



MANAGEMENT'S
DISCUSSION
AND ANALYSIS
For the Year Ended December 31, 2006

The Science of Trading

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements of Belzberg Technologies Inc. (the "Company" or "Belzberg") and the notes thereto for the year ended December 31, 2006. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The reporting currency in this MD&A is Canadian dollars. Additional information relating to the Company, including the Company's Annual Information Form is on SEDAR at www.sedar.com. The MD&A is as of March 1, 2007.

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 Company'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 and product and service liability. The preceding list is not exhaustive of all possible factors. Other factors could also affect the Company's results. For a more detailed discussion of these factors refer to the section titled "Risks and Uncertainties" in this MD&A. All factors should be considered carefully when making decisions with respect to the Company and undue reliance should not be placed on the Company's forward-looking statements. The Company 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 provider of technology-based brokerage services, trading equities and options through its wholly owned subsidiary, Electronic Brokerage Systems ("EBS"), an agency-only broker-dealer. EBS is a member of most North American stock exchanges, options exchanges and clearing organizations, including the NYSE, NASDAQ, CBOE, NSCC and OCC. Using Belzberg's suite of integrated trading tools and network connectivity to all North American Exchanges, the Company's customers have direct access to all equities and options markets. Belzberg's products enable traders to execute and manage large volumes of transactions with great reliability and security.

Major financial institutions, broker-dealers, buy-side institutions, banks, and others use EBS trade execution services and all or a subset of Belzberg trading products to automate their order execution, algorithmic trading, 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, EBS, had become a member of the National Securities Clearing Corporation ("NSCC"). In November, 2002, the Company announced that EBS also became a member of the New York Stock Exchange ("NYSE"). These memberships allowed the Company to become self-clearing, which significantly reduced the Company's clearing costs.

In 2001, the Company 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

2006 Highlights and Summary

- Revenue increased by 13% for the year ended December 31, 2006 to \$37.4 million from \$33.0 million for the year ended December 31, 2005.
- Earnings of \$9.2 million (including \$1.5 million related to a net income tax recovery and \$0.8 million related to the recognition of federal ITC's) or \$0.61 per share for the year ended December 31, 2006 as compared to earnings of \$4.1 million or \$0.30 per share for the year ended December 31, 2005.
- Positive cash flow from operations of \$8.3 million for the year ended December 31, 2006 compared to cash flow from operations of \$4.3 million for the year ended December 31, 2005.
- Working capital position of \$22.2 million at December 31, 2006 as compared to \$10.5 million at December 31, 2005.

The Company continued to grow both its revenues and net earnings in the 2006 year although at a slower growth rate than the prior year. Our floor brokerage options business showed strong year over year growth where the average contracts per day executed increased by 50%. The electronic options business also showed reasonable year over year growth where the average contracts per day executed increased by 28%. Our U.S. equity orderflow business continued to experience pressure on pricing in the 2006 year even though total volumes executed increased by 49% year over year. At the end of the third quarter of 2006 the Company acquired the business and assets of the Nandra Group, Inc. that contributed approximately \$0.6 million to the U.S. equity orderflow revenue in the fourth quarter. A strengthening Canadian Dollar adversely affected our

year over year revenue growth by approximately \$1.4 million. Net earnings for the year increased to \$9.2 million (including \$1.5 million related to a net income tax recovery and \$0.8 million related to the recognition of federal ITC's) or \$0.61 per share (2005— earnings of \$4.1 million or \$0.30 per share)

The Company's year-end financial position improved with cash and cash equivalents of \$16.4 million (2005 - \$7.1 million) and working capital of \$22.2 million (2005 - \$10.5 million). Cash generated by operations improved to \$8.3 million for the year from \$4.3 million in the prior year.

On August 9, 2006, the Company announced that its Board of Directors had formed a special committee ("Special Committee") of its independent directors with a mandate of pursuing strategic alternatives to maximize the value of the Company's common shares, including seeking proposals involving the purchase or other acquisition of all of the Company's outstanding common shares.

Growth Strategy

The Company's core strategy continues to be to offer to its customers order execution combined with cutting edge technology. The Company's growth strategy for 2007 is to increase its U.S. order flow for both equities and options by developing and or offering new software products to enhance the functionality of its options and equities trading platforms as well as offering new services to additional institutional buy-side customers. The Company has partnered with third parties to develop new algorithms and services to target algorithmic traders and new institutional traders that may increase order flow volumes in the future. The Company may also seek to diversify its current revenue stream by offering its customers new products other than equity and option execution.

Key Performance Indicators

Management regularly reviews the following key performance indicators to measure our progress and success:

- Average daily volumes of U.S. equity order flow and electronic option contracts executed;
- Average daily revenue of U.S. equity order flow and electronic option contracts executed;
- Days sales outstanding.

Management analyzes the average daily volumes in relation to volumes traded on major exchanges and ECN's including but not limited to the New York Stock Exchange, NASDAQ, Chicago Board of Options Exchange, International Securities Exchange and the Options Clearing Corporation to determine the strength of the business.

Management reviews average daily revenues to assist it in determining customer mix for forecasting the profitability of the Company.

Management reviews days sales outstanding of its receivables on a quarterly basis as a tool to improve its cash flow from operations.

Selected Annual Information

The table below sets out selected annual information for the Company.

	Year ended December 31		
(\$000s except per share amounts)	2006	2005	2004
Revenue	\$ 37,366	\$ 33,020	\$ 25,919
Net earnings (loss)	9,167 (a)	4,122	(1,382)(b)
Basic earnings (loss) per share	0.65	0.30	(0.10)
Diluted earnings (loss) per share	0.61	0.30	(0.10)
Total assets	31,103	16,539	12,979
Long term lease obligations	\$ 32	\$ 185	\$ 87

(a) Includes \$1,548 of net income tax recovery and \$778 of federal ITC's not previously recognized. (b) Includes \$155 of restructuring charges and \$238 of write-down of leasehold improvements.

Results of Operations

Total Revenues

Total revenue increased by 13% from \$33.0 million in 2005 to \$37.4 million in 2006. In 2006, the Company generated approximately 72% (2005 - 68%) of its revenues in the United States and 28% (2005 - 32%) of its revenues in Canada. Revenues in the United States increased by 19% in 2006 (increased by 33% in 2005) and revenues in Canada increased by 1% in 2006 (increased by 17% in 2005).

Transaction Fee Revenue - Core

(i) Equity Order Flow

Transaction fee revenue (including the recovery of pass through costs) from the routing of equity order flow through the Belzberg Gateway increased by 8% from \$14.5 million in 2005 to \$15.7 million in 2006. The major contributor to the equity order flow revenue growth was our Canadian equity order flow growth which grew by 31% year over year mainly as a result of increased trading volumes from existing customers. The U.S. equity order flow revenue continued to experience pressure from a strengthening Canadian dollar and the loss of certain higher revenue but low margin accounts that were mostly replaced with increased volumes from lower commission rate customers. In addition, the Company continues to experience pricing pressure in the U.S. equity markets as a result of competition from electronic execution providers and traditional broker dealers.

Total Revenues for the Years Ended December 31

(\$000s)	2006			2005		
	Canada	USA	Total	Canada	USA	Total
Transaction fees – core						
Equity order flow	\$ 2,749	\$ 12,941	\$ 15,690	\$ 2,099	\$ 12,419	\$ 14,518
Electronic option and futures contracts	7	7,998	8,005	5	6,004	6,009
Total transaction fees – core	2,756	20,939	23,695	2,104	18,423	20,527
Transaction fees – brokerage	–	4,850	4,850	–	2,748	2,748
Subscription fees	6,726	665	7,391	6,586	977	7,563
Other revenue	1,057	373	1,430	1,758	424	2,182
Total	\$ 10,539	\$ 26,827	\$ 37,366	\$ 10,448	\$ 22,572	\$ 33,020

MANAGEMENT'S DISCUSSION AND ANALYSIS

U.S. Equity order flow revenue on a year over year basis was adversely affected by approximately \$0.8 million from a strengthening Canadian dollar.

