

# Q3 2006

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

*For The Three and Nine Months Ended September 30, 2006*

# 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, 2006 of Belzberg Technologies Inc. (referred to in this MD&A as the "Company", "Belzberg", "our" and "we") and the MD&A, audited consolidated financial statements and the notes thereto for the year ended December 31, 2005. 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](http://www.sedar.com). The MD&A is as of October 26, 2006.

## 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 the Company's annual MD&A filed on Sedar. 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 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 Company offers low cost trade execution. The Company's customers, who include both broker-dealers and their customers, use Belzberg trading software to buy and sell equities and 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 2006, Belzberg announced that its wholly owned subsidiary, Electronic Brokerage Systems, LLC (“EBS”), was approved by the New York Stock Exchange to conduct public business (i.e. direct access trading to the buy-side)

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 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

### Highlights of Third Quarter 2006 Results

- Profitability of \$1.5 million or \$0.10 per diluted share (after expenses of \$0.2 million related to the strategic process announced on August 9, 2006) for the third quarter of 2006, up from a profit of \$1.1 million or \$0.08 per diluted share in the same year-ago quarter;
- Revenue increased by 6% to \$8.8 million for the third quarter of 2006, up from \$8.3 million in the same year-ago quarter;
- Working capital position of \$18.2 million at September 30, 2006 as compared to \$15.1 million at June 30, 2006.

The third quarter of 2006 experienced an industry wide seasonal slowdown as compared to an unusually active third quarter in the prior year. Our floor brokerage options business showed strong third quarter year over year growth where the average contracts per day executed increased by 47% even with an industry wide slowdown. The electronic options business was essentially flat (excluding passthroughs) in the third quarter year over year where the average daily contracts executed fell 1% from the prior year. Although average daily trading volumes of our U.S. equity order flow increased by 69% year over year in the third quarter, U.S. equity order flow revenue decreased by 2%. The decrease in revenue resulted from the loss of certain higher revenue but low margin accounts that were mostly replaced with increased volumes from lower commission rate customers. There continues to be pricing pressure from competition for electronic order flow from other broker-dealers and electronic execution providers. Our Canadian equity trading volumes increased on a year over year basis resulting in additional equity order flow revenue.

A strengthening Canadian dollar also adversely affected our year over year third quarter revenue growth by approximately \$0.4 million.

Net earnings for the third quarter increased to \$1.5 million (after \$0.2 million of expenses related to the strategic process announced on August 9, 2006) or \$0.10 per diluted share from \$0.08 per diluted share in the same year-ago quarter.

The Company’s financial position improved at September 30, 2006 with cash and cash equivalents of \$12.4 million (June 30, 2006 - \$11.1 million) and working capital of \$18.2 million (June 30, 2006 - \$15.1 million). At the end of the third quarter, the Company experienced a trade-clearing break that resulted in cash of approximately \$1.6 million

flowing to the clearing organization as a margin deposit. This trade-clearing break was cleared after the quarter end and the cash was returned to the Company. Cash and cash equivalents would have been approximately \$14.0 million at September 30, 2006 had this trade-clearing break not occurred.

## 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.

## Results of Operations

### Revenues

#### Total Revenues for the three months ended September 30,

(\$000's)	2006			2005		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 593	\$ 3,116	\$ 3,709	\$ 505	\$ 3,188	\$ 3,693
Electronic option and futures contracts	1	1,670	1,671	3	1,556	1,559
<b>Total transaction fees - core</b>	594	4,786	5,380	\$ 508	\$ 4,744	\$ 5,252
Transaction fees - brokerage	-	1,247	1,247	-	664	664
Subscription fees	1,682	164	1,846	1,665	225	1,890
Other revenue	234	90	324	356	118	474
<b>Total</b>	<b>\$ 2,510</b>	<b>\$ 6,287</b>	<b>\$ 8,797</b>	<b>\$ 2,529</b>	<b>\$ 5,751</b>	<b>\$ 8,280</b>

### Total Revenues

Total revenue increased by 6% from \$8.3 million for the quarter ended September 30, 2005 to \$8.8 million for the quarter ended September 30, 2006. In the third quarter of 2006, the Company generated approximately 71% (third quarter of 2005 - 69%) of its

revenues in the United States and 29% (third quarter of 2005 - 31%) of its revenues in Canada. The Company expects that 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 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 was essentially flat at \$3.7 million in the third quarters of 2006 and 2005.

