

**Q3 2009**

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

*For The Three and Nine Months Ended September 30, 2009*

# 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, 2009 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, 2008. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All amounts reported in this MD&A are in thousands of Canadian dollars unless otherwise specified. 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 11, 2009.

## 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 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, a 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 reliability and security.

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.

In 2006, the Company acquired the business and assets of a direct access New York floor broker.

In 2008, the Company was approved by the Financial Industry Regulatory Authority (“FINRA”) to provide full clearing services.

## Overview

### Highlights of Third Quarter 2009 Results

- Operating expenses declined by 9% to \$6,203, down from \$6,803 in the previous quarter and down from \$7,811 in the first quarter of 2009;
- Total revenue decreased by 26% to \$8,161 for the third quarter of 2009, down from \$10,963 in the same year-ago quarter. Revenue before pass-throughs decreased by 32% to \$4,981 for the third quarter of 2009, down from \$7,338 in the same year-ago quarter;
- Loss of \$2,350 or (\$0.16) per diluted share for the third quarter of 2009, compared to a loss of \$322 or (\$0.02) per diluted share in the same year-ago quarter;
- Working capital position of \$19,095 at September 30, 2009 as compared to \$21,031 at June 30, 2009.

The third quarter of 2009 continued to be a challenging quarter for the Company, however continued improvements in cost control and improved per unit revenues in our electronic execution businesses demonstrate the Company’s progress toward profitability. Total revenue before pass-throughs declined by 32% from the same year-ago quarter and by 14% from the sequential quarter. Trading volumes declined from the second quarter of 2009 by 24% in our US equity business and by 8% in our electronic options business. These lower volumes are consistent with industry trends and our focus on pursuing higher margin business. Our subscription business revenues declined in the third quarter as a result of the net loss of users in in previous quarters from cost cutting and downsizing by customers. Operating expenses declined by 22% from the second quarter as management focused on controlling costs.

The Company’s financial position remained positive at September 30, 2009 with cash and cash equivalents of \$12,863 (June 30, 2009 - \$13,464) and working capital of \$19,095 (June 30, 2009 - \$21,031).

### 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)	2009			2008		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 205	\$ 3,942	\$ 4,147	\$ 402	\$ 4,141	\$ 4,543
Electronic option and futures contracts	12	1,762	1,774	5	3,260	3,265
<b>Total transaction fees - core</b>	217	5,704	5,921	407	7,401	7,808
Transaction fees - brokerage	-	663	663	-	988	988
Subscription fees	1,148	66	1,214	1,633	131	1,764
Other revenue	289	74	363	308	95	403
<b>Total</b>	<b>\$ 1,654</b>	<b>\$ 6,507</b>	<b>\$ 8,161</b>	<b>\$ 2,348</b>	<b>\$ 8,615</b>	<b>\$ 10,963</b>

### Total Revenues

Total revenue decreased by 26% from \$10,963 for the quarter ended September 30, 2008 to \$8,161 for the quarter ended September 30, 2009. In the third quarter of 2009, the Company generated approximately 80% (third quarter of 2008 - 79%) of its revenues in the United States and 20% (third quarter of 2008 - 21%) 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 clearing, sponsored access and the routing of equity order flow through the Belzberg Gateway decreased by 9% to \$4,147 in the third quarter of 2009 from \$4,543 in the same year-ago quarter.

Equity order flow and clearing revenues executed on U.S. exchanges decreased by 5% to \$3,942 in the third quarter of 2009 from \$4,141 in the same year-ago quarter. The total volume of shares executed by our wholly owned U.S. broker-dealer decreased by approximately 37% year over year but most of the decrease related to very low commission rate customers. 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.

Equity order flow executed on Canadian exchanges decreased by 49% due to loss of buy-side accounts and a large sell-side account internalizing its orderflow.

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,			
	2009	2008	change	% change
Total trading volume (in billions of shares)	2.5	4.0	(1.5)	(37)%
Avg trading volume per day (in millions of shares)	39.5	63.1	(23.6)	(37)%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 61.6	\$ 64.7	\$ (3.1)	(5)%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 23.5	\$ 33.5	\$ (10.0)	(30)%
Avg transaction fee revenue per share including passthroughs	\$ 0.0016	\$ 0.0010	\$ 0.0006	60%
Avg transaction fee revenue per share before passthroughs	\$ 0.0006	\$ 0.0005	\$ 0.0001	20%
U.S market trading days	64	64	-	

## (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 decreased by 46% to \$1,774 in the third quarter of 2009 from \$3,265 in the same year-ago quarter. The total volume of our electronic options contracts executed decreased by 50% on a year over year basis of which approximately 54% of the decline related to the loss of one customer while the balance related to a slowdown or cessation of trading by U.S. banks and brokerage houses affected by the financial crisis.

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,			
	2009	2008	change	% change
Total trading volume (in millions of contracts)	7.1	14.3	(7.2)	(50)%
Avg trading volume per day (in thousands of contracts)	111.3	224.2	(112.9)	(50)%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 27.5	\$ 50.9	\$ (23.4)	(46)%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 21.4	\$ 33.3	\$ (11.9)	(36)%
Avg transaction fee revenue per contract including passthroughs	\$ 0.25	\$ 0.23	\$ 0.02	9%
Avg transaction fee revenue per contract before passthroughs	\$ 0.19	\$ 0.15	\$ 0.04	27%
U.S market trading days	64	64	-	

### Transaction Fee Revenue – Brokerage

Transaction fee revenue from the brokerage segment (including the recovery of pass through costs) decreased by 33% to \$663 in the third quarter of 2009 from \$988 in the same year-ago quarter. The loss of one larger customer year over year due to merger and consolidation in the industry as well as lower average rates per contract had a negative impact on revenue.

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,			
	2009	2008	change	% change
Total trading volume (in millions of contracts)	5.0	4.9	0.1	1%
Avg trading volume per day (in thousands of contracts)	77.6	76.4	1.2	2%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 10.4	\$ 15.4	\$ (5.0)	(32)%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 10.0	\$ 13.7	\$ (3.7)	(27)%
Avg transaction fee revenue per contract including passthroughs	\$ 0.13	\$ 0.20	\$ (0.07)	(35)%
Avg transaction fee revenue per contract before passthroughs	\$ 0.13	\$ 0.18	\$ (0.05)	(28)%
U.S market trading days	64	64	-	

## 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 31% to \$1,214 in the third quarter of 2009 from \$1,764 in the same year-ago quarter. This decrease resulted from price adjustments and from cancellation of terminals by customers either downsizing their trading desks or implementing alternative solutions. There was also a shift of certain subscription based revenues to transaction based revenues as the Company transitions certain customers to a transaction based model.