The following table summarizes key performance indicators relating to our U.S. equity order flow:

Year Ended December 31				
U.S. Equity Order Flow	2006	2005	change	% change
Total trading volume (in billions of shares)	10.4	7.0	3.4	49%
Avg trading volume per day (in millions of shares)	41.4	28.0	13.5	48%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 51.6	\$ 49.3	\$ 2.3	5%
Avg transaction fee revenue per share	\$ 0.001244	\$ 0.001761	\$(0.000517)	(29)%
U.S. market trading days	251	252	(1)	–

(ii) Electronic Options and Futures Contracts

Transaction fee revenue (including the recovery of pass through costs) from the electronic execution of options and futures contracts through the Belzberg Gateway increased by 33% from \$6.0 million in 2005 to \$8.0 million in 2006. A strengthening Canadian dollar adversely affected options and futures contracts execution revenue on a year over year basis by approximately \$0.4 million. The increase in the average transaction fee revenue per contract resulted from the Company receiving payment from the various option exchanges and from a specialist for certain of its orderflow. Our CBOE HyTs program accounted for approximately 99% of the year over year electronic option contract volume growth. The following table summarizes key performance indicators relating to our U.S. electronic options contracts executed:

Year Ended December 31				
U.S. Electronic Options Contracts Executed	2006	2005	change	% change
Total trading volume (in millions of contracts)	49.9	39.1	10.8	28%
Avg trading volume per day (in thousands of contracts)	198.9	155.5	43.4	28%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 31.9	\$ 23.8	\$ 8.0	34%
Avg transaction fee revenue per contract	\$ 0.160	\$ 0.153	\$ 0.007	5%
U.S. market trading days	251	252	(1)	–

Transaction Fee Revenue - Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) increased by 76% from \$2.7 million in 2005 to \$4.9 million in 2006. The total volume of floor option exchange contracts executed increased by 50% on a year over year basis. A strengthening Canadian dollar adversely affected the floor brokerage segment revenue on a year over year basis by approximately \$0.2 million.

The following table summarizes key performance indicators relating to our U.S. floor brokerage options contracts executed:

Year Ended December 31				
U.S. Floor Options Contracts Executed	2006	2005	change	% change
Total trading volume (in millions of contracts)	15.7	10.5	5.2	50%
Avg trading volume per day (in thousands of contracts)	62.5	41.8	20.8	50%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 19.3	\$ 10.9	\$ 8.4	77%
Avg transaction fee revenue per contract	\$ 0.309	\$ 0.261	\$ 0.048	18%
U.S. market trading days	251	252	(1)	–

Subscription Fee Revenue

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, decreased by 2% in 2006 to \$7.4 million from \$7.6 million in 2005. Subscription fee revenue in the U.S. decreased by \$0.3 million or 32% year over year as a result of the cancellation by 3 customers during the 2005 year as well as a strengthening Canadian dollar that adversely affected U.S. subscription fee revenue by approximately \$45,000. Subscription fee revenue in Canada increased by \$0.1 million or 2% year over year mostly as a result of additional terminals and products installed at our existing customer base.

Other Revenue

Other revenue, which includes revenue from information distribution, software development fees, installation fees and revenue from connectivity to the Belzberg Gateway, decreased by 34% to \$1.4 million in the year ended December 31, 2006 from \$2.2 million in the year ended December 31, 2005. Approximately \$0.3 million of the decrease resulted from the receipt of a customer contractual obligation in the 2005 year that did not recur in the 2006 year. The balance of the decrease resulted from a reduction in information distribution recoveries (\$0.2 million), a reduction in custom programming work performed and installations (\$0.1 million), a reduction in customer connectivity recoveries (\$0.1 million) and a reduction in license fee redistribution revenue (\$47,000). The Company transitioned its datafeed suppliers at the end of 2005 reducing the cost of datafeeds passed through to its customers in the 2006 year.

Expenses (Income)	Expenses (Income) for the Years Ended December 31							
	2006				2005			
(\$000s)	Core	Brokerage	Total	% of Revenues	Core	Brokerage	Total	% of Revenues
Exchange, clearing and brokerage fees	\$ 9,594	\$ 2,005	\$11,599	31 %	\$ 7,946	\$ 719	\$ 8,665	26 %
Compensation and related benefits	7,547	1,455	9,002	24 %	6,798	1,349	8,147	25 %
Telecommunication and datafeed services	4,968	144	5,112	14 %	6,314	173	6,487	20 %
Administrative and other expenses	3,516	148	3,664	10 %	3,556	188	3,744	11 %
Strategic process expenses	248	–	248	1 %	–	–	–	–
Amortization of capital assets	1,301	4	1,305	3 %	1,761	20	1,781	5 %
Amortization of intangible asset	16	–	16	–	–	–	–	–
Foreign exchange loss (gain)	63	(38)	25	–	199	49	248	1 %
Government assistance	(885)	–	(885)	(2) %	(160)	–	(160)	–
Interest expense	39	–	39	–	52	1	53	–
Interest income	(343)	(34)	(377)	(1) %	(65)	(3)	(68)	–
	\$ 26,064	\$ 3,684	\$29,748	80%	\$ 26,401	\$ 2,496	\$28,897	88%

Exchange, Clearing and Brokerage Fees

Exchange, clearing and brokerage fees are comprised of:

- (i) the transaction fees we pay to the various exchanges, ECN's and clearing organizations for the execution and clearing of our customer equity and option orders;
- (ii) the commissions we pay to other brokers and specialists for execution services and/or for the introduction of orderflow;
- (iii) the cost of our exchange and clearing organization memberships;
- (iv) the cost of seat leases, trading licenses and other brokerage fees;
- (v) the cost of any trading errors that may arise.

Exchange, clearing and brokerage fees increased by 34% to \$11.6 million for the year ended December 31, 2006 from \$8.7 million for the year ended December 31, 2005. The increase can be attributed to:

- (i) increased equity exchange fees in the core business of approximately \$2.6 million from higher trading volumes in the 2006 year and from the new exchange fee structure implemented on the NYSE in the third quarter of 2006.
- (ii) Increased option exchange fees of approximately \$1.6 million mainly from higher trading volumes in the brokerage business.
- (iii) An unusual gain of approximately \$0.1 million in the brokerage business in the 2005 year that did not recur in the 2006 year.
- (iv) A trading error of \$0.1 million in the core business in 2006 year that did not occur in the 2005 year.
- (v) An accrual of \$0.2 million in the core business in the 2006 year for a contingent liability that did not occur in the 2005 year.

The above increases were offset by lower commissions of \$0.8 million in the core business paid to other brokers for the introduction of business, lower specialist fees paid in the core business of \$0.6 million and lower fees paid in the core business for execution services of \$0.2 million.

Compensation and Related Benefits

Compensation and related benefits comprise the payroll cost of our headcount, incentive compensation to employees and any stock based compensation related to the grant of stock options to employees and directors.

Compensation and related benefits increased by 10% to \$9.0 million for the year ended December 31, 2006 from \$8.1 million for the year ended December 31, 2005. The increase can be attributed to:

- (i) Headcount additions in the core business from the acquisition of the business of the Nandra Group, Inc. in the fourth quarter of 2006 that added approximately \$0.4 million to compensation expense.
- (ii) Increased bonuses of \$0.3 million paid in 2006 as compared to those paid in 2005. Approximately \$0.1 million of the increase related to the brokerage business.
- (iii) Increased stock compensation expenses of \$0.1 million in the core business from additional option grants

Our average headcount in 2006 was 89 employees as compared to 85 employees in the prior year.

