900	–	–	1,782,900
Loss for the year	–	–	–	–	–	(346,062)	(346,062)
Balance, December 31, 2000	10,731,390	17,957,181	1,800,000	1,782,900	–	(9,075,468)	10,664,613
Issue of common shares:							
For cash in private placement (6(a))	333,334	5,000,000	–	–	–	–	5,000,000
Share issuance costs (6(a))	–	(301,009)	–	–	–	–	(301,009)
Exercise of stock options (6(d))	66,600	205,000	–	–	–	–	205,000
As compensation expense (6(a))	21,500	136,560	–	–	–	–	136,560
Repurchase of common shares (6(b))	(91,900)	(184,479)	–	–	–	(631,532)	(816,011)
Loss for the year	–	–	–	–	–	(4,084,444)	(4,084,444)
Balance, December 31, 2001	11,060,924	22,813,253	1,800,000	1,782,900	–	(13,791,444)	10,804,709
Issue of common shares:							
For cash in private placement (6(a))	2,730,000	13,484,874	–	–	–	–	13,484,874
Share issuance costs (6(a))	–	(1,540,560)	–	–	251,979	–	(1,288,581)
Exercise of stock options (6(d))	2,000	6,000	–	–	–	–	6,000
Repurchase of common shares (6(b))	(54,500)	(124,690)	–	–	(83,720)	–	(208,410)
Issue of warrants:							
For cash in private placement (6(a))	–	–	682,504	847,626	–	–	847,626
As compensation expense (6(a))	–	–	44,383	58,559	–	–	58,559
Expiration of warrants (7(b))	–	–	(50,000)	(116,000)	116,000	–	–
Issuance of compensatory options	–	–	–	–	31,000	–	31,000
Loss for the year	–	–	–	–	–	(6,548,832)	(6,548,832)
Balance, December 31, 2002	13,738,424	\$ 34,638,877	2,476,887	\$ 2,573,085	\$ 315,259	\$ (20,340,276)	\$ 17,186,945

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

6. Capital stock and stock options (continued):

(a) 2002 activity

Pursuant to a private placement dated as of April 16, 2002, the Corporation sold 2,730,000 special warrants to investors at a price of \$5.25 per special warrant for gross proceeds of \$14,332,500, less cash issuance costs of \$1,230,022. On June 21, 2002, the Corporation issued 2,730,000 common shares and 682,504 share purchase warrants upon exercise of the special warrants. The fair value of the share purchase warrants was estimated at the date of the grant to be \$847,626 using the Black-Scholes option pricing model and, accordingly, \$847,626 of the gross proceeds has been allocated to share purchase warrants (note 7(a)).

The Corporation also granted to the underwriters compensation options that entitle the holders to purchase 177,450 units at a price of \$5.25 per unit expiring October 16, 2003. Each unit consists of one common share and one-quarter of one share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase an additional common share at a price of \$5.50 per share expiring October 16, 2003. The fair value of the compensation options was estimated at the date of the grant to be \$310,538 using the Black-Scholes option pricing model of which \$58,559 was allocated to the share purchase warrants (note 7(a)) and the balance of \$251,979 allocated to contributed surplus. The fair value of the compensation options has been included in the share issuance costs.

2001 activity

Pursuant to a private placement dated as of January 26, 2001, the Corporation sold 333,334 common shares to an investor at a price of \$15 per common share for gross proceeds of \$5,000,000 less cash issuance costs of \$301,009. The Corporation also issued 21,500 common shares as consideration for services rendered, at a cost of \$136,560.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

6. Capital stock and stock options (continued):

2000 activity

Pursuant to a private placement between February 2000 and March 2000, the Corporation sold 2,013,800 common shares and 1,800,000 share purchase warrants to investors for gross proceeds of \$9,757,141 less cash issuance costs of \$386,000. The fair value of the share purchase warrants was estimated at the date of the grants to be \$1,782,900 using the Black-Scholes option pricing model and accordingly this amount was allocated to share purchase warrants (note 7). The Corporation also issued 25,000 shares at \$9.00 per share as partial consideration for the acquisition of eContracts, Inc. and 50,000 shares at \$9.00 per share for the remaining interest in Electronic Brokerage Systems Inc. As consideration for services rendered, 40,000 shares were issued from treasury at a cost of \$200,000. Compensation expense of \$56,940 relating to contingent consideration on the acquisition of eContracts Inc. was also credited to share capital during the period with the offset to operating expenses.

- (b) During the year ended December 31, 2002, the Corporation, pursuant to a Normal Course Issuer Bid, repurchased and cancelled 54,500 common shares (2001 - 91,900; 2000 - nil) for a total cash consideration of \$208,410 (2001 - \$816,011; 2000 - nil). The excess of the purchase cost of these shares over their carrying value of \$83,720 (2001 - \$631,532) was recorded as a reduction of contributed surplus (2001 - charged to deficit; 2000 - nil).

