

*Consolidated Financial Statements*  
**BELZBERG TECHNOLOGIES INC.**  
*June 30, 2004*  
*Unaudited*

# BELZBERG TECHNOLOGIES INC.

## Consolidated Balance Sheets

(Unaudited)

(in Canadian dollars)

	June 30, 2004	December 31, 2003
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 4,513,476	\$ 4,300,798
Deposits with and receivables from brokers, dealers and clearing organizations	914,059	1,075,769
Accounts receivable	3,092,046	3,262,955
Government assistance receivable	-	303,832
Prepaid expenses and other receivables	535,036	439,404
Other	359,059	602,410
	9,413,676	9,985,168
<b>CAPITAL ASSETS</b>	3,883,851	4,633,610
<b>GOODWILL</b>	755,239	755,239
	\$ 14,052,766	\$ 15,374,017
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 3,547,864	\$ 3,616,986
Accrued restructuring charges (Note 5)	196,443	351,869
Bank loan	19,908	203,352
Current portion of obligations under capital lease	786,217	1,058,197
	4,550,432	5,230,404
<b>OBLIGATIONS UNDER CAPITAL LEASE</b>	163,378	465,388
	4,713,810	5,695,792
<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 3)	34,770,877	34,575,877
CONTRIBUTED SURPLUS (Note 4)	1,448,221	1,290,090
WARRANTS	1,665,700	1,665,700
DEFICIT	(28,545,842)	(27,853,442)
	9,338,956	9,678,225
	\$ 14,052,766	\$ 15,374,017

Commitments and contingencies (Note 9)

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD

"Sidney H. Belzberg"

..... Director

"Alicia Belzberg"

..... Director

**BELZBERG TECHNOLOGIES INC.**  
**Consolidated Statements of Operations and Deficit**  
(in Canadian dollars)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
REVENUE	\$ 6,257,891	\$ 5,252,842	\$ 12,967,989	\$ 11,290,903
COST OF REVENUE	3,641,690	3,284,285	7,089,329	6,871,614
GROSS MARGIN	2,616,201	1,968,557	5,878,660	4,419,289
EXPENSES				
Sales and marketing	818,323	1,310,833	1,623,048	2,233,085
Research and development	550,027	915,826	1,129,451	1,971,640
Administration	1,242,327	1,414,671	2,416,835	2,686,876
Foreign exchange loss (gain)	68,564	(291,659)	62,217	(237,064)
	2,679,241	3,349,671	5,231,551	6,654,537
EARNINGS (LOSS) BEFORE UNDERNOTED ITEMS	(63,040)	(1,381,114)	647,109	(2,235,248)
Amortization of capital assets	560,030	736,135	1,138,592	1,469,948
Interest expense, net	20,089	22,342	20,252	71,950
Restructuring charges (Note 5)	180,665	-	180,665	273,284
LOSS FOR THE PERIOD	(823,824)	(2,139,591)	(692,400)	(4,050,430)
DEFICIT, BEGINNING OF PERIOD	(27,722,018)	(22,251,115)	(27,853,442)	(20,340,276)
DEFICIT, END OF PERIOD	\$ (28,545,842)	\$ (24,390,706)	\$ (28,545,842)	\$ (24,390,706)
LOSS PER SHARE				
Basic and diluted	\$ (0.06)	\$ (0.16)	\$ (0.05)	\$ (0.30)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	13,768,169	13,713,424	13,745,896	13,716,618

