

Consolidated Financial Statements
(Expressed in Canadian dollars)

BELZBERG TECHNOLOGIES INC.

Years ended December 31, 2010 and 2009



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Belzberg Technologies Inc.

We have audited the accompanying consolidated financial statements of Belzberg Technologies Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations and deficit, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Belzberg Technologies Inc. as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements, which indicates that Belzberg Technologies Inc. incurred a net loss of \$7,499,000 during the year ended December 31, 2010 and \$16,480,000 for the year ended December 31, 2009. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about Belzberg Technologies Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2011
Toronto, Canada

BELZBERG TECHNOLOGIES INC.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,319	\$ 15,670
Cash segregated under regulations and other	2,143	2,805
Cash and cash equivalents on deposit with clearing and depository organizations	1,630	1,363
Receivable from brokers, dealers, and clearing organization (note 5)	168	947
Accounts receivable	1,718	2,405
Prepaid expenses and other receivables	346	468
Securities borrowed	6,186	—
Income taxes receivable	—	12
	<u>20,510</u>	<u>23,670</u>
Capital assets (note 7)	1,096	2,233
Investment	30	30
Investment tax credits recoverable	—	147
Intangible assets (note 4)	77	141
	<u>\$ 21,713</u>	<u>\$ 26,221</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,336	\$ 5,176
Payable to customers and correspondents	1,733	1,948
Payable to brokers, dealers, and clearing organization (note 5)	—	345
Securities loaned	6,186	—
	<u>10,255</u>	<u>7,469</u>
Shareholders' equity:		
Capital stock (note 8)	23,612	23,754
Contributed surplus	4,391	4,044
Deficit	(16,545)	(9,046)
	<u>11,458</u>	<u>18,752</u>
	<u>\$ 21,713</u>	<u>\$ 26,221</u>

Commitments, contingencies and guarantees (note 17)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"J. Cameron MacDonald" Director

"Judith Robertson" Director

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Equity order flow and clearing	\$ 4,930	\$ 21,032
Options and futures contracts	6,956	10,815
Subscription fees	3,349	4,907
Other revenue	1,306	1,457
	16,541	38,211
Cost of exchange and clearance fees	(1,491)	(15,097)
Net revenue	15,050	23,114
Expenses:		
Compensation and related benefits	8,891	12,824
Telecommunication and datafeed services	6,299	7,774
Administrative and other	3,023	4,235
Brokerage fees	2,223	3,144
Amortization of capital assets	1,550	2,042
Amortization of intangible assets	124	202
	22,110	30,221
Loss before the undernoted	(7,060)	(7,107)
Restructuring expenses (recovery) (note 9)	(221)	1,658
Government assistance (note 6)	(11)	1,295
Impairment of goodwill and intangible assets (note 4)	–	1,745
Foreign exchange loss	666	2,087
Interest expense	10	25
Interest income	(5)	(193)
	439	6,617
Loss before income taxes	(7,499)	(13,724)
Provision for income taxes (note 10):		
Current	–	149
Future	–	2,607
	–	2,756
Loss for the year	(7,499)	(16,480)
Retained earnings (deficit), beginning of year	(9,046)	7,434
Deficit, end of year	\$ (16,545)	\$ (9,046)
Loss per share (note 8(c)):		
Basic	\$ (0.51)	\$ (1.11)
Diluted	(0.51)	(1.11)
Weighted average number of common and common equivalent shares outstanding (in thousands) (note 8(c)):		
Basic	14,647	14,820
Diluted	14,647	14,820

See accompanying notes to consolidated financial statements.

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2010 and 2009

	Number of common shares (in thousands)	Amount	Contributed surplus	Retained earnings (deficit)	Total
Balance, December 31, 2008	14,835	\$ 23,930	\$ 3,686	\$ 7,434	\$ 35,050
Stock-based compensation	–	–	279	–	279
Repurchase and cancellation of common shares	(109)	(176)	79	–	(97)
Loss for the year	–	–	–	(16,480)	(16,480)
Balance, December 31, 2009	14,726	23,754	4,044	(9,046)	18,752
Stock-based compensation	–	–	272	–	272
Repurchased of cancellation of common shares	(88)	(142)	75	–	(67)
Loss for the year	–	–	–	(7,499)	(7,499)
Balance, December 31, 2010	14,638	\$ 23,612	\$ 4,391	\$ (16,545)	\$ 11,458

See accompanying notes to consolidated financial statements.