Telecommunication and Datafeed Services

Telecommunication services comprise of the cost of the communication lines to connect our customers and our offices to each other and to the various exchanges, ECN's and datafeed suppliers. Datafeed service costs comprise of the cost of receiving datafeeds from the various exchanges and other providers to redistribute to our customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Telecommunication and datafeed services decreased by 21% to \$5.1 million for the year ended December 31, 2006 from \$6.5 million for the year ended December 31, 2005. Approximately \$0.8 million of the year over year decrease resulted from the Company transitioning its datafeed suppliers at the end of the 2005 year. Approximately \$0.5 million of the year over year decrease resulted from the Company reorganizing its core and market dataline connections. The balance of the year over year decrease of \$0.1 million related to a reduction in customer connectivity charges from cancellations in the core business. The Company expects that its telecommunication and datafeed costs will increase in the 2007 year from increased capacity required to handle greater volumes of datafeeds provided by the exchanges.

Administrative and Other Expenses

Administrative and other expenses comprise of our occupancy costs, professional fees for legal and audit services, insurance costs and other office and general expenses.

Administrative and other expenses decreased by \$0.1 million or 2% to \$3.66 million for the year ended December 31, 2006 from \$3.74 million for the year ended December 31, 2005. The primary factors that contributed to the year over year decrease were (i) reduced occupancy costs in the core business of \$0.1 million resulting from the full effect of the corporate office space reduction that occurred during the 2005 year; (ii) reduced professional fees of \$0.1 million relating to legal fees incurred in the 2005 year for a non-solicitation suit initiated by the Company that did not recur in the 2006 year and (iii) reduced travel expenses of \$20,000 year over year.

These cost reductions were partially offset by increased advertising and promotional costs of \$0.1 million year over year and an increase in equipment maintenance and repair costs of \$59,000 year over year.

Strategic Process Expenses

On August 9, 2006, the Company announced that its Board of Directors had formed a special committee ("Special Committee") of its independent directors with a mandate of pursuing strategic alternatives to maximize the value of the Company's common shares, including seeking proposals involving the purchase or other acquisition of all of the Company's outstanding common shares.

The strategic process expenses of \$0.2 million include the legal, investment banker and other costs related to the strategic process announced.

Amortization of Capital Assets

Consolidated amortization of capital assets decreased by \$0.5 million or 27% to \$1.3 million for the year ended December 31, 2006 from \$1.8 million for the year ended December 31, 2005. The year over year decrease resulted from computer and network equipment becoming fully depreciated mainly in the core business in the 2005 and 2006 years.

Amortization of Intangible Asset

Amortization of the intangible asset relates to the amortization of the portion of the Nandra purchase price allocated to a customer list. The intangible is being amortized on a straight line basis over 5 years.

Foreign Exchange Loss (Gain)

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

The Company incurred a consolidated foreign exchange loss of \$25,000 of which a loss of approximately \$63,000 related to the core business and a gain of \$38,000 related to the brokerage business for the year ended December 31, 2006. The consolidated foreign exchange loss resulted mainly from gains and losses incurred on option exchange contracts, net of the foreign exchange impact of translating our integrated foreign subsidiaries. As at December 31, 2006, the Company had option exchange contracts outstanding for the purchase of \$9.5 million Canadian dollars at US\$.85 expiring in March 2007. These outstanding option exchange contracts had an unrealized loss of approximately \$174,000 at the 2006 year-end.

The Company incurred a consolidated foreign exchange loss of \$248,000 of which approximately \$49,000 related to the brokerage business for the year ended December 31, 2005. The consolidated foreign exchange loss resulted mainly from gains and losses incurred on option exchange contracts, net of the foreign exchange impact of translating our integrated foreign subsidiaries. As at December 31, 2005, the Company had option exchange contracts outstanding for the purchase of \$9.5 million Canadian dollars at US\$.84 expiring in March 2006. These outstanding option exchange contracts had an unrealized gain of approximately \$52,000 at the 2005 year-end.

Government Assistance

The Company recognized provincial scientific research and experimental development ("SR&ED") tax credits in the 2006 year of \$107,000 of which \$67,000 related to its 2005 tax year and \$40,000 related to its 2003 and 2004 tax years. Provincial SR&ED tax credits are refundable in cash to the Company. The Company also recorded previously unrecognized federal SR&ED tax credits in the 2006 year of \$778,000 based upon management's best estimate of federal ITC's that would be utilized to offset future Canadian federal income tax liabilities. The Company utilized \$247,000 of the federal ITC's in the 2006 year. The Company has approximately \$687,000 of unrecorded federal ITC's. Any change in management's estimate relating to the use of federal ITC's could result in additional income or expense for the Company in the future.

The Company recognized \$160,000 of provincial SR&ED tax credits in the 2005 year that related to its 2003 and 2004 tax years.

During 2006, the Company collected \$200,000 of provincial SR&ED tax credits relating to the 2003 and 2004 tax years. Government assistance relates to the core business.

Interest Expense

Consolidated interest expense, decreased by \$14,000 to \$39,000 for the year ended December 31, 2006 from \$53,000 for the year ended December 31, 2005. The majority of the decrease resulted from the maturity of certain older capital lease obligations resulting in a lower interest expense in the core business.

Interest Income

Consolidated interest income increased by \$309,000 to \$377,000 for the year ended December 31, 2006 from \$68,000 for the year ended December 31, 2005. The increase resulted mainly from investing excess cash in the current year.

Income Taxes

The Company recorded a current tax expense of \$0.2 million related to the utilization of Canadian federal ITC's in the 2006 year. The Company also recorded a future income tax recovery of \$1.8 million in fiscal 2006 based upon management's best estimate, more likely than not, of prior year tax attributes that will

be utilized against future taxable income. Management's estimate considered factors by taxing jurisdiction, such as estimated taxable income, the history of losses for tax purposes and the growth of the Company. Any change in management's estimates could result in an additional income tax recovery or expense in the future. Refer to Note 12 in the consolidated financial statements for further details.

The Company has net operating loss carry forwards in the United States of approximately \$8.7 million that may be used to offset future taxable earnings. The losses expire in the United States beginning in 2020. The Company also has an accumulated federal SR&ED expenditure pool in Canada of approximately \$4.0 million that may be used to reduce future taxable income in Canada. The SR&ED expenditure pool can be carried forward indefinitely. The Company believes that sufficient uncertainty exists regarding the realization of certain future income tax

assets that a valuation allowance is required. The Company also has investment tax credits of approximately \$1.2 million in Canada that may be used to offset future federal income taxes payable in Canada and that expire beginning in 2010. Approximately \$0.7 million of the federal ITC's have not been recorded. Refer to Note 12 in the consolidated financial statements for further details.

Net Earnings

The net earnings for the year ended December 31, 2006 increased to \$9.2 million (including \$1.5 million related to a net income tax recovery and \$0.8 million related to the recognition of federal ITC's) from net earnings of \$4.1 million for the year ended December 31, 2005. The Diluted earnings per share for the year ended December 31, 2006, increased to \$0.61 per share from earnings of \$0.30 per share for the year ended December 31, 2005.