See accompanying notes to the consolidated financial statements

**BELZBERG TECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**

(in Canadian dollars)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>CASH PROVIDED BY (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (823,824)	\$ (2,139,591)	\$ (692,400)	\$ (4,050,430)
Items not affecting cash and cash equivalents				
Amortization of capital assets	560,030	736,135	1,138,592	1,469,948
Amortization of gain on sale and leaseback of capital assets	-	-	-	(9,200)
Unrealized foreign exchange loss (gain)	(37,922)	113,710	(53,710)	217,494
Stock-based compensation	102,460	41,284	162,006	46,711
Changes in non-cash working capital items (Note 6)	446,362	(197,402)	705,640	215,339
	247,106	(1,445,864)	1,260,128	(2,110,138)
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(246,310)	(173,682)	(538,726)	(475,420)
Short-term investments	1,570,370	-	-	-
	1,324,060	(173,682)	(538,726)	(475,420)
<b>FINANCING ACTIVITIES</b>				
Repayment of obligations under capital lease	(261,575)	(387,521)	(573,990)	(841,862)
Repayment of bank loan	(92,313)	(86,621)	(183,444)	(172,748)
Proceeds from the exercise of stock options	106,200	-	195,000	-
Repurchase of common shares	-	-	-	(75,375)
	(247,688)	(474,142)	(562,434)	(1,089,985)
Effect of exchange rate changes on cash and cash equivalents	37,922	(113,710)	53,710	(217,494)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,361,400	(2,207,398)	212,678	(3,893,037)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	3,152,076	9,062,293	4,300,798	10,747,932
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 4,513,476	\$ 6,854,895	\$ 4,513,476	\$ 6,854,895
<b>CASH AND CASH EQUIVALENTS:</b>				
Cash	\$ 2,709,954	\$ 1,731,501	\$ 2,709,954	\$ 1,731,501
Cash equivalents	1,803,522	5,123,394	1,803,522	5,123,394
	\$ 4,513,476	\$ 6,854,895	\$ 4,513,476	\$ 6,854,895
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Interest paid	\$ 29,626	\$ 63,580	\$ 67,538	\$ 148,543
Interest received	9,537	41,245	47,286	76,600

See accompanying notes to the consolidated financial statements

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**

June 30, 2004

(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 disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles (GAAP) for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003.

The unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary to present fairly the financial position of the Company as at June 30, 2004 and the results of operations and deficit and cash flows for the three and six months ended June 30, 2004 and 2003.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated financial statements, except for the following:

*i) Revenue Recognition*

Effective January 1, 2004, the Company adopted the CICA Emerging Issues Committee Abstract 142 issued in December 2003, regarding the timing of revenue recognition and the classification of certain items as revenue or expense. Adoption did not have an impact on the consolidated financial statements.

*ii) Hedging Relationships*

In November 2001, the CICA issued Accounting Guidelines 13, "Hedging Relationships"(AcG-13), and in November 2002, the CICA amended the effective date of the guideline. AcG-13 established new criteria for hedge accounting and applies to all hedging relationships in effect on or after January 1, 2004. Effective January 1, 2004, the Company determined that it would not treat its derivative instruments as hedges for accounting purposes. Accordingly, the Company is continuing its previous policy of recognizing changes in the fair value of the derivative instruments into income each period.

**3. CAPITAL STOCK**

Authorized

Unlimited number of common shares

Issued	Number of Common Shares	Amount
Balance at December 31, 2003	13,713,424	\$ 34,575,877
Exercise of stock options	65,000	195,000
Balance at June 30, 2004	13,778,424	\$ 34,770,877

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**

June 30, 2004

(Unaudited)

(in Canadian dollars)

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

A summary of the Company's stock option activity for the period ended June 30, 2004 is as follows:

**Stock Options**

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2003	4,599,700	\$ 6.10
Options granted	15,000	3.70
Options exercised	(29,600)	3.00
Options cancelled/expired	(37,000)	5.60
Outstanding, March 31, 2004	4,548,100	\$ 6.12
Options granted	85,000	3.75
Options exercised	(35,400)	3.00
Options cancelled/expired	(394,000)	7.52
Outstanding, June 30, 2004	4,203,700	\$ 5.97
Options exercisable at June 30, 2004	3,505,884	\$ 6.35

*(a) Options granted to non-employees*

For stock options granted to consultants in 2002, the Company recorded compensation expense as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Stock-based compensation expense included in:</b>				
Administration	\$ -	\$ 3,875	\$ 3,875	\$ 7,750

*(b) Options granted to employees and directors on or after January 1, 2003*

For stock options granted to employees on or after January 1, 2003, the Company recorded compensation expense as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Stock-based compensation expense included in:</b>				
Cost of revenue	\$ 6,691	\$ -	\$ 13,831	\$ -
Sales and marketing	14,921	5,270	32,009	5,270
Research and development	3,317	-	6,377	-
Administration	77,531	32,139	105,914	33,691
	\$ 102,460	\$ 37,409	\$ 158,131	\$ 38,961

The weighted average estimated fair value at the date of the grants for employee options granted for the three months ended June 30, 2004 was \$1.59 per share (three months ended June 30, 2003 - \$1.23 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 dates:

	Three months ended June 30,	
	2004	2003
Risk-free interest rate	3.7%	3.8%
Expected life of the options	3 years	3 years
Expected volatility	59.1%	53.2%
Expected dividend yield	0%	0%

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**

June 30, 2004

(Unaudited)

(in Canadian dollars)

The estimated fair value of the options is amortized to expense over their vesting period on a straight-line basis.