U.S. equity order flow revenue decreased by \$0.1 million on a year over year basis even though total trading volumes increased by 67% year over year. The majority of the additional volume was done by lower commission rate customers than a year ago. The U.S. equity order flow revenue on a year over year basis was adversely affected by approximately \$0.2 million from a strengthening Canadian dollar.

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.

Canadian order flow increased by \$0.1 million on a year over year basis from higher trading volumes from our existing Canadian customers.

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

<b>U.S Equity Order Flow</b>	<b>Three months ended September 30,</b>			<b>% change</b>
	<b>2006</b>	<b>2005</b>	<b>change</b>	
Total trading volume (in billions of shares)	2.8	1.7	1.1	67%
Avg trading volume per day (in millions of shares)	43.8	25.8	17.9	69%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 49.5	\$ 49.8	-0.4	-1%
Avg transaction fee revenue per share	\$ 0.001130	\$ 0.001887	\$ (0.000757)	(40)%
U.S market trading days	63	64	(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 7% to \$1.7 million in the third quarter of 2006 from \$1.6 million in the same year-ago quarter. Higher exchange fee recoveries increased the average transaction fee per contract on a year over year basis. A strengthening Canadian dollar adversely affected options and futures contracts execution revenue on a year over year basis by approximately \$0.1 million. The following table summarizes key performance indicators relating to our U.S. electronic options contracts executed:

U.S Electronic Options Contracts Executed	Three months ended September 30,			
	2006	2005	change	% change
Total trading volume (in millions of contracts)	10.4	10.7	(0.3)	-3%
Avg trading volume per day (in thousands of contracts)	165.7	167.4	(1.7)	-1%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 26.5	\$ 24.3	2.2	9%
Avg transaction fee revenue per contract	\$ 0.160	\$ 0.145	\$ 0.015	10%
U.S market trading days	63	64	(1)	

### Transaction Fee Revenue – Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) increased by 88% to \$1.2 million in the third quarter of 2006 from \$0.7 million in the same year-ago quarter. The increased revenues resulted from higher average trading volumes per day as well as the recovery of exchange fees that increased the average transaction fee per contract. A strengthening Canadian dollar adversely affected the floor brokerage segment revenue on a year over year basis by approximately \$44,000.

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

U.S Floor Options Contracts Executed	Three months ended September 30,			
	2006	2005	change	% change
Total trading volume (in millions of contracts)	4.1	2.8	1.3	47%
Avg trading volume per day (in thousands of contracts)	64.5	43.3	21.2	49%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 19.8	\$ 10.4	9.42	91%
Avg transaction fee revenue per contract	\$ 0.307	\$ 0.239	\$ 0.067	28%
U.S market trading days	63	64	(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% to \$1.8 million in the third quarter of 2006 from \$1.9 million in the same year-ago quarter. Subscription fee revenue in the U.S. decreased by \$0.1 million or 27% year over year mainly as a result of the cancellation by 1 customer during the 2005 year. Subscription fee revenue in Canada was essentially flat at \$1.7 million in the third quarters of 2006 and 2005.

### 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 32% to \$0.3 million in the third quarter of 2006 from \$0.5 million

in the same year-ago quarter. The majority of the decrease resulted from a reduction in information distribution recoveries (\$73,000), a reduction in custom programming work performed (\$37,000), a reduction in customer connectivity recoveries (\$30,000) and a reduction in license fee redistribution revenue (\$10,000). The Company transitioned its datafeed suppliers at the end of 2005 reducing the cost of datafeeds passed through to its customers.

## Revenues

### Total Revenues for the nine months ended September 30,

(\$000's)	2006			2005		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 2,086	\$ 9,090	\$ 11,176	\$ 1,484	\$ 9,040	\$ 10,524
Electronic option and futures contracts	6	5,936	5,942	1	4,120	4,121
<b>Total transaction fees - core</b>	2,092	15,026	17,118	\$ 1,485	\$ 13,160	\$ 14,645
Transaction fees - brokerage	-	3,455	3,455	-	1,992	1,992
Subscription fees	5,018	501	5,519	4,896	759	5,655
Other revenue	823	262	1,085	1,415	340	1,755
<b>Total</b>	<b>\$ 7,933</b>	<b>\$ 19,244</b>	<b>\$ 27,177</b>	<b>\$ 7,796</b>	<b>\$ 16,251</b>	<b>\$ 24,047</b>

## Total Revenues

Total revenue increased by 13% from \$24.0 million for the nine months ended September 30, 2005 to \$27.1 million for the nine months ended September 30, 2006. The Company generated approximately 71% (nine months of 2005 - 68%) of its revenues in the United States and 29% (nine months of 2005 - 32%) of its revenues in Canada.