Summary of Quarterly Results (unaudited)

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

(\$ 000s except per share amounts)	2006				2005			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Revenue								
Transaction fees								
Equity order flow	\$ 4,515	\$ 3,709	\$ 3,870	\$ 3,596	\$ 3,994	\$ 3,692	\$ 3,769	\$ 3,062
Electronic option and futures contracts	2,062	1,671	2,050	2,221	1,889	1,559	1,352	1,210
Floor brokerage option contracts	1,395	1,247	1,312	896	756	664	727	601
	7,972	6,627	7,232	6,713	6,639	5,915	5,848	4,873
Subscription fees	1,872	1,846	1,848	1,825	1,908	1,890	1,910	1,855
Other	345	324	409	353	426	475	890	390
Total Revenue	10,189	8,797	9,489	8,891	8,973	8,280	8,648	7,118
Expenses (Income)								
Exchange, clearing and other brokerage fees	3,464	2,700	2,966	2,469	2,452	2,366	2,332	1,515
Compensation and related benefits	2,654	2,040	2,097	2,211	2,045	2,062	2,028	2,012
Telecommunication and datafeed services	1,370	1,224	1,239	1,279	1,465	1,560	1,782	1,680
Administrative and other expenses	1,001	894	926	843	898	851	958	1,037
Strategic process expenses	34	214	—	—	—	—	—	—
Amortization of capital assets	322	326	333	324	383	423	477	498
Amortization of intangible asset	16	—	—	—	—	—	—	—
Foreign exchange loss (gain)	(93)	35	97	(14)	79	128	29	11
Government assistance	(778)	—	(107)	—	—	(160)	—	—
Interest expense	20	5	6	8	13	15	12	14
Interest income	(154)	(121)	(71)	(31)	(25)	(17)	(14)	(12)
	7,856	7,317	7,486	7,089	7,310	7,228	7,604	6,755
Earnings before income taxes	2,333	1,480	2,003	1,802	1,663	1,052	1,044	363
Provision for (recovery of) income taxes								
Current	247	—	—	—	—	—	—	—
Future	(1,795)	—	—	—	—	—	—	—
	(1,548)	—	—	—	—	—	—	—
Net earnings	\$ 3,881	\$ 1,480	\$ 2,003	\$ 1,802	\$ 1,663	\$ 1,052	\$ 1,044	\$ 363
Earnings (loss) per share:								
Basic	\$ 0.27	\$ 0.10	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.08	\$ 0.08	\$ 0.03
Diluted	0.25	0.10	0.13	0.12	0.12	0.08	0.08	0.03

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Equity order flow revenue in the fourth quarter of 2006 increased by approximately \$0.6 million from the acquisition of the business and assets of the Nandra Group, Inc. Other revenue in the second quarter of 2005 included a non-recurring amount of \$0.3 million relating to the settlement of a customer contractual obligation.

Compensation and related benefits in the fourth quarter of 2006 increased by approximately \$0.4 million from additional headcount related to the acquisition of the business and assets of the Nandra Group, Inc.

Government assistance in the fourth quarter of 2006 relates to the recording of federal SR&ED tax credits not previously recognized based upon management's best estimate of federal ITC's that would be utilized to offset future Canadian federal income tax liabilities.

Fourth Quarter Analysis Revenue

2006	Canada	USA	Total
Transaction Fees – core Equity order flow	\$ 663	\$ 3,851	\$ 4,514
Electronic option and futures contracts	1	2,061	2,062
Total transaction fees – core	\$ 664	\$ 5,912	\$ 6,576
Transaction fees – brokerage	–	1,395	1,395
Subscription fees	1,708	164	1,872
Other revenue	235	110	345
Total	\$ 2,607	\$ 7,581	\$ 10,188

2005	Canada	USA	Total
Transaction Fees – core Equity order flow	\$ 614	\$ 3,379	\$ 3,993
Electronic option and futures contracts	5	1,884	1,889
Total transaction fees – core	\$ 619	\$ 5,263	\$ 5,882
Transaction fees – brokerage	–	756	756
Subscription fees	1,690	219	1,909
Other revenue	343	83	426
Total	\$ 2,652	\$ 6,321	\$ 8,973

Total Revenue increased by \$1.2 million to \$10.2 million in the fourth quarter of 2006 from \$9.0 million in the fourth quarter of 2005.

Transaction Fee Revenue - Core

(i) Equity Order Flow

Transaction fee revenue (including the recovery of pass through costs) from the routing of equity order flow through the Belzberg Gateway increased by 13% from \$4.0 million in the fourth quarter of 2005 to \$4.5 million in the fourth quarter of 2006. The major contributor to the equity order flow revenue growth was the acquisition of the business of the Nandra Group Inc. which added approximately \$0.6 million to the U.S. equity order flow. U.S. Equity order flow revenue on a year over year basis was adversely affected by approximately \$0.1 million from a strengthening Canadian dollar.

The following table summarizes key performance indicators relating to our U.S. equity order flow:

U.S. Equity Order Flow	Fourth Quarter Ended December 31			
	2006	2005	change	% change
Total trading volume (in billions of shares)	2.6	2.0	0.64	32%
Avg trading volume per day (in millions of shares)	41.7	31.5	10.2	32%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 61.1	\$ 53.6	\$ 7.5	14%
Avg transaction fee revenue per share	\$ 0.001467	\$ 0.001702	\$(0.000235)	(14)%
U.S. market trading days	63	63	–	–

(ii) Electronic Options and Futures Contracts

Transaction fee revenue (including the recovery of pass through costs) from the electronic execution of options and futures contracts through the Belzberg Gateway increased by 9% from \$1.9 million in the fourth quarter of 2005 to \$2.1 million in the fourth quarter of 2006. A strengthening Canadian dollar adversely affected options and futures contracts execution revenue on a year over year basis by approximately \$56,000. The increase in the average transaction fee revenue per contract resulted from the Company receiving payment from the various option exchanges and from a specialist for certain of its orderflow. The following table summarizes key performance indicators relating to our U.S. electronic options contracts executed:

U.S. Electronic Options Contracts Executed	Fourth Quarter Ended December 31			
	2006	2005	change	% change
Total trading volume (in millions of contracts)	10.0	13.6	(3.6)	(26%)
Avg trading volume per day (in thousands of contracts)	158.4	215.2	(56.8)	(26%)
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 32.7	\$ 29.9	\$ 2.8	9%
Avg transaction fee revenue per contract	\$ 0.207	\$ 0.139	\$ 0.068	49%
U.S. market trading days	63	63	–	–

Transaction Fee Revenue - Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) increased by 85% from \$0.8 million in the fourth quarter of 2005 to \$1.4 million in the fourth quarter of 2006. The total volume of floor option exchange contracts executed increased by 58% on a year over year basis. A strengthening Canadian dollar adversely affected the floor brokerage segment revenue on a year over year basis by approximately \$22,000.

The following table summarizes key performance indicators relating to our U.S. floor brokerage options contracts executed:

Fourth Quarter Ended December 31.				
U.S. Floor Options Contracts Executed	2006	2005	change	% change
Total trading volume (in millions of contracts)	4.6	2.9	1.69	58%
Avg trading volume per day (in thousands of contracts)	72.9	46.1	26.8	58%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 22.1	\$ 12.0	\$ 10.1	85%
Avg transaction fee revenue per contract	\$ 0.304	\$ 0.260	\$ 0.044	17%
U.S. market trading days	63	63	—	—

Subscription Fee Revenue

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, decreased by 2% in the fourth quarter of 2006 to \$1.87 million from \$1.9 million in the fourth quarter of 2005. Subscription fee revenue in the U.S. decreased by \$55,000 or 25% year over year as a result of the cancellation by 3 customers during the 2005 year. Subscription fee revenue in Canada increased by 1% year over year mostly as a result of additional terminals and products installed at our existing customer base.