In February 2003, The Toronto Stock Exchange approved a Normal Course Issuer Bid for the Corporation to repurchase up to 685,000 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 5,032,400 common shares of the Corporation, of which 506,133 (2001 - 6,250; 2000 - 1,211,500) remained available to be issued at year end.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

6. Capital stock and stock options (continued):

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

	2002		2001		2000	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	5,028,150	\$ 6.44	3,889,500	\$ 6.83	3,397,500	\$ 4.38
Granted	521,000	4.64	1,582,050	6.05	1,391,000	10.58
Exercised	(2,000)	3.00	(66,600)	3.08	(899,000)	3.57
Cancelled	(1,020,883)	4.63	(376,800)	9.98	—	—
Outstanding, end of year	4,526,267	6.63	5,028,150	6.44	3,889,500	6.83
Options exercisable, end of year	3,853,050	\$ 6.68	3,597,067	\$ 6.17	3,130,500	\$ 6.11

(e) The following table summarizes information about stock options outstanding at December 31, 2002:

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 3.00 - \$ 5.50	2,848,767	4.30	\$ 4.64	2,418,800	\$ 4.68
\$ 7.00 - \$10.00	1,170,500	2.79	7.94	977,917	7.94
\$12.00 - \$18.00	507,000	3.22	14.79	456,333	14.57
	4,526,267	3.79	6.63	3,853,050	6.68

(f) On March 23, 2002, the Corporation granted certain compensatory stock options to an outside consultant for services to be rendered. The fair value of the options was estimated at the date of the grant to be \$31,000 or \$1.55 per share using the Black-Scholes option pricing model with the following assumptions at the measurement date: (risk-free rate - 4.5%; expected life of the options - 2 years; expected volatility - 51.8%; expected dividend yield - nil).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

6. Capital stock and stock options (continued):

The estimated fair value of the options of \$31,000 was recorded in contributed surplus and is being amortized as compensation expense over the period during which the services are being rendered. As of December 31, 2002, the Corporation has recognized \$11,625 of the compensation expense.

- (g) For stock options granted to employees on or after January 1, 2002, had the Corporation recorded compensation expense based on the fair value of the options at the grant dates, results would have been as follows:

Loss for the year:	
As reported	\$ (6,548,832)
Pro forma	(6,922,312)

Basic and diluted loss per share:	
As reported	\$ (0.52)
Pro forma	(0.55)

The weighted average estimated fair value at the date of the grants for employee options granted for the year ended December 31, 2002 was \$2.07. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement dates:

Risk-free interest rate	4.4%
Expected life of the options	4.6 years
Expected volatility	48%
Expected dividend yield	—

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over their vesting period on a straight-line basis. The pro forma disclosure omits the effect of awards granted before the adoption of HB 3870.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

7. Warrants:

The following summarizes share purchase warrants outstanding:

	2002		2001	
	Number of warrants	Weighted average price per common share to be purchased	Number of warrants	Weighted average price per common share to be purchased
Outstanding, beginning of year	1,800,000	\$ 6.38	1,800,000	\$ 6.38
Granted	726,887	5.50	—	—
Expired	(50,000)	7.76	—	—
Outstanding, end of year	2,476,887	6.10	1,800,000	6.38

- (a) On June 21, 2002, the Corporation issued 682,504 share purchase warrants on the exercise of special warrants granted pursuant to a private placement dated April 16, 2002 (note 6(a)). An additional 44,383 share purchase warrants were granted to the underwriters as part of their compensation options for the private placement (note 6(a)).

Each whole share purchase warrant will entitle the holder to purchase an additional common share at a price of \$5.50 per share expiring October 16, 2003.

- (b) In March 2002, a total of 50,000 share purchase warrants issued in 2000 for proceeds of \$116,000 expired unexercised. Accordingly, \$116,000 has been reclassified from warrants to contributed surplus.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

7. Warrants (continued):

- (c) The following table summarizes information about share purchase warrants outstanding at December 31, 2002:

Number of warrants	Weighted average price of common share to be purchased per warrant	Expiry date
600,000	\$ 10.00	February 14, 2003
726,867	5.50	October 16, 2003
550,000	4.00	February 10, 2005
500,000	5.00	February 14, 2005
100,000	4.00	June 30, 2005
<u>2,476,867</u>	<u>6.10</u>	

- (d) Subsequent to year end, a total of 600,000 share purchase warrants issued in 2000 expired unexercised.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

8. 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:

	2002	2001	2000
Loss before income taxes	\$ (6,508,107)	\$ (4,068,759)	\$ (340,999)
Combined basic federal and provincial rate	38.62%	41.75%	43.90%
Recovery based on statutory income tax rate	\$ (2,513,431)	\$ (1,698,707)	\$ (149,700)
Decrease in tax benefit resulting from:			
Losses and temporary differences incurred in the year not tax-affected	2,486,393	1,668,900	124,900
Permanent differences	27,038	29,807	24,800
U.S. corporate and minimum tax	40,725	15,685	5,063
	\$ 40,725	\$ 15,685	\$ 5,063

The Corporation has accumulated federal income tax losses of \$17,793,000 as at December 31, 2002 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:

	Canada	United States	Total
2006	\$ 803,000	\$ –	\$ 803,000
2007	591,000	–	591,000
2008	893,000	–	893,000
2009	2,100,000	–	2,100,000
2011	–	284,000	284,000
2012	–	2,127,000	2,127,000
2018	–	240,000	240,000
2019	–	514,000	514,000
2020	–	2,382,000	2,382,000
2021	–	3,331,000	3,331,000
2022	–	4,528,000	4,528,000
	\$ 4,387,000	\$ 13,406,000	\$ 17,793,000

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

8. Income taxes (continued):

As at December 31, 2002, the Corporation had an unrecorded investment tax credit of \$296,720 available to offset future federal income tax liabilities. This investment tax credit expires in 2010.

On January 1, 2000, the Corporation adopted the asset and liability method to recognize future tax assets and liabilities. The tax effect of loss carryforwards and significant temporary differences representing future income tax assets at December 31, 2002 and 2001 are as follows:

	2002	2001
Future income tax asset:		
Tax benefit of loss carryforwards	\$ 6,822,571	\$ 4,471,740
Capital assets	235,534	187,165
Share issue costs	535,393	237,203
Research and development tax pool	362,144	—
Other	61,820	213,865
	8,017,462	5,109,973
Less valuation allowance	8,017,462	5,109,973
Future income tax asset	\$ —	\$ —

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

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

9. Change in non-cash operating working capital:

	2002	2001
Accounts receivable	\$ 1,566,190	\$ (208,195)
Government assistance receivable	(52,706)	1,149,779
Prepaid expenses and other receivables	372,849	(561,388)
Accounts payable and accrued liabilities	483,380	917,887
Accrued restructuring charges	523,986	–
Deferred revenue	(681,812)	(242,790)
	<u>\$ 2,211,887</u>	<u>\$ 1,055,293</u>

10. Related party transactions:

Prepaid expenses and other receivables include advances to officers of \$8,386 (2001 - \$496,636) and to employees of \$13,000 (2001 - \$42,492). Subsequent to year end, the employee and officer advances of \$21,386 were repaid.

During 2002, the Corporation purchased services in the amount of \$93,000 from a company of which a director is a principal shareholder. Consulting services from the same director were also purchased for \$261,727. These services were purchased under an arms-length agreement in the normal course of business, and have been recorded at the exchange amount.

11. Restructuring charges:

During the year ended December 31, 2002, the Corporation restructured certain of its finance, administrative and floor broker operations, resulting in a restructuring charge of \$714,355 for employee severances. On March 1, 2002, the Corporation closed its Philadelphia office and ended its relationship with its President and other employees and recorded a restructuring charge of \$819,122 relating to employee severance, lease termination and other costs.

Expenses related to the Philadelphia office prior to its closure were \$302,053 in 2002 (2001 - \$440,564; 2000 - nil).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

12. Commitments:

The Corporation's commitments, primarily for occupancy costs, require future minimum payments, as summarized below at December 31, 2002:

2003	\$ 2,090,227
2004	2,077,580
2005	2,055,620
2006	2,058,714
2007	1,989,772
Thereafter	1,351,540
	<hr/>
	\$ 11,623,453

13. Segmented information:

The Corporation operates and manages its business in one industry - the financial services sector. The Corporation has two reportable segments: 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 significant accounting policies (note 1). 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, net interest expense (income), income taxes and other non-recurring items.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

13. Segmented information (continued):

(a) Industry segments:

2002	Core	Brokerage	Total
External revenue:			
Subscription fees	\$ 10,720,695	\$ —	\$ 10,720,695
Transaction fees	13,406,790	4,468,184	17,874,974
Other	929,035	68,883	997,918
	<u>\$ 25,056,520</u>	<u>\$ 4,537,067</u>	<u>\$ 29,593,587</u>
Operating earnings (loss)			
from continuing operations	\$ (2,879,323)	\$ 381,232	\$ (2,498,091)
Amortization			2,248,642
Restructuring charges			1,533,477
Interest expense, net			227,897
Loss from continuing operations			
before income taxes			<u>\$ (6,508,107)</u>
Total assets	\$ 20,824,471	\$ 2,719,846	\$ 23,544,317
Capital asset expenditures	3,359,558	76,765	3,436,323
Goodwill additions	—	—	—