## 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 6% to \$11.2 million in the nine months of 2006 from \$10.5 million in the same year-ago period. The major contributor to the equity order flow revenue growth was our Canadian equity order flow growth which grew by 41% year over year for the nine months. This resulted from higher trading volumes from our existing Canadian customers.

U.S. equity order flow revenue increased by 1% in the nine month period year over year. Although the total volume of shares executed by our wholly owned U.S. broker-dealer increased by approximately 54% for the nine month period year over year, the additional volume was done by lower commission rate customers than a year ago. 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.

U.S Equity order flow revenue for the nine month period on a year over year basis was adversely affected by approximately \$0.7 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	Nine months ended September 30,			
	2006	2005	change	% change
Total trading volume (in billions of shares)	7.8	5.1	2.7	54%
Avg trading volume per day (in millions of shares)	41.4	26.8	14.6	54%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 48.4	\$ 47.8	0.5	1%
Avg transaction fee revenue per share	\$ 0.001169	\$ 0.001784	\$ (0.000616)	(35)%
U.S market trading days	188	189	(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 44% to \$5.9 million in the nine months of 2006 from \$4.1 million in the same year-ago period. A strengthening Canadian dollar adversely affected options and futures contracts execution revenue on a year over year basis by approximately \$0.3 million. The following table summarizes key performance indicators relating to our U.S. electronic options contracts executed:

U.S Electronic Options Contracts Executed	Nine months ended September 30,			
	2006	2005	change	% change
Total trading volume (in millions of contracts)	39.9	25.6	14.3	56%
Avg trading volume per day (in thousands of contracts)	212.5	135.6	76.9	57%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 31.6	\$ 21.8	9.8	45%
Avg transaction fee revenue per contract	\$ 0.149	\$ 0.161	\$ (0.012)	(8)%
U.S market trading days	188	189	(1)	

## Transaction Fee Revenue – Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) increased by 73% to \$3.5 million in the nine months of 2006 from \$2.0 million in the same year-ago period. The increased revenues resulted from higher average trading volumes per day as well as the recovery of exchange fees that increased the average transaction fee per contract. 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:

U.S Floor Options Contracts Executed	Nine months ended September 30,			% change
	2006	2005	change	
Total trading volume (in millions of contracts)	11.1	7.6	3.481	46%
Avg trading volume per day (in thousands of contracts)	59.0	40.3	18.7	46%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 18.4	\$ 10.5	7.84	74%
Avg transaction fee revenue per contract	\$ 0.311	\$ 0.261	\$ 0.050	19%
U.S market trading days	188	189	(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% to \$5.5 million in the nine months of 2006 from \$5.7 million in the same year-ago period. Subscription fee revenue in the U.S. decreased by \$0.3 million or 34% year over year mainly as a result of the cancellation by 3 customers during the 2005 year. Subscription fee revenue in Canada increased by 2% or \$0.1 million for the nine month period year over year as a result of 6 new customers and additional products and terminals installed at existing customers.

### 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 38% to \$1.1 million in the nine months of 2006 from \$1.8 million in the same year-ago period. The majority of the decrease resulted from one-time contract settlement revenue of \$0.3 million in the second quarter of 2005 that did not recur in the 2006 year. The balance of the decrease resulted from a reduction in information distribution recoveries and a reduction in custom programming work performed. The Company transitioned its datafeed suppliers at the end of 2005 reducing the cost of datafeeds passed through to its customers.