BELZBERG TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (7,499)	\$ (16,480)
Items not affecting cash:		
Amortization of capital assets	1,550	2,042
Impairment of goodwill and intangible assets (note 4)	–	1,745
Amortization of intangible assets	124	202
Gain on sale of investment	–	(5)
Unrealized foreign exchange loss	550	1,628
Stock-based compensation (note 8(g))	272	279
Future income taxes	–	3,045
Change in non-cash operating working capital (note 11)	(1,258)	6,430
	(6,261)	(1,114)
Financing activities:		
Repurchase and cancellation of common shares (note 8(a))	(67)	(97)
Investing activities:		
Purchase of capital assets	(413)	(949)
Purchase of intangible assets	(60)	(7)
Purchase of investment	–	(2)
Proceeds from sale of investment	–	15
	(473)	(943)
Effect of exchange rate changes on cash and cash equivalents	(550)	(1,628)
Decrease in cash and cash equivalents	(7,351)	(3,782)
Cash and cash equivalents, beginning of year	15,670	19,452
Cash and cash equivalents, end of year	\$ 8,319	\$ 15,670
Represented by:		
Cash	\$ 2,783	\$ 3,795
Cash equivalents	5,536	11,875
	\$ 8,319	\$ 15,670
Supplemental cash flow information:		
Interest paid	\$ 6	\$ 25
Interest received	6	202
Income taxes paid	8	90

See accompanying notes to consolidated financial statements.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

Belzberg Technologies Inc. and its wholly owned subsidiaries (the "Company") is a leading provider of trade execution, order management and routing software for the financial services industry. 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 exchanges, electronic markets and market makers. The Company's products enable traders to execute and manage large volumes of transactions at high speed, with reliability and security.

The Company also operates a floor brokerage that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

1. **Going concern and subsequent event:**

At year end, the Company had incurred a loss of \$7,499 (2009 - \$16,480) and had available cash and cash equivalents of \$8,319 (2009 - \$15,670). Cash outflow from operating activities was \$6,261 (2009 - \$1,114). The Company's ability to continue operations and fund its expenditures as they come due is dependent on management's ability to improve its operating results.

The Company has entered into an agreement in 2011 to refer its list of U.S. execution clients of its wholly owned U.S. subsidiaries to a third party trade execution provider, ConvergEX Group. The Company has also entered into a definitive agreement to purchase Frontline Technologies Corporation ("Frontline").

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses and negative cash flows from operations in recent years. Whether and when the Company can attain profitability and positive cash flows is uncertain. These uncertainties cast doubt upon the Company's ability to continue as a going concern.

The Company will undergo a restructuring and realignment of its business through the referral of the majority of its U.S. execution clients to a third party broker. The total amount to be received cannot be determined and will be dependent on the amount of execution business which will be referred.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

1. **Going concern and subsequent event (continued):**

The Company believes that through the purchase of Frontline it will establish a larger, more diversified and competitive provider of services and technologies for the professional trading community. Combined, the Company will also benefit from cost savings and synergies in operations, infrastructure and administration.

Under the terms of the Frontline purchase agreement, approved by the Boards of Directors of both companies, Frontline shareholders will receive \$1.0 million in cash plus 7,881,826 Class A Restricted Shares of the Company. The Frontline purchase is subject to shareholder approval and is expected to close in the second quarter of 2011. Each Class A Restricted Share will be converted into common shares of the Company on a 1 for 1 basis, subsequent to the Company special distribution described below. The holders of the Class A Restricted Shares will be entitled to one vote per share, but will not be entitled to receive dividends until the special distribution described below is paid in full. Following the closing of the transaction the former shareholders of Frontline will own approximately 35% of the Company's shares on a fully diluted basis.

Frontline is a technology service company servicing professional, financial and investment banking communities across Canada. Frontline provides IT infrastructure support, managed services, VOIP services, ISO disaster recovery and other services.

It is the Company's intention to pay a special distribution to the holders of its existing common shares within a year of the closing of the Frontline transaction. The amount of the distribution will be determined by the amount of working capital of the Company, as of closing date of the Frontline transaction, exceeds \$2.75 million plus the total proceeds received for the referral of the U.S. execution clients of its wholly owned subsidiaries, less any costs related thereto and costs of the sale or wind-up of the businesses of Electronic Brokerage Systems, LLC and R.C. Sheehan and Associates, LLC.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

(a) Consolidation:

The consolidated financial statements of the Company include the accounts of Belzberg Technologies Inc. and its subsidiaries, all wholly owned. Joint ventures, irrespective of percentage of ownership, are proportionately consolidated to the extent of the Company's participation. The reporting date of the joint venture and the Company are identical and the accounts are prepared on the basis of consistent accounting policies. All intercompany transactions and balances have been eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments, predominantly treasury bills and bankers' acceptances, having an original term to maturity of less than or equal to 90 days.

