

# Q3 2007

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

*For The Three and Nine Months Ended September 30, 2007*

# 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, 2007 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, 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](http://www.sedar.com). The MD&A is as of November 6, 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 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 stock options on a variety of stock exchanges, electronic markets known as ECNs, and NASDAQ market makers. Belzberg products enable traders to execute and manage large volumes of transactions at high speed, and with great reliability and security.

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

In September, 2002, Belzberg announced that its wholly owned subsidiary, Electronic Brokerage Systems, LLC, had become a member of the National Securities Clearing Corporation (“NSCC”). In November, 2002, the Company announced that Electronic Brokerage Systems, LLC 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 (“CBOE”).

## Overview

### Highlights of Third Quarter 2007 Results

- Profitability of \$1.8 million or \$0.12 per diluted share for the third quarter of 2007, compared to a profit of \$1.5 million or \$0.10 per diluted share in the same year-ago quarter;
- Revenue increased by 10% to \$9.7 million for the third quarter of 2007, up from \$8.8 million in the same year-ago quarter;
- Positive cash flow from operations of \$2.4 million for the third quarter of 2007 compared to cash utilized by operations of \$0.3 million in the same year-ago quarter;
- Working capital position of \$27.6 million at September 30, 2007 as compared to \$25.4 million at June 30, 2007.

The third quarter of 2007 showed strong year over year revenue growth in the options business. The volume of option contracts executed (both electronic and non-electronic) increased by 22% year over year in the third quarter and we experienced an increase in the average transaction fee revenue per contract from receiving additional amounts for certain options order flow from the various options exchanges and from a specialist. Trading volumes of our U.S. equity order flow decreased by 30% year over year in the third quarter, mainly as the result of the loss of one high volume but low commission rate sell side customer in the fourth quarter of 2006. Revenues of our U.S. equity order flow business decreased year over year as a result of the lower trading volumes, a strengthening Canadian dollar and a reduction in the pass-through of exchange fee royalties on which the Company makes no markup. The reduction in the pass-through of exchange fee royalties was offset by a corresponding reduction in the exchange fee expenses that are disclosed in exchange clearing and brokerage expenses. The acquisition of the business and assets of a New York floor broker in the fourth quarter of 2006 offset the year over year decline in U.S. equity order flow. There continues to be pricing pressure from competition for electronic order flow from other broker-dealers and electronic execution providers.

The Company is continuing to build its upstairs trading desk and is also in the process of recruiting new floor brokers with a book of business. The Company completed the testing of its new clearing initiative at the end of the third quarter and has started installing its first customers at the beginning of the fourth quarter.

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

The Company’s financial position improved at September 30, 2007 with cash and cash equivalents of \$19.6 million (June 30, 2007 - \$18.1 million) and working capital of \$27.6 million (June 30, 2007 - \$25.4 million).

## 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 NYSE, NASDAQ, Chicago Board of Options Exchange, International Securities Exchange and the Options Clearing Corporation ("OCC") 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)	2007			2006		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 729	\$ 2,667	\$ 3,396	\$ 593	\$ 3,116	\$ 3,709
Electronic option and futures contracts	4	2,632	2,636	1	1,670	1,671
<b>Total transaction fees - core</b>	733	5,299	6,032	594	4,786	5,380
Transaction fees - brokerage	-	1,487	1,487	-	1,247	1,247
Subscription fees	1,683	138	1,821	1,682	164	1,846
Other revenue	244	103	347	234	90	324
<b>Total</b>	<b>\$ 2,660</b>	<b>\$ 7,027</b>	<b>\$ 9,687</b>	<b>\$ 2,510</b>	<b>\$ 6,287</b>	<b>\$ 8,797</b>

### Total Revenues

Total revenue increased by 10% from \$8.8 million for the quarter ended September 30, 2006 to \$9.7 million for the quarter ended September 30, 2007. In the third quarter of 2007, the Company generated approximately 73% (third quarter of 2006 - 71%) of its revenues in the United States and 27% (third quarter of 2006 - 29%) 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 decreased by 8% to \$3.4 million in the third quarter of 2007 from \$3.7 million in the same year-ago quarter.

U.S. equity order flow revenue decreased by 17% in the third quarter year over year. The decrease in U.S. equity order flow revenue resulted from (i) a reduction in exchange royalty fee recoveries mainly as a result of a customer electing to receive certain exchange fees directly from the exchange instead of the Company passing them through to the customer. Exchange fees are passed back to customers with no margin and a reduction in exchange fee recoveries is offset by a corresponding reduction in exchange fee expenses that are included in exchange clearing and brokerage expenses, (ii) the total volume of shares executed by our wholly owned U.S. broker-dealer decreased by approximately 30% year over year, mainly as the result of the loss of one high volume but low commission rate sell side customer in the fourth quarter of 2006, (iii) lower specialist fee recoveries as the NYSE did away with specialists in the fourth quarter of 2006 and (iv) a strengthening Canadian dollar that had an adverse effect on U.S. equity order flow revenue of approximately \$0.2 million.