## Expenses (Income)

### Expenses (Income) for the nine months ended September 30,

(\$000's)	Core 2006	Brokerage 2006	Total 2006	% of Revenues	Core 2005	Brokerage 2005	Total 2005	% of Revenues
Exchange, clearing and brokerage fees	\$ 6,733	\$ 1,402	\$ 8,135	30 %	\$ 5,624	\$ 588	\$ 6,212	26 %
Compensation and related benefits	5,288	1,060	6,348	23 %	5,090	1,013	6,103	25 %
Telecommunication and datafeed services	3,636	106	3,742	14 %	4,887	134	5,021	21 %
Administrative and other expenses	2,571	92	2,663	10 %	2,711	136	2,847	12 %
Strategic process expenses	214	-	214	1 %	-	-	-	-
Amortization	980	3	983	4 %	1,378	19	1,397	6 %
Foreign exchange loss(gain)	59	60	119	-	197	(28)	169	1 %
Government assistance	(107)	-	(107)	-	(160)	-	(160)	(1)%
Interest expense	19	-	19	-	41	-	41	-
Interest income	(203)	(20)	(223)	(1)%	(43)	-	(43)	-
	\$ 19,190	\$ 2,703	\$ 21,893	81%	\$ 19,725	\$ 1,862	\$ 21,587	90%

### Expenses (Income) for the three months ended September 30,

(\$000's)	Core 2006	Brokerage 2006	Total 2006	% of Revenues	Core 2005	Brokerage 2005	Total 2005	% of Revenues
Exchange, clearing and brokerage fees	\$ 2,133	\$ 568	\$ 2,701	31 %	\$ 2,141	\$ 224	\$ 2,365	29 %
Compensation and related benefits	1,703	337	2,040	23 %	1,723	339	2,062	25 %
Telecommunication and datafeed services	1,188	37	1,225	14 %	1,517	43	1,560	19 %
Administrative and other expenses	860	34	894	10 %	803	43	846	10 %
Strategic process expenses	214	-	214	2 %	-	-	-	-
Amortization	325	1	326	4 %	417	6	423	5 %
Foreign exchange loss(gain)	37	(2)	35	-	60	68	128	2 %
Government assistance	-	-	-	-	(160)	-	(160)	(2)%
Interest expense	5	-	5	-	15	-	15	-
Interest income	(108)	(13)	(121)	(1)%	(17)	-	(17)	-
	\$ 6,357	\$ 962	\$ 7,319	83%	\$ 6,499	\$ 723	\$ 7,222	87%

## 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 14% to \$2.7 million in the third quarter of 2006 from \$2.4 million in the same year-ago quarter. Transaction fees we paid

to the various exchanges, ECN's and clearing organizations increased in the third quarter by approximately \$1.1 million year over year from higher trading volumes and from the new exchange fee structure implemented on the NYSE in the third quarter of 2006. Commissions we paid to other brokers for execution services decreased by \$0.2 million while commissions paid for the introduction of order flow decreased by \$0.4 million year over year. Amounts paid to specialists decreased by approximately \$0.1 million year over year. Our seat lease costs decreased by approximately \$36,000 in the third quarter year over year mainly from lower seat lease costs on the Chicago Board Options Exchange.

Exchange, clearing and brokerage fees increased by 31% to \$8.1 million in the nine months of 2006 from \$6.2 million in the same year-ago period. Transaction fees we paid to the various exchanges, ECN's and clearing organizations increased by approximately \$3.0 million in the nine months year over year from higher trading volumes and from the new exchange fee structure implemented on the NYSE in the third quarter of 2006. Commissions we paid to other brokers for execution services increased by \$0.2 million while commissions paid for the introduction of order flow decreased by \$0.6 million in the nine months year over year. Amounts paid to specialists decreased by approximately \$0.6 million year over year. Our seat lease costs increased by approximately \$45,000 year over year in the nine month period as a result of the payment for one additional CBOE seat lease and higher seat lease costs on the Chicago Board Options Exchange. These increases were offset by reduced seat lease costs/trading license fees on the NYSE.

### **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 decreased by 1% to \$2.0 million in the third quarter of 2006 from \$2.1 million in the same year-ago quarter. The year over year decrease resulted mainly from (i) lower employee compensation in the third quarter of 2006 of \$74,000 from headcount terminations; offset by (ii) stock based compensation increases of \$37,000 from additional option grants and (iii) higher sales commissions of \$13,000.

Our average headcount in the third quarter of 2006 was 88 employees as compared to 89 employees in the same year-ago quarter.

Compensation and related benefits increased by 4% to \$6.3 million in the nine months of 2006 from \$6.1 million in the same year-ago period. The year over year nine month period increase resulted from (i) additional incentive compensation in the nine month period of 2006 of \$0.1 million not incurred in the prior year; (ii) stock based compensation increases of \$80,000 from additional option grants; and (iii) additional sales commissions of \$23,000 and additional payroll taxes of \$33,000 from option exercises in the current 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.