(c) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives over the following terms:

Furniture and equipment	10 years
Computer equipment and software	3 years
Computer equipment and software under capital lease	3 years
Leasehold improvements	Estimated useful life

(d) Intangible assets:

Intangible assets with finite useful lives consist of computer software. These intangible assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives of three to five years.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(e) Impairment of long-lived assets:

Long-lived assets, which consist of capital assets and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(f) Revenue recognition:

The Company's revenue is derived primarily from:

- (i) Subscription fees for providing routing software and services, used for equity and options trading, on a flat fee per terminal or per month basis;
- (ii) Transaction fees for providing routing software and services, used for equity and options trading, on a per share/option or per trade basis and transaction fees for the execution of exchange-traded equity and index options from the floor brokerage; and
- (iii) Other revenue from the development and installation of software for equity and options trading and other revenue from the distribution of financial information and other services.

Revenue is recognized from subscription fees and transaction fees on a monthly basis as the services are provided.

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

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

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(g) Investment:

The investment comprises common and preferred shares held in the Depository Trust and Clearing Corporation and is stated at cost.

(h) Government assistance:

The Company expenses research and development costs as incurred unless they meet the criteria under Canadian GAAP for deferral and amortization. Government assistance for research and development is recognized when earned and when the amount and timing of realization is reasonably determinable.

(i) Investment tax credits:

Investment tax credits ("ITCs") are accounted for as a reduction of the related expenditure items of a current expense nature or as a reduction of capital assets for items of a capital nature when the Company has reasonable assurance that the credit will be realized.

(j) Securities lending:

Collateralized securities transactions:

Amounts recorded as receivable for "securities purchased under an agreement to resell" and amounts recorded as obligations arising from "securities sold under an agreement to repurchase" are collateralized financing transactions and are recorded in the consolidated balance sheets at the amounts for which the securities were purchased or sold plus accrued interest. Where such agreements are entered into to finance or borrow securities that form part of the Company's securities inventory, the market values of the related securities are included in "securities owned" or "securities sold short", accordingly.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

Securities borrowing and lending transactions collateralized by cash are recorded as amounts "due to" or "due from" the counterparty at the value of the cash advanced or received plus accrued interest. Obligations under call loans, necessary to facilitate the securities settlement process for both customer and principal transactions, are recorded at the amount of cash received, plus accrued interest. Call loans are collateralized by either unpaid client securities or securities owned by the Company. Balances with the same counterparty are only offset when there is legal right and intention to settle the amounts on a net basis.

(k) 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.

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet dates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. Any resulting foreign currency translation gains or losses are included in income in the current year.

(l) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Valuation allowances are established when necessary to reduce future income tax assets to the amounts expected to be realized. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(m) Stock-based compensation and other stock-based payments:

The Company has a stock-based compensation plan that is described in note 8. For stock options issued to employees and directors prior to January 1, 2003, no compensation expense was recorded when the stock options were issued. The consideration paid on the exercise of options granted to employees and directors prior to January 1, 2003 was credited to capital stock. On January 1, 2003, the Company adopted the fair value method of accounting for stock options granted on or after January 1, 2003. Stock-based compensation related to those awards is recognized based on the fair value of the options on the date of the grant that is determined by using an option-pricing model. The fair value of the options expected to vest is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock. The contributed surplus balance is also reduced for unvested options that are cancelled and the amount initially recorded in contributed surplus is credited to compensation expense.

(n) Loss per share:

Basic loss per share is computed by dividing loss for the period by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, warrants and compensation options, if dilutive ("dilutive securities"). The number of additional shares is calculated by assuming that outstanding dilutive securities were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(o) Guarantees:

Obligations under guarantees are not recognized in the consolidated financial statements but are disclosed in accordance with The Canadian Institute of Chartered Accountants' Accounting Guideline 14, Disclosure of Guarantees.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, goodwill and intangible assets, allowance for doubtful accounts, stock-based compensation and valuation allowance for future income taxes. Actual results could differ from such estimates.