## 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 10% to \$363 in the third quarter of 2009 from \$403 in the same year-ago quarter. The decrease related mainly to customer cancels.

## Revenues

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

(\$000's)	2009			2008		
	Canada	USA	Total	Canada	USA	Total
<b>Transaction fees - core</b>						
Equity order flow	\$ 626	\$ 16,053	\$ 16,679	\$ 1,704	\$ 9,775	\$ 11,479
Electronic option and futures contracts	34	5,962	5,996	17	8,879	8,896
<b>Total transaction fees - core</b>	660	22,015	22,675	1,721	18,654	20,375
Transaction fees - brokerage	-	2,627	2,627	-	2,645	2,645
Subscription fees	3,644	188	3,832	5,024	380	5,404
Other revenue	840	295	1,135	810	293	1,103
<b>Total</b>	<b>\$ 5,144</b>	<b>\$ 25,125</b>	<b>\$ 30,269</b>	<b>\$ 7,555</b>	<b>\$ 21,972</b>	<b>\$ 29,527</b>

## Total Revenues

Total revenue increased by 3% from \$29,527 for the nine months ended September 30, 2008 to \$30,269 for the nine months ended September 30, 2009. The Company generated approximately 83% (nine months of 2008 - 74%) of its revenues in the United States and 17% (nine months of 2008 - 26%) of its revenues in Canada.

## Transaction Fee Revenue – Core

### (i) Equity Order Flow

Transaction fee revenue (including the recovery of pass through costs) from clearing, sponsored access and the routing of equity order flow through the Belzberg Gateway increased by 45% to \$16,679 in the nine months of 2009 from \$11,479 in the same year-ago period.

U.S. equity order flow and clearing revenue increased by 64% in the nine-months year over year. Approximately \$6,115 of the U.S. equity and clearing revenue increase in the

nine-month period resulted from higher pass-through revenues on which the Company makes no mark-up. A strengthening US dollar in the nine-month period accounted for approximately \$810 of the U.S. equity and clearing revenue increase excluding pass-throughs. The balance of the year over year U.S. equity and clearing revenue change was attributable to lower commissions from reduced volumes executed. The total volume of shares executed by our wholly owned U.S. broker-dealer decreased by approximately 1% for the nine month period year over year. 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 decreased by 63% in the nine-month period year over year mainly as a result of a sellside customer internalizing its flow and from the loss of buy-side volumes.

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,			
	2009	2008	change	% change
Total trading volume (in billions of shares)	9.6	9.7	(0.1)	(1)%
Avg trading volume per day (in millions of shares)	50.8	51.2	(0.4)	(1)%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 85.4	\$ 51.7	\$ 33.7	65%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 32.0	\$ 30.9	\$ 1.1	4%
Avg transaction fee revenue per share including passthroughs	\$ 0.0017	\$ 0.0010	\$ 0.0007	70%
Avg transaction fee revenue per share before passthroughs	\$ 0.0006	\$ 0.0006	\$ -	0%
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 decreased by 33% to \$5,996 in the nine months of 2009 from \$8,896 in the same year-ago period. Approximately \$1,104 of the decrease resulted from lower pass-through revenues on which the Company makes no mark-up while a strengthening US dollar in the nine month period accounted for an increase to option revenues of approximately \$548 net of passthroughs. The total volume of our electronic options contracts executed decreased by 46% on a year over year basis of which approximately 51% of the reduction related to the loss of one customer while the balance related to a slowdown or cessation of trading by US banks and brokerage houses affected by the financial crisis.

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,			
	2009	2008	change	% change
Total trading volume (in millions of contracts)	21.9	40.6	(18.7)	(46)%
Avg trading volume per day (in thousands of contracts)	116.4	214.8	(98.4)	(46)%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 31.7	\$ 47.0	\$ (15.3)	(33)%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 22.9	\$ 32.4	\$ (9.5)	(29)%
Avg transaction fee revenue per contract including passthroughs	\$ 0.27	\$ 0.22	\$ 0.05	23%
Avg transaction fee revenue per contract before passthroughs	\$ 0.20	\$ 0.15	\$ 0.05	33%
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) decreased by 1% to \$2,627 in the nine months of 2009 from \$2,645 in the same year-ago period. Approximately \$282 of the Brokerage revenue decline in the nine-month period resulted from lower pass-through revenues on which the Company makes no mark-up while a strengthening US dollar in the nine month period accounted for an increase to option revenues of approximately \$311 net of passthroughs. The balance of the brokerage revenue decline resulted mainly from reduced pricing.

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,			
	2009	2008	change	% change
Total trading volume (in millions of contracts)	16.9	11.7	5.2	44%
Avg trading volume per day (in thousands of contracts)	89.6	61.9	27.7	45%
Avg transaction fee revenue per trading day including passthroughs (in thousands CDN\$)	\$ 14.0	\$ 14.0	\$ (0.0)	0%
Avg transaction fee revenue per trading day before passthroughs (in thousands CDN\$)	\$ 13.4	\$ 11.9	\$ 1.5	12%
Avg transaction fee revenue per contract including passthroughs	\$ 0.16	\$ 0.23	\$ (0.07)	(30)%
Avg transaction fee revenue per contract before passthroughs	\$ 0.15	\$ 0.19	\$ (0.04)	(21)%
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 29% to \$3,832 in the nine months of 2009 from \$5,404 in the same year-ago period. This decrease resulted from price adjustments and from cancellation of terminals by customers either downsizing their trading desks or implementing alternative solutions. There was also a shift of certain subscription based revenues to transaction based revenues as the Company transitions certain customers to a transaction based model.

**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 3% to \$1,135 in the nine months of 2009 from \$1,103 in the same year-ago period.

