

The following discussion and analysis provides a review of Belzberg's results for the periods ended June 30, 2003. This discussion should be read in conjunction with the unaudited consolidated interim financial statements and related notes in the quarterly report and the MD&A, consolidated financial statements and related notes in Belzberg's annual report for the year ended December 31, 2002. All monetary amounts are reported in Canadian dollars.

General

Belzberg Technologies Inc. is a leading provider of exchange connectivity, trade execution, order management, and routing software for the financial industry. In addition to its technology, through one of its wholly owned subsidiaries, an agency-only broker-dealer, Belzberg offers low cost trade execution. The Company's customers include broker-dealers and their customers, who use Belzberg's trading software to buy and sell equities and stock options on a variety of stock exchanges, Electronic Communications Networks (ECNs), or Nasdaq market maker trade management systems. Belzberg products enable traders to execute and manage large volumes of transactions at high speed, and with great reliability and security.

Financial Summary and Results of Operations

Belzberg Technologies Inc. **Consolidated Statements of Operations**

(\$000's except per share information)	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenue	\$ 5,098	\$ 7,817	\$ 11,107	\$ 14,919
Cost of revenue	3,130	4,162	6,688	7,937
Gross Margin	1,968	3,655	4,419	6,982
Operating expenses	3,312	3,876	6,615	7,593
Loss from operations before undernoted items	(1,344)	(221)	(2,196)	(611)
Amortization	736	532	1,470	1,021
Interest expense, net	22	49	72	164
Restructuring charges	-	-	273	843
Loss before income taxes	(2,102)	(802)	(4,011)	(2,639)
Income taxes	-	24	-	41
Net loss	\$ (2,102)	\$ (826)	\$ (4,011)	\$ (2,680)
Basic and diluted loss per common share	\$ (0.15)	\$ (0.07)	\$ (0.29)	\$ (0.24)

Numbers may not total due to rounding

Revenues

For the three months ended June 30,

(\$000's)	2003			2002		
	Canada	USA	Total	Canada	USA	Total
Subscription fees	\$ 1,477	\$ 416	\$ 1,893	\$ 1,650	\$ 1,023	\$ 2,673
Transaction fees - core	311	1,807	2,118	589	3,176	3,765
Transaction fees - brokerage	-	860	860	-	1,158	1,158
Other revenue	201	26	227	163	58	221
Total	\$ 1,989	\$ 3,109	\$ 5,098	\$ 2,402	\$ 5,415	\$ 7,817

For the six months ended June 30,

(\$000's)	2003			2002		
	Canada	USA	Total	Canada	USA	Total
Subscription fees	\$ 3,012	\$ 1,254	\$ 4,266	\$ 3,377	\$ 2,148	\$ 5,525
Transaction fees - core	773	3,593	4,366	1,032	5,734	6,766
Transaction fees - brokerage	-	2,005	2,005	-	2,157	2,157
Other revenue	416	54	470	366	105	471
Total	\$ 4,201	\$ 6,906	\$ 11,107	\$ 4,775	\$ 10,144	\$ 14,919

Gross revenue decreased by 35% from \$7.8 million in the second quarter of 2002 to \$5.1 million in the second quarter of 2003. For the six-month period, gross revenue decreased by 26% from \$14.9 million in 2002 to \$11.1 million in 2003.

Subscription fee revenue, which is based on customers paying a fixed monthly fee for each terminal connected to the Belzberg Gateway, decreased by 29% from \$2.7 million in the second quarter of 2002 to \$1.9 million in the second quarter of 2003. For the six-month period, subscription fee revenue decreased by 23% from \$5.5 million in 2002 to \$4.3 million in 2003. The decrease in subscription fee revenue resulted from customers downsizing their trading staff due to poor market conditions as well as certain customer cancellations. Subscription fee revenue accounted for 37% of total revenues in the second quarter of 2003 (38% for the six months ended June 30, 2003) as compared to 34% of total revenues in the second quarter of 2002 (37% for the six months ended June 30, 2002).

Transaction fee revenue from the core business, which includes customers paying a fee per transaction routed through the Belzberg Gateway, decreased by 44% in the second quarter of 2003 to \$2.1 million as compared to \$3.8 million in the second quarter of 2002. For the six-month period, transaction fee revenue from the core business decreased by 35% from \$6.8 million in 2002 to \$4.4 million in 2003. The decrease in transaction fee revenue from the core business resulted from a slowdown in trading activity and a

strengthening Canadian dollar. Transaction fee revenue from the core business accounted for 42% of total revenues in the second quarter of 2003 (39% for the six months ended June 30, 2003) as compared to 48% of total revenues in the second quarter of 2002 (45% for the six months ended June 30, 2002).

