

# Q3 2005

*Management's Discussion And Analysis*  
**BELZBERG TECHNOLOGIES INC.**

*For The Three and Nine Months Ended September 30, 2005*

# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the Financial Condition and Results of Operations should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the quarter ended September 30, 2005 of Belzberg Technologies Inc. (referred to in this MD&A as the "Corporation", "Belzberg", "our" and "we") and the MD&A, audited consolidated financial statements and the notes thereto for the year ended December 31, 2004 that have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The reporting currency in this MD&A is Canadian dollars unless otherwise specified. Additional information relating to the Corporation, including the Corporation's Annual Information Form is on SEDAR at [www.sedar.com](http://www.sedar.com). The MD&A is as of October 24, 2005.

## Caution regarding forward-looking statements

**This MD&A contains certain forward-looking statements that reflect Management's expectations, estimates, forecasts and projections about future performance, opportunities for growth and the Corporation's future plans and intentions. Forward-looking statements are typically identified by words such as "believe", "expect", "may", "intend" and "plan." Forward-looking statements involve significant risk, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by these forward-looking statements. Some of the factors that could cause such differences include: the regulations governing the securities industry, competition for global trading solutions and intelligent order routing systems, customer dependence, ability to attract and retain key employees, technological changes, uncertainty of the ability to protect proprietary technology, product and service liability and the Corporation's lack of profitable operations to date. The preceding list is not exhaustive of all possible factors. Other factors could also affect the Corporation's results. For a more detailed discussion of these factors refer to the section titled "Risks and Uncertainties" in the Corporation's annual MD&A filed on Sedar. All factors should be considered carefully when making decisions with respect to the Corporation and undue reliance should not be placed on the Corporation's forward-looking statements. The Corporation does not undertake to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.**

## Nature of Business

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, the Corporation offers low cost trade execution. 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, and with great reliability and security.

Major financial institutions, broker-dealers, buy-side institutions, banks, and others use all or a subset of Belzberg trading products to automate their order execution, basket trading, arbitrage, retail order management, and real-time inventory management, as demanded by each situation.

In September, 2002, Belzberg announced that its wholly owned subsidiary, Electronic Brokerage Systems, LLC (“EBS”), had become a member of the National Securities Clearing Corporation (“NSCC”). In November, 2002, the Corporation announced that EBS also became a member of the New York Stock Exchange (“NYSE”). These memberships allowed the Corporation to become self-clearing, which significantly reduced the Corporation’s clearing costs.

In 2001, the Corporation expanded its business by acquiring a broker-dealer that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

## Overview of Third Quarter 2005 Results

### Highlights and Summary

- Record profitability of \$1.1 million or \$0.08 per share reported for the third quarter of 2005 up from a profit of \$0.1 million or \$0.01 per share for the third quarter of 2004.
- Increased revenue of \$8.3 million for the third quarter of 2005 up by 29% from third quarter 2004 revenue of \$6.4 million.
- Improved working capital position of \$8.6 million at September 30, 2005 up from \$7.2 million at June 30, 2005 and up from \$5.4 million at September 30, 2004.

Revenue growth for the third quarter on a year over year basis came from both our options business and our U.S. equity order flow business. Option contracts executed increased to a record 10.7 million contracts in the third quarter of 2005 from 3.8 million contracts executed in the third quarter of 2004. Equity order flow in the U.S increased to 1.6 billion shares executed in the third quarter of 2005 from 1.1 billion shares executed in the third quarter of 2004. Although, the Corporation experienced significant increases in U.S. equity order flow and in the volume of option contracts executed, the average revenue rate per transaction fell for both equity order flow and option contracts executed due to continued competition.

The Corporation continued to make progress with its cost cutting initiatives in the third quarter of 2005 reducing its telecommunication costs and data feed costs and expects to realize additional savings in the fourth quarter.

The Corporation had cash and cash equivalents at September 30, 2005 of \$5.5 million and had working capital of \$8.6 million as compared to \$4.6 million of cash and cash equivalents and \$7.2 million of working capital at June 30, 2005.