## Expenses (Income)

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

(\$000's)	Core 2009	Brokerage 2009	Total 2008	% of Revenues	Core 2008	Brokerage 2008	Total 2008	% of Revenues
Exchange, clearing and brokerage fees	\$ 3,158	\$ 305	\$ 3,463	42 %	\$ 3,956	\$ 1,238	\$ 5,194	47 %
Compensation and related benefits	2,644	382	3,026	37 %	2,809	352	3,161	29 %
Telecommunication and datafeed services	1,762	53	1,815	22 %	1,672	49	1,721	16 %
Administrative and other expenses	841	31	872	11 %	1,165	94	1,259	11 %
Amortization of capital assets	518	4	522	6 %	465	4	469	4 %
Amortization of intangible assets	55	-	55	-	53	-	53	-
Foreign exchange loss(gain)	980	220	1,200	15 %	61	(91)	(30)	-
Interest expense	4	-	4	-	3	-	3	-
Interest income	(40)	-	(40)	-	(123)	(6)	(129)	(1)%
	\$ 9,922	\$ 995	\$ 10,917	134%	\$ 10,061	\$ 1,640	\$ 11,701	107%

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

(\$000's)	Core 2009	Brokerage 2009	Total 2008	% of Revenues	Core 2008	Brokerage 2008	Total 2008	% of Revenues
Exchange, clearing and brokerage fees	\$ 13,483	\$ 1,002	\$ 14,485	48 %	\$ 8,757	\$ 1,893	\$ 10,650	36 %
Compensation and related benefits	8,706	1,237	9,943	33 %	7,807	1,085	8,892	30 %
Telecommunication and datafeed services	5,744	188	5,932	20 %	4,789	148	4,937	17 %
Administrative and other expenses	2,977	137	3,114	10 %	3,472	296	3,768	13 %
Restructuring charges	839	-	839	3 %	-	-	-	-
Amortization of capital assets	1,567	12	1,579	5 %	1,389	8	1,397	5 %
Amortization of intangible assets	165	-	165	1 %	138	-	138	-
Foreign exchange loss(gain)	1,367	365	1,732	6 %	261	(174)	87	-
Government assistance	(95)	-	(95)	-	-	-	-	-
Interest expense	22	-	22	-	3	-	3	-
Interest income	(168)	(3)	(171)	(1)%	(444)	(21)	(465)	(2)%
	\$ 34,607	\$ 2,938	\$ 37,545	124%	\$ 26,172	\$ 3,235	\$ 29,407	100%

## 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 33% to \$3,463 in the third quarter of 2009 from \$5,194 in the same year-ago quarter. The decrease resulted mainly from:

- (i) Lower option exchange fees in the core business as a result of lower trading volumes executed and cleared and also in the floor brokerage business from fewer contracts cleared. (year over year decrease of \$797).
- (ii) Lower trading errors resulting mainly from an unusual floor brokerage trading error of US\$800 in the third quarter of 2008 not recurring in 2009. (year over year decrease of \$1,025).
- (iii) Lower commissions paid to other brokers for the introduction of business and for execution services. (year over year decrease of \$173).

These decreases were offset by:

- (iv) Higher equity exchange fees in the core business mainly as a result of a price increase in NYSE exchange fees (year over year increase of \$266).

Exchange, clearing and brokerage fees increased by 36% to \$14,485 in the nine months of 2009 from \$10,650 in the same year-ago period. The increase resulted mainly from:

- (i) Higher equity exchange fees in the core business mainly as a result of higher trading volumes from a high volume low margin customer and from a price increase in NYSE exchange fees. (year over year increase of \$6,215 of which approx \$581 related to a stronger US\$).
- (ii) Higher equity clearing fees from the National Securities Clearing Corporation as a result of receiving a credit in the prior year that did not recur to the same extent in the current year. (year over year increase of \$174).
- (iii) Higher brokerage costs for exchange regulatory fees and dues, seat leases, third party technology fees and an accrual of \$100 for a client trading issue. (year over year increase of \$336 of which approx \$158 related to a stronger US\$).

These increases were offset by:

- (iv) Lower option exchange fees in the core business as a result of lower trading volumes executed and cleared and also in the floor brokerage business from fewer contracts cleared. (year over year decrease of \$1,281).
- (v) Lower trading errors resulting mainly from an unusual floor brokerage trading error of US\$800 in the third quarter of 2008 not recurring in 2009. (year over year decrease of \$1,187).
- (vi) Lower commissions paid to other brokers for the introduction of business and for execution services. (year over year decrease of \$423).

## **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 4% to \$3,026 in the third quarter of 2009 from \$3,161 in the same year-ago quarter. The year over year decrease resulted mainly from lower payroll and benefit expenses of \$228 from reduced headcount. These were offset by higher sales commissions of \$107 paid to NY floor and upstairs brokers and higher stock based compensation expenses of \$33 from additional option grants.

Our average headcount in the third quarter of 2009 was 102 full time and 3 part time employees as compared to 109 full time and 5 part time employees in the same year-ago quarter.

Compensation and related benefits increased by 12% to \$9,943 in the nine months of 2009 from \$8,892 in the same year-ago period. The year over year increase resulted mainly from (i) higher payroll and benefit expenses of \$509 all attributable to a stronger US\$ that increased payroll and benefits reported in CDN\$ by approximately \$570; (ii) higher stock based compensation of \$98 from additional option grants and (iii) additional sales commissions of \$636 paid to NY floor and upstairs brokers of which approximately \$100 related to a stronger US\$. These increases were offset by lower bonus, vacation and severance amounts of \$193.

Our average headcount in the nine months of 2009 was 103 full time and 4 part time as compared to 102 full time and 5 part time 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 5% to \$1,815 in the third quarter of 2009 from \$1,721 in the same year-ago quarter.

Telecommunication costs increased by approximately \$88 mainly as a result of:

- (i) Connections to market data lines and trading connections increased by \$144 of which approximately \$31 resulted from a stronger US\$. The balance of the increase resulted from increased bandwidth for various exchange connections. Also new T3's were installed between Chicago and New York and between Toronto and New York to handle the increased load. These increases were offset by a reduction in customer connections of \$56 from cancellations.

Telecommunication and datafeed services increased by 20% to \$5,932 in the nine-month period of 2009 from \$4,937 in the same year-ago period.

Datafeed and market access services increased in the nine-month period by approximately \$317 mainly from a stronger US\$ that increased datafeed costs reported in CDN\$ by approximately \$252.