Transaction fee revenue from the brokerage operation, that executes on an agency basis exchange traded equity and index options on the Chicago Board Options Exchange, decreased by 26% in the second quarter of 2003 to \$0.9 million as compared to \$1.2 million in the second quarter of 2002. For the six-month period, transaction fee revenue from the brokerage operation decreased by 7% from \$2.2 million in 2002 to \$2.0 million in 2003. The decrease in transaction fee revenue from the brokerage operation resulted from a strengthening Canadian dollar and a slow down in trading. Transaction fee revenue from the brokerage operation accounted for 17% of total revenues in the second quarter of 2003 (18% for the six months ended June 30, 2003) as compared to 15% of total revenues in the second quarter of 2002 (15% for the six months ended June 30, 2002).

Gross Profit and Gross Margin

(\$000's)	For the three months ended June 30,		For the six months ended June 30,	
	2003	2002	2003	2002
Revenue	\$ 5,098	\$ 7,817	\$ 11,107	\$ 14,919
Cost of Revenue	3,130	4,162	6,688	7,937
Gross Profit	\$ 1,968	\$ 3,655	\$ 4,419	\$ 6,982
Gross Margin %	39%	47%	40%	47%

Gross margin as a percentage of sales declined to 39% in the second quarter of 2003, from 47% in the second quarter of 2002. For the six-month period, gross margin declined to 40% in 2003 from 47% in 2002. The decline in margin is attributable to the reduction in revenue while the cost structure remained relatively fixed to accommodate additional capacity and connectivity to markets. In the second quarter of 2003 the Company began to realize the cost savings from being self-clearing and it is anticipated that margins will improve as additional revenue is added in the future.

Operating Expenses

(\$000's)	For the three months ended June 30,		For the six months ended June 30,	
	2003	2002	2003	2002
Sales and marketing	\$ 1,306	\$ 1,013	\$ 2,228	\$ 1,785
Research and development	916	1,248	1,972	2,408
Government assistance	-	(218)	-	(218)
Administration	1,382	1,596	2,653	3,073
Foreign exchange loss (gain)	(292)	237	(238)	243
Non-recurring Philadelphia expenses	-	-	-	302
Total operating expenses	\$ 3,312	\$ 3,876	\$ 6,615	\$ 7,593

Sales and Marketing Expenses

Sales and marketing expenses increased by \$0.3 million or 29% to \$1.3 million in the second quarter of 2003 as compared to \$1.0 million in the second quarter of 2002. For the six-month period, sales and marketing expenses increased by \$0.4 million or 25% to \$2.2 million in 2003 from \$1.8 million in 2002. The increase is primarily due to headcount additions and the cost associated with the termination of a senior salesperson.

Research and Development Expenses

Research and development expenses decreased by \$0.3 million or 27% to \$0.9 million in the second quarter of 2003 as compared to \$1.2 million in the second quarter of 2002. For the six-month period, research and development expenses decreased by \$0.4 million or 18% to \$2.0 million in 2003 from \$2.4 million in 2002. The decrease is primarily due to headcount reductions that were made in the first quarter of 2003.

Government Assistance

In the second quarter of 2002, the Company recognized a recovery of \$0.2 million against research and development expenses relating to additional scientific research and developmental assistance for the 1999 taxation year following a successful appeal to Canada Customs and Revenue Agency of the original assessment. The additional scientific research and developmental assistance was reimbursed in cash except for \$52,700 still outstanding that is included as a government assistance receivable. The \$52,700 was received after the quarter end.

Administration Expenses

Administration expenses decreased by \$0.2 million or 13% to \$1.4 million in the second quarter of 2003 as compared to \$1.6 million in the second quarter of 2002. For the six-month period, administration expenses decreased by \$0.4 million or 14% to \$2.7 million in 2003 from \$3.1 million in 2002. The primary factors that contributed to the decrease were headcount reductions, a reduction in executive compensa-

tion, a decrease in professional fees and a decrease in the costs of the core communication infrastructure in the second quarter of 2003.