**(c) Options granted to employees for the period January 1, 2002 to December 31, 2002**

For stock options granted in 2002, revised CICA HB Section 3870 requires the disclosure of pro forma earnings (loss) and earnings (loss) per share information as if the Company had accounted for employee stock options under the fair value method. The pro forma disclosure related to options granted in 2002 using a weighted average grant date fair value of \$2.07 based on the following weighted average assumptions: risk-free interest rate – 4.4%; expected life of options – 4.6 years; expected volatility - 48%; expected dividend yield – 0%, is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Loss for the period:</b>				
As reported	\$ (823,824)	\$ (2,139,591)	\$ (692,400)	\$ (4,050,430)
Pro Forma	(877,461)	(2,197,483)	(803,078)	(4,160,102)
<b>Loss per share:</b>				
As Reported basic and diluted	\$ (0.06)	\$ (0.16)	\$ (0.05)	\$ (0.30)
Pro Forma basic and diluted	\$ (0.06)	\$ (0.16)	\$ (0.06)	\$ (0.30)

The estimated pro forma fair value of the options is amortized to expense over their vesting period on a straight-line basis.

**5. ACCRUED RESTRUCTURING CHARGES**

During the quarter ended June 30, 2004, the Company restructured its broker dealer operation and recorded a restructuring charge of \$180,665 for employee severances and benefits. The Company made cash payments of \$139,629 in the second quarter of 2004 (\$232,891 – in the second quarter of 2003) toward the restructuring accruals.

	January 1, 2004	Provision	Cash payment	June 30, 2004
Accrued restructuring charges:				
<b>2002 restructuring</b>	\$ 26,846	-	-	\$ 26,846
<b>2003 restructuring:</b>				
Quarter ended:				
September 30	158,317	-	150,130	8,187
December 31	166,706	-	163,748	2,958
<b>2004 restructuring:</b>				
Quarter ended:				
June 30		180,665	22,213	158,452
	\$ 351,869	\$ 180,665	\$ 336,091	\$ 196,443

**Notes to the Consolidated Financial Statements**

June 30, 2004

(Unaudited)

*(in Canadian dollars)***6. CHANGES IN NON-CASH WORKING CAPITAL ITEMS**

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Accounts receivable	\$ 246,696	\$ 453,572	\$ 170,909	\$ 248,953
Deposits with and receivables from brokers, dealers and clearing organizations	303,193	(465,093)	161,710	769,063
Government assistance receivable	-	-	303,832	-
Prepaid expenses and other receivables	(69,568)	(57,737)	(99,507)	(119,427)
Other	97,973	(8,491)	243,351	(8,491)
Accounts payable and accrued liabilities	(172,968)	113,238	80,771	(264,473)
Accrued restructuring charges	41,036	(232,891)	(155,426)	(401,086)
Deferred revenue	-	-	-	(9,200)
	\$ 446,362	\$ (197,402)	\$ 705,640	\$ 215,339

**7. FINANCIAL INSTRUMENTS**

The Company uses foreign currency futures and options contracts to manage a portion of its exposure to fluctuations in foreign exchange rates. During the three month period ended June 30, 2004, the Company recorded a realised loss of \$251,000 on settlement of foreign currency futures contracts (three month period ended June 30, 2003, a realised gain of \$670,000) and entered into a March 2005 call option for the purchase of Cdn\$4.5 million at US\$0.72. The Company recorded an unrealised gain of \$98,000 for the three-month period ended June 30, 2004 on the outstanding March 2005 call option contract.

**8. SEGMENTED INFORMATION**

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

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**

June 30, 2004

(Unaudited)

(in Canadian dollars)

	Three months ended June 30,					
	2004			2003		
	Core	Brokerage	Total	Core	Brokerage	Total
<b>External Revenues</b>						
Transaction based fees	\$ 3,252,160	\$ 760,354	\$ 4,012,514	\$ 2,272,248	\$ 860,146	\$ 3,132,394
Subscription fees	1,878,534	-	1,878,534	1,893,332	-	1,893,332
Other	366,843	-	366,843	227,116	-	227,116
	\$ 5,497,537	\$ 760,354	\$ 6,257,891	\$ 4,392,696	\$ 860,146	\$ 5,252,842
<b>Earnings (loss) before undernoted items</b>	\$ 36,889	\$ (99,929)	\$ (63,040)	\$ (1,175,024)	\$ (206,090)	\$ (1,381,114)
Amortization			560,030			736,135
Interest expense, net			20,089			22,342
Restructuring charges			180,665			-
<b>Loss for the period</b>			\$ (823,824)			\$ (2,139,591)
<b>Total assets</b>	\$ 12,358,147	\$ 1,694,619	\$ 14,052,766	\$ 16,337,999	\$ 1,692,371	\$ 18,030,370
<b>Capital asset expenditures</b>	\$ 246,310	\$ -	\$ 246,310	\$ 173,682	\$ -	\$ 173,682