Telecommunication costs increased in the nine-month period by approximately \$678 mainly as a result of:

- (i) Connections to market data lines and trading connections increased by \$696 of which approximately \$235 resulted from a stronger US\$. The balance of the

increase resulted from increased bandwidth for various exchange connections. Also new T3's were installed between Chicago and New York and between Toronto and New York to handle increased load. These increases were offset by a reduction in customer connections of \$18.

### **Administrative and Other Expenses**

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

Administrative and other expenses decreased by 31% to \$872 in the third quarter of 2009 from \$1,259 in the same year-ago quarter. The decrease resulted mainly from:

- (i) Lower consulting fees of \$120 for various strategic reviews, recruiting fees for New York sales hires and for internal control testing performed for 52-109 compliance incurred in the prior year not recurring in the current year.
- (ii) Lower office and general expenses of \$111 relating to fewer conferences attended, reduced repair and maintenance costs and reductions in various miscellaneous expenses.
- (iii) Lower travel, advertising, entertainment and promotional expenses and director fees of \$144.
- (iv) A doubtful debt provision of US\$50 in our floor brokerage operation in the prior year not recurring in the current year.

These reductions were offset by higher professional fees of \$41 related to patent legal costs and amounts for current year audit and tax preparation.

Administrative and other expenses decreased by 17% to \$3,114 in the nine months of 2009 from \$3,768 in the same year-ago period. For the nine-month period the decreases resulted mainly from:

- (i) Lower net professional fees of \$53 related to reduced patent and general legal expenses offset by higher amounts for audit and tax preparation expenses.
- (ii) Lower consulting fees of \$90 for various strategic reviews, recruiting fees for New York sales hires and for internal control testing performed for 52-109 compliance incurred in the prior year not recurring in the current year.
- (iii) Lower office and general expenses of \$209.
- (iv) Lower travel, advertising, entertainment and promotional expenses and director fees of \$300.
- (v) A doubtful debt provision of \$154 (US\$150) in our floor brokerage operation in the prior year not recurring in the current year.

These reductions were offset by higher occupancy costs of \$80 of which \$70 related to a stronger US\$ and the balance to additional space rented in Chicago, (ii) higher bank charges of \$41 and (iii) additional software maintenance agreements of \$32.

### **Restructuring Charges**

Restructuring charges of \$839 relate mainly to the severance packages for employee terminations that occurred in the first quarter of 2009.

## **Government Assistance**

Government assistance relates to the scientific research and development claim for the 2008 year that was filed in the second quarter of 2009.

## **Amortization of Capital Assets**

Amortization of capital assets increased by 11% in the third quarter of 2009 to \$522 from \$469 in the same year-ago quarter.

Amortization of capital assets increased by 13% in the nine month period of 2009 to \$1,579 from \$1,397 in the same year-ago period.

The year over year increase resulted from the purchase of additional computer and network equipment to handle the increased capacity of datafeeds, servers for clearing, and general upgrades to datacentres.

## **Amortization of Intangible Assets**

Amortization of intangible assets increased by 4% to \$55 in the third quarter of 2009 from \$53 in the same year-ago quarter.

Amortization of intangible assets increased by 20% to \$165 in the nine month period of 2009 from \$138 in the same year-ago quarter.

The increase relates mainly to amortization of computer software additions related to our clearing business now classified as intangible assets in accordance with the new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. The intangibles are being amortized on a straight line basis over three to five years.

## **Foreign Exchange Loss (Gain)**

During the third quarter of 2009 the Company ceased its strategy of partially hedging the exposure of its U.S. dollar net assets to fluctuations in the CAD/USD exchange rate. Prior to exiting its hedging strategy, the Company utilized foreign currency futures and options contracts to manage a portion of its exposure to fluctuations in foreign exchange rates. Changes in the fair value of the derivative instruments were recognized into income each period.

The Company incurred a net foreign exchange loss of \$1,200 for the quarter ended September 30, 2009 as a result of a 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. The Company realized gains on settled option contracts of \$253 for the three month period ended September 30, 2009. There were no foreign currency option contracts outstanding at September 30, 2009.

For the nine month period ended September 30, 2009 the Company incurred a net foreign exchange loss of \$1,732 as a result of a strengthening in the Canadian dollar. For the nine month period ended September 30, 2009 the Company realized gains of approximately \$368 on foreign exchange option contracts that were 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.

The Company incurred a net foreign exchange gain of \$30 for the quarter ended September 30, 2008 as a result of a strengthening in the US 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, 2008 the Company had outstanding foreign exchange option contracts for the purchase of CDN\$12,500 at an average price of US\$0.88 maturing in December 2008. The unrealized gain on these outstanding option contracts was approximately \$59 for the three month period ended September 30, 2008 and the realized losses on settled option contracts was approximately \$496.

For the nine month period ended September 30, 2008 the Company incurred a net foreign exchange loss of \$87 as a result of a strengthening in the Canadian dollar. For the nine month period ended September 30, 2008 the Company realized losses of approximately \$940 on foreign exchange option contracts that were settled and had unrealized gains of approximately \$59 on unsettled contracts. 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.

### **Interest Expense**

Interest expense increased by \$1 to \$4 in the third quarter of 2009 from \$3 in the same year-ago quarter.

Interest expense increased by \$19 to \$22 in the nine months of 2009 from \$3 in the same year ago period. The majority of the increase resulted from the utilization of the clearing facility to facilitate clearing breaks.

### **Interest Income**

Interest income decreased by \$89 to \$40 in the third quarter of 2009 from \$129 in the same year-ago quarter. This resulted mainly from lower yields on T/Bill and Bankers Acceptances (BA) investments and lower cash balances.

Interest income decreased by \$294 to \$171 in the nine months of 2009 from \$465 in the same year-ago period. This resulted mainly from lower yields on T/Bill and Bankers Acceptances (BA) investments and lower cash balances.

### **Income Taxes**

For the three months ended September 30, 2009, the Company recorded a net income tax recovery of approximately \$406 based upon its tax loss for the quarter by jurisdiction and a determination that the realization of certain tax assets, including available tax loss carryforwards and research and development tax pools, is more likely than not. For the nine-month period ended September 30, 2009, the Company recorded a net income tax recovery of \$1,697 based upon its tax loss for the year to date by jurisdiction and a determination that the realization of certain tax assets, including available tax loss carryforwards and research and development tax pools, is more likely than not.