Other Revenue

Other revenue, which includes revenue from information distribution, software development fees, installation fees and revenue from connectivity to the Belzberg Gateway, decreased by 19% to \$0.3 million in the fourth quarter ended December 31, 2006 from \$0.4 million in the fourth quarter ended December 31, 2005. The decrease resulted from a reduction in information distribution recoveries (\$16,000), a reduction in custom programming work performed (\$44,000), a reduction in customer connectivity recoveries (\$17,000) and a reduction in license fee redistribution revenue (\$25,000). The Company transitioned its datafeed suppliers at the end of 2005 reducing the cost of datafeeds passed through to its customers in the 2006 year.

Expenses (Income)

Exchange Clearing and Brokerage Fees

Exchange clearing and brokerage fees increased by \$1.0 million to \$3.5 million in the fourth quarter of 2006 from \$2.5 million in the fourth quarter of 2005. The increase can be attributed to:

- (i) increased equity exchange fees in the core business of approximately \$0.8 million from higher trading volumes in the fourth quarter of 2006 and from the new exchange fee structure implemented on the NYSE in the third quarter of 2006.
- (ii) Increased option exchange fees of approximately \$0.4 million mainly from higher trading volumes in the brokerage business.
- (iii) An unusual gain of approximately \$0.1 million in the brokerage business in the fourth quarter of 2005 that did not recur in the fourth quarter of 2006.
- (iv) A trading error of \$0.1 million in the core business in the fourth quarter of 2006 that did not occur in the fourth quarter of 2005.
- (v) An accrual of \$0.2 million in the core business in the fourth quarter of 2006 for a contingent liability that did not occur in the fourth quarter of 2005.

The above increases were offset by lower commissions of \$0.2 million paid to other brokers in the core business for the introduction of business and lower fees of \$0.5 million paid for execution services in the core business that decreased.

Compensation and Related Benefits

Compensation and related benefits increased by \$0.6 million to \$2.6 million in the fourth quarter of 2006 from \$2.0 million in the fourth quarter of 2005. The increase can be attributed to:

- (i) Headcount additions in the core business from the acquisition of the business of the Nandra Group, Inc. in the fourth quarter of 2006 that added approximately \$0.4 million to compensation expense.
- (ii) Increased bonuses of \$0.2 million paid in the fourth quarter of 2006 as compared to the fourth quarter of 2005. Approximately \$55,000 of the increase related to the brokerage business.

Our average headcount in the fourth quarter of 2006 was 95 employees as compared to 87 employees in the fourth quarter of the prior year.

Expenses (Income) for the fourth quarter ended December 31

(\$ 000s)	2006				2005			
	Core	Brokerage	Total	% of Revenues	Core	Brokerage	Total	% of Revenues
Exchange, clearing and brokerage fees	\$ 2,861	\$ 603	\$ 3,464	34 %	\$ 2,322	\$ 130	\$ 2,452	27 %
Compensation and related benefits	2,259	395	2,654	26 %	1,709	336	2,045	23 %
Telecommunication and datafeed services	1,331	39	1,370	13 %	1,427	38	1,465	16 %
Administrative and other expenses	945	56	1,001	10 %	846	52	898	10 %
Strategic process expenses	34	—	34	—	—	—	—	—
Amortization of capital assets	321	1	322	3 %	382	1	383	4 %
Amortization of intangible asset	16	—	16	—	—	—	—	—
Foreign exchange loss (gain)	5	(98)	(93)	—	77	2	79	1 %
Government assistance	(778)	—	(778)	(8) %	—	—	—	—
Interest expense	20	—	20	—	11	2	13	—
Interest income	(139)	(15)	(154)	(2)%	(22)	(3)	(25)	—
	\$ 6,875	\$ 981	\$ 7,856	77%	\$ 6,752	\$ 558	\$ 7,310	81%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Telecommunication and Datafeed Services

Telecommunication and datafeed services decreased by \$0.1 million to \$1.4 million in the fourth quarter of 2006 from \$1.5 million in the fourth quarter of 2005. The decrease related to the reduction in datafeed costs of \$47,000 from the termination of a datafeed supplier at the end of 2005 and a reduction in telecommunication costs of \$47,000 mainly from the cancellation of customer connections. The Company expects telecommunication costs and datafeed costs to increase in 2007 as a result of increases by the exchanges of their datafeed costs and the increased bandwidth of datalines required to handle the increased capacity of data output by the exchanges.

Administrative and Other Expenses

Administrative and other expenses increased by \$0.2 million to \$1.0 million in the fourth quarter of 2006 from \$0.9 million in the fourth quarter of 2005. The increase is mainly attributable to (i) higher advertising and promotional costs of \$48,000, (ii) higher office and general expenses of \$36,000 and (iii) higher occupancy costs of \$17,000 from increased operating costs. The increases mainly relate to the core business.

Strategic Process Expenses

On August 9, 2006, the Company announced that its Board of Directors had formed a special committee ("Special Committee") of its independent directors with a mandate of pursuing strategic alternatives to maximize the value of the Company's common shares, including seeking proposals involving the purchase or other acquisition of all of the Company's outstanding common shares.

The strategic process expenses of \$34,000 include the legal, investment banker and other costs related to the strategic process announced.

Amortization of Capital Assets

Amortization of capital assets decreased by \$0.1 million to \$0.3 million in the fourth quarter of 2006 from \$0.4 million in the fourth quarter of 2005. The year over year decrease resulted mainly from computer and network equipment becoming fully depreciated in the core business during the 2005 and 2006 years.

Amortization of Intangible Asset

Amortization of the intangible asset relates to the amortization of the portion of the Nandra purchase price allocated to a customer list. The intangible is being amortized on a straight line basis over 5 years.

Foreign Exchange Loss (Gain)

The Company incurred a foreign exchange gain of \$93,000 in the fourth quarter of 2006 (of which a gain of \$98,000 related to the brokerage business and a loss of \$5,000 related to the core business) that arose from gains and losses incurred on option exchange contracts, net of the foreign exchange impact of translating our integrated foreign subsidiaries.

The Company incurred a foreign exchange loss of \$79,000 in the fourth quarter of 2005 (of which \$2,000 related to the brokerage business) that arose from gains and losses incurred on option exchange contracts, net of the foreign exchange impact of translating our integrated foreign subsidiaries.

Government Assistance

The Company recorded previously unrecognized federal SR&ED tax credits in the fourth quarter of 2006 in the amount of \$778,000 based upon management's best estimate of federal ITC's that would be utilized to offset future Canadian federal income tax liabilities. The Company has approximately \$687,000 of unrecorded federal ITC's. Any change in management's estimate relating to the use of federal ITC's could result in additional income or expense for the Company in the future.

Interest Expense

Interest expense increased to \$20,000 in the fourth quarter of 2006 from \$13,000 in the fourth quarter of 2005. The increase in interest expense resulted mainly from interest assessed on sales tax audits completed in the fourth quarter of 2006 and from an early buyout of a capital lease in the fourth quarter of 2006.

Interest Income

Interest income increased to \$154,000 in the fourth quarter of 2006 from \$25,000 in the fourth quarter of 2005. The Company earned additional interest income in the 2006 year from excess cash invested.

Income Tax Expense (Recovery)

The Company recorded a current tax expense of \$0.2 million in the fourth quarter related to the utilization of Canadian federal ITC's in the 2006 year. The Company also recorded a future income tax recovery in the fourth quarter of \$1.8 million in fiscal 2006 based upon management's best estimate, more likely than not, of prior year tax attributes that will be utilized against future taxable income. Management's estimate considered factors by taxing jurisdiction, such as estimated taxable income, the history of losses for tax purposes and the growth of the Company. Any change in management's estimates could result in an additional income tax recovery or expense in the future. The Company believes that sufficient uncertainty exists regarding the realization of certain future income tax assets that a valuation allowance is required. Refer to Note 12 in the consolidated financial statements for further details.