Telecommunication and datafeed services decreased by 21% to \$1.2 million in the third quarter of 2006 from \$1.6 million in the same year-ago quarter. Approximately \$0.2 million of the year over year third quarter decrease resulted from the Company transitioning its datafeed suppliers. The balance of the third quarter year over year decrease

of \$0.2 million resulted from restructuring our core and market connectivity communication lines.

Telecommunication and datafeed services decreased by 25% to \$3.7 million in the nine month period of 2006 from \$5.0 million in the same year-ago period. Approximately \$0.8 million of the year over year nine month period decrease resulted from the Company transitioning its datafeed suppliers. The balance of the nine month period year over year decrease of \$0.5 million resulted from restructuring our core and market connectivity communication lines.

### **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 increased by 6% to \$0.9 million in the third quarter of 2006 from \$0.8 million in the same year-ago quarter. The Company experienced year over year third quarter increases in travel expenses of \$15,000; increased occupancy costs of \$16,000, increased advertising and promotional expenses of \$19,000 and increases in other office and general expenses of \$27,000.

Administrative and other expenses decreased by 6% to \$2.7 million in the nine months of 2006 from \$2.8 million in the same year-ago period. Approximately \$150,000 of the year over year nine month period decrease resulted from lower occupancy costs mainly as a result of downsizing the corporate office space. Travel expenses were reduced by \$19,000 year over year and bank charges reduced \$18,000 year over year as a result of fees incurred in the prior year to set up a line of credit that did not recur in the current year. Professional fees decreased year over year by approximately \$110,000 from a non solicitation suit in the prior year that did not recur in the current year. These decreases were offset by year over year increases in advertising and promotion of \$68,000 and increases in hardware maintenance expenses of \$46,000.

### **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**

Amortization of capital assets decreased by 23% to \$0.3 million in the third quarter of 2006 from \$0.4 million in the same year-ago quarter. The year over year third quarter decrease resulted from computer and network equipment becoming fully depreciated mainly in the core business.

Amortization of capital assets decreased by 30% to \$1.0 million in the nine months of 2006 from \$1.4 million in the same year-ago period. The year over year nine month period decrease resulted from computer and network equipment becoming fully depreciated mainly in the core business.

### **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 foreign exchange loss of \$35,000 for the quarter ended September 30, 2006. The 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 September 30, 2006, the Company had option exchange contracts outstanding for the purchase of \$9.5 million Canadian dollars at US\$.85 expiring in December 2006. These outstanding option exchange contracts had an unrealized loss of approximately \$116,000 at the quarter ended September 30, 2006. The Company also realized gains on the settlement of option exchange contracts of approximately \$67,000 in the quarter ended September 30, 2006.

For the nine month period ended September 30, 2006 the Company incurred a foreign exchange loss of \$119,000. The 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.

The Company incurred a foreign exchange loss of \$128,000 for the quarter ended September 30, 2005. The 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 September 30, 2005, the Company had option exchange contracts outstanding for the purchase of \$7.0 million Canadian dollars at US\$.84 expiring in March 2006. These outstanding option exchange contracts had an unrealized gain of approximately \$114,000 at the quarter ended September 30, 2005. The Company also realized a loss on the settlement of option exchange contracts of approximately \$3,000 in the quarter ended September 30, 2005.

For the nine month period ended September 30, 2005 the Company incurred a foreign exchange loss of \$169,000. The 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.

### **Government Assistance**

During the three month period ended June 30, 2006, the Company recognized provincial scientific research and experimental development ("SR&ED") tax credits of \$67,000 relating to its 2005 tax year and an additional \$40,000 relating to its 2003 and 2004 tax years (three months ended September 30, 2005 – \$160,000 of estimated SR&ED tax credits relating to the 2003 and 2004 years). Provincial SR&ED tax credits are refundable in cash.

Subsequent to the quarter ended September 30, 2006, the Company received a cash refund of \$0.2 million relating to the 2003 & 2004 SR&ED tax credits claimed.

### **Interest Expense**

Interest expense decreased by \$10,000 to \$5,000 in the third quarter of 2006 from \$15,000 in the same year-ago quarter. The majority of the decrease resulted from the maturity of certain older capital lease obligations resulting in a lower interest expense.

Interest expense decreased by \$22,000 to \$19,000 in the nine months of 2006 from \$41,000 in the same year ago period. The majority of the decrease resulted from the maturity of certain older capital lease obligations resulting in a lower interest expense.