For the three months ended September 30, 2008, the Company recorded a net income tax recovery of approximately \$416 based upon its tax loss for the quarter by jurisdiction and a determination that the realization of certain tax assets, including available tax loss carryforwards and research and development tax pools, is more likely than not. For the nine-month period ended September 30, 2008, the Company recorded a net income tax recovery of \$248 based upon its tax loss for the year to date by jurisdiction and a determination that the realization of certain tax assets, including available tax loss carryforwards and research and development tax pools, is more likely than not.

**Net Earnings (Loss)**

The net loss for the quarter ended September 30, 2009 was \$2,350 compared to a net loss of \$322 for the same year-ago quarter. Diluted loss per share for the quarter ended September 30, 2009, was (\$0.16) per share compared to a diluted loss of (\$0.02) per share for the same year-ago quarter.

The net loss for the nine months ended September 30, 2009 increased to \$5,579 from net earnings of \$368 for the same year-ago period. Diluted loss per share for the nine months ended September 30, 2009, was (\$0.38) per share compared to diluted earnings of \$0.02 per share for the same year-ago period.

# Summary of Quarterly Results

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

<b>Belzberg Technologies Inc.</b>								
<b>Summary of Quarterly Results</b>								
(Unaudited)	FY 2009			FY 2008				FY 2007
(\$000's except per share amounts)	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07
<b>Revenue:</b>								
Transaction fees:								
Equity order flow and clearing	\$ 4,147	\$ 6,242	\$ 6,290	\$ 6,463	\$ 4,543	\$ 3,157	\$ 3,779	\$ 3,455
Options and futures contracts	2,437	2,997	3,189	3,679	4,253	3,672	3,616	3,294
	6,584	9,239	9,479	10,142	8,796	6,829	7,395	6,749
Subscription fees	1,214	1,223	1,395	1,683	1,764	1,787	1,853	1,885
Other	363	360	412	409	403	358	342	328
<b>Total Revenue</b>	<b>8,161</b>	<b>10,822</b>	<b>11,286</b>	<b>12,234</b>	<b>10,963</b>	<b>8,974</b>	<b>9,590</b>	<b>8,962</b>
<b>Expenses (Income)</b>								
Exchange, clearing and other brokerage fees	3,463	5,478	5,544	5,371	5,194	3,136	2,320	2,236
Compensation and related benefits	3,026	3,162	3,755	3,610	3,161	2,951	2,780	2,598
Telecommunication and datafeed services	1,815	2,067	2,050	2,051	1,721	1,662	1,554	1,459
Administrative and other expenses	872	1,052	1,190	1,511	1,259	1,416	1,093	1,294
Amortization of capital assets	522	534	523	507	469	465	463	416
Amortization of intangible assets	55	55	55	60	53	47	38	34
Foreign exchange loss (gain)	1,200	364	168	(814)	(30)	58	59	156
Government assistance	-	(95)	-	(60)	-	-	-	(936)
Interest expense	4	12	6	1	3	-	-	2
Interest income	(40)	(44)	(87)	(117)	(129)	(149)	(187)	(220)
Restructuring charges	-	-	839	1,052	-	-	-	-
	10,917	12,585	14,043	13,172	11,701	9,586	8,120	7,039
<b>Net earnings (loss) before taxes</b>	<b>\$ (2,756)</b>	<b>\$ (1,763)</b>	<b>\$ (2,757)</b>	<b>\$ (938)</b>	<b>\$ (738)</b>	<b>\$ (612)</b>	<b>\$ 1,470</b>	<b>\$ 1,923</b>
Provision for (recovery of) income taxes								
Current	-	-	-	(9)	2	-	7	123
Future	(406)	(358)	(933)	(679)	(418)	(184)	345	(263)
	(406)	(358)	(933)	(688)	(416)	(184)	352	(140)
<b>Net earnings (loss)</b>	<b>\$ (2,350)</b>	<b>\$ (1,405)</b>	<b>\$ (1,824)</b>	<b>\$ (250)</b>	<b>\$ (322)</b>	<b>\$ (428)</b>	<b>\$ 1,118</b>	<b>\$ 2,063</b>
Earnings (loss) per share:								
Basic	\$ (0.16)	\$ (0.09)	\$ (0.12)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.08	\$ 0.14
Diluted	(0.16)	(0.09)	(0.12)	(0.02)	(0.02)	(0.03)	0.07	0.14
Weighted avg number of common and common equivalent shares outstanding:								
Basic	14,822	14,829	14,835	14,835	14,841	14,846	14,791	14,786
Diluted	14,822	14,829	14,835	14,835	14,879	14,938	14,935	14,964
Capital asset expenditures	58	415	427	495	736	218	1,024	453
Total assets	37,594	41,479	51,349	41,958	40,992	39,816	41,121	41,272
Shareholders' equity	29,657	31,954	33,279	35,050	35,137	35,450	35,862	34,592

Government assistance in the fourth quarter of 2007 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, 2008, the Company's subsidiary, Electronic Brokerage Systems, LLC, paid seat lease expenses at market rates of approximately \$37 (period ended September 30, 2008 - \$35) and paid for execution services in the amount of \$46 (period ended September 30, 2008 - \$43) 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 \$107 (nine month period ended September 30, 2008 - \$85) and paid for execution services in the amount of \$151 (nine month period ended September 30, 2008 - \$130) 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 \$30 (third quarter ended September 30, 2008 - \$4) from the same company. For the nine month period Electronic Brokerage Systems, LLC recorded transaction fee revenues of approximately \$228 (nine months ended September 30, 2008 - \$11) from the same company.

## Liquidity and Capital Resources

### Financial Position

At September 30, 2009 the Company had cash and cash equivalents of \$12,863 and working capital of \$19,095 as compared to cash and cash equivalents of \$13,464 and working capital of \$21,031 at June 30, 2009.

The Company's subsidiary Electronic Brokerage Systems has a US\$25,000 clearing facility. The facility when utilized is collateralized by marketable securities ("the pledged securities") that are held at the Depository and Trust Company ("DTC") as a result of a clearing break. There were no amounts outstanding under this facility at September 30, 2009.