Net Earnings

The net earnings for the fourth quarter of 2006 increased to \$3.9 million (including \$1.5 million related to a net income tax recovery and \$0.8 million related to the recognition of federal ITC's) from net earnings of \$1.7 million for fourth quarter of 2005. Diluted earnings per share for the fourth quarter of 2006, increased to \$0.25 per share from earnings of \$0.12 per share for the fourth quarter of 2005.

Transactions with Related Parties

During 2006, the Company's subsidiary, Electronic Brokerage Systems, LLC ("EBS"), paid seat lease expenses at market rates of approximately \$52,000 (2005 - \$57,000) to a company controlled by the president of EBS. In addition, EBS recorded transaction fee revenues of approximately \$8,000 (2005 - \$16,500) from the same company for the year ended December 31, 2006.

Liquidity and Capital Resources

Financial Position

At December 31, 2006 the Company had cash and cash equivalents of \$16.4 million, an increase of \$9.3 million from the \$7.1 million of cash and cash equivalents at December 31, 2005. The Company's working capital improved to \$22.2 million at the end of December 31, 2006 from \$10.5 million at the end of December 31, 2005.

The Company is required to maintain certain financial covenants at the end of each fiscal quarter relating to its operating line of credit with a Canadian Chartered Bank. The Company was compliant with these financial covenants at December 31, 2006.

The Company'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 that requires the maintenance of minimum net capital. Under this rule, EBS is required to maintain net capital equal to the greater of US\$500,000 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 December 31, 2006, EBS and RCS had net capital of US\$8.0 million and US\$1.2 million and a net capital requirement of US\$500,000 and US\$100,000, respectively.

EBS is currently required by the Options Clearing Corporation ("OCC") to maintain minimum net capital of US\$2.0 million. At December 31, 2006, EBS had net capital of US\$8.0 million.

Operating Activities

The Company generated positive cash flow from operations of \$8.3 million for the year ended December 31, 2006 as compared to generating \$4.3 million of cash from operations for the year ended December 31, 2005. The year over year improvement of \$4.0 million to cash flow from operations is mainly attributable to the increased profitability of the Company and to the increase in net cash flows from non-cash operating working capital. Net cash flows from non-cash operating working capital increased by \$1.6 million year over year mainly from:

- (i) The Company experienced positive cash inflows from collecting its provincial SR&Ed tax credits of \$0.2 million in the 2006 year.
- (ii) The Company's accounts payable and accrual balances increased at December 31, 2006 at a greater rate than at December 31, 2005 from higher exchange fee payables and performance based compensation accruals in the fourth quarter of 2006. During 2005 the Company utilized its positive cash flow from operations to bring its accounts payable more current resulting in an outflow of cash in 2005. (positive year over year change of \$2.5 million).

These positive operating cash inflows were offset by:

- (iii) The Company's accounts receivable balances increased at December 31, 2006 at a greater rate than at December 31, 2005 from higher revenues in the fourth quarter of 2006 as compared to the prior year (adverse year over year change of \$0.8 million).

Investing Activities

The Company utilized \$1.7 million of cash for investing activities in the year ended December 31, 2006 as compared to utilizing \$0.8 million of cash for investing activities in the year ended December 31, 2005. Investing activities in 2006 consisted of the acquisition of network equipment of \$1.3 million, the payment of \$0.4 million including acquisition costs for the acquisition of the business and assets of the Nandra Group Inc. and the purchase of common shares in the DTCC of \$36,000. Investing activities in 2005 consisted mainly of the acquisition of network equipment of \$0.8 million. The Company entered into \$0.4 million of capital leases in 2005 to acquire network equipment primarily for its Chicago and New York datacenters.

Financing Activities

The Company generated \$2.6 million of cash from financing activities in the year ended December 31, 2006 as compared to utilizing \$0.3 million of cash for financing activities in the year ended December 31, 2005. Financing activities in the year ended December 31, 2006 included repayment of capital lease obligations of \$0.2 million and proceeds from the exercise of employee stock options of \$2.8 million. Financing activities in the year ended December 31, 2005 included repayment of capital lease obligations of \$0.6 million and proceeds from the exercise of employee stock options of \$0.3 million.

Liquidity and Sources of Financing

The Company has an operating line of credit of \$2 million and a lease line of credit of \$0.5 million with a Canadian Chartered Bank. The credit facilities are secured by a general security agreement on the Company's assets and subject the Company to certain financial covenants which it was compliant with at December 31, 2006. There were no amounts outstanding under the operating facility at December 31, 2006.

The Company'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 December 31, 2006, no amounts were outstanding under this credit facility.

The Company is currently generating positive cash flow from operations that it is using to fund working capital requirements, purchase capital assets and pay off its capital lease obligations. The Company's wholly owned U.S. broker-dealer, EBS, is required by the SEC and OCC to maintain specific levels of net capital (refer to financial position above) defined as assets minus liabilities less deductions for certain types of assets. Any changes in such net capital rules or the maintenance of the existing levels of net capital or any additional fund deposits required by the OCC as a result of the growth in the Company's options business may restrict the Company's ability to withdraw capital from its brokerage subsidiary to fund its working capital requirements.

The Company 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.

The Company believes that the positive cash flow generated from operations together with its operating credit facility and its lease line of credit is sufficient to fund its cash requirements for the 2007 year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Commitments and Contractual Obligations

As at December 31, 2006, the Company had future commitments and contractual obligations as summarized in the following table. These commitments are principally comprised of operating leases for the Company's leased premises, purchase obligations for datafeed and telecommunications services and capital lease obligations for fixed asset purchases already made.

Contractual Obligations as at December 31, 2006	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital Lease Obligations	\$ 156,021	\$ 123,511	\$ 32,510	\$ -	\$ -
Operating Leases	5,313,036	1,628,176	2,969,730	715,130	-
Purchase Obligations ⁽¹⁾	2,907,732	1,974,169	889,719	43,844	-
Total Contractual Obligations	\$ 8,376,789	\$ 3,725,856	\$ 3,891,959	\$ 758,974	\$ -

(1) Purchase obligations consist of an agreement to purchase certain services that are enforceable and legally binding. The purchase obligations relate primarily to datafeed and telecommunication services.

Acquisition of the Business and Assets of the Nandra Group, Inc.

On September 29, 2006, the Company closed its acquisition of the business and assets of the Nandra Group, Inc. The transaction involved a purchase price of US\$1 million, with US\$300,000 payable in cash and US\$700,000 in common shares of Belzberg Technologies Inc. The Company also incurred acquisition costs of approximately CDN\$63,000.

The Company issued 86,826 common shares on September 29, 2006 to the Nandra Group, Inc. as payment for the US\$700,000, while the cash consideration of US\$300,000 was paid in the fourth quarter of 2006.

The Company allocated \$853,000 of the purchase price to goodwill, \$320,000 of the purchase price to an intangible asset and \$5,000 of the purchase price to capital assets acquired.

Off-Balance Sheet Arrangements

The Company 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 Company 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 Company has not paid any amounts to settle claims or defend lawsuits.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures (primarily U.S. and Canadian dollars). The Company has from time to time, entered into forward and option foreign exchange contracts intended to manage portions of this risk. The Company's financial derivative instruments are marked to market and are carried at fair value as assets or liabilities, as appropriate, with changes in fair value recognized in the statement of operations in the period in which they occur. The fair value of outstanding derivative financial instruments at December 31, 2006 and December 31, 2005 was based upon quoted market prices. As at December 31, 2006, the Company had outstanding foreign exchange option contracts for the purchase of CDN\$9,500,000 at U.S.\$0.85 maturing in March 2007. The unrealized loss on these outstanding contracts was approximately \$174,000. The Company also realized losses in the 2006 year of approximately \$31,000 on foreign option exchange contracts that were settled in 2006. Gains or losses on foreign option exchange contracts are netted against gains or losses on the translation of our integrated foreign subsidiaries in the consolidated statement of operations.