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

13. Segmented information (continued):

2001	Core	Brokerage	Total
External revenue:			
Subscription fees	\$ 10,595,561	\$ –	\$ 10,595,561
Transaction fees	8,900,156	3,593,898	12,494,054
Other	1,291,143	79,313	1,370,456
	\$ 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, net			154,083
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
<hr/>			
2000	Core	Brokerage	Total
External revenue:			
Subscription fees	\$ 6,080,239	\$ –	\$ 6,080,239
Transaction fees	3,276,096	–	3,276,096
Other	2,594,694	–	2,594,694
	\$ 11,951,029	\$ –	\$ 11,951,029
Operating earnings			
from continuing operations	\$ 1,163,106	\$ –	\$ 1,163,106
Amortization			841,279
Stock exchange listing costs			525,198
Interest income, net			(60,600)
Loss from continuing operations before income taxes			\$ (142,771)
Total assets	\$ 15,459,525	\$ –	\$ 15,459,525
Capital asset expenditures	3,981,563	–	3,981,563
Goodwill additions	480,104	–	480,104

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

13. Segmented information (continued):

(b) Geographic segments:

The Corporation's external revenue by geographic region is 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:

2002	Canada	United States	Total
External revenue:			
Subscription fees	\$ 6,570,377	\$ 4,150,318	\$ 10,720,695
Transaction fees	1,952,721	15,922,253	17,874,974
Other	793,382	204,536	997,918
	<u>\$ 9,316,480</u>	<u>\$ 20,277,107</u>	<u>\$ 29,593,587</u>
Total assets	\$ 11,717,447	\$ 11,826,870	\$ 23,544,317
Capital assets	4,667,256	1,168,387	5,835,643
2001	Canada	United States	Total
External revenue:			
Subscription fees	\$ 6,511,498	\$ 4,084,063	\$ 10,595,561
Transaction fees	1,336,558	11,157,496	12,494,054
Other	936,745	433,711	1,370,456
	<u>\$ 8,784,801</u>	<u>\$ 15,675,270</u>	<u>\$ 24,460,071</u>
Total assets	\$ 8,512,615	\$ 8,937,900	\$ 17,450,515
Capital assets	3,745,797	902,165	4,647,962

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

13. Segmented information (continued):

2000	Canada	United States	Total
External revenue:			
Subscription fees	\$ 3,213,497	\$ 2,866,742	\$ 6,080,239
Transaction fees	558,018	2,718,078	3,276,096
Other	2,305,917	288,777	2,594,694
	<u>\$ 6,077,432</u>	<u>\$ 5,873,597</u>	<u>\$ 11,951,029</u>
Total assets	\$ 11,831,898	\$ 3,627,627	\$ 15,459,525
Capital assets	3,112,179	639,003	3,751,182

14. Financial instruments:

(a) Fair values of financial instruments:

Cash and cash equivalents, 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 values. Other financial instruments are recorded at amounts which approximate fair values.

(b) Foreign currency risk:

The Corporation operates internationally and, as such, is exposed to fluctuations in foreign exchange rates. The Corporation uses forward exchange contracts to limit its exposure to fluctuations in foreign exchange rates. The Corporation has entered into forward exchange contracts for the purchase of Cdn. \$4,500,000 at U.S. \$0.634 and Cdn. \$3,000,000 at U.S. \$0.6197 maturing in September 2003. As at December 31, 2002, had the Corporation settled the contracts, a loss of approximately \$7,000 would have been incurred.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

14. Financial instruments (continued):

(c) Credit risk:

The Corporation is subject to risk of non-payment of accounts receivable. The Corporation mitigates this risk by monitoring the creditworthiness of its customers monthly as subscription and transaction fees are generated. At December 31, 2002, amounts due from five customers accounted for 35% of total accounts receivable (2001 - five customers for 47.0%). For the year ended December 31, 2002, one customer accounted for approximately 11% of total revenue (2001 - one customer for approximately 10%).

15. 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 years presented have been reclassified to reflect eContracts, Inc. as a discontinued business segment in accordance with CICA Section 3475.

Summarized financial information for the discontinued operation is as follows:

	2001	2000
Revenue	\$ 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	-
Loss from discontinued operations	\$ 1,193,301	\$ 198,228

	2001	2000
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 Consolidated Financial Statements (continued)

(Expressed in Canadian dollars, except where otherwise indicated)

Years ended December 31, 2002 and 2001

16. Comparative figures:

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