3. Recent accounting pronouncements:

International Financial Reporting Standards ("IFRS"):

Canadian public companies will be required to prepare their financial statements in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2011. Accordingly, the financial statements for the year ended December 31, 2010 are the last financial statements prepared in accordance with Canadian GAAP. Beginning with the first quarter of 2011, the Company's financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and January 1, 2010 opening balance sheets restated to conform to IFRS.

The Company established a changeover plan in order to transition its financial statement reporting, presentation and disclosure under IFRS to meet the January 1, 2011 deadline. An implementation team was created, and third party advisors were engaged to plan for and achieve a smooth transition to IFRS.

Some of the key differences identified between Canadian GAAP and IFRS that will modify the opening balance sheets include accounting for business combinations, change in tax rates used to calculate deferred income tax assets and liabilities and recognition of vested past service costs. During this process, the Company noted that several of its current accounting policies are consistent with currently applicable IFRS requirements.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

3. Recent accounting pronouncements (continued):

The Company actively monitors developments in standards as issued by the IASB and the Canadian Accounting Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators.

4. Intangible assets:

2010	Cost	Accumulated amortization	Net book value
Computer software	\$ 508	\$ 431	\$ 77

2009	Cost	Accumulated amortization	Net book value
Computer software	\$ 448	\$ 307	\$ 141

In 2009, the Company performed an impairment analysis on its definite life intangible assets whereby circumstances indicated that the assets may be impaired and determined that the customer lists previously acquired through acquisitions were fully impaired as a result of the loss of customers. An impairment charge of \$137 was recorded.

During 2010, the Company recorded amortization expense of \$124 (2009 - \$202).

During 2010, the Company acquired intangible assets for \$60 (2009 - \$7).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

5. Receivable from and payable to brokers, dealers and clearing organization:

Amounts receivable from and payable to brokers, dealers and clearing organization include the following:

	2010	2009
Receivable from:		
Clearing organization	\$ –	\$ 345
Brokers and dealers	168	602
	<u>\$ 168</u>	<u>\$ 947</u>
Payable to clearing organization	\$ –	\$ 345

Receivables from/payable to brokers, dealers and clearing organization include amounts relating to open transactions, unsettled trades and margin deposits.

6. Government assistance:

The Company applies for ITCs from both Canadian federal and provincial tax authorities relating to amounts expended on scientific research and experimental development ("SR&ED"). ITCs were applied to reduce operating expenses as follows:

	2010	2009
Federal and provincial ITCs relating to 2009 and prior tax years	\$ 31	\$ –
Federal and provincial ITCs relating to 2008 tax year	–	(99)
	<u>\$ 31</u>	<u>\$ (99)</u>

In 2009, the Company determined that it no longer had reasonable assurance that it would realize the benefit of the federal ITCs carried forward of \$1,394. Therefore, the related asset was written down to nil. The write-down was recorded as a current charge to income in 2009.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

6. Government assistance (continued):

During 2010, the Company collected \$11 of provincial SR&ED tax credits, which related to the 2009 tax year.

During 2009, the Company collected \$121 of provincial SR&ED tax credits, which \$84 related to the 2006 tax year and \$37 related to the 2008 tax year.

7. Capital assets:

2010	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 310	\$ 273	\$ 37
Computer equipment	3,361	2,302	1,059
	<u>\$ 3,671</u>	<u>\$ 2,575</u>	<u>\$ 1,096</u>

2009	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 399	\$ 322	\$ 77
Computer equipment and software	5,260	3,104	2,156
	<u>\$ 5,659</u>	<u>\$ 3,426</u>	<u>\$ 2,233</u>

The Company reduces the cost and accumulated amortization of fully depreciated assets. As at December 31, 2010, the Company reduced the cost and accumulated amortization of fully depreciated capital assets by \$2,400 (2009 - \$1,414).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

8. Capital stock:

The following summarizes changes to capital stock during 2010 and 2009:

(a) Authorized:

Unlimited common shares

Issued:

	Number of common shares (000's)	Amount
Balance, December 31, 2008	14,835	\$ 23,930
Common shares repurchased and cancelled	(109)	(176)
Balance, December 31, 2009	14,726	23,754
Common shares repurchased and cancelled	(88)	(142)
Balance, December 31, 2010	14,638	\$ 23,612

(b) Normal course issuer bid:

In December 2009, the Toronto Stock Exchange ("TSX") approved a Normal Course Issuer Bid ("NCIB") for the Company to repurchase up to 740,000 of its common shares over the period from December 8, 2009 to December 7, 2010. During fiscal 2010, the Company repurchased 88,000 common shares at an average price of \$0.76 per share under this NCIB.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

8. Capital stock (continued):

(c) Loss per share:

The following table sets forth the computation of diluted loss per share:

	2010	2009
Numerator:		
Loss for the year available to common shareholders	\$ (7,499)	\$ (16,480)
Denominator:		
Weighted average number of common shares outstanding - basic (000's)	14,647	14,820
Loss per share:		
Basic	\$ (0.51)	\$ (1.11)

As at December 31, 2010, there were 75,000 potentially dilutive shares of common stock from stock options that were excluded from the diluted per share calculation because the effect would be anti-dilutive.

- (d) The Company has a stock option plan under which the Board of Directors may grant to employees, officers, directors and consultants stock options to purchase from treasury up to 3,926,000 common shares of the Company, of which 2,399,000 remained available to be issued at year end. The majority of stock options granted vest over a three-year period, have a term of five years and are granted with an exercise price equal to the closing market price of the shares on the day prior to the date the options are granted. In certain circumstances, stock options are granted with an exercise price that is higher than the closing market price of the shares on the day prior to the date the options are granted. The stock options outstanding at December 31, 2010 expire on various dates until May 2015.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

8. Capital stock (continued):

(e) Summarized information relative to the Company's stock option plan is as follows:

	2010		2009	
	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price
Outstanding, beginning of year	1,563	\$ 2.11	937	\$ 3.59
Granted	203	0.61	845	0.93
Forfeited and expired	(238)	2.57	(219)	3.86
Outstanding, end of year	1,528	1.86	1,563	2.11
Options exercisable, end of year	870	\$ 2.56	533	\$ 3.53

(f) The following table summarizes information about stock options outstanding and exercisable at December 31, 2010:

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding (000's)	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable (000's)	Weighted average exercise price
\$0.40 - \$0.70	568	4.0	\$ 0.66	163	\$ 0.70
\$0.71 - \$3.92	765	3.3	1.60	540	1.85
\$3.93 - \$8.65	195	1.5	6.38	167	6.68
	1,528	3.3	1.86	870	2.56

(g) For stock options granted to employees and directors on or after January 1, 2003, the Company recorded compensation expense of \$272 (2009 - \$279) included in compensation and related benefits.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

8. Capital stock (continued):

The weighted average grant date fair value for employee and director options granted during the year ended December 31, 2010 was \$0.25 (2009 - \$0.34), valued using the following weighted average assumptions:

	2010	2009
Risk-free interest rate	2.25%	2.00%
Expected life of the options in years	3.9	3.6
Expected volatility	48.9%	47.3%

9. Restructuring expenses (recovery):

Restructuring costs include severance payments and legal expenses related to employee terminations. As at December 31, 2010, there was a \$221 recovery of restructuring expenses that was originally expensed in 2009 (2009 - expense of \$1,658).

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

10. Income taxes:

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to loss before income taxes for the following reasons:

	2010	2009
Loss before income taxes	\$ (7,499)	\$ (13,724)
Combined basic federal and provincial rate	31%	33%
Effective income tax recovery based on loss before income taxes	\$ (2,325)	\$ (4,529)
Decrease (increase) in income tax recovery resulting from:		
Non-deductible items	95	407
Non-deductible portion of exchange related transactions on capital account	30	(25)
Change in valuation allowance	2,258	5,854
Differences due to higher tax rates for foreign subsidiaries	(351)	(406)
Differences due to changes in exchange rates	400	782
Other items	84	116
Effect of changes in opening tax balances not previously recognized	(458)	(93)
Effect of rate changes on future taxes	266	423
ITCs recoverable	1	227
Actual income taxes	\$ –	\$ 2,756

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

10. Income taxes (continued):

As at December 31, 2010, the Company has available non-capital loss carryforwards that may be used to reduce future years' taxable income. The Company has recorded a valuation allowance against the benefit of these losses. The loss carryforwards expire as follows:

	Canada	United States	Total
2023	\$ –	\$ 2,081	\$ 2,081
2024	–	1,195	1,195
2028	–	1,636	1,636
2029	4,466	2,980	7,446
2030	2,527	3,620	6,147
	\$ 6,993	\$ 11,512	\$ 18,505

As at December 31, 2010, the Company has an accumulated SR&ED expenditure pool of \$2,131 (2009 - \$2,072) that may be used to reduce future taxable income in Canada. The Company has recorded a valuation allowance against the benefit of the pool. The SR&ED expenditure pool can be carried forward indefinitely.