As at December 31, 2005, the Company had outstanding foreign option exchange contracts for the purchase of CDN\$9,500,000 at U.S.\$0.84 maturing in March 2006. The unrealized gain on these outstanding contracts was approximately \$52,000. The Company also realized losses in the 2005 year of approximately \$116,000 on foreign option exchange contracts that were settled in 2005.

Normal Course Issuer Bid

In March 2006, the Toronto Stock Exchange approved a Normal Course Issuer Bid for the Company to repurchase up to 701,000 of its common shares over the period from April 1, 2006 to March 31, 2007. As at March 1, 2007, no common shares had been repurchased under this Normal Course Issuer Bid.

Patent Information

The Company announced on May 19, 2006 that it had retained Donald E. Stout as a strategic advisor to handle the Company's patent portfolio. The Company submitted the terms of a potential licensing arrangement with a firm that it believes is infringing on its patent. The Company has not to date received a response to the potential licensing arrangement submitted and is currently reviewing with its counsel on how to proceed.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with GAAP. The preparation of the consolidated financial statements in accordance with GAAP necessarily requires the Company to make estimates and judgments that affect the reported amounts on assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenues, bad debts, income taxes, valuation of goodwill and intangible assets and stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of these conditions impacting these assumptions and estimates are outside of the Company's control.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue

The Company derives its revenues from three primary sources. Subscription fees are charged for providing routing software and services, used for equity and options trading, on a flat fee per terminal or per month basis. Transaction fees are charged for providing routing software and services, used for equity and options trading, on a per share/option or per trade basis and transaction fees for the execution of exchange traded equity and index options from the floor brokerage. Lastly, other revenue is derived from the development and installation of software for equity and options trading as well as other revenue from the distribution of financial information and other services.

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

Transaction fees from both the broker-dealer and floor brokerage operations are recognized once the trades have been executed and collectibility is assured.

Revenue derived from the development of software for equity and options trading execution is recognized on a percentage of completion or completed contract basis, as applicable.

Revenue from the distribution of financial information and other services is recognized on a monthly basis as the services are provided once a contract has been signed and collectibility is assured.

Allowance for Doubtful Accounts

The Company determines its allowance for doubtful accounts using a combination of factors to ensure that trade receivable balances are not overstated due to uncollectibility. The Company maintains an allowance for doubtful accounts for all customers based on a variety of factors, including the length of time the receivables are outstanding, the current business environment and its historical experience. The Company also records specific provisions for individual accounts when it becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations to the Company. If the financial condition of the Company's customers deteriorates or if economic conditions worsen, additional allowances may be required.

Stock-Based Compensation

On October 15, 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments to require expensing of all stock-based compensation awards in the financial statements for fiscal years beginning on or after January 1, 2004 with early adoption encouraged. Compensation expense is recognized based on the fair value of stock options granted for fiscal 2003 and future years over the related service period. Under this approach, management employs considerable judgment in estimating, on the date of grant, the options' expected life and expected volatility. Additionally, management estimates the number of options that are expected to vest based on the expected outcomes of the service related conditions.

Income Taxes

The Company records a valuation allowance against future income tax assets when management believes it is more likely than not that some portion or all of the future income tax assets will not be realized. Management considers factors such as the reversal of future income tax liabilities, projected taxable income, the character of the income tax asset and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense (recovery).

Goodwill

Under Canadian GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The fair value of the Company's reporting units utilize a model developed by management that considers various factors such as normalized earnings and price earnings multiples. These factors require management's use of judgment and any imprecision in the estimates and assumptions used in the fair value calculations could influence the determination of goodwill impairment and affect the valuation of goodwill.

Intangible Asset

The Company has an intangible asset related to a customer list acquired. The determination of the related estimated useful life and whether or not the asset is impaired involves significant judgment. In assessing the recoverability of the intangible asset, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the asset. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for this asset not previously recorded. In fiscal 2006, the Company did not record an impairment charge related to the intangible asset.

Investment Tax Credits

The Company applies for investment tax credits from both the Canadian federal and provincial tax authorities relating to amounts expended on scientific research and development ("SR&ED"). The amount of investment tax credits recorded represents management's best estimate based on its interpretation of current legislation. However, the amount ultimately received could be materially different from the amount recorded once the claims are assessed by Canada Revenue Agency.

Recent Accounting Changes

Financial instruments

In April 2005, the CICA issued three new standards to be applied prospectively, Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income, effective for years starting on or after October 1, 2006. The Company will adopt these standards on January 1, 2007. The new rules will require the Company to classify all financial instruments as held for trading, held to maturity, available for sale or as loans and receivables. Upon transition a separate statement of comprehensive income will be presented, in which certain gains and losses that must be temporarily presented outside of net income will be presented.

Risks and Uncertainties

An investment in the securities of the Company will involve a number of potential risks. The following risk factors should be carefully considered in evaluating the Company and its business.

Dependency on Securities Trading Activities

Our revenue could decrease if there is a decline in securities trading activity.

Because most of our current customers are financial institutions or securities brokerage firms, and because we intend to rely more heavily on transaction-based billing in our license agreements, our revenue will be sensitive to changes in the amount of securities trading activity.

A decline in securities trading activity may result from:

- loss of confidence in the reliability or security of online systems;
- changes in government regulation of the securities industry or on-line trading activities; or
- a downturn in the stock market.

The market for our product and services may not grow as quickly as we anticipate, which would cause our revenue to fall below expectations.

Regulations

The securities brokerage industry is subject to extensive government regulation under both federal and state laws in the United States of America. If either EBS or RCS (both USA subsidiaries of the Company) fails to comply with these regulations, it may be subject to disciplinary or other action by regulatory organizations.

EBS and RCS must comply with rules of the SEC and NASD state securities commissions and other regulatory bodies charged with safeguarding the integrity of the securities markets and other financial markets and protecting the interests of investors participating in these markets. As registered broker-dealers, EBS and RCS are subject to numerous regulations covering the securities business, including marketing practices, capital structure, including net capital requirements, record keeping and conduct of directors, officers and employees.

Any failure to comply with these regulations could subject either EBS or RCS to censure, fines, the issuance of cease-and-desist orders or the suspension, and/or disqualification of its officers, directors or employees. The Company constantly monitors the above noted securities regulations and believes that it is in compliance with these regulations.

Maintenance of Capital Levels by Regulators and Clearing Organizations

The SEC, NYSE, NASD, OCC and various other regulatory agencies and clearing organizations have stringent rules with respect to the maintenance of specific levels of net capital by broker-dealers. Net capital is the net worth of a broker-dealer (assets minus liabilities), less deductions for certain types of assets. Failure to maintain the required net capital could result in suspension or revocation of registration by the SEC and suspension or expulsion by one or more of the NYSE, NASD and OCC, and could ultimately lead to the Company's liquidation. If such net capital rules are changed or expanded, the Company's ability to withdraw capital from brokerage subsidiaries could be restricted, which could limit the Company's ability to fund its working capital requirements or capital asset expenditures required.

Execution and Clearing Risk

The Company's execution and clearing activities require that the Company execute transactions in accordance with customer instructions and accurately record and process the resulting transactions. Any failure, error or delay in executing, recording and processing transactions, whether due to human error or failure of the Company's information or communication systems could cause substantial losses for the Company if it has to purchase or sell securities at a loss to cover any of the above instances.