The above decreases were offset by the acquisition of the business and assets of the Nandra Group, Inc. (“Nandra”) (a NYSE floor broker) completed at the beginning of the fourth quarter of 2006 that contributed approximately \$0.6 million to the year over year third quarter U.S. equity order flow revenue. The average transaction fee revenue per share for the NYSE floor business is higher than that of non-floor executed business. 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 equity order flow revenue increased by 23% in the third quarter year over year mainly as a result of higher trading volumes from existing customers and from an addition of buyside accounts year over year.

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

U.S Equity Order Flow	Three months ended September 30,			
	2007	2006	change	% change
Total trading volume (in billions of shares)	1.93	2.76	(0.8)	-30%
Avg trading volume per day (in millions of shares)	30.7	43.8	(13.1)	-30%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 42.3	\$ 49.5	\$ (7.1)	-14%
Avg transaction fee revenue per share	\$ 0.001380	\$ 0.001130	\$ 0.000250	22%
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 58% to \$2.6 million in the third quarter of 2007 from \$1.7 million in the same year-ago quarter. This increase resulted from a 10% rise in the total volume of our electronic options contracts executed year over year as well as an increase in the average transaction fee revenue per contract from receiving additional revenue for certain orderflow from the various options exchanges and from a specialist. 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,			
	2007	2006	change	% change
Total trading volume (in millions of contracts)	11.5	10.4	1.1	10%
Avg trading volume per day (in thousands of contracts)	182.7	165.7	17.1	10%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 41.8	\$ 26.5	\$ 15.3	58%
Avg transaction fee revenue per contract	\$ 0.229	\$ 0.160	\$ 0.069	43%
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 19% to \$1.5 million in the third quarter of 2007 from \$1.2 million in the same year-ago quarter. The increased revenues resulted from higher average trading volumes per day. The average revenue per contract decreased year over year as a result of lower exchange fee royalty recoveries on which the Company makes no margin. A strengthening Canadian dollar adversely affected the floor brokerage segment revenue on a year over year basis by approximately \$79,000.

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,			
	2007	2006	change	% change
Total trading volume (in millions of contracts)	6.1	4.1	2.0	50%
Avg trading volume per day (in thousands of contracts)	97.0	64.5	32.4	50%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 23.6	\$ 19.8	\$ 3.8	19%
Avg transaction fee revenue per contract	\$ 0.243	\$ 0.307	\$ (0.063)	-21%
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, was essentially flat at \$1.8 million in the third quarters of 2007 and 2006. A strengthening Canadian dollar adversely affected subscription fee revenue on a year over year basis by approximately \$10,000.

## Other Revenue

Other revenue, which includes revenue from information distribution, software development fees, installation fees and revenue from connectivity to the Belzberg Gateway, increased by 7% to \$347,000 in the third quarter of 2007 from \$324,000 in the same year-ago quarter. The increase related to higher datafeed revenues mainly from a recovery of higher NASDAQ datafeed costs that was offset by lower revenue from the cancellation by customers of third party license fees on which the Company made little markup.

## Revenues

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

(\$000's)	2007			2006		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 2,170	\$ 9,577	\$ 11,747	\$ 2,086	\$ 9,090	\$ 11,176
Electronic option and futures contracts	8	8,640	8,648	6	5,936	5,942
<b>Total transaction fees - core</b>	2,178	18,217	20,395	2,092	15,026	17,118
Transaction fees - brokerage	-	4,702	4,702	-	3,455	3,455
Subscription fees	5,122	448	5,570	5,018	501	5,519
Other revenue	708	316	1,024	823	262	1,085
<b>Total</b>	<b>\$ 8,008</b>	<b>\$ 23,683</b>	<b>\$ 31,691</b>	<b>\$ 7,933</b>	<b>\$ 19,244</b>	<b>\$ 27,177</b>

## Total Revenues

Total revenue increased by 17% from \$27.2 million for the nine months ended September 30, 2006 to \$31.7 million for the nine months ended September 30, 2007. The Company generated approximately 75% (nine months of 2006 - 71%) of its revenues in the United States and 25% (nine months of 2006 - 29%) 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 5% to \$9.6 million in the nine months of 2007 from \$9.1 million in the same year-ago period. U.S. equity order flow revenue was adversely impacted by (i) a year over year decline of 25% in the volume of shares executed by our wholly owned U.S. broker-dealer mainly as the result of the loss of one high volume but low commission rate sell side customer in the fourth quarter of 2006, (ii) a strengthening Canadian dollar that adversely impacted U.S. order flow revenue by approximately \$0.2 million. The acquisition of the business and assets of the Nandra completed at the beginning of the fourth quarter of 2006 contributed approximately \$1.8

million to the year over year nine month period U.S. equity order flow revenue. The average transaction fee revenue per share for the NYSE floor business is higher than that of non-floor executed business. 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 equity order flow revenue increased by 4% in the nine month period year over year mainly as a result of higher trading volumes from existing customers and the addition of new buy-side accounts.