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 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 or 6-2/3% of aggregate indebtedness, as defined. As at September 30, 2009, Electronic Brokerage Systems, LLC and RCS had net capital of US\$8,978 and US\$714 and a net capital requirement of US\$500 and US\$100 respectively.

Electronic Brokerage Systems, LLC is currently required by the Options Clearing Corporation ("OCC") to maintain minimum net capital of US\$2,000. At September 30, 2009, Electronic Brokerage Systems, LLC had net capital of US\$8,978.

### Operating Activities

The Company generated \$143 of cash flow from operations for the quarter ended September 30, 2009 as compared to utilizing \$3,538 of cash for operations for the quarter ended September 30, 2008. The year over year change was due to (i) a decline in profitability of the company of \$2,028 offset by (ii) a foreign exchange translation loss on cash and cash equivalents in the current quarter as compared to a foreign exchange translation gain in the prior year resulting in a positive change of \$883, (iii) an increase in

non cash amortization of capital assets and intangibles of \$55, (iv) an increase in stock based compensation of \$33, (v) a decrease in future tax assets resulting in a positive change of \$295 and (vi) a positive change to non-cash working capital items of \$4,443. Non-cash working capital items increased in the third quarter on a year over year basis mainly as a result of the following:

- (i) The Company's deposits with clearing organizations decreased by \$2,576 million for the quarter ended September 30, 2009 due to the clearing of trades that had not cleared at the prior quarter end. This compared to an increase in deposits at clearing organizations of \$1,990 for the quarter ended September 30, 2008 for (a) additional margin deposits of \$1,680 required at the NSCC to cover trades that had not cleared at quarter end and (b) an increase of \$310 in deposits required by the OCC for an increased volume of options business. (positive third quarter year over year change of \$4,566).
- (ii) A decrease in receivables from brokers, dealers and clearing organizations of \$241 for the quarter ended September 30, 2009 due to (a) a decrease in deposits at brokers of \$378 offset by (b) an increase in receivables of \$137 for trades that had not cleared at quarter end. This compared to an increase in receivables from brokers, dealers and clearing organizations of \$1,611 for the quarter ended September 30, 2008 mainly due (a) the opening of a new prime brokerage account requiring a deposit of \$980, (b) an increase in receivables of \$392 for trades that had not cleared at quarter end and (c) an increase in deposits at brokers of \$239. (positive third quarter year over year change of \$1,852).
- (iii) A decrease in other current assets for the quarter ended September 30, 2009 of \$823 from the sale of foreign exchange option contracts as compared to an increase in other current assets for the quarter ended September 30, 2008 of \$281 from the unrealized profit on foreign exchange option contracts. (positive third quarter year over year change of \$1,104).
- (iv) A decrease in investment tax credits recoverable for the quarter ended September 30, 2009 of \$13 as compared to an increase in investment tax credits recoverable for the quarter ended September 30, 2008 of \$63. (positive third quarter year over year change of \$76).
- (v) An increase in accounts receivable balances for the quarter ended September 30, 2009 of \$508 as compared to a decrease in accounts receivable balances of \$692 for the quarter ended September 30, 2008. (positive third quarter year over year change of \$184).
- (vi) A decrease in income taxes receivable for the quarter ended September 30, 2009 of \$9 from instalment refunds received as compared to nil for the quarter ended September 30, 2008. (positive third quarter year over year change of \$9).
- (vii) A decrease in income taxes payable for the quarter ended September 30, 2008 of \$7 as compared to nil for the quarter ended September 30, 2009. (positive third quarter year over year change of \$7).

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

- (i) The Company's accounts payable balances decreased for the quarter ended September 30, 2009 by \$1,389 mainly as a result of 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, 2008 of \$1,176 as a result of

capital asset purchases not yet paid for and higher exchange fee bills at the end of the third quarter. (negative third quarter year over year change of \$2,565).

- (ii) A decrease in payables to customers and correspondents for the quarter ended September 30, 2009 of \$175 as compared to an increase in payables to customers and correspondents for the quarter ended September 30, 2008 of \$53. (negative third quarter year over year change of \$228).
- (iii) A decrease in payables to brokers, dealers and clearing organizations for the quarter ended September 30, 2009 of \$26 from trades that had cleared as compared to an increase in payables to brokers, dealers and clearing organizations of \$338 for the quarter ended September 30, 2008 for trades that had not cleared. (negative third quarter year over year change of \$364).
- (iv) An increase in cash and cash equivalents segregated under regulations and other for the quarter ended September 30, 2009 of \$181 as compared to an increase in cash and cash equivalents segregated under regulations and other for the quarter ended September 30, 2008 of \$53. (negative third quarter year over year change of \$128).
- (v) An increase in prepaid and other receivables for the quarter ended September 30, 2009 of \$35 as compared to a decrease in prepaid and other receivables for the quarter ended September 30, 2008 of \$35. (negative third quarter year over year change of \$70).

The Company utilized cash flow for operations of \$4,637 for the nine months ended September 30, 2009 as compared to utilizing \$741 of cash flow for operations for the nine months ended September 30, 2008. The year over year change was due to (i) a decline in profitability of the company of \$5,947 and (ii) an increase in future tax assets resulting in a negative change of \$964. These negative changes were offset by (i) a foreign exchange translation loss on cash and cash equivalents in the current year as compared to a foreign exchange translation gain in the prior year resulting in a positive change of \$1,384, (ii) an increase in non cash amortization of capital assets and intangibles of \$209, (iii) an increase in stock based compensation of \$98 and (iv) a positive change to non-cash working capital items of \$1,329. The change in non-cash working capital items resulted mainly from the following:

- (i) A decrease in other current assets for the nine month period ended September 30, 2009 of \$1,565 from the sale of foreign exchange option contracts as compared to a decrease of \$47 for the nine month period ended September 30, 2008 (positive nine month year over year change of \$1,518).
- (ii) A decrease in accounts receivable balances for the nine months ended September 30, 2009 of \$488 as compared to an increase for the nine month period ended September 30, 2008 of \$812 (positive nine month year over year change of \$1,300).
- (iii) An increase in payables to customers and correspondents for the nine month period ended September 30, 2009 of \$2,266 as compared to an increase in payables to customers and correspondents for nine month period ended September 30, 2008 of \$53. (positive nine month year over year change of \$2,213).
- (iv) A decrease in payables to brokers, dealers and clearing organizations for the nine months ended September 30, 2009 of \$131 as compared to a decrease in

payables to brokers, dealers and clearing organizations for the nine months ended September 30, 2008 of \$1,577. (positive nine month year over year change of \$1,446).