The following is a breakdown of operations by significant geographic region:

	Three months ended June 30,					
	2004			2003		
	Canada	United States	Total	Canada	United States	Total
<b>External Revenues</b>						
Transaction based fees	\$ 386,275	\$ 3,626,239	\$ 4,012,514	\$ 311,275	\$ 2,821,119	\$ 3,132,394
Subscription fees	1,540,954	337,580	1,878,534	1,477,038	416,294	1,893,332
Other	238,435	128,408	366,843	201,327	25,789	227,116
	\$ 2,165,664	\$ 4,092,227	\$ 6,257,891	\$ 1,989,640	\$ 3,263,202	\$ 5,252,842
<b>Total assets</b>	\$ 4,545,276	\$ 9,507,490	\$ 14,052,766	\$ 9,342,419	\$ 8,687,951	\$ 18,030,370
<b>Capital assets</b>	\$ 2,474,008	\$ 1,409,843	\$ 3,883,851	\$ 3,879,956	\$ 1,232,625	\$ 5,112,581

Belzberg Technologies Inc.  
**Notes to the Consolidated Financial Statements**

June 30, 2004

(Unaudited)

(in Canadian dollars)

	Six months ended June 30,					
	2004			2003		
	Core	Brokerage	Total	Core	Brokerage	Total
<b>External Revenues</b>						
Transaction based fees	\$ 6,817,904	\$ 1,619,992	\$ 8,437,896	\$ 4,549,382	\$ 2,005,562	\$ 6,554,944
Subscription fees	3,736,495	-	3,736,495	4,265,867	-	4,265,867
Other	793,598	-	793,598	470,092	-	470,092
	\$ 11,347,997	\$ 1,619,992	\$ 12,967,989	\$ 9,285,341	\$ 2,005,562	\$ 11,290,903
<b>Earnings (loss) before undernoted items</b>	\$ 727,913	\$ (80,804)	\$ 647,109	\$ (2,093,005)	\$ (142,243)	\$ (2,235,248)
Amortization			1,138,592			1,469,948
Interest expense			20,252			71,950
Restructuring charges			180,665			273,284
<b>Loss for the period</b>			\$ (692,400)			\$ (4,050,430)
<b>Total assets</b>	\$ 12,358,147	\$ 1,694,619	\$ 14,052,766	\$ 16,337,999	\$ 1,692,371	\$ 18,030,370
<b>Capital asset expenditures</b>	\$ 538,726	\$ -	\$ 538,726	\$ 475,420	\$ -	\$ 475,420

The following is a breakdown of operations by significant geographic region:

	Six months ended June 30,					
	2004			2003		
	Canada	United States	Total	Canada	United States	Total
<b>External Revenues</b>						
Transaction based fees	\$ 910,486	\$ 7,527,410	\$ 8,437,896	\$ 772,707	\$ 5,782,237	\$ 6,554,944
Subscription fees	3,094,445	642,050	3,736,495	3,012,250	1,253,617	4,265,867
Other	498,384	295,214	793,598	416,286	53,806	470,092
	\$ 4,503,315	\$ 8,464,674	\$ 12,967,989	\$ 4,201,243	\$ 7,089,660	\$ 11,290,903
<b>Total assets</b>	\$ 4,545,276	\$ 9,507,490	\$ 14,052,766	\$ 9,342,419	\$ 8,687,951	\$ 18,030,370
<b>Capital assets</b>	\$ 2,474,008	\$ 1,409,843	\$ 3,883,851	\$ 3,879,956	\$ 1,232,625	\$ 5,112,581

**9. COMMITMENTS AND CONTINGENCIES**

The Company has no guarantees that are required to be disclosed under Accounting Guideline 14 "Disclosure of guarantees".

In the normal course of operations the Company may be subject to litigation and claims. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

**10. COMPARATIVE FIGURES**

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