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

<b>U.S Equity Order Flow</b>	<b>Nine months ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>change</b>	<b>% change</b>
Total trading volume (in billions of shares)	5.85	7.78	(1.9)	-25%
Avg trading volume per day (in millions of shares)	31.3	41.4	(10.1)	-24%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 51.2	\$ 48.4	\$ 2.9	6%
Avg transaction fee revenue per share	\$0.001637	\$ 0.001169	\$ 0.000469	40%
U.S market trading days	187	188	(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 46% to \$8.6 million in the nine months of 2007 from \$5.9 million in the same year-ago period. Although the total volume of our electronic options contracts executed decreased by 13% on a year over year basis for the nine month period, we experienced an increase in the average transaction fee revenue per contract as a result of receiving additional revenue for certain orderflow from the various options exchanges and from a specialist.

A strengthening Canadian dollar adversely impacted the transaction fee revenue from the electronic execution of options and futures contracts by approximately \$0.1 million on a year over year basis.

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

<b>U.S Electronic Options Contracts Executed</b>	<b>Nine months ended September 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>change</b>	<b>% change</b>
Total trading volume (in millions of contracts)	34.9	39.9	(5.1)	-13%
Avg trading volume per day (in thousands of contracts)	186.5	212.5	(26.0)	-12%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 46.2	\$ 31.6	\$ 14.6	46%
Avg transaction fee revenue per contract	\$ 0.248	\$ 0.149	\$ 0.099	67%
U.S market trading days	187	188	(1)	

## Transaction Fee Revenue – Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) increased by 36% to \$4.7 million in the nine months of 2007 from \$3.5 million in the same year-ago period. The increased revenues resulted from higher average trading volumes per day.

A strengthening Canadian dollar adversely impacted the transaction fee revenue from the brokerage segment by approximately \$0.1 million on a year over year basis.

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,			
	2007	2006	change	% change
Total trading volume (in millions of contracts)	18.1	11.1	7.0	63%
Avg trading volume per day (in thousands of contracts)	96.9	59.0	37.8	64%
Avg transaction fee revenue per trading day (in thousands CDN\$)	\$ 25.1	\$ 18.4	\$ 6.8	37%
Avg transaction fee revenue per contract	\$ 0.260	\$ 0.311	\$ (0.052)	-17%
U.S market trading days	187	188	(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, increased by 1% to \$5.6 million in the nine months of 2007 from \$5.5 million in the same year-ago period. The increase resulted mainly from additional terminals and products installed at our existing customer base and at new 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 6% to \$1.0 million in the nine months of 2007 from \$1.1 million in the same year-ago period. The decrease related to: (i) custom consulting work and server rebuilds performed in the prior year that did not recur in the current year. (ii) the cancellation by customers of third party license fees on which the Company made little markup. These decreases were offset by higher datafeed revenues mainly from a recovery of higher NASDAQ datafeed costs.

## Expenses (Income)

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

(\$000's)	Core 2007	Brokerage 2007	Total 2007	% of Revenues	Core 2006	Brokerage 2006	Total 2006	% of Revenues
Exchange, clearing and brokerage fees	\$ 1,740	\$ 492	\$ 2,232	23 %	\$ 2,133	\$ 568	\$ 2,701	31 %
Compensation and related benefits	2,289	379	2,668	28 %	1,703	337	2,040	23 %
Telecommunication and datafeed services	1,488	43	1,531	16 %	1,188	37	1,225	14 %
Administrative and other expenses	965	24	989	10 %	860	34	894	10 %
Strategic process expenses	93	-	93	1 %	214	-	214	2 %
Amortization of capital assets	395	1	396	4 %	325	1	326	4 %
Amortization of intangible assets	16	-	16	-	-	-	-	-
Foreign exchange loss(gain)	(82)	240	158	2 %	37	(2)	35	-
Interest expense	1	-	1	-	5	-	5	-
Interest income	(189)	(26)	(215)	(2)%	(108)	(13)	(121)	(1)%
	\$ 6,716	\$ 1,153	\$ 7,869	81%	\$ 6,357	\$ 962	\$ 7,319	83%

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

(\$000's)	Core 2007	Brokerage 2007	Total 2007	% of Revenues	Core 2006	Brokerage 2006	Total 2006	% of Revenues
Exchange, clearing and brokerage fees	\$ 7,199	\$ 1,768	\$ 8,967	28 %	\$ 6,733	\$ 1,402	\$ 8,135	30 %
Compensation and related benefits	7,012	1,173	8,185	26 %	5,288	1,060	6,348	23 %
Telecommunication and datafeed services	4,486	124	4,610	15 %	3,636	106	3,742	14 %
Administrative and other expenses	3,200	111	3,311	10 %	2,571	92	2,663	10 %
Strategic process expenses	191	-	191	1 %	214	-	214	1 %
Amortization of capital assets	1,069	4	1,073	3 %	980	3	983	4 %
Amortization of intangible assets	48	-	48	-	-	-	-	-
Foreign exchange loss(gain)	177	512	689	2 %	59	60	119	-
Government assistance	-	-	-	-	(107)	-	(107)	-
Interest expense	6	2	8	-	19	-	19	-
Interest income	(523)	(68)	(591)	(2)%	(203)	(20)	(223)	(1)%
	\$ 22,865	\$ 3,626	\$ 26,491	84%	\$ 19,190	\$ 2,703	\$ 21,893	81%