### **Interest Income**

Interest income increased by \$104,000 to \$121,000 in the third quarter of 2006 from \$17,000 in the same year-ago quarter. This resulted from investing higher cash balances in the third quarter of 2006.

Interest income increased by \$180,000 to \$223,000 in the nine months of 2006 from \$43,000 in the same year-ago period. This resulted from investing higher cash balances in the nine month period of 2006.

### **Net Earnings**

The net earnings for the quarter ended September 30, 2006 increased to \$1.5 million from net earnings of \$1.1 million for the same year-ago quarter. Diluted earnings per share for the quarter ended September 30, 2006, increased to \$0.10 per share from diluted earnings of \$0.08 per share for the same year-ago quarter.

The net earnings for the nine months ended September 30, 2006 increased to \$5.3 million from net earnings of \$2.5 million for the same year-ago period. Diluted earnings per share for the nine months ended September 30, 2006, increased to \$0.36 per share from diluted earnings of \$0.18 per share for the same year-ago period.

# Summary of Quarterly Results

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

## Belzberg Technologies Inc.

### Summary of Quarterly Results

(Unaudited)

(\$000's except per share amounts)	FY 2006			FY 2005				FY 2004
	Q3 06	Q2 06	Q1 06	Q4 05	Q3 05	Q2 05	Q1 05	Q4 04
<b>Revenue:</b>								
Transaction fees:								
Equity order flow	\$ 3,709	\$ 3,870	\$ 3,596	\$ 3,994	\$ 3,692	\$ 3,769	\$ 3,062	\$ 2,788
Electronic option and futures contracts	1,671	2,050	2,221	1,889	1,559	1,352	1,210	1,045
Floor brokerage option contracts	1,247	1,312	896	742	664	727	601	511
	6,627	7,232	6,713	6,625	5,915	5,848	4,873	4,344
Subscription fees	1,846	1,848	1,825	1,908	1,890	1,910	1,855	1,843
Other	324	409	353	440	475	890	390	342
<b>Total Revenue</b>	<b>8,797</b>	<b>9,489</b>	<b>8,891</b>	<b>8,973</b>	<b>8,280</b>	<b>8,648</b>	<b>7,118</b>	<b>6,529</b>
<b>Expenses (Income)</b>								
Exchange, clearing and other brokerage fees	2,700	2,966	2,469	2,452	2,366	2,332	1,515	1,464
Compensation and related benefits	2,040	2,097	2,211	2,045	2,062	2,028	2,012	2,192
Telecommunication and datafeed services	1,224	1,239	1,279	1,465	1,560	1,782	1,680	1,735
Administrative and other expenses	894	926	843	898	851	958	1,037	1,173
Strategic process expenses	214	-	-	-	-	-	-	-
Amortization	326	333	324	383	423	477	498	519
Foreign exchange loss (gain)	35	97	(14)	79	128	29	11	2
Government assistance	-	(107)	-	-	(160)	-	-	-
Interest expense	5	6	8	13	15	12	14	15
Interest income	(121)	(71)	(31)	(25)	(17)	(14)	(12)	(19)
Restructuring charges	-	-	-	-	-	-	-	(26)
Write-down of leasehold improvements	-	-	-	-	-	-	-	238
	7,317	7,486	7,089	7,310	7,228	7,604	6,755	7,293
<b>Net earnings (loss)</b>	<b>\$ 1,480</b>	<b>\$ 2,003</b>	<b>\$ 1,802</b>	<b>\$ 1,663</b>	<b>\$ 1,052</b>	<b>\$ 1,044</b>	<b>\$ 363</b>	<b>\$ (764)</b>
Earnings (loss) per share:								
Basic	\$ 0.10	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.08	\$ 0.08	\$ 0.03	\$ (0.06)
Diluted	0.10	0.13	0.12	0.12	0.08	0.08	0.03	(0.06)
Weighted avg number of common and common equivalent shares outstanding:								
Basic	14,278	14,052	13,908	13,864	13,804	13,778	13,778	13,778
Diluted	15,075	14,862	14,476	13,949	13,865	13,778	13,778	13,778
Capital asset expenditures	235	388	232	172	290	310	444	218
Total assets	26,445	21,718	19,157	16,539	15,406	14,105	13,297	12,979
Long term lease obligations	76	111	151	185	235	297	227	87
Shareholders' equity	22,260	18,047	15,785	13,355	11,549	10,259	9,185	8,770

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. Telecommunication and datafeed service costs decreased in the first quarter of 2006 as we completed the transitioning of our datafeed suppliers and restructured certain of our communication lines.