# Results of Operations

## Revenues

For the three months ended September 30,

(\$000's)	2005			2004		
	Canada	USA	Total	Canada	USA	Total
Transaction fees - core	\$ 509	\$ 4,743	\$ 5,252	\$ 406	\$ 3,214	\$ 3,620
Subscription fees	1,665	225	1,890	1,526	315	1,841
Transaction fees - brokerage	-	664	664	-	600	600
Other revenue	356	118	474	272	90	362
<b>Total revenue</b>	<b>\$ 2,530</b>	<b>\$ 5,750</b>	<b>\$ 8,280</b>	<b>\$ 2,204</b>	<b>\$ 4,219</b>	<b>\$ 6,423</b>

## Total Revenues

Total revenue increased by 29% from \$6.4 million in the third quarter of 2004 to \$8.3 million in the third quarter of 2005. Revenue growth in the third quarter on a year over year basis was adversely impacted from the strengthening Canadian dollar by approximately \$0.3 million.

The Corporation generated approximately 69% (2004 - 66%) of its revenues in the United States and 31% (2004 - 34%) of its revenues in Canada. The Corporation expects revenues from the United States will increase at a greater rate than revenues from Canada as the direct sales force focuses on attracting order flow revenue from U.S. based customers.

## Transaction fee Revenues - Core

Transaction fee revenue from the core business, which includes customers paying a fee per transaction routed through the Belzberg Gateway, increased by \$1.6 million or 45% from \$3.6 million in the third quarter of 2004 to \$5.2 million in the third quarter of 2005.

### (i) Equity order flow

Approximately \$0.9 million or 56% of our core transaction fee revenue growth for the third quarter on a year over year basis was attributable to our U.S. equity order flow business. Customers that began trading in the trailing twelve month period accounted for approximately 70% of the U.S. equity order flow growth after excluding customers that experienced negative growth. The balance of the U.S. growth being attributable to increased trading volumes from existing customers. The number of shares executed by our wholly owned U.S. broker dealer increased from approximately 1.1 billion shares in the quarter ended September 30, 2004 to approximately 1.6 billion shares in the quarter ended September 30, 2005. A large proportion of the new business was done with customers executing higher volumes at lower transaction fee rates than the business done a year ago, resulting in a reduction in the average rate per transaction. A strengthening Canadian dollar

adversely affected U.S. equity order flow revenue by \$0.2 million for the third quarter on a year over year basis.

Approximately \$0.1 million or 6% of our core transaction fee revenue growth for the third quarter on a year over year basis was attributable to our Canadian equity order flow business.

### **(ii) Option contracts**

Approximately \$0.6 million or 38% of our core transaction fee revenue growth for the third quarter on a year over year basis was attributable to our options business. Our option volume executed increased from approximately 3.8 million contracts in the third quarter of 2004 to 10.7 million contracts in the third quarter of 2005. Our Hyts program accounted for approximately 64% of the year over year third quarter option revenue growth after excluding customers that experienced negative growth. A strengthening Canadian dollar adversely affected option revenue by \$76,000 for the third quarter on a year over year basis.

### **Transaction fee Revenues - Brokerage**

Transaction fee revenue from the brokerage segment increased by 11% from \$0.6 million in the third quarter of 2004 to \$0.7 million in the third quarter of 2005. Although the number of option contracts executed on the floor of the exchange increased by 1.0 million contracts year over year, downward pricing pressure on the floor operation from the electronic trading of options contracts, resulted in a significant reduction in the average rate per transaction. A strengthening Canadian dollar also adversely impacted our floor brokerage revenue on a year over year basis by \$50,000.

### **Subscription Fees**

Subscription fee revenue in the core business, which is based on customers paying a fixed monthly fee for connectivity to the Belzberg Gateway on a per terminal or other contracted basis, was essentially flat at \$1.9 million in the third quarters of 2005 and 2004. A strengthening Canadian dollar adversely impacted our subscription revenue on a year over year basis by \$20,000.

### **Other Revenue**

Other revenue that includes revenue from information distribution, software development fees, installation fees and revenue from connectivity to the Belzberg Gateway increased by 31% to \$0.5 million in the third quarter ended September 30, 2005 from \$0.4 million in the third quarter ended September 30, 2004. The year over year other revenue increase related to additional connectivity fees to the Belzberg Gateway of approximately \$42,000 from additional customers, additional consulting work performed year over year of approximately \$29,000 and license fee redistribution of \$36,000 on which the Corporation makes little or no markup.