## 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 decreased by 17% to \$2.2 million in the third quarter of 2007 from \$2.7 million in the same year-ago quarter. The decrease resulted mainly from:

- (i) lower equity exchange fees mainly as a result of a customer electing to receive exchange fee bills directly from the exchanges instead of through Belzberg. Belzberg makes no mark-up on exchange fees as these are passed back to customers at cost. Equity exchange fees also decreased as a result of lower equity trading volumes year over year. (year over year decrease of \$0.4 million).
- (ii) Lower specialist fees as a result of the NYSE removing specialists in the fourth quarter of 2006. (i.e. NYSE specialist fees existed in Q3'06 but not in Q3'07) (year over year decrease of \$0.1 million).
- (iii) Lower commissions paid to other brokers for the introduction of business (year over year decrease of \$0.1 million).
- (iv) Lower exchange regulatory fees of \$44,000 as a result of receiving a credit in Q3'07 that did not occur in Q3'06.

The above decreases were offset by (i) higher option exchange fees of \$0.1 million from higher trading volumes, (ii) higher trading license costs from two additional NYSE trading licenses and higher CBOE seat lease costs (year over year increase of \$41,000, (iii) higher technology fees of \$41,000 and higher commissions paid to other brokers of \$37,000 for execution and clearing services related to the NYSE floor business.

Exchange, clearing and brokerage fees increased by 10% to \$9.0 million in the nine months of 2007 from \$8.1 million in the same year-ago period. The increase resulted mainly from:

- (i) higher equity exchange fees paid to the NYSE as a result of the removal of the 600TC fee cap in the third quarter of 2006 and higher away routing fees charged by the NYSE. This was offset by slightly lower fees paid to the ECN's year to date as a result of a customer electing to receive exchange fees directly from the exchange starting at the end of the second quarter in 2007. (year over year increase of \$0.8 million).
- (ii) higher option exchange fees as a result of an increase in the mix of customers in the core business that cleared their trades through the Company and an increase in option exchange fees in the brokerage segment from higher volumes executed by our floor brokerage segment (year over year increase of \$0.9 million).
- (iii) higher trading license fees, technology fees and brokerage fees relating to the NYSE floor business acquired at the beginning of the fourth quarter of 2006 (year over year increase of \$0.2 million).

The above increases were offset by lower commissions of \$0.6 million we paid to other brokers for execution services and for the introduction of business and by lower amounts paid to specialists of approximately \$0.4 million year over year. The NYSE eliminated specialist fees in the fourth quarter of 2006.

## **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 31% to \$2.7 million in the third quarter of 2007 from \$2.0 million in the same year-ago quarter. The year over year increase resulted mainly from (i) additional headcount from the acquisition of the business and assets of the Nandra Group, Inc. that added approximately \$0.4 million to the payroll (ii) additional headcount related to an upstairs trading desk that added approximately \$0.1 million to the payroll; (iii) payroll increases that were granted at the beginning of the current year; (iv) increased commissions paid to salespeople.

Our average headcount in the third quarter of 2007 was 103 employees as compared to 88 employees in the same year-ago quarter.

Compensation and related benefits increased by 29% to \$8.2 million in the nine months of 2007 from \$6.3 million in the same year-ago period. The year over year increase resulted mainly from (i) additional headcount from the acquisition of the business and assets of the Nandra Group, Inc. that added approximately \$1.1 million to the payroll (ii) additional headcount related to an upstairs trading desk that added approximately \$0.4 million to the payroll; (iii) payroll increases that were granted at the beginning of the current year; (iv) increased commissions paid to salespeople.

The above increases were offset by lower stock-based compensation of \$66,000 in the nine month period year over year from certain options being fully expensed.

Our average headcount in the nine months of 2007 was 100 employees as compared to 89 employees in the same year-ago period.

## **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 increased by 25% to \$1.5 million in the third quarter of 2007 from \$1.2 million in the same year-ago quarter. Approximately \$0.1 million of the year over year increase resulted from additional and new capacity required for primary and backup datalines to handle the increased volume of data provided by the exchanges. Approximately \$0.2 million of the year over year increase resulted from new datafeeds being provided for NYSE Openbook, the increased cost of NASDAQ INET feeds (mostly recoverable), additional cost of Bloomberg terminals for an upstairs trading desk, the increased cost of datafeeds relating to the NYSE floor business acquired and additional datafeeds provided to our customers.

Telecommunication and datafeed services increased by 23% to \$4.6 million in the nine-month period of 2007 from \$3.7 million in the same year-ago period. Approximately \$0.4 million of the year over year increase resulted from additional and new capacity required for primary and backup datalines to handle the increased volume of data provided by the exchanges. Approximately \$0.5 million of the year over year increase resulted from new datafeeds being provided for NYSE Openbook, the increased cost of NASDAQ INET feeds (mostly recoverable), additional cost of Bloomberg terminals for an upstairs trading desk, the increased cost of datafeeds relating to the NYSE floor business acquired and additional datafeeds provided to our customers.