Clearing activities include settling each transaction with both the contra broker and the customer's clearing firm. The Company monitors daily its clearing breaks and necessary action is taken to reduce the Company's risk. Credit risk that could result from contra brokers defaulting is minimized since much of the settlement risk for transactions with brokers is essentially transferred to the National Securities Clearing Corporation or the Options Clearing Corporation. The Credit risk for the customer's clearing firm is minimized since these clearing firms have been qualified by the Depository Trust Company ("DTC"). Before conducting business with a prospective customer, the Company's compliance department reviews the prospective customer's experience in the securities industry, financial condition and personal background, including a background check with a risk reporting agency.

Uncertainty of the Ability to Protect Proprietary Technology

The Company's success will depend, in part, on its ability to protect its patents and trade secrets and operate without infringing the exclusive rights of third parties. There is no proof that any patent that is granted to the Company will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to the Company's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Company's products, that they will not imitate any of its products or that its competitors will not manufacture products designed to circumvent the exclusive patent rights granted to the Company. The Company may also be required to obtain licenses under patents or other exclusive rights from third parties. There is no guarantee that any license required under these patents or other exclusive rights will be offered upon conditions acceptable to the Company.

Proprietary Rights

We may be unable to adequately protect our proprietary rights. Our failure to protect these rights may significantly impair our competitive position.

Our success depends to a significant extent on our ability to protect our proprietary software and our other proprietary rights from copying, infringement or use by unauthorized parties. To protect our proprietary rights we rely primarily on a combination of patent, copyright, trade secret and trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in agreements with consultants, vendors and customers, although we have not signed these types of agreements in every case. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products and obtain and use information that we regard as proprietary. Other parties may breach confidentiality agreements and other protective contracts we have entered into. We may not become aware of, or have adequate remedies in the event of, these types of breaches or unauthorized activities.

In addition, any claims relating to the infringement of third-party proprietary rights, even if not successful or meritorious, could result in costly litigation, divert resources and management's attention or require us to enter into royalty or license agreements which are not advantageous to us. Although the Company endeavours to enter into licensing and service agreements with each of its customers in respect of their use of our Trading System, it has presently, and may have in the future, customers for whom the Company provides services and products and with whom it has not entered into written agreements.

Product and Service Liability

We may be exposed to product and service liability in the event that use of our Trading System results, or is alleged to have resulted, in adverse effects. To manage this risk we endeavour to enter into contracts with our customers which include exculpatory clauses. However, we have presently, and may have in the future, customers for whom we provide services and products and with whom we have not entered into written agreements.

Our Foreign Exchange Calculator allows traders' to track their positions in real time in order to notify traders how much they need to hedge their current positions. While to date there have been no errors, it is possible that in the future the system may not work effectively, which could result in a loss to a trader. If such an error were to occur, it is possible that the Company may be held liable for any such loss.

Ability to Respond to Markets

Rapidly changing technology and new product introductions characterize the markets for our products. Accordingly, we believe that our future success will depend on our ability to enhance existing products and to develop and introduce in a timely fashion new products that achieve market acceptance. We cannot assure that we will be able to identify, develop, assemble and market or support our products successfully or that we will be able to respond effectively to technological changes or product announcements of our competitors.

Competition

The market for global trading solutions, intelligent order routing systems and integration solutions is intensely competitive, fragmented and rapidly changing. Many of the Company's competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger customer bases than the Company. It is therefore impossible to guarantee that the products developed by other companies will not cause the Company's products and technologies to become uncompetitive. We face competition from ITG, Inc., NYFIX, Inc., Reuters Group Plc, Bloomberg LLC and other competitors.

The key barriers to entry into the Company's markets include the extensive technical requirements and regulatory requirements necessary for connectivity to various exchanges and other markets to effectively serve a time-sensitive, regulated clientele.

The Company believes that it has the technical know-how, various exchange and clearing memberships, network infrastructure and products with user-friendly interfaces that facilitate easy execution of real time cross-border trading to ensure that it remains a key competitor.

The Company must continue to overcome significant and increasing competition in order to continue its growth and productivity.

Customer Dependence

The Company is dependent on a limited number of customers for a substantial amount of its revenue. The loss of a significant customer would have a material adverse effect on revenue and results of operations. For the year ended December 31, 2006, five customers accounted for approximately 34% of total revenue (year ended December 31, 2005 - five customers for approximately 27%). The Company is attempting to mitigate this risk by aggressively seeking new customers. Our dependence on a limited number of customers for a substantial amount of our revenue could lead to fluctuations in our operating results.

Any of our customers could stop using our products in the future. As a result, a customer that generates substantial revenue for us in one period may not be a source of revenue in subsequent periods. The loss of a significant customer would have a material and adverse effect on our revenue and results of operations.

Our revenue depends on short-term arrangements with our customers. If we are unable to renew these arrangements, our future operating results may suffer.

Foreign Exchange

In the year ended December 31, 2006, the Company generated approximately 72% (year ended December 31, 2005 - approximately 68%) of its revenue in the United States and corresponding trade receivables due from customers in the United States at December 31, 2006 accounted for approximately 79% (December 31, 2005 - approximately 75%) of total outstanding trade receivables.

The Company does not, at present, hedge 100% of the risks associated with fluctuations in exchange rates between the United States dollar and the Canadian dollar and may be exposed in the future to adverse fluctuations between these exchange rates on the unhedged portion of its net asset position denominated in US dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Encryption Technology

Our product contains encryption technology whose export is restricted by law, which may slow our growth or result in significant costs.

The United States and Canadian governments generally limit the export of encryption technology, which our product incorporates. A variety of cryptographic products generally require export approvals from certain United States government agencies in the case of exports from the U.S.A. and from Canadian government agencies in the case of exports from Canada, although there are currently no restrictions on exports of these products from Canada into the United States.

If any export approval that we receive is revoked or modified, if our software is unlawfully exported or if the United States or the Canadian government adopts new legislation or regulations restricting export of software and encryption technology, we may not be able to distribute our products to potential customers, which will cause a decline in our sales. We may need to incur significant costs and divert resources to develop replacement technologies or may need to adopt inferior substitute technologies to satisfy these export restrictions. These replacement or substitute technologies may not be the preferred security technologies of our customers, in which case, our business may not grow. In addition, we may suffer similar consequences if the laws of any other country limit the ability of third parties to sell encryption technologies to us.

New Technology

The market for our products and services is relatively new and evolving. We earn a substantial portion of our revenue from service fees associated with our Transactions Gateway, Order Management System and front-end software. We expect to earn a significant portion of our revenue in the foreseeable future from fees relating to these products and services. Our future financial performance will depend in part on continued growth in the number of organizations demanding software and services for protocol translation and order management services. Many of our potential customers have made significant investments in internally developed systems and would incur significant costs in switching to third-party products, which may substantially inhibit the growth of the market for enterprise infrastructure software. If this market fails to grow, or grows more slowly than we expect, our sales will be adversely affected.

Outstanding Share Data

Set out below is the outstanding share data for the Company as at March 1, 2007.

Common Shares:	14,627,974
Options to Purchase Common Shares: Issued and Outstanding	1,860,417

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2006, Belzberg's management, with the participation of the President and CEO and the CFO, evaluated the effectiveness of Belzberg's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and concluded that such controls and procedures were effective.

Managements Report on Internal Control Over Financial Reporting

At December 31, 2006, an evaluation was carried out of the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) concluded that the design of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards of COSO, a recognized control model, and the requirements of Multilateral Instrument 52-109.

There were no changes over the Company's internal controls over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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