As at December 31, 2010, the Company has unrecorded ITCs of \$1,419 and unrecorded corporate minimum tax credits of \$77 available to offset future Canadian federal and provincial tax liabilities respectively. The Company's ITCs expire as follows:

	Canadian corporate minimum tax credits	Canadian investment tax credits
2021	\$ –	\$ 331
2022	–	281
2023	–	191
2024	–	181
2025	–	124
2026	–	152
2027	–	72
2028	77	68
2029	–	19
	\$ 77	\$ 1,419

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

10. Income taxes (continued):

The tax effect of loss carryforwards and significant temporary differences representing future income tax assets at December 31 are as follows:

	2010	2009
Future income tax assets:		
Tax benefit of loss carryforwards	\$ 6,383	\$ 4,534
SR&ED expenditure pool	776	817
Capital loss carryforwards	265	251
Capital assets	609	81
Intangible assets	305	352
Other	182	212
	8,520	6,247
Future income tax liabilities:		
Unrealized foreign exchange	(84)	(69)
Less valuation allowance	(8,436)	(6,178)
Net future income tax assets	\$ –	\$ –

At the fiscal year end, the Company determined that based on the results of its operations, it is not more likely than not that it will realize the benefits of its future tax assets and, therefore, a full valuation allowance has been recorded. The Company continues to evaluate its taxable position and considers factors by tax jurisdiction, such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others.

As a result of harmonization of the Ontario provincial income tax system with the Canadian federal income tax system, the net future income tax assets shown above include a tax credit of approximately \$259, which the Company can use to reduce Ontario income taxes over the next three years.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

11. Change in non-cash operating working capital:

	2010	2009
Cash segregated under regulations and other	\$ 662	\$ (2,621)
Cash and cash equivalents on deposit with clearing and depository organizations	(267)	626
Receivable from brokers, dealers and clearing organization	779	827
Accounts receivable	687	3,568
Prepaid expenses and other receivables	122	66
Securities borrowed	(6,186)	–
Other asset	–	1,565
Income taxes receivable	12	77
Investment tax credits recoverable	147	1,517
Accounts payable and accrued liabilities	(2,840)	(1,174)
Payable to customers and correspondents	(215)	1,765
Payable to brokers, dealers, and clearing organization	(345)	214
Securities loaned	6,186	–
	\$ (1,258)	\$ 6,430

12. Credit facility:

During 2008, the Company's subsidiary, Electronic Brokerage Systems, LLC, obtained a revolving credit facility for U.S. \$25,000 that may only be used to facilitate its clearing and settlement activities. The facility is collateralized by marketable securities that exist only in the event of a clearing break and which are held at the Depository and Trust Company. The facility is payable on demand and bears interest at a variable rate based on the market rate plus an applicable margin paid monthly. Additionally, a fee of 0.275% on the average daily unused portion of the facility is paid quarterly. The outstanding balance of the facility at December 31, 2010 was nil.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

13. Capital disclosures:

The Company's objectives when managing capital are to provide for the funding of its clearing and settlement operations, capital expenditures, and working capital while ensuring adequate liquidity and solvency and complying with its regulatory capital requirements.

The Company's capital structure consists of shareholders' equity, cash and cash equivalents and a clearing credit facility. The Company makes adjustments to the capital structure depending on economic conditions and the financial position and performance of the Company. In order to maintain or adjust the capital structure, the Company may issue new shares, buy back shares, or issue debt. The Company does not presently utilize any quantitative measures to monitor its capital.

The Company's investment policy is to invest its cash in high grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures from continuing operations.

The Company's subsidiaries, Electronic Brokerage Systems, LLC and Robert C. Sheehan & Associates, LLC, 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 U.S. \$1,000 or 2% of aggregate debit balances arising from customer transactions, as defined, and Robert C. Sheehan & Associates, LLC is required to maintain net capital equal to the greater of U.S. \$100 or 6-2/3% of "aggregate indebtedness", as defined.