### **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 11% to \$1.0 million in the third quarter of 2007 from \$0.9 million in the same year-ago quarter. Year over year for the third quarter the Company incurred additional legal fees of \$67,000 related to general corporate matters and to the review of its patent, and an increase in various office and general expenses of \$25,000.

Administrative and other expenses increased by 24% to \$3.3 million in the nine months of 2007 from \$2.7 million in the same year-ago period. For the nine month period the Company incurred additional legal fees of \$0.2 million related to the review of its patent and to the settlement of a legal claim in favour of the Company that was netted against the legal expenses in the 2006 year, incurred \$0.1 million for the outsourcing of certain development work, incurred increased advertising and promotional expenses of \$0.1 million mostly related to a marketing event held in Q2 of 2007, incurred increased travel expenses of \$66,000, incurred increased occupancy expenses of \$31,000 and incurred increased office and general expenses of \$67,000.

### **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.

On September 19, 2007 the Company's Board of Directors ended the strategic process as it believed that there were no indications of interest that reflected a value that was fair and equitable to the Company's shareholders. The Company may revisit a similar process at some point in the future.

The strategic process expenses include the legal, investment banker and other costs related to the strategic process announced.

### **Amortization of Capital Assets**

Amortization of capital assets increased by 21% in the third quarter of 2007 to \$0.4 million from \$0.3 million in the same year-ago quarter. The increase relates mainly to the purchase of hardware and software related to the new clearing initiative.

Amortization of capital assets increased by 9% in the nine month period of 2007 to \$1.1 million from \$1.0 million in the same year-ago period.

### **Amortization of Intangible Assets**

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 net foreign exchange loss of \$0.2 million for the quarter ended September 30, 2007 as a result of a significant strengthening in the Canadian dollar. Gains

or losses on foreign exchange option and futures 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, 2007, the Company had outstanding foreign exchange futures contracts for the purchase of CDN\$10.2 million at an average price of US\$0.9302 maturing in December 2007. The unrealized gain on these outstanding futures contracts was approximately \$0.6 million for the three month period ended September 30, 2007.

For the nine month period ended September 30, 2007 the Company incurred a net foreign exchange loss of \$0.7 million as a result of a significant strengthening in the Canadian dollar. Gains or losses on foreign exchange option and futures contracts are netted against gains or losses on the translation of our integrated foreign subsidiaries in the consolidated statement of operations. For the nine- month period ended September 30, 2007 the Company realized gains of approximately \$0.6 million on foreign exchange option contracts that were settled and had unrealized gains of approximately \$0.8 million on futures contracts that were not settled. The above gains were netted against translation losses that occurred in the nine month 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 CDN\$9.5 million at US\$.85 expiring in December 2006. These outstanding option exchange contracts had an unrealized loss of approximately \$116,000 in the quarter ended September 30, 2006. The Company also realized gains of approximately \$67,000 on foreign option exchange contracts that were settled in the third quarter of 2006.

For the nine month period ended September 30, 2006 the Company incurred a net foreign exchange loss of \$0.1 million. 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 realized gains on the settlement of option exchange contracts of approximately \$0.3 million in the nine months ended September 30, 2006 and had an unrealized loss of approximately \$0.1 million on unsettled contracts.

### **Government Assistance**

There was no government assistance in the three months ended September 30, 2007 and September 30, 2006. During the nine month period ended September 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. Provincial SR&ED tax credits are refundable in cash. The Company has not yet filed its 2006 SR&ED claim.

### **Interest Expense**

Interest expense decreased by \$4,000 to \$1,000 in the third quarter of 2007 from \$5,000 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 \$11,000 to \$8,000 in the nine months of 2007 from \$19,000 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 \$94,000 to \$215,000 in the third quarter of 2007 from \$121,000 in the same year-ago quarter. This resulted from investing higher cash balances in the third quarter and from rising yields.

Interest income increased by \$368,000 to \$591,000 in the nine months of 2007 from \$223,000 in the same year-ago period. This resulted from investing higher cash balances in the nine month period and from rising yields.

### **Income Taxes**

In the fourth quarter of 2006 the Company recorded a net income tax benefit of approximately \$1.8 million based upon its determination that the realization of certain tax assets, including available tax loss carryforwards and research and development tax pools, is more likely than not. A strengthening Canadian dollar has reduced the net income tax benefit to approximately \$1.6 million.

For the three months ended September 30, 2007, the Company reduced its valuation allowance from the 2006 fiscal year-end by approximately \$1.1 million (nine month period by approximately \$2.8 million) based upon a number of factors, including forecasted profitability for the Company and estimated taxable income by jurisdiction. This reduction in the valuation allowance offset the non-cash future income tax expense in the second quarter of 2007 arising from the utilization of tax benefits previously recognized. Any change in management's estimates could result in an additional income tax recovery or expense in the future.

### **Net Earnings**

The net earnings for the quarter ended September 30, 2007 increased to \$1.8 million from net earnings of \$1.5 million for the same year-ago quarter. Diluted earnings per share for the quarter ended September 30, 2007, increased to \$0.12 per share from diluted earnings of \$0.10 per share for the same year-ago quarter.