## Revenues

For the nine months ended September 30,

(\$000's)	2005			2004		
	Canada	USA	Total	Canada	USA	Total
Transaction fees - core	\$ 1,485	\$ 13,160	\$ 14,645	\$ 1,316	\$ 9,122	\$ 10,438
Transaction fees - brokerage	-	1,992	1,992	-	2,220	2,220
Subscription fees	4,896	759	5,655	4,620	957	5,577
Other revenue	1,415	340	1,755	770	385	1,155
<b>Total</b>	<b>\$ 7,796</b>	<b>\$ 16,251</b>	<b>\$ 24,047</b>	<b>\$ 6,706</b>	<b>\$ 12,684</b>	<b>\$ 19,390</b>

### Total Revenues

Total revenue increased by 24% from \$19.4 million in the nine months ended September 30, 2004 to \$24.0 million in the nine months ended September 30, 2005. Revenue growth for the nine months on a year over year basis was adversely impacted from the strengthening Canadian dollar by approximately \$1.0 million.

For the nine month period, the Corporation generated approximately 68% (2004 - 65%) of its revenues in the United States and 32% (2004 - 35%) of its revenues in Canada.

### Transaction fee Revenues - Core

Transaction fee revenue from the core business, which includes customers paying a fee per transaction routed through the Belzberg Gateway, increased by \$4.2 million or 40% from \$10.4 million in the nine months ended September 30, 2004 to \$14.6 million in the nine months ended September 30, 2005.

#### (i) Equity order flow

Approximately \$2.0 million or 48% of our core transaction fee revenue growth for the nine month period on a year over year basis was attributable to our U.S. equity order flow business. Customers that began trading in the trailing twelve month period accounted for approximately 56% of the U.S. equity order flow growth comparing the nine month period in 2005 to 2004 after excluding customers that experienced negative growth. The number of shares executed by our wholly owned U.S. broker dealer increased from approximately 3.4 billion shares in the nine months ended September 30, 2004 to approximately 5.0 billion shares in the nine months ended September 30, 2005. A large proportion of the new business was done with customers executing higher volumes at lower transaction fee rates than the business done a year ago, resulting in a reduction in the average rate per transaction. A strengthening Canadian dollar adversely affected U.S. equity order flow revenue by \$0.6 million for the nine month period on a year over year basis.

Approximately \$0.2 million or 5% of our core transaction fee revenue growth for the nine month period on a year over year basis was attributable to our Canadian equity order flow business.

## **(ii) Option contracts**

Approximately \$2.0 million or 48% of our core transaction fee revenue growth for the nine month period on a year over year basis was attributable to our options business. Our option volumes executed increased from approximately 7.5 million contracts in the nine months ended September 30, 2004 to 25.6 million contracts in the nine months ended September 30, 2005. Our Hyts program accounted for approximately 60% while an additional two customers accounted for approximately 20% of the year over year nine month option revenue growth after excluding customers that experienced negative growth. A strengthening Canadian dollar adversely affected option revenue by \$0.2 million for the nine months on a year over year basis.

### **Transaction fee Revenues - Brokerage**

Transaction fee revenue from the brokerage segment decreased by \$0.2 million or 10% from \$2.2 million in the nine months ended September 30, 2004 to \$2.0 million in the nine months ended September 30, 2005. Although the number of option contracts executed on the floor of the exchange increased by 21 million contracts year over year, significant downward pricing pressure on the floor operation from the electronic trading of options contracts, resulted in a reduction in the average rate per transaction. A strengthening Canadian dollar also adversely impacted our floor brokerage revenue on a year over year basis by \$0.2 million.

### **Subscription Fees**

Subscription fee revenue in the core business, which is based on customers paying a fixed monthly fee for connectivity to the Belzberg Gateway on a per terminal or other contracted basis, increased by \$0.1 million or 1% from \$5.6 million in the nine months ended September 30, 2004 to \$5.7 million in the nine months ended September 30, 2005. A strengthening Canadian dollar adversely impacted our subscription revenue on a year over year basis by \$64,000.

### **Other Revenue**

Other revenue that includes revenue from information distribution, software development fees, installation fees and revenue from connectivity to the Belzberg Gateway increased by \$0.6 million or 52% to \$1.8 million for the nine months ended September 30, 2005 from \$1.2 million for the nine months ended September 30, 2004. Approximately \$0.3 million of the increase resulted from a non-recurring customer contractual obligation that became due in the second quarter of 2005 and that was fully paid for. A further \$0.2 million of the year over year other revenue increase related to a license fee redistribution on which the Corporation makes little or no markup. The balance of the increase related to additional connectivity fees to the Belzberg Gateway on a year over year basis of approximately \$0.2 million from additional customers. These increases were offset by a reduction in custom programming work of \$0.1 million on a year over year basis.