- (v) A decrease in investment tax credits recoverable of \$9 for the nine month period ended September 30, 2009 as compared to a an increase in investment tax credits recoverable of \$180 for the nine month period ended September 30, 2008 from alternative minimum tax payments. (positive nine month year over year change of \$189).
- (vi) An increase in cash and cash equivalents on deposit with clearing and depository organizations of \$535 for the nine months ended September 30, 2009 as compared to an increase of \$706 for the for the nine month period ended September 30, 2008 (positive nine month year over year change of \$171).
- (vii) A decrease in income taxes payable for the nine months ended September 30, 2008 of \$13 as compared to nil for the nine months ended September 30, 2009. (positive nine month year over year change of \$13).

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

- (i) The Company's accounts payable and accrual balances decreased for the nine months ended September 30, 2009 by \$1,375 as compared to an increase of \$900 for the nine month period ended September 30, 2008 (negative nine month year over year change of \$2,275).
- (ii) An increase in cash and cash equivalents segregated under regulations and other for the nine months ended September 30, 2009 of \$2,887 as compared to an increase in cash and cash equivalents segregated under regulations and other for the nine months ended September 30, 2008 of \$53. (negative nine month year over year change of \$2,834).
- (iii) A decrease in receivables from brokers, dealers and clearing organizations of \$77 for the nine months ended September 30, 2009 as compared to a decrease in receivables from brokers, dealers and clearing organizations of \$429 for the nine months ended September 30, 2008. (negative nine month year over year change of \$352).
- (iv) An increase in prepaid and other receivables for the nine month period ended September 30, 2009 of \$216 as compared to an increase in prepaid and other receivables for the nine month period ended September 30, 2008 of \$162. (negative nine month year over year change of \$54).
- (v) An increase in income taxes receivable for the nine months ended September 30, 2009 of \$6 as compared to nil for the nine months ended September 30, 2008. (negative nine month year over year change of \$6).

### **Investing Activities**

The Company utilized \$58 of cash for investing activities in the quarter ended September 30, 2009 as compared to utilizing \$736 of cash for investing activities in the quarter ended September 30, 2008. 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 Company utilized \$894 of cash for investing activities in the nine months ended September 30, 2009 as compared to utilizing \$2,190 of cash for investing activities in the nine months ended September 30, 2008. 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 purchase of intangibles relates mainly to software acquired to facilitate clearing operations. In the nine month period ended September 30, 2009, the Company received proceeds from the sale of an investment of \$15 and utilized \$2 for the purchase of an investment.

### **Financing Activities**

The Company utilized \$22 of cash for financing activities in the quarter ended September 30, 2009 as compared to utilizing \$33 of cash for financing activities in the quarter ended September 30, 2008. Financing activities in the quarter ended September 30, 2009 included \$22 (quarter ended September 30, 2008 -\$33) for the repurchase of common shares under a normal course issuer bid.

The Company utilized \$32 of cash for financing activities in the nine months ended September 30, 2009 as compared to generating \$31 of cash from financing activities in the nine months ended September 30, 2008. Financing activities in the nine months ended September 30, 2009 included \$32 for the repurchase of common shares under a normal course issuer bid. Financing activities in the nine months ended September 30, 2008 included proceeds from the exercise of employee stock options of \$364, the repurchase of common shares under a normal course issuer bid of \$306 and repayment of capital lease obligations of \$27.

### **Liquidity and Sources of Financing**

The Company's subsidiary, Electronic Brokerage Systems, LLC has a secured credit facility of US\$25,000 that may only be utilized to facilitate clearing and settlement activities. The facility when utilized is collateralized by marketable securities ("the pledged securities") that are held at the Depository and Trust Company ("DTC") as a result of a clearing break.

The Company's wholly owned U.S. broker-dealer, Electronic Brokerage Systems, 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 may restrict the Company's ability to withdraw capital from its brokerage subsidiary to fund its working capital requirements.

The Company is dependant upon Electronic Brokerage Systems 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 its cash and cash equivalents together with its clearing facility is sufficient to fund its cash requirements for the 2009 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, 2008.

## 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

During the third quarter of 2009 the Company ceased hedging its exposure to fluctuations in foreign exchange rates. Prior to exiting its hedging strategy, the Company utilized foreign currency futures and options contracts to manage a portion of its exposure to fluctuations in foreign exchange rates. Changes in the fair value of the derivative instruments were recognized into income each period.

For the three month period ended September 30, 2009, the Company realized gains on settled foreign exchange option contracts of \$253. For the nine month period ended September 30, 2009 the Company realized gains of \$368 on foreign exchange option contracts that were 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. There were no outstanding foreign exchange option contracts at September 30, 2009.

As at September 30, 2008, the Company had outstanding foreign exchange option contracts for the purchase of CDN\$12,500 at an average price of U.S.\$0.88 maturing in December 2008. For the three month period ended September 30, 2008, the unrealized gain on these outstanding option contracts was approximately \$59 and the realized losses on settled option contracts was approximately \$496. For the nine month period ended September 30, 2008 the Company realized losses of approximately \$940 on foreign exchange option contracts that were settled and had unrealized gains of approximately \$59 on unsettled contracts. 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.

# 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, 2008 except for the following:

## **Changes in accounting policies:**

Effective January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Handbook Section 3062, *Goodwill and other Intangible Assets* and Handbook Section 3450, *Research and Development Costs*. This revision aligns Canadian GAAP with International Financial Reporting Standards and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Refer to note 2(b) in the Interim Consolidated Financial Statements for the quarter ended September 30, 2009 for the effect of this change in accounting policy.

## **Future accounting changes:**

### **International Financial Reporting Standards ("IFRS") and Update**

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures. As part of the IFRS conversion project the Company's implementation team consists of the Chief Financial Officer and Corporate Controller with progress reporting to the Audit Committee on a quarterly basis.

The conversion project consists of the following phases:

**"Diagnostic" Phase** - This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time adopters and a high level assessment of potential consequences on financial reporting, business processes, internal controls and information systems.