The net earnings for the nine months ended September 30, 2007 decreased to \$5.2 million from net earnings of \$5.3 million for the same year-ago period. Diluted earnings per share for the nine months ended September 30, 2007, decreased to \$0.34 per share from diluted earnings of \$0.36 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 2007			FY 2006				FY 2005
	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06	Q4 05
<b>Revenue:</b>								
Transaction fees:								
Equity order flow	\$ 3,395	\$ 4,142	\$ 4,209	\$ 4,515	\$ 3,709	\$ 3,870	\$ 3,596	\$ 3,994
Options and futures contracts	4,123	4,778	4,449	3,457	2,918	3,362	3,117	2,645
	7,518	8,920	8,658	7,972	6,627	7,232	6,713	6,639
Subscription fees	1,821	1,863	1,885	1,872	1,846	1,848	1,825	1,908
Other	347	322	355	344	324	409	353	426
<b>Total Revenue</b>	<b>9,686</b>	<b>11,105</b>	<b>10,898</b>	<b>10,188</b>	<b>8,797</b>	<b>9,489</b>	<b>8,891</b>	<b>8,973</b>
<b>Expenses (Income)</b>								
Exchange, clearing and other brokerage fees	2,232	3,504	3,230	3,464	2,700	2,966	2,469	2,452
Compensation and related benefits	2,668	2,715	2,801	2,654	2,040	2,097	2,211	2,045
Telecommunication and datafeed services	1,531	1,553	1,525	1,370	1,224	1,239	1,279	1,465
Administrative and other expenses	989	1,107	1,215	1,001	894	926	843	898
Strategic process expenses	93	10	88	34	214	-	-	-
Amortization of capital assets	396	347	330	322	326	333	324	383
Amortization of intangible assets	16	16	16	16	-	-	-	-
Foreign exchange loss (gain)	158	344	188	(93)	35	97	(14)	79
Government assistance	-	-	-	(778)	-	(107)	-	-
Interest expense	2	2	5	20	5	6	8	13
Interest income	(215)	(194)	(181)	(154)	(121)	(71)	(31)	(25)
	7,870	9,404	9,217	7,856	7,317	7,486	7,089	7,310
<b>Net earnings before taxes</b>	<b>\$ 1,816</b>	<b>\$ 1,701</b>	<b>\$ 1,681</b>	<b>\$ 2,332</b>	<b>\$ 1,480</b>	<b>\$ 2,003</b>	<b>\$ 1,802</b>	<b>\$ 1,663</b>
Provision for (recovery of) income taxes								
Current	-	-	-	247	-	-	-	-
Future	-	-	-	(1,796)	-	-	-	-
	-	-	-	(1,549)	-	-	-	-
<b>Net earnings</b>	<b>\$ 1,816</b>	<b>\$ 1,701</b>	<b>\$ 1,681</b>	<b>\$ 3,881</b>	<b>\$ 1,480</b>	<b>\$ 2,003</b>	<b>\$ 1,802</b>	<b>\$ 1,663</b>
Earnings per share:								
Basic	\$ 0.12	\$ 0.12	\$ 0.11	\$ 0.27	\$ 0.10	\$ 0.14	\$ 0.13	\$ 0.12
Diluted	0.12	0.11	0.11	0.25	0.10	0.13	0.12	0.12
Weighted avg number of common and common equivalent shares outstanding:								
Basic	14,682	14,665	14,635	14,596	14,278	14,052	13,908	13,864
Diluted	15,125	15,208	15,275	15,414	15,075	14,862	14,476	13,949
Capital asset expenditures	920	392	370	422	235	388	232	172
Total assets	35,804	35,360	33,837	31,103	26,445	21,718	19,157	16,539
Long term lease obligations	-	-	9	32	76	111	151	185
Shareholders' equity	32,459	30,083	28,298	26,412	22,260	18,047	15,785	13,355

Options and futures contracts revenue in the first and second quarters of 2007 increased mainly from higher trading volumes in our floor brokerage segment and from receiving additional revenue for certain options order flow from the various options exchanges and from a specialist. 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.

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.

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.

## Transactions with Related Parties

During the quarter ended September 30, 2007, the Company's subsidiary, Electronic Brokerage Systems, LLC, paid seat lease expenses at market rates of approximately \$15,000 (period ended September 30, 2006 - \$12,000) to a company controlled by the president of Electronic Brokerage Systems, LLC. For the nine month period Electronic Brokerage Systems, LLC paid seat lease expenses at market rates of approximately \$38,000 (nine month period ended September 30, 2006 - \$40,000) to a company controlled by the president of Electronic Brokerage Systems, LLC. In addition, Electronic Brokerage Systems, LLC recorded transaction fee revenues for the third quarter of approximately \$3,000 (third quarter ended September 30, 2006 - \$1,000) from the same company. For the nine month period Electronic Brokerage Systems, LLC recorded transaction fee revenues of approximately \$8,000 (nine months ended September 30, 2006 - \$7,000) from the same company.