## Gross Margin

(\$000's)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenue	\$ 8,280	\$ 6,423	\$ 24,047	\$ 19,391
Cost of Revenue	4,650	3,434	13,183	10,524
Gross Margin	\$ 3,630	\$ 2,989	\$ 10,864	\$ 8,867
Gross Margin %	44%	47%	45%	46%

Gross margin as a percentage of sales decreased to 44% in the third quarter of 2005 from 47% in the third quarter of 2004. The year over year quarterly margin reduction is mainly attributable to increased passthrough costs of approximately \$1.2 million from higher trading volumes and that relate to exchange and ECN fees, introducing broker commissions and customer connectivity costs on which little or no margin is recovered.

Gross margin as a percentage of sales decreased to 45% in the nine months ended September 30, 2005 from 46% in the nine months ended September 30, 2004. The year over year margin reduction is attributable to the following factors:

- (i) higher passthrough costs related to license fee redistribution costs of \$0.1 million, additional exchange and customer connectivity costs of \$0.4 million, additional introducing broker commissions of \$1.3 million and additional specialist and exchange fees of \$1.1 million from higher trading volumes all of which effectively reduced margins.

The higher passthrough costs were offset by:

- (ii) Reduced payroll costs of \$0.2 million on a year over year basis from headcount terminations;
- (iii) Reduced brokerage costs of \$0.2 million on a year over year basis from a reduction in seat lease costs;
- (iv) Non recurring revenue of \$0.3 million in the second quarter of 2005 relating to a customer contractual obligation with no additional costs attached.

## Expenses (Income)

(\$000's)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Sales and marketing	\$ 555	\$ 730	\$ 1,766	\$ 2,353
Research and development	555	541	1,690	1,671
Government assistance	(160)	(154)	(160)	(154)
Administration	1,079	1,252	3,546	3,669
Amortization	423	531	1,397	1,670
Foreign exchange loss	128	1	169	63
Interest expense	15	22	41	89
Interest (Income)	(17)	(10)	(43)	(57)
Restructuring charges	-	-	-	181
Total	\$ 2,578	\$ 2,913	\$ 8,406	\$ 9,485

### Sales and Marketing Expenses

Sales and marketing expenses decreased by \$0.2 million or 24% to \$0.6 million in the third quarter of 2005 as compared to \$0.7 million in the third quarter of 2004. The year over year quarterly decrease is primarily due to \$0.1 million of reduced payroll and sales commissions from headcount terminations and reduced occupancy allocation costs of \$60,000 resulting from rent reductions and from proportionate headcount changes. The balance of the year over year quarterly decrease relates to reduced travel expenses and reduced promotional costs.

Sales and marketing expenses decreased by \$0.6 million or 25% to \$1.8 million in the nine months ended September 30, 2005 as compared to \$2.4 million in the nine months ended September 30, 2004. The year over year decrease is primarily due to \$0.3 million of reduced payroll and sales commissions from headcount terminations and reduced occupancy allocation costs of \$0.2 million resulting from rent reductions and from proportionate headcount changes. The balance of the year over year quarterly decrease relates to reduced travel expenses and reduced promotional costs.

### Research and Development Expenses

Research and development expenses were essentially unchanged at \$0.6 million in the third quarters of 2004 and 2005. Additional employee compensation costs of \$54,000 year over year were offset by reduced occupancy cost allocations of \$36,000 resulting from rental and operating expense reductions and from proportionate headcount changes.

Research and development expenses were essentially unchanged at \$1.7 million in the nine months ended September 30, 2004 and 2005. Additional employee compensation costs of \$36,000 and increased data feed cost allocations of \$46,000 for the nine months year over year were offset by reduced occupancy cost allocations of \$65,000 as a result of rental and operating expense reductions received in the second quarter 2005.

### **Government Assistance**

Government assistance for the three and nine month periods ended September 30, 2005 relates to the provincial scientific research and experimental development (“SR&ED”) tax credits claimed for the 2003 and 2004 tax years.

Government assistance for the three and nine month periods ended September 30, 2004 relates to the provincial scientific research and experimental development (“SR&ED”) tax credits claimed for the 2002 tax year.