## Transactions with Related Parties

During the quarter ended September 30, 2006, the Company's subsidiary, Electronic Brokerage Systems, LLC ("EBS"), paid seat lease expenses at market rates of approximately \$12,000 (period ended September 30, 2005 - \$18,000) to a company controlled by the president of EBS. For the nine month period ended September 30, 2006 EBS paid seat lease expenses at market rates of approximately \$40,000 (nine month period ended September 30, 2005 - \$37,000) to a company controlled by the president of EBS. In addition, EBS recorded transaction fee revenues for the third quarter of approximately \$1,000 (third quarter ended September 30, 2005 - \$5,000) from the same company. For the nine month period ended September 30, 2006 EBS recorded transaction fee revenues of approximately \$7,000 (nine months ended September 30, 2005 - \$13,000) from the same company.

## Liquidity and Capital Resources

### Financial Position

At September 30, 2006 the Company had cash and cash equivalents of \$12.4 million, an increase of \$1.3 million from the \$11.1 million of cash and cash equivalents at June 30, 2006. The Company's working capital improved to \$18.2 million at the end of September 30, 2006 from \$15.1 million at the end of June 30, 2006.

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 September 30, 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 which 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 September 30, 2006, EBS and RCS had net capital of US\$7.7 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 million. At September 30, 2006, EBS had net capital of US\$7.7 million.

### Operating Activities

The Company utilized \$0.3 million of cash flow from operations for the quarter ended September 30, 2006 as compared to generating \$1.4 million of cash from operations for the quarter ended September 30, 2005. Although the profitability of the Company improved by \$0.4 million in the third quarter year over year the cash flow from operations decreased year over year by \$1.7 million as a result of the following:

- (i) The Company experienced a trade-clearing break at the end of the third quarter of 2006 resulting in \$1.6 million of cash flowing out to the clearing organization as a margin deposit (negative third quarter year over year change

of \$1.6 million). The trade-clearing break cleared after quarter end and the cash was returned to the Company.

- (ii) The Company's accounts receivable balances increased at the quarter ended September 30, 2006 at a greater rate than at the quarter ended September 30, 2005 from higher revenue in the third quarter of 2006 (negative third quarter year over year change of \$0.5 million).

These negative cash outflows for the third quarter were offset by:

- (iii) An decrease in other current assets in the quarter ended September 30, 2006 from the change in market value of foreign exchange option contracts as compared to a increase in the quarter ended September 30, 2005 from the purchase of additional contracts (positive third quarter year over year change of \$0.3 million).
- (iv) An increase in the government assistance receivable in the quarter ended September 30, 2005 that did not occur in the quarter ended September 30, 2006. (positive third quarter year over year change of \$0.2 million).

The Company generated positive cash flow from operations of \$4.0 million for the nine months ended September 30, 2006 as compared to generating \$2.6 million of cash from operations for the nine months ended September 30, 2005. The significant improvement in the year over year cash flow from operations was mainly due to the improved profitability of the Company. Non-cash working capital items declined in the nine month period on a year over year basis by \$1.1 million as a result of the following:

- (i) The Company's accounts receivable balances increased in the nine month period ended September 30, 2006 by \$0.9 million as compared to increasing by \$0.6 million in the nine month period ended September 30, 2005. This resulted from higher revenues generated in the current year. (negative nine month year over year change of \$0.3 million).
- (ii) An increase in deposits at clearing organizations and brokers of \$2.1 million in the nine months ended September 30, 2006 as compared to an increase in deposits at clearing organizations of \$0.5 million in the nine months ended September 30, 2005 (negative nine month year over year change of \$1.6 million). The increase was mainly due to a trade-clearing break that occurred at the end of the third quarter of 2006 and which resulted in cash of approximately \$1.6 million flowing to the clearing organization as a margin deposit. This trade-clearing break was cleared after the quarter end and the cash was returned to the Company.

These negative cash outflows for the nine month period were offset by:

- (iii) An increase in accounts payable and accrued liability balances for the nine months ended September 30, 2006 as compared to a reduction for the nine months ended September 30, 2005 (positive nine month year over year change of \$0.9 million).