## Liquidity and Capital Resources

### **Financial Position**

At September 30, 2007 the Company had cash and cash equivalents of \$19.6 million, an increase of \$1.5 million from the \$18.1 million of cash and cash equivalents at June 30, 2007. The Company's working capital improved to \$27.6 million at the end of September 30, 2007 from \$25.4 million at the end of June 30, 2007.

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, 2007.

The Company's subsidiaries Electronic Brokerage Systems, LLC 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, Electronic Brokerage Systems, LLC 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, 2007, Electronic Brokerage Systems, LLC and RCS had net capital of US\$11.4 million and US\$2.6 million and a net capital requirement of US\$500,000 and US\$100,000 respectively.

Electronic Brokerage Systems, LLC is currently required by the OCC to maintain minimum net capital of US\$2.0 million. At September 30, 2007, Electronic Brokerage Systems, LLC had net capital of US\$11.4 million.

## Operating Activities

The Company generated positive cash flow from operations of \$2.4 million for the quarter ended September 30, 2007 as compared to utilizing \$0.3 million of cash for operations for the quarter ended September 30, 2006. The increase in the third quarter year over year cash flow from operations was due to the higher profitability of the Company and a positive change in non-cash working capital items. Non-cash working capital items increased in the third quarter on a year over year basis by \$1.7 million mainly as a result of the following:

- (i) The Company's deposits with brokers dealers and clearing organizations decreased by \$0.8 million for the quarter ended September 30, 2007 due to (a) a net refund of deposits in the amount of \$0.3 million in the third quarter from the NSCC that was no longer required to cover trades that had now cleared (c) a return of \$0.2 million of cash held to cover margin deposits for futures contracts and (d) a reduction of \$0.2 million in deposits required by the OCC. This compared to additional deposits required at the NSCC of \$1.6 million for the quarter ended September 30, 2006 to cover trade-clearing breaks. (positive third quarter year over year change of \$2.4 million).
- (ii) A decrease in accounts receivable balances for the quarter ended September 30, 2007 of \$0.9 million as compared to an increase in accounts receivable balances of \$0.7 million for the quarter ended September 30, 2006. (positive third quarter year over year change of \$1.6 million).

These positive cash inflows for the third quarter were offset by:

- (iii) The Company's accounts payable balances decreased for the quarter ended September 30, 2007 by \$1.6 million as a result of payments made for capital asset purchases of \$0.9 million in the third quarter for the new clearing initiative and lower exchange fee bills at the end of the third quarter. This compared to an increase in accounts payable balances for the quarter ended September 30, 2006 of \$0.1 million (negative third quarter year over year change of \$1.7 million).
- (iv) An increase in other current assets for the quarter ended September 30, 2007 of \$0.6 million from the unrealized profit on futures foreign exchange contracts due to a strengthening Canadian dollar compared to a decrease in other current assets of \$12,000 for the quarter ended September 30, 2006 from a change in the market value of foreign exchange option contracts (negative third quarter year over year change of \$0.6 million).
- (v) An increase in prepaid expenses and other receivable balances for the quarter ended September 30, 2007 of \$17,000 as compared to a decrease of \$78,000 in the quarter ended September 30, 2006 (negative third quarter year over year change of \$0.1 million).

The Company generated positive cash flow from operations of \$5.4 million for the nine months ended September 30, 2007 as compared to generating \$4.0 million of cash from operations for the nine months ended September 30, 2006. Although profitability in the nine month period decreased by \$0.1 million year over year, cash flow from operations increased by \$1.4 million mainly due to a year over year increase of \$1.2 million in items not affecting cash (mainly a foreign exchange loss) as well as a positive change in non-

cash working capital items of \$0.2 million. The change in non-cash working capital items mainly resulted from the following:

- (i) A decrease in accounts receivable balances for the nine month period ended September 30, 2007 of \$0.2 million as compared to an increase of \$0.9 million in the nine month period ended September 30, 2006 (positive nine month year over year change of \$1.1 million).
- (ii) A decrease in investment tax credits recoverable of \$0.1 million for the nine month period ended September 30, 2007 from receiving a refund as compared to an increase in investment tax credits recoverable of \$0.1 million in the nine month period ended September 30, 2006 (positive nine month year over year change of \$0.2 million).
- (vi) An increase in deposits with brokers dealers and clearing organizations of \$0.8 million for the nine month period ended September 30, 2007 due to (a) additional deposits of \$0.6 million at the Options Clearing Corporation (“OCC”) for growth in the options business, (b) additional deposits of \$0.2 million at the NSCC to cover trade breaks. This compared to an increase in deposits with brokers dealers and clearing organizations of \$2.1 million for the nine month period ended September 30, 2006 due to (a) additional deposits required at the NSCC of \$1.6 million to cover trade breaks, (b) additional deposits of \$0.2 million at the OCC and (d) deposits of \$0.3 million to open a new brokerage account. (positive nine month year over year change of \$1.3 million).