### **Administration Expenses**

Administration expenses decreased by \$0.2 million or 14% to \$1.1 million for the quarter ended September 30, 2005 from \$1.3 million for the quarter ended September 30, 2004. Increased professional fees of \$50,000 from a non-solicitation suit initiated by the Corporation were offset by (i) reduced occupancy cost allocations of \$0.1 million resulting from rental and operating expense reductions and (ii) reduced bad debt provisions of \$0.1 million resulting from an improvement in the receivables aging. The balance of the year over year quarterly decrease relates to reduced travel expenses and reduced telecommunication costs.

Administration expenses decreased by 0.2 million or 3% to \$3.5 million for the nine months ended September 30, 2005 from \$3.7 million for the nine months ended September 30, 2004. Increased professional fees of \$0.2 million relating to legal fees for patent defense costs and for a non-solicitation suit initiated by the Corporation were offset by (i) lower stock based compensation costs of \$0.1 million from the cancellation of employee and director options; (ii) reduced occupancy cost allocations of \$0.1 million resulting from rental and operating expense reductions; (iii) reduced bad debt provisions of \$0.1 million resulting from an improvement in the receivables aging; and (iii) reduced travel and telecommunication costs of \$0.1 million.

### **Amortization of Capital Assets**

Amortization of capital assets decreased by \$0.1 million or 20% to \$0.4 million for the quarter ended September 30, 2005 from \$0.5 million for the quarter ended September 30, 2004. The year over year quarterly decrease resulted mainly from computer and network equipment becoming fully depreciated during the 2004 and 2005 years. The Corporation expects amortization of capital assets to further decrease in the latter part of 2005 as computer and network equipment purchased in 2002 becomes fully depreciated in 2005.

Amortization of capital assets decreased by \$0.3 million or 16% to \$1.4 million for the nine months ended September 30, 2005 from \$1.7 million for the nine months ended September 30, 2004. The year over year decrease resulted mainly from computer and network equipment becoming fully depreciated during the 2004 and 2005 years.

### **Foreign Exchange Loss**

The Corporation uses foreign currency futures and options contracts to manage a portion of its exposure to fluctuations in foreign exchange rates. The Corporation recognizes changes in the fair value of the derivative instruments into income each period.

The Corporation incurred a foreign exchange loss of \$128,000 for the quarter ended September 30, 2005 that arose from a strengthening Canadian dollar. The loss from translating our integrated foreign subsidiaries was partially offset by the gain from our option foreign exchange contracts. As at September 30, 2005, the Corporation had option exchange contracts outstanding for the purchase of \$7.0 million Canadian dollars at US\$.84 expiring in March 2006.

During the three month period ended September 30, 2004 the Corporation incurred a foreign exchange loss of \$1,000. The unrealized gains on our option foreign exchange contracts offset the loss from translating our integrated foreign subsidiaries.

For the nine month period the exchange loss was \$169,000 versus an exchange loss of \$63,000 in 2004. The exchange loss for the nine month period ended September 30, 2005 resulted from the Corporation only being partially hedged against the strengthening Canadian dollar. The exchange loss for the nine-month period ended September 2004 arose from the exchange rate fluctuation that occurred between the time that the Company closed out its Canadian dollar futures contract and repurchased a Canadian dollar options contract.

### **Interest Expense**

Interest expense, decreased by \$7,000 to \$15,000 for the quarter ended September 30, 2005 from \$22,000 for the quarter ended September 30, 2004. The majority of the decrease resulted from the maturity of certain older capital lease obligations resulting in a lower interest expense. The Corporation also repaid its bank loan in the third quarter of 2004 resulting in a lower interest expense year over year.

Interest expense, decreased by \$48,000 to \$41,000 for the nine months ended September 30, 2005 from \$89,000 for the nine months ended September 30, 2004. The majority of the decrease resulted from the maturity of certain older capital lease obligations resulting in a lower interest expense. The Corporation also repaid its bank loan in the third quarter of 2004 resulting in a lower interest expense year over year.

### **Interest Income**

Interest income increased by \$7,000 to \$17,000 for the quarter ended September 30, 2005 from \$10,000 for the quarter ended September 30, 2004. In the third quarter of 2005 the Corporation received additional interest income as a result of investing excess cash.

Interest income decreased by \$14,000 to \$43,000 for the nine months ended September 30, 2005 from \$57,000 for the nine months ended September 30, 2004. Interest income of \$26,000 relating to a research and development tax refund was received in the nine months ended September 30, 2004 that did not recur in the nine months ended September 30, 2005.

