

# BELZBERG TECHNOLOGIES INC.

## Consolidated Balance Sheets

(Unaudited)

(in Canadian dollars)

	March 31, 2002	December 31, 2001
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 5,025,788	\$ 6,361,427
Accounts receivable	4,467,566	4,715,206
Prepaid expenses and other receivables	525,479	970,681
	10,018,833	12,047,314
<b>CAPITAL ASSETS</b>	4,897,241	4,647,962
<b>GOODWILL</b>	755,239	755,239
	\$ 15,671,313	\$ 17,450,515
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,697,303	\$ 1,961,393
Accrued restructuring charges	704,158	-
Consideration payable	-	362,674
Deferred revenue	776,492	786,870
Bank loan (Note 3)	805,861	633,211
Current portion of obligations under capital lease	1,553,429	1,390,296
	5,537,243	5,134,444
<b>DEFERRED REVENUE</b>	-	9,224
<b>OBLIGATIONS UNDER CAPITAL LEASE</b>	1,152,202	1,502,138
	6,689,445	6,645,806
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b>	22,813,253	22,813,253
<b>CONTRIBUTED SURPLUS (Note 4 and Note 5)</b>	147,000	-
<b>WARRANTS (Note 4)</b>	1,666,900	1,782,900
<b>DEFICIT</b>	(15,645,285)	(13,791,444)
	8,981,868	10,804,709
	\$ 15,671,313	\$ 17,450,515

APPROVED ON BEHALF OF THE BOARD

"Sidney H. Belzberg"

..... Director

"Alicia Belzberg"

..... Director

**BELZBERG TECHNOLOGIES INC.**  
**Consolidated Statements of Operations and Deficit**  
**For the three months ended March 31, 2002 and March 31, 2001**  
**(Unaudited)**  
**(in Canadian dollars)**

	2002	2001
REVENUE	\$ 7,101,601	\$ 4,550,082
COST OF REVENUE	3,646,972	1,615,520
GROSS MARGIN	3,454,629	2,934,562
OPERATING EXPENSES		
Sales and marketing	889,126	1,130,307
Research and development	903,573	766,928
Administration	1,750,187	745,059
Non - recurring Philadelphia expenses	302,053	-
	3,844,939	2,642,294
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE UNDERNOTED ITEMS	(390,310)	292,268
Amortization	488,669	399,602
Interest expense	138,151	116,256
Restructuring charges (Note 6)	842,620	-
Interest income	(22,781)	(98,385)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,836,969)	(125,205)
INCOME TAXES	16,872	8,614
LOSS FROM CONTINUING OPERATIONS	(1,853,841)	(133,819)
LOSS FROM DISCONTINUED OPERATIONS (Note 7)	-	(249,522)
NET LOSS	(1,853,841)	(383,341)
DEFICIT, BEGINNING OF PERIOD	(13,791,444)	(9,075,468)
PREMIUM ON REPURCHASE OF COMMON SHARES	-	(391,818)
DEFICIT, END OF PERIOD	\$(15,645,285)	\$ (9,850,627)
LOSS PER SHARE FROM CONTINUING OPERATIONS		
Basic and diluted	\$ (0.17)	\$ (0.01)
LOSS PER SHARE		
Basic and diluted	\$ (0.17)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF OUTSTANDING COMMON SHARES	11,060,924	10,948,535

**BELZBERG TECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**  
**For the three months ended March 31, 2002 and March 31, 2001**  
**(Unaudited)**  
**(in Canadian dollars)**

	2002	2001
<b>CASH PROVIDED BY (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$(1,853,841)	\$ (133,819)
Items not affecting cash		
Amortization of capital assets	488,669	369,314
Amortization of goodwill	-	30,288
Amortization of gain on sale and leaseback of capital assets	(26,384)	(24,378)
Changes in non-cash working capital items (Note 8)	1,170,692	(484,685)
	(220,864)	(243,280)
<b>INVESTING ACTIVITIES</b>		
Payment of consideration due from acquisition of Robert C. Sheehan & Associates, Inc.	(362,674)	-
Purchase of capital assets	(558,902)	(108,209)
	(921,576)	(108,209)
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under capital lease	(365,849)	(243,236)
Proceeds from bank loan	255,558	-
Repayment of bank loan	(82,908)	-
Net proceeds from issuance of common shares	-	4,698,991
Proceeds from the exercise of stock options	-	20,000
Repurchase of common shares	-	(475,424)
	(193,199)	4,000,331
<b>NET INCREASE (DECREASE) IN CASH FROM CONTINUING OPERATIONS</b>	(1,335,639)	3,648,842
<b>NET CASH UTILIZED BY DISCONTINUED OPERATIONS</b>	-	(180,599)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,335,639)	3,468,243
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	6,361,427	5,641,924
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 5,025,788	\$ 9,110,167
<b>CASH EQUIVALENTS:</b>		
Cash	\$ 3,099,661	\$ 2,863,047
Short-term investments	1,926,127	6,247,120
	\$ 5,025,788	\$ 9,110,167
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Value of share capital recorded for compensation expense (Note 7)	\$ -	\$ 28,470
Acquisition of capital assets with debt	\$ 179,046	\$ 237,910
Interest paid	\$ 138,151	\$ 116,256
Income taxes paid	\$ 16,872	\$ 8,614

**Notes to the Consolidated Financial Statements**

March 31, 2002

(Unaudited)

*(in Canadian dollars)***1. DESCRIPTION OF BUSINESS**

Belzberg Technologies Inc. and its wholly-owned subsidiaries (the "Company" or "Belzberg") is a leading provider of trade execution, order management and routing software for the financial industry. The Company'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 Company also operates a floor brokerage that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods as the audited consolidated financial statements for the year ended December 31, 2001 except as discussed below. These unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2001.