These positive cash inflows for the nine month period were offset by:

- (iii) An increase in other current assets for the nine month period ended September 30, 2007 of \$0.6 million from the unrealized profit on futures foreign exchange contracts due to a strengthening Canadian dollar compared to an increase in other current assets of \$0.2 million for the nine month period ended September 30, 2006 from the purchase of additional foreign exchange option contracts (negative nine month year over year change of \$0.4 million).
- (iv) The Company’s accounts payable balances decreased for the nine months ended September 30, 2007 by \$1.3 million as compared to an increase for the nine month period ended September 30, 2006 of \$0.7 million (negative nine month year over year change of \$2.0 million).

### **Investing Activities**

The Company utilized \$0.9 million of cash for investing activities in the quarter ended September 30, 2007 as compared to utilizing \$0.2 million of cash for investing activities in the quarter ended September 30, 2006. Investing activities consist 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 year over year increase in capital expenditures is primarily related to hardware and software for the clearing initiative announced in the second quarter of 2007.

The Company utilized \$1.7 million of cash for investing activities in the nine months ended September 30, 2007 as compared to utilizing \$0.9 million of cash for investing activities in the nine months ended September 30, 2006. Investing activities consist 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 year over year increase in capital expenditures is primarily related to hardware and software for the clearing initiative announced in the second quarter of 2007.

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 \$0.5 million of cash from financing activities in the quarter ended September 30, 2007 as compared to generating \$1.8 million of cash from financing activities in the quarter ended September 30, 2006. Financing activities in the quarter ended September 30, 2007 included repayment of capital lease obligations of \$31,000 and proceeds from the exercise of employee stock options of \$0.5 million. 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.

The Company generated \$0.6 million of cash from financing activities in the nine months ended September 30, 2007 as compared to generating \$2.4 million of cash from financing activities in the nine months ended September 30, 2006. Financing activities in the nine months ended September 30, 2007 included repayment of capital lease obligations of \$0.1 million and proceeds from the exercise of employee stock options of \$0.7 million. 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.

### **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 September 30, 2007. There were no amounts outstanding under these facilities at September 30, 2007.

During the third quarter the Company's subsidiary, Electronic Brokerage Systems, LLC allowed its secured credit facility of US\$5 million utilized to facilitate clearing and settlement activities to expire. There were no amounts outstanding under this credit facility. Electronic Brokerage Systems, LLC is currently negotiating with its bankers for a secured credit facility of up to US\$25 million that may be utilized to facilitate clearing and settlement activities.

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, Electronic Brokerage Systems, LLC, 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 has deposited an additional \$0.7 million with the OCC since December 31, 2006 as a result of the growth in the Company's options business.

The Company is dependant upon Electronic Brokerage Systems, LLC 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.

## Commitments and Contractual Obligations

These items are substantially unchanged from those disclosed in Company's annual MD&A for the year ended December 31, 2006.

## 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, 2007 and September 30, 2006 was based upon quoted market prices.

As at September 30, 2007, the Company had outstanding foreign exchange futures contracts for the purchase of CDN\$10.2 million at an average price of U.S.\$0.9302 maturing in December 2007. The unrealized gain on these outstanding futures contracts was approximately \$620,000 for the three month period ended September 30, 2007. For the nine month period ended September 30, 2007 the Company realized gains of approximately \$586,000 on foreign exchange option contracts that were settled and had unrealized gains of approximately \$819,000 on futures contracts that were not settled. Gains or losses on foreign exchange option and futures 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, 2006, the Company had outstanding foreign exchange option contracts for the purchase of CDN\$9.5 million at U.S.\$0.85 maturing in December 2006. The unrealized loss on these outstanding contracts was approximately \$116,000 for the three month period ended September 30, 2006. The Company also realized gains of approximately \$67,000 for the three month period ended September 30, 2006 on foreign option exchange contracts that were settled in the third quarter of 2006. For the nine-month period ended September 30, 2006 the Company realized gains of approximately \$301,000 on foreign exchange option contracts that were settled and had an unrealized loss of approximately \$116,000 on option contracts that were not settled.

## 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, 2006 except for the following:

### **Changes in accounting policies:**

#### (i) Financial instruments:

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments—Recognition and Measurement; and, Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents, deposits with brokers, dealers and clearing organizations and other current assets (that include foreign exchange option contracts) as held-for-trading, which are measured at fair value. Investment that comprises common shares held in the Depository Trust and Clearing Corporation are classified as available for sale. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

The Company had no “other comprehensive income or loss” transactions during the three or nine month periods ended September 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

## 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, 2006 except for the following:

**Customer Dependence:** For the three months ended September 30, 2007, three customers accounted for 17% of total revenue (3 months ended September, 2006 – three customers accounted for 19%) For the nine months ended September 30, 2007 three customers accounted for approximately 22% of total revenue (nine months ended September 30, 2006 – three customers for approximately 17%). The loss of either of these significant customers would have a material and adverse effect on our revenues and results of operations.

## 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.

## Outstanding Share Data

Set out below is the outstanding share data for the Company as at November 6, 2007.

<b>Common Shares:</b>	14,782,974
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	600,417

## 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.

Belzberg's 2006 Annual Report contains a statement that the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) have concluded that Belzberg's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2006.

## Internal Controls Over Financial Reporting

There were no changes over the Company's internal controls over financial reporting during the period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.