### **Restructuring charges**

In the second quarter of 2004, the Company restructured its broker dealer operation as management believed that the operation could continue to be reorganized for increased efficiencies and improved future profitability and as a result recorded a restructuring charge of \$180,665 for employee severances and benefits.

There were no restructuring charges in the 2005 year.

## Net Earnings

The net earnings for the third quarter ended September 30, 2005 improved to \$1.1 million or \$0.08 per share from net earnings of \$0.1 million or \$0.01 per share in the third quarter ended September 30, 2004.

The net earnings for the nine months ended September 30, 2005 improved to \$2.5 million or \$0.18 per share from a net loss of \$0.6 million or a loss per share of \$0.04 in the nine months ended September 30, 2004.

## Summary of Quarterly Results

The table below sets out selected quarterly information for the Corporation.

Summary of Quarterly Results								
(Unaudited)	FY 2005			FY 2004				FY 2003
(\$000's except per share amounts)	Q3 05	Q2 05	Q1 05	Q4 04	Q3 04	Q2 04	Q1 04	Q4 03
Revenue	\$ 8,280	\$ 8,648	\$ 7,118	\$ 6,529	\$ 6,422	\$ 6,258	\$ 6,710	\$ 5,672
Cost of revenue	4,650	4,681	3,851	3,743	3,434	3,642	3,448	3,561
Gross margin	3,630	3,967	3,267	2,786	2,988	2,616	3,262	2,111
Expenses (Income)								
Sales and marketing	555	606	605	750	730	818	805	1,021
Research and development	555	556	579	710	541	550	579	761
Government assistance	(160)	-	-	-	(154)	-	-	(304)
Administration	1,079	1,257	1,209	1,361	1,252	1,242	1,175	1,316
Foreign exchange loss (gain)	128	29	11	2	1	69	(7)	(85)
Amortization	423	477	498	519	531	560	579	615
Interest expense	15	12	14	15	22	30	38	46
Interest income	(17)	(14)	(12)	(19)	(10)	(10)	(38)	(23)
Restructuring charges	-	-	-	(26)	-	181	-	219
Write-down of leasehold improvements	-	-	-	238	-	-	-	-
	2,578	2,923	2,904	3,550	2,913	3,440	3,131	3,566
Net earnings (loss)	\$ 1,052	\$ 1,044	\$ 363	\$ (764)	\$ 75	\$ (824)	\$ 131	\$ (1,455)
Earnings (loss) per share:								
Basic	\$ 0.08	\$ 0.08	\$ 0.03	\$ (0.06)	\$ 0.01	\$ (0.06)	\$ 0.01	\$ (0.11)
Diluted	0.08	0.08	0.03	(0.06)	0.01	(0.06)	0.01	(0.11)
Weighted avg number of common and common equivalent shares outstanding:								
Basic	13,804	13,778	13,778	13,778	13,778	13,768	13,719	13,713
Diluted	13,865	13,778	13,778	13,778	13,792	13,768	13,780	13,713
Capital asset expenditures	290	310	444	218	120	246	292	418
Total assets	15,406	14,105	13,297	12,979	13,361	14,053	15,102	15,374
Long term lease obligations	235	297	227	87	112	163	317	465
Shareholders' equity	11,549	10,259	9,185	8,770	9,451	9,339	9,954	9,678

The sequential decrease in revenues of \$0.4 million between Q3 05 and Q2 05 is mainly attributable to \$0.3 million of non-recurring revenue in Q2 05 from a customer contractual obligation that became due and was fully paid for in Q2 05.

# Liquidity and Capital Resources

## Financial Position

At September 30, 2005 the Corporation had cash and cash equivalents of \$5.5 million, an increase of \$0.9 million from the \$4.6 million of cash and cash equivalents at June 30, 2005. The Corporation's working capital improved to \$8.6 million at the end of September 30, 2005 from \$7.2 million at the end of June 30, 2005.

The Corporation's subsidiaries Electronic Brokerage Systems, LLC ("EBS") and Robert C. Sheehan & Associates, LLC ("RCS") are subject to the Uniform Net Capital Rule (Rule 15c3-1) of the Securities Exchange Act of 1934 which requires the maintenance of minimum net capital. Under this rule, EBS is required to maintain net capital equal to the greater of US\$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined, and RCS is required to maintain net capital equal to the greater of US\$100,000 or 6-2/3% of aggregate indebtedness, as defined. As at September 30, 2005, EBS and RCS had net capital of US\$4,615,000 and US\$641,000 and a net capital requirement of US\$250,000 and US\$100,000, respectively.