Foreign Exchange loss (gain)

The Company incurred a foreign exchange gain of \$0.3 million in the second quarter of 2003 as compared to a foreign exchange loss of \$0.2 million in the second quarter of 2002. For the six-month period the exchange gain was \$0.2 million in 2003 versus an exchange loss of \$0.2 million in 2002. The Company uses forward exchange contracts to manage a portion of its exposure to fluctuations in foreign exchange rates. The foreign exchange gain in the second quarter of 2003 resulted from the Company hedging its net asset exposure to the U.S. dollar while no hedging was undertaken in the second quarter of 2002. During the three month period ended June 30, 2003, the Company realised a gain of \$670,000 (three month period ended June 30, 2002 – nil) on the settlement of forward exchange contracts that offset a translation loss of \$379,000 resulting from the strengthening Canadian dollar. The Company entered into new forward exchange contracts for the purchase of Cdn\$4.5 million at US\$.725 maturing in December 2004 to hedge its future anticipated net asset exposure to the U.S. dollar. As at June 30, 2003, had the Company settled the contracts, a loss of approximately \$24,000 would have been incurred.

Non-Recurring Philadelphia Expenses

Non – recurring Philadelphia expenses relate primarily to the salaries and office rental costs of the Philadelphia operation incurred in the first quarter of 2002 prior to the decision to close the office on March 1, 2002. (refer to “Restructuring Charges” below).

Other Expenses

(\$000's)	For the three months ended		For the six months ended					
	June 30,	2002	June 30,	2002				
Amortization of capital assets	\$	736	\$	532	\$	1,470	\$	1,021
Interest expense, net		22		49		72		164
Restructuring charges		-		-		273		843
Other expenses, net	\$	758	\$	581	\$	1,815	\$	2,028

Amortization of Capital Assets

Amortization of capital assets increased by \$0.2 million or 38% to \$0.7 million in the second quarter of 2003 as compared to \$0.5 million in the second quarter of 2002. For the six-month period amortization of capital assets increased by \$0.4 million or 44% to \$1.5 million in 2003 from \$1.1 million in 2002. The increase is a reflection of the increased capital asset expenditures to improve the network infrastructure

and maintain high-speed connectivity between customers, the Company and a multitude of exchanges and other markets for live trade execution.

Net Interest Expense

Net Interest expense decreased by \$27,000 to \$22,000 in the second quarter of 2003 as compared to \$49,000 in the second quarter of 2002. For the six-month period, net interest expense decreased from \$164,000 in 2002 to \$72,000 in 2003. The decrease resulted from the maturity of certain capital leases resulting in a lower interest cost.

Restructuring Charges

Restructuring charges for the six-month period ended June 30, 2003 of \$0.3 million relate to employee terminations made in the first quarter of 2003.

In the first quarter of 2002, the Company closed its Philadelphia office and ended its relationship with its President and other employees resulting in a restructuring charge of \$0.8 million.

Liquidity and Capital Resources

Cash flow utilized by operations was \$1.1 million in the second quarter of 2003 compared to \$0.7 million in the second quarter of 2002. Cash flow utilized by operations for the six-month period was \$3.1 million in 2003 compared to \$0.9 million in 2002.

The Company utilized \$0.2 million of cash for investing activities in the second quarter of 2003 compared to \$0.4 million in the second quarter of 2002. For the six-month period the Company utilized \$0.5 million for investing activities in 2003 as compared to \$1.3 million in 2002. Investing activities consisted primarily of the acquisition of network equipment required to maintain high-speed connectivity between customers, the Company and a multitude of exchanges and other markets for live trade execution. .

The Company utilized \$0.5 million of cash for financing activities in the second quarter of 2003 as compared to generating \$12.5 million of cash from financing activities in the second quarter of 2002. For the six-month period the Company utilized \$1.1 million for financing activities in 2003 compared to generating \$12.3 million in 2002. Financing activities in the second quarter of 2003 included repayment of capital lease obligations of \$0.4 million and repayment of a bank loan of \$0.1 million. Financing activities in the second quarter of 2002 included a private placement with net proceeds of \$13.1 million, a repurchase of common shares of \$0.1 million, repayment of capital lease obligations of \$0.4 million and repayment of a bank loan of \$0.1 million.

As at June 30, 2003, the Company had cash and short-term investments amounting to \$8.4 million, and had working capital of \$7.9 million. The Company believes that its current cash resources and cash flow from operations will be sufficient to meet its normal working capital and capital expenditure requirements for the current year.