As at December 31, 2010, Electronic Brokerage Systems, LLC and Robert C. Sheehan & Associates, LLC had net capital of U.S. \$7,818 and U.S. \$2,135, and a net capital requirement of U.S. \$1,000 and U.S. \$100, respectively.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

14. Segmented information:

The Company operates and manages its business in one industry - the financial services sector. The Company has two reportable segments: the Core business and the Brokerage business. In the Core business, the Company creates and provides to institutional customers trade execution software, trade execution services through its broker-dealer and a network for connecting to various exchanges and other markets in North America. The Brokerage business involves the execution of exchange-traded equity and index options on the floor of the Chicago Board Options Exchange.

The accounting policies of the segments are the same as those described in the significant accounting policies (note 2). The Company evaluates performance of the Core business and the Brokerage business based on several factors, of which the primary financial measures are net revenue and earnings before income taxes.

(a) Reportable segments:

2010	Core	Brokerage	Total
External revenue:			
Subscription fees	\$ 3,349	\$ –	\$ 3,349
Equity order flow and clearing	4,930	–	4,930
Options and futures contracts	4,190	2,766	6,956
Other	1,306	–	1,306
Cost of exchange and clearance fees	(1,388)	(103)	(1,491)
	\$ 12,387	\$ 2,663	\$ 15,050
Loss before the undernoted	\$ (6,121)	\$ 80	\$ (6,041)
Restructuring recovery	(221)	–	(221)
Amortization of capital assets	1,538	12	1,550
Amortization of intangible assets	124	–	124
Interest:			
Expense	9	1	10
Income	(5)	–	(5)
Loss before income taxes	\$ (7,566)	\$ 67	\$ (7,499)
Total assets	\$ 20,455	\$ 1,258	\$ 21,713
Capital asset expenditures	413	–	413

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

14. Segmented information (continued):

2009	Core	Brokerage	Total
External revenue:			
Subscription fees	\$ 4,907	\$ –	\$ 4,907
Equity order flow and clearing	21,032	–	21,032
Options and futures contracts	7,453	3,362	10,815
Other	1,457	–	1,457
Cost of exchange and clearance fees	(14,903)	(194)	(15,097)
	\$ 19,946	\$ 3,168	\$ 23,114
Loss before the undernoted	\$ (7,654)	\$ (591)	\$ (8,245)
Restructuring expenses	1,654	4	1,658
Amortization of capital assets	2,028	14	2,042
Amortization of intangible assets	202	–	202
Impairment of goodwill and intangible assets	1,372	373	1,745
Interest:			
Expense	25	–	25
Income	(190)	(3)	(193)
Loss before income taxes	\$ (12,745)	\$ (979)	\$ (13,724)
Total assets	\$ 23,713	\$ 2,508	\$ 26,221
Capital asset expenditures	949	–	949

(b) Geographic segments:

The Company's external net revenue by geographic region is based on the region in which the net revenue is transacted. The total assets and capital assets are based on the geographic area in which the Company operates:

2010	Canada	United States	Total
External revenue:			
Subscription fees	\$ 3,331	\$ 18	\$ 3,349
Equity order flow and clearing	846	4,084	4,930
Options and futures contracts	84	6,872	6,956
Other	1,092	214	1,306
Cost of exchange and clearance fees	–	(1,491)	(1,491)
	\$ 5,353	\$ 9,697	\$ 15,050

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

14. Segmented information (continued):

2010	Canada	United States	Total
Total assets	\$ 1,795	\$ 19,918	\$ 21,713
Capital assets	680	416	1,096
Intangible assets	4	73	77

2009	Canada	United States	Total
External revenue:			
Subscription fees	\$ 4,687	\$ 220	\$ 4,907
Equity order flow and clearing	836	20,196	21,032
Options and futures contracts	46	10,769	10,815
Other	1,103	354	1,457
Cost of exchange and clearance fees	–	(15,097)	(15,097)
	\$ 6,672	\$ 16,442	\$ 23,114

2009	Canada	United States	Total
Total assets	\$ 5,171	\$ 21,050	\$ 26,221
Capital assets	1,148	1,085	2,233
Intangible assets	25	116	141

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

15. Financial instruments and risk management:

(a) Financial risk management:

Financial instruments of the Company consist primarily of cash and cash equivalents, cash segregated under regulations and other, cash and cash equivalents on deposit with clearing and depository organizations, accounts receivable, receivable from brokers, dealers and clearing organization, securities borrowed, investment, accounts payable and accrued liabilities, payable to customers and correspondents, payable to brokers, dealers and clearing organization and securities loaned. The Company designated its cash and cash equivalents, cash segregated under regulations and other, cash and cash equivalents on deposit with clearing and depository organizations, receivables from brokers, dealers and clearing organization and other asset as held-for-trading. The carrying value of the held-for-trading financial instruments approximates their fair value because of the relatively short periods to maturity of these instruments. The investment is classified as available-for-sale, which is stated at cost as it does not have a quoted market price in an active market. Accounts receivable are classified as loans and receivables, which are stated at amortized cost. Accounts payable and accrued liabilities, payable to customers and correspondents, payables to brokers, dealers and clearing organization and securities loaned are classified as other financial liabilities. The carrying value of the other financial liabilities approximates their fair value because of the relatively short periods to maturity of these instruments. The Company had no other comprehensive income or loss transactions during the year ended December 31, 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

(b) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligation and arises principally from the Company's cash and cash equivalents and accounts receivable. The amounts reported in the consolidated balance sheets for accounts receivable are net of allowance for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

15. Financial instruments and risk management (continued):

The Company minimizes the credit risk of cash and cash equivalents by depositing only with reputable financial institutions, investing in only high grade investment securities and limiting exposure to any one financial institution, commercial issuer, or investment type and limits the term to maturity to less than one year.

The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons, including dealing primarily with large Canadian and U.S. banks and brokerage houses. The Company manages its risk through credit policies in the U.S., which includes the analysis of the financial position of its customers, subscribing to an outside credit bureau, and account monitoring procedures. As at December 31, 2010, \$220 of the Company's accounts receivable was past due. During 2011, \$59 of the past due was collected. The remaining past due balances have been fully provided for. All the Company's receivables have been reviewed for indicators of impairment.

At December 31, 2010, two customers accounted for approximately 21% of total accounts receivable (2009 - two customers for 20%). For the years ended December 31, 2010 and 2009, one customer accounted for 6% or more of total net revenue.

The Company does not have reason to believe the balances on these accounts are impaired.

(c) Currency risk:

The Company is exposed to the risk that future earnings and cash flows will fluctuate as a material amount of the Company's revenue and accounts receivable and related expenses are denominated in U.S. dollars and financial results are reported in Canadian dollars. During 2009 the Company ceased utilizing foreign exchange option contracts to partially mitigate its U.S.-dollar denominated net asset exposure, which is translated into Canadian dollars for reporting purposes.

The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the U.S. dollar. If the Canadian dollar appreciated by 1 cent against the U.S. dollar at December 31, 2010, with all other variables held constant, the impact of the foreign currency change on the U.S.-denominated financial instruments would lead to an additional foreign exchange loss of approximately \$103.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

15. Financial instruments and risk management (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due over the next 12 to 24 months, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's principal cash requirements are for clearing and settling operations, capital expenditures and working capital needs. The Company uses its operating cash flows, clearing facility and cash balances to maintain its liquidity.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cash and cash equivalents of the Company are invested at interest rates at varying rates and mature at various dates over the current operating period and whereby the Company is exposed in the event of fluctuation of the prime rate. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents is limited because these cash equivalents, although held-for-trading, are generally held to maturity. The Company does not use financial instruments to mitigate this risk.

16. Related party transactions:

During 2010, Electronic Brokerage Systems, LLC paid, at market rates, seat lease expenses of approximately \$34 (2009 - \$142) and execution services of approximately \$158 (2009 - \$194) to a company controlled by the president of Electronic Brokerage Systems, LLC. In addition, Electronic Brokerage Systems, LLC recorded transaction fee revenue at market rates of approximately \$26 (2009 - \$206) from the same company for the year ended December 31, 2010.

BELZBERG TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in thousands of Canadian dollars, except where otherwise indicated and per share amounts)

Years ended December 31, 2010 and 2009

17. Commitments, contingencies and guarantees:

- (a) The Company's commitments, primarily occupancy and telecommunications costs, require future minimum payments, as summarized below at December 31, 2010:

2011	\$ 2,726
2012	882
2013	86
2014	18
Thereafter	35
	<hr/>
	\$ 3,747

- (b) The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. Historically, the Company has made no payments relating to these indemnifications and the Company is not subject to any pending litigation on this matter.
- (c) 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.
- (d) There exist certain other claims and potential claims against the Company, none of which is expected to have a material adverse effect on the consolidated financial position of the Company.