***(i) Goodwill and Other Intangible Assets***

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") new Handbook Section 3062, *Goodwill and Other Intangible Assets*. Effective January 1, 2002 goodwill is no longer required to be amortized but will be subject to an annual impairment test in accordance with the provisions of this Section. The Company is in the process of applying the impairment test transition rules in accordance with the new standard. The following table presents the effect on the period ended March 31, 2001 as if the Company had retroactively adopted the change in accounting policy of not amortizing goodwill.

	Three months ended March 31,	
	2 0 0 2	2 0 0 1
	(unaudited)	(unaudited)
Net Loss		
As reported	\$ (1,853,841)	\$ (383,341)
Add back:		
Goodwill amortization	-	30,288
Adjusted loss for the period	\$ (1,853,841)	\$ (353,053)
Basic and diluted loss per share		
As reported	\$ (0.17)	\$ (0.04)
Adjusted loss for the period	\$ (0.17)	\$ (0.03)

***(ii) Stock-Based Compensation and Other Stock-Based Payments***

Effective January 1, 2002, the Company adopted CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-Based Payments* 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 Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees but to disclose on a proforma basis net earnings and earnings per share had the Company 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. See Note 5 for the disclosure required by the new standard.

**Notes to the Consolidated Financial Statements**

March 31, 2002

(Unaudited)

*(in Canadian dollars)***3. BANK LOAN**

The Company has a demand operating facility of \$1 million Canadian that may be used to finance corporate requirements and or leasehold improvements and an additional \$625,000 U.S. that may be used to finance leasehold improvements. The Company has used \$1 million 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 Company's assets.

The loan agreement contains a covenant that requires the Company to maintain a minimum tangible net worth of \$10 million Canadian. As at March 31, 2002 the Company was in violation of the aforementioned covenant as the tangible net worth was \$8.2 million Canadian. However, subsequent to the quarter-end, the Company is again in compliance with the minimum tangible net worth covenant as it received \$6.7 million Canadian representing one-half the proceeds of an issue of special warrants (See note 10). The balance of the funds was placed in escrow and will be released upon the filing of the final prospectus.

**4. WARRANTS**

On March 31, 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.

**5. STOCK BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS**

Stock Options	Weighted Average	
	Number (unaudited)	Exercise Price (unaudited)
Balance at December 31, 2001 (audited)	5,028,150	\$ 6.44
Options granted	35,000	5.07
Options forfeited	(676,600)	4.50
Options exercised	-	-
Balance at March 31, 2002	4,386,550	\$ 6.72
Options exercisable at March 31, 2002	3,650,317	\$ 6.19

**(i) Options granted to non-employees**

On March 23, 2002, the Company 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 interest rate	4.5%
Expected life of the options	2 years
Expected volatility	51.8%
Expected dividend yield	0%

The estimated fair value of the options of \$31,000 was recorded in contributed surplus and in prepaid expenses and other receivables and is being amortized as compensation expense over the period during which the services are being rendered.

**(ii) Options granted to employees**

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

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**  
 March 31, 2002

(Unaudited) (in Canadian dollars)

**(ii) Options granted to employees (Continued)**

	Three months ended March 31, 2002 <b>(unaudited)</b>	
Net Loss		
As reported	\$	<b>(1,853,841)</b>
Pro forma		<b>(1,855,184)</b>
Basic and diluted loss per share		
As reported	\$	<b>(0.17)</b>
Pro forma	\$	<b>(0.17)</b>

The weighted average estimated fair value at the date of the grant for employee options granted for the three months ended March 31, 2002 was \$2.18 per share. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions at the measurement date:

Risk-free interest rate	4.4%
Expected life of the options	5 years
Expected volatility	49.8%
Expected dividend yield	0%

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

**6. RESTRUCTURING CHARGES**

On March 1, 2002, the Company closed its Philadelphia office and ended its relationship with its President and other employees. The Company recorded a restructuring charge of \$842,620 relating to employee severance and lease termination costs.