### **Investing Activities**

The Company utilized \$0.2 million of cash for investing activities in the quarter ended September 30, 2006 as compared to utilizing \$0.3 million of cash for investing activities in the quarter ended September 30, 2005. Investing activities consisted primarily of the acquisition of network equipment required to maintain high-speed connectivity between customers, the Company and a multitude of exchanges and other markets for live trade execution.

The Company utilized \$0.9 million of cash for investing activities in the nine months ended September 30, 2006 as compared to utilizing \$0.6 million of cash for investing activities in the nine months ended September 30, 2005. Investing activities consisted primarily of the acquisition of network equipment required to maintain high-speed connectivity between customers, the Company and a multitude of exchanges and other markets for live trade execution. The Company entered into \$0.4 million of capital leases in the nine month period of 2005 to acquire network equipment. There were no new capital leases in the nine month period of 2006.

In the first quarter of 2006 the Company purchased common shares in the Depository Trust Clearing Corporation for a cost of \$36,000.

### **Financing Activities**

The Company generated \$1.8 million of cash from financing activities in the quarter ended September 30, 2006 as compared to generating \$0.1 million of cash from financing activities in the quarter ended September 30, 2005. Financing activities in the quarter ended September 30, 2006 included repayment of capital lease obligations of \$32,000 and proceeds from the exercise of employee stock options of \$1.9 million. Financing activities in the quarter ended September 30, 2005 included repayment of capital lease obligations of \$0.1 million and proceeds from the exercise of employee stock options of \$0.2 million. .

The Company generated \$2.4 million of cash from financing activities in the nine months ended September 30, 2006 as compared to utilizing \$0.3 million of cash for financing activities in the nine months ended September 30, 2005. Financing activities in the nine months ended September 30, 2006 included repayment of capital lease obligations of \$0.2 million and proceeds from the exercise of employee stock options of \$2.6 million. Financing activities in the nine months ended September 30, 2005 included repayment of capital lease obligations of \$0.5 million and proceeds from the exercise of employee stock options of \$0.2 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 that it was compliant with at September 30, 2006. There were no amounts outstanding under these facilities at September 30, 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 September 30, 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. During the quarter ended March 31, 2006, the Company deposited an additional \$0.2 million with the OCC as a result in the growth of the Company's options business.

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 2006 year.

## 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\$61,000.

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 subsequent to the quarter end.

Management is still in the process of determining the allocation of the purchase price.

## Commitments and Contractual Obligations

These items are substantially unchanged from those disclosed in Company's annual MD&A for the year ended December 31, 2005.

## 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 terms 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 September 30, 2006 and December 31, 2005 was based upon quoted market prices. As at September 30, 2006, the Company had outstanding foreign exchange option contracts for the purchase of CDN\$9,500,000 at U.S.\$0.85 maturing in December 2006. The unrealized loss on these outstanding contracts was approximately \$116,000. The Company also realized gains of approximately \$67,000 on foreign option exchange contracts that were settled in the third quarter of 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 September 30, 2005, the Company had outstanding foreign option exchange contracts for the purchase of CDN\$7,000,000 at U.S.\$0.84 maturing in March 2006. The unrealized gain on these outstanding contracts was approximately \$114,000. The Company also realized a loss on the settlement of option exchange contracts of approximately \$3,000 in the quarter ended September 30, 2005.

## Strategic Process

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 Special Committee engaged Putnam Lovell NBF Securities Inc. to provide financial advisory and investment banking services to the Special Committee to assist it in its mandate. There can be no assurance that the exploration of strategic alternatives will result in any agreements or transactions. The Company does not intend to disclose developments with respect to the exploration of strategic alternatives unless and until its Board of Directors has approved a definitive agreement or transaction.

## Normal Course Issuer Bid

In March 2006, the Toronto Stock Exchange approved the renewal of 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 October 26, 2006, no common shares had been repurchased under this Normal Course Issuer Bid.

## Critical Accounting Policies and Estimates

These items are unchanged from those discussed in the Company's annual MD&A for the year ended December 31, 2005.

## Risks and Uncertainties

The primary risks affecting the Company are substantially unchanged from those discussed in the Company's annual MD&A for the year ended December 31, 2005.

## 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 is in preliminary discussions with the firm initially approached soliciting potential licensing arrangements.

## Outstanding Share Data

Set out below is the outstanding share data for the Company as at October 26, 2006.

<b>Common Shares:</b>	14,572,933
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	1,917,583