The Corporation's subsidiary Electronic Brokerage Systems, LLC ("EBS") that provides option execution services is currently required by the Options Clearing Corporation ("OCC") to maintain minimum net capital of US\$2 million. At September 30, 2005 EBS had minimum net capital of US\$4.6 million.

## Operating activities

The Corporation generated positive cash flow from operations of \$1.4 million for the quarter ended September 30, 2005 as compared to generating \$0.4 million of cash flow from operations in the quarter ended September 30, 2004. The third quarter year over year improvement in cash flow generated from operations resulted mainly from the \$1.0 million improvement in the profitability of the Corporation on a year over year basis.

The Corporation generated positive cash flow from operations of \$2.6 million for the nine months ended September 30, 2005 as compared to generating \$1.7 million of cash flow from operations for the nine months ended September 30, 2004. When comparing the nine months ended September 30, 2005 to the nine months ended September 30, 2004, the positive impact to cash flow from operations resulting from the improvement in the profitability of the Corporation on a year over year basis of \$3.1 million was offset by an adverse year over year change in non-cash working capital items of \$2.0 million. The year over year nine month adverse change in non-cash working capital items resulted mainly from:

- (i) the increase in accounts receivable balances of \$0.6 million from higher sales revenue generated in the nine months ended September 30, 2005 as compared to a reduction in accounts receivable balances of \$0.5 million in the same period of the prior year.
- (ii) the increase in deposits and receivables from brokers, dealers and clearing organizations of \$0.4 million in the nine months ended September 30, 2005 as compared to a reduction in deposits and receivables from brokers, dealers and clearing organizations of \$0.3 million in the nine months ended September 30, 2004. In the nine months ended September 30, 2005, the Corporation deposited an additional \$0.5 million at the Options Clearing Corporation as a result of the increase in its options business resulting in an outflow of funds. In the nine

months ended September 30, 2004, the Corporation closed certain broker dealer accounts resulting in a reduction in the deposits at brokers and a corresponding increase to operating cash flow.

- (iii) the receipt of R&D tax credit refunds of \$0.3 million in the nine months ended September 30, 2004 that did not recur in the nine months ended September 30, 2005.
- (iv) the sale of a portfolio investment and the receipt of a demand note receivable generating cash of approximately \$0.3 million in the nine months ended September 30, 2004 that did not recur in nine months ended September 30, 2005.
- (v) the above adverse changes to cash generated from operations were offset by the payment of restructuring accruals of \$0.3 million in the nine months ended September 30, 2004 that did not recur in the nine months ended September 30, 2005, as well as a reduction in payables and accrued liabilities paid of \$0.1 million in the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004.

### **Investing activities**

The Corporation utilized \$0.3 million of cash for investing activities in the quarter ended September 30, 2005 compared to utilizing \$0.1 million in the quarter ended September 30, 2004. In the third quarter of 2005 the Corporation acquired, for cash, network equipment of \$0.3 million as compared to \$0.1 million in the third quarter of 2004 required to maintain high-speed connectivity between customers, the Corporation and a multitude of exchanges and other markets for live trade execution.

The Corporation utilized \$0.6 million of cash for investing activities in the nine months ended September 30, 2005 compared to utilizing \$0.7 million of cash in the nine months ended September 30, 2004. The Corporation acquired, for cash, network equipment of \$0.6 million in the nine months ended September 30, 2005 as compared to \$0.7 million in the nine months ended September 30, 2004. In the nine months ended September 30, 2005 the Corporation financed approximately \$0.4 million of capital asset expenditures with capital lease obligations with a term of 36 months.

### **Financing activities**

The Corporation generated \$96,000 of cash from financing activities in the quarter ended September 30, 2005 as compared to utilizing \$271,000 of cash for financing activities in the quarter ended September 30, 2004. Financing activities in the quarter ended September 30, 2005 included the repayment of capital lease obligations of \$104,000 that was offset by proceeds from the exercise of stock options of \$200,000. Financing activities in the quarter ended September 30, 2004 included repayment of capital lease obligations of \$251,000 and the repayment of a bank loan of \$20,000.

The Corporation utilized \$0.3 million of cash for financing activities in the nine months ended September 30, 2005 as compared to utilizing \$0.8 million of cash for financing activities in the nine months ended September 30, 2004. Financing activities in the nine months ended September 30, 2005 included the repayment of capital lease obligations of \$0.5 million that was offset by proceeds from the exercise of stock options of \$0.2 million.