**"Design and Solutions Development" Phase** - This phase involves prioritizing accounting treatment issues, reviewing and approving accounting policy choices, designing changes to information systems and business processes, quantifying the impact of converting to IFRS and participating in IFRS training courses.

**"Implementation" Phase** - This phase involves embedding changes to systems, business processes and internal controls, determining the opening IFRS transition balance sheet, parallel accounting under Canadian GAAP and IFRS, and preparing reconciliations of Canadian GAAP to IFRS financial statements.

Management has completed the diagnostic phase and has identified the key areas where changes in accounting policies are expected to affect the Company's consolidated financial statements. Management is still in the process of quantifying the expected material differ-

ences between IFRS and the current treatment under Canadian GAAP but expects to complete this assessment in time for parallel recording of financial information in accordance with IFRS beginning in 2010. Management has completed a review of its information systems together with a third party consultant and does not expect any significant modifications will be necessary on conversion. The Company's CFO and controller have attended a number of IFRS training courses and continue to be updated on standards currently in development that may affect its changeover plan.

The key areas where differences have been identified and an update on work performed are as follows:

### **Foreign currency translation**

The Company's foreign operating subsidiaries are considered to be integrated operations and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities, and average rates for revenue and expenses, except amortization, which is translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income under Canadian GAAP.

Under IAS 21 there is no definition of integrated and self-sustaining operations. Instead the results and financial position of foreign operating subsidiaries that have a functional currency different from the presentation currency are translated as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet (there are no historical rates of exchange for non-monetary assets and liabilities when compared with integrated operations under Canadian GAAP);
- (ii) Income and expenses for each income statement are translated at average exchange rates (Amortization is no longer translated at the rates of exchange applicable to the related assets when compared with integrated operations under Canadian GAAP);
- (iii) All resulting exchange differences are recognized as a separate component of equity (Gains and losses from translation are no longer included in income when compared with integrated operations under Canadian GAAP)

Full retrospective application of IAS 21 would require a first-time adopter to restate all financial statements of its foreign operations to IFRS from their date of inception or later acquisition onwards, and then determine the cumulative translation differences arising in relation to each of these foreign operations. The Company expects to elect the exemption under IFRS 1 allowing the cumulative translation differences for all foreign operations to be set to zero at the date of transition to IFRS.

### **Share-Based Payment**

The Company issues stock-based awards in the form of stock options that vest evenly over a three-year period. Under Canadian GAAP, the Company recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the three-year vesting period. Under IAS 19, the fair value of each option is determined with respect to when it vests as well as when it is issued. As such, the fair value of each vested tranche is considered a separate option grant. The expense associated with each grant is recognized as compensation expense over the term of its respective vesting period. Accordingly, this will result in a faster recognition of the cost of each option issuance than under Canadian GAAP.

The Company has outsourced the tracking and computation of stock based compensation to a third party provider that will be able to provide stock based compensation expense under both Canadian GAAP and IFRS on transition to IFRS.

### **Joint Ventures**

The Company has a joint venture arrangement which currently uses proportionate consolidation as the accounting treatment under Canadian GAAP. Under proportionate consolidation, the Company records its proportionate share of the assets, liabilities, revenues and expenses of the joint venture arrangement. Under the recent IFRS exposure draft, the Company would switch to equity accounting including the net investment in joint venture on the balance sheet and net equity in earnings on the income statement.

The Company does not expect that this change will have a material impact on its consolidated financial statements.

### **Impairment of Assets**

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. International Accounting Standard (IAS) 36, "Impairment of Assets", uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

The Company is still assessing the impact of IAS 36 on its consolidated financial statements and has not reached a conclusion to date but expects to complete this assessment in time for parallel recording of financial information in accordance with IFRS beginning in 2010.

### **Business Combinations**

The Company expects to elect the exemption under IFRS 1 allowing the Company not to restate any business combinations that occurred prior to January 1, 2010.

## **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, 2008 except for the following:

**Customer Dependence:** For the quarter ended September 30, 2009, one customer accounted for approximately 20% of total revenue including passthroughs (but only 1% of revenue excluding passthroughs). The three largest customers accounted for approximately 16% of revenue before passthroughs.

For the nine month period ended September 30, 2009, one customer accounted for approximately 23% of total revenue including passthroughs (but only 1% of revenue

excluding passthroughs). The three largest customers accounted for approximately 18% of revenue before passthroughs in the nine month period ended September 30, 2009.

The loss of these significant customers may have a material and adverse effect on our revenue and results of operations.

**Litigation:** The Company and a customer of the Company have jointly been named as defendants in an action filed by a client of the customer in relation to alleged deficiencies in services and software provided. As a result of the alleged deficiencies, along with direct claims asserted against the Company's customer, the plaintiffs are seeking to recover damages from trading losses, commissions levied, loss of opportunity, loss of profit, loss of fees, audit costs and loss of goodwill and damage to business reputation in the amount of \$4.5 million plus unspecified special damages. As the suit names both the Company and its customer, the Company has no basis to estimate its portion of the claim. The Company does not believe that it is liable for these claims and has engaged legal counsel to vigorously defend the claim. The Company has no direct contractual relationship with the party who filed the suit. In addition, the Company's contract with its customer limits the Company's liability for the services and software provided.

## Patent Information

The Company was issued Canadian Patent No. 2,119,921, Computerized Stock Exchange Trading System, on September 29, 2009.

## Normal Course Issuer Bid

During the quarter ended September 30, 2009 the Company repurchased 19,200 common shares under its normal course issuer bid for a gross cost of \$22. (quarter ended September 30, 2008 –9,300 common shares for a gross cost of \$33). For the nine-month period ended September 30, 2009 the Company repurchased 25,400 common shares under its normal course issuer bid for a gross cost of \$32. (nine-month period ended September 30, 2008 – 70,710 common shares for a gross cost of \$306).

## Outstanding Share Data

Set out below is the outstanding share data for the Company as at November 11, 2009.

<b>Common Shares:</b>	14,809,739
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	1,187,209

## Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a

timely basis so that appropriate decisions can be made regarding public disclosure. As at September 30, 2009, Belzberg's management, with the participation of the President and CEO and the CFO, evaluated the effectiveness of Belzberg's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and concluded that such controls and procedures were effective.

## Internal Controls Over Financial Reporting

There were no changes over the Company's internal controls over financial reporting during the period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.