**7. DISCONTINUED OPERATIONS**

On September 30, 2001, the Company ceased operations of its wholly owned subsidiary, eContracts, Inc. Accordingly, the Company's consolidated financial statements for all periods 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:

	Three months ended March 31, <b>2 0 0 2</b> <b>2 0 0 1</b> <b>(unaudited)</b> (unaudited)			
Revenues	\$	-	\$	16,610
Loss before the following:				
Stock compensation expense		-		(221,052)
Net Loss from discontinued operations	\$	-	\$	(249,522)
Assets and Liabilities				
Current assets	\$	-	\$	98,744
Capital assets	\$	-	\$	8,159
Goodwill, net of accumulated amortization of \$42,819	\$	-	\$	325,138
Current liabilities	\$	-	\$	66,820

Belzberg Technologies Inc.

**Notes to the Consolidated Financial Statements**

March 31, 2002

(Unaudited)

(in Canadian dollars)

**8. CHANGES IN NON-CASH WORKING CAPITAL ITEMS**

	Three months ended March 31,	
	2002 (unaudited)	2001 (unaudited)
Accounts receivable	\$ 247,640	\$ (463,316)
Prepaid expenses and other receivables	476,202	(168,650)
Accounts payable and accrued liabilities	(264,090)	119,033
Accrued restructuring charges	704,158	-
Deferred revenue	6,782	28,248
	<b>\$ 1,170,692</b>	<b>\$ (484,685)</b>

**9. SEGMENTED INFORMATION**

The Company operates and manages its business in one industry – the financial services sector. The Company has two reportable segments being the Core business and the Brokerage business. In the Core business the Company 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. The Company 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 Company defines operating earnings (loss) as earnings (loss) from continuing operations before amortization, interest expense, interest income, income taxes and other non-recurring items.

	Three months ended March 31,					
	2002 (unaudited)			2001 (unaudited)		
	Core	Brokerage	Total	Core	Brokerage	Total
<b>External Revenues</b>						
Subscription fees	\$ 2,851,885	\$ -	\$ 2,851,885	\$ 2,348,316	\$ -	\$ 2,348,316
Transaction fees	2,924,155	998,369	3,922,524	1,861,258	-	1,861,258
Other	309,963	17,229	327,192	340,508	-	340,508
	<b>\$ 6,086,003</b>	<b>\$ 1,015,598</b>	<b>\$ 7,101,601</b>	<b>\$ 4,550,082</b>	<b>\$ -</b>	<b>\$ 4,550,082</b>
<b>Operating earnings (loss) from continuing operations</b>	\$ (310,992)	\$ (79,318)	\$ (390,310)	\$ 292,268	\$ -	\$ 292,268
Amortization			488,669			399,602
Interest expense			138,151			116,256
Restructuring charges			842,620			-
Interest income			(22,781)			(98,385)
Loss from continuing operations before income taxes			\$ (1,836,969)			\$ (125,205)
<b>Total assets</b>	\$ 13,927,055	\$ 1,744,258	\$ 15,671,313	\$ 19,524,160	\$ -	\$ 19,524,160
<b>Capital asset expenditures</b>	\$ 727,556	\$ 10,392	\$ 737,948	\$ 346,119	\$ -	\$ 346,119

*During the quarter ended March 31, 2001, the Brokerage business was not in existence and thus only information relating to the Core business is presented above.*

Belzberg Technologies Inc.

**Notes to the Consolidated Financial Statements**

March 31, 2002

(Unaudited)

(in Canadian dollars)

**9. SEGMENTED INFORMATION (Continued)**

	Three months ended March 31,					
	2002 (unaudited)			2001 (unaudited)		
	Canada	United States	Total	Canada	United States	Total
<b>External Revenues</b>						
Subscription fees	\$ 1,727,659	\$ 1,124,226	\$ 2,851,885	\$ 1,355,066	\$ 993,250	\$ 2,348,316
Transaction fees	443,163	3,479,361	3,922,524	274,259	1,586,999	1,861,258
Other	202,795	124,397	327,192	201,926	138,582	340,508
	<b>\$ 2,373,617</b>	<b>\$ 4,727,984</b>	<b>\$ 7,101,601</b>	<b>\$ 1,831,251</b>	<b>\$ 2,718,831</b>	<b>\$ 4,550,082</b>
<b>Total assets</b>	\$ 8,124,357	\$ 7,546,956	\$ 15,671,313	\$ 14,709,205	\$ 4,814,955	\$ 19,524,160
<b>Capital assets</b>	\$ 3,910,635	\$ 986,606	\$ 4,897,241	\$ 3,001,268	\$ 726,289	\$ 3,727,557

**10. SUBSEQUENT EVENTS**

On April 16, 2002, the Company completed a private placement of 2,730,000 units consisting of one common share and one-quarter of one share purchase warrant of the Company to be issued without additional payment upon the exercise or deemed exercise of the special warrants previously issued by the Company at a price of \$5.25 per special warrant for gross proceeds of \$14,332,500 to the Company. Each whole share purchase warrant will entitle the holder to purchase an additional common share at a price of \$5.50 per share expiring August 16, 2003.

In addition, the Company issued to the Underwriters compensation warrants which entitle the holders to acquire compensation options to purchase 177,450 units at a price of \$5.25 per unit expiring October 16, 2003.

The Company filed the preliminary prospectus on May 7, 2002.

**11. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the current period's financial statement presentation.