Financing activities in the nine months ended September 30, 2004 included repayment of capital lease obligations of \$0.8 million and the repayment of a bank loan of \$0.2 million that were offset by proceeds from the exercise of stock options of \$0.2 million.

### **Liquidity and sources of financing**

The Corporation secured an operating line of credit of \$2 million and a lease line of credit of \$0.5 million with a Canadian Chartered Bank during the second quarter of 2005. These credit facilities are secured by a general security agreement on the Corporation's assets. There were no amounts outstanding under the operating facility at September 30, 2005.

The Corporation's wholly owned U.S. broker dealer, Electronic Brokerage Systems, LLC ("EBS"), is required by the SEC and OCC to maintain specific levels of minimum net capital (refer to financial position above) defined as assets minus liabilities less deductions for certain types of assets. The Corporation is dependant upon EBS to fund a certain portion of its working capital requirements and to fund a certain amount of its capital asset expenditures. Any changes in such minimum net capital rules or the maintenance of the existing levels of minimum net capital or any additional fund deposits required by the OCC as a result of the growth in the Corporation's options business may restrict the Corporation's ability to withdraw capital from its brokerage subsidiary to fund its working capital requirements.

The Corporation plans to fund any major capital asset expenditures in 2005 by utilizing its lease line of credit established or with other credit facilities available from asset based lenders.

The Corporation's subsidiary, Electronic Brokerage Systems, LLC has available a secured credit facility of US\$5 million that may be utilized to facilitate clearing and settlement activities. The facility is collateralized by an equivalent amount of cash or cash equivalents held at the bank. At September 30, 2005, no amounts were outstanding under this credit facility.

The Corporation believes that cash flow generated from operations supplemented with the operating credit facilities established (Refer above) will be sufficient to fund working capital requirements and anticipated capital expenditures in 2005.

### **Normal Course Issuer Bid**

In March 2005, the Toronto Stock Exchange approved a Normal Course Issuer Bid for the Corporation to repurchase up to 688,000 of its common shares over the period from April 1, 2005 to March 31, 2006. During the last 12 months, the Company did not purchase any common shares through a normal course issuer bid.

## **Related Party Transactions**

During the second quarter of 2005, the Related Company, from whom Belzberg leased its corporate premises ("the leased premises") on a month-to-month basis, surrendered to the

lessor approximately 7,500 square feet of a total rentable area of approximately 22,200 square feet. The lease for the remainder of the leased premises of approximately 14,700 square feet was assigned from the related Company to Belzberg. The term of the lease was extended with the landlord to expire on September 30, 2011 from an original expiry date of September 30, 2009. The above noted transaction was completed on an arms length basis at market related rentals. The reduced corporate office space will result in annualized savings to Belzberg of approximately \$450,000.

## Commitments and Contractual Obligations

The Corporation's commitments, primarily occupancy, datafeed and telecommunications costs, require future minimum payments, as summarized below at September 30, 2005. These commitments have been revised from the MD&A for the year ended December 31, 2004, to reflect the assignment of the corporate premise lease to Belzberg in the second quarter of 2005 (Refer to Related Party transactions)

Contractual obligations as at September 30, 2005	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	\$ 459,205	\$ 224,189	\$ 235,015		
Operating leases	7,171,402	1,559,608	2,751,274	1,907,014	953,507
Purchase obligations	2,657,013	1,402,494	1,183,763	70,756	-
Total contractual obligations	\$ 10,287,619	\$ 3,186,291	\$ 4,170,052	\$ 1,977,769	\$ 953,507

## Off-Balance Sheet Arrangements

The Corporation does not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space and certain nominal equipment. In accordance with GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

The Corporation typically agrees in its sales contracts to indemnify its customers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties. The term of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is generally limited as specified on a contract by contract basis. To date, the Corporation has not paid any amounts to settle claims or defend lawsuits.

## Critical Accounting Policies and Estimates and Accounting Changes

These items are unchanged from those discussed in the Corporation's annual MD&A for the year ended December 31, 2004.

## Risks and Uncertainties

The primary risks affecting the Corporation are substantially unchanged from those discussed in Corporation's annual MD&A for the year ended December 31, 2004.

## Outstanding Share Data

Set out below is the outstanding share data for the Corporation as at October 24, 2005.

<b>Common Shares:</b>	13,867,590
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	2,685,100