

2010

*Management's Discussion And Analysis*

**BELZBERG TECHNOLOGIES INC.**

*For The Three Months Ended March 31, 2010*

## 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 audited consolidated financial statements of Belzberg Technologies Inc. (the "Corporation" or "Belzberg") and the notes thereto for the year ended December 31, 2009. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The reporting currency in this MD&A is Canadian dollars. All amounts in this MD&A are in thousands of Canadian Dollars except where otherwise indicated and per share amounts. Additional information relating to the Corporation, including the Corporation's Annual Information Form is on SEDAR at [www.sedar.com](http://www.sedar.com). The MD&A is as of May 11, 2010.

### **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 Corporation'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 Corporation's results. For a more detailed discussion of these factors refer to the section titled "Risks and Uncertainties" in this MD&A. All factors should be considered carefully when making decisions with respect to the Corporation and undue reliance should not be placed on the Corporation's forward-looking statements. The Corporation 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 trading systems and technology-based brokerage services through its wholly owned subsidiary, Electronic Brokerage Systems, LLC, a US broker-dealer. Using Belzberg's suite of integrated trading tools and network connectivity, the Corporation's customers have direct access to North American equities and options markets. Belzberg's products and services enable traders to execute and manage large volumes of transactions with reliability and security.

In 2001, the Corporation acquired a broker-dealer that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

In 2002, the Corporation's wholly owned subsidiary, Electronic Brokerage Systems, LLC, became a member of both the NSCC and the NYSE. These memberships allowed the Corporation to become self-clearing.

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

In 2008, the Corporation was approved by the Financial Industry Regulatory Authority to provide full clearing services.

## **Financial Overview**

### **Highlights of First Quarter 2010 Results**

- Net revenue decreased by 39% to \$4,101 for the first quarter of 2010 from \$6,727 in the same year-ago quarter.
- Loss of \$2,545 (\$0.17) per share for the first quarter of 2010 as compared to a loss of \$1,824 (\$0.12) per share (including restructuring charges of \$839 and an income tax recovery of \$933) in the same year-ago quarter.
- Working capital position of \$14,059 at March 31, 2010 as compared to \$16,201 at December 31, 2009.
- Cost reductions of 28% from \$8,558 in the first quarter of 2009 to \$6,163 for the first quarter 2010.

The first quarter of 2010 presented a challenging economic and operating environment for the Corporation with the continued reduction of revenue. The Corporation experienced a 46% drop in its options execution revenues from the same year-ago quarter mainly from a slowdown in trading activity as a result of lower volatility and the loss of customers. The Corporation experienced a 66% drop in its equity order flow and clearing revenues from the same year-ago quarter mainly from a reduction in trading volumes and the loss of certain customers. The Corporation also experienced a 33% reduction in its subscription fees from the same year-ago quarter mainly from the reduction in seats, the loss of customers and price reductions to existing customers. Notwithstanding this challenging environment, the Corporation did experience some positive results in the first quarter compared to the same year-ago quarter. The Corporation managed to reduce operating expenses to fit a tough operating environment in the first quarter when compared to the same year-ago quarter by reducing \$1.2 million in compensation and related benefits expenses, \$350 in telecommunication and datafeed expenses, \$425 in administrative and other expenses and \$318 in brokerage fee expenses when compared to the same year-ago quarter.

### **Key Performance Indicators**

Management regularly reviews the following key performance indicators to measure the 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; and
- Days sales outstanding.

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

Exchange and the Options Clearing Corporation to determine the strength of the business.

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

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

## Results of Operations

### Total Revenues

#### Total revenues for the three months ended March 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 214	\$ 1,940	\$ 2,154	\$ 175	\$ 6,115	\$ 6,290
Electronic option and futures contracts	10	1,088	1,098	12	2,014	2,026
Brokerage option contracts	-	613	613	-	1,163	1,163
Subscription fees	931	4	935	1,339	56	1,395
Other revenue	256	57	313	285	127	412
<b>Total revenue</b>	<b>1,411</b>	<b>3,702</b>	<b>5,113</b>	<b>1,811</b>	<b>9,475</b>	<b>11,286</b>
Cost of exchange and clearance fees	-	(1,012)	(1,012)	-	(4,559)	(4,559)
<b>Total net revenue</b>	<b>\$ 1,411</b>	<b>\$ 2,690</b>	<b>\$ 4,101</b>	<b>\$ 1,811</b>	<b>\$ 4,916</b>	<b>\$ 6,727</b>

Total net revenue decreased by 39% from \$6,727 in the first quarter of 2009 to \$4,101 in the first quarter of 2010. In the first quarter of 2010, the Corporation generated approximately 66% (first quarter 2009 - 73%) of its net revenues in the United States and 34% (first quarter 2009 - 27%) of its net revenues in Canada. A weakening US dollar accounted for \$529 of the decrease.

### Transaction Fee Revenue

#### (i) Equity Order Flow and Clearing Revenues

#### Equity orderflow and clearing revenues for three months ended March 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 214	\$ 1,940	\$ 2,154	\$ 175	\$ 6,115	\$ 6,290
Cost of exchange and clearance fees	-	(719)	(719)	-	(3,863)	(3,863)
<b>Total net equity orderflow and clearing revenue</b>	<b>\$ 214</b>	<b>\$ 1,221</b>	<b>\$ 1,435</b>	<b>\$ 175</b>	<b>\$ 2,252</b>	<b>\$ 2,427</b>

Net transaction fee revenue from equity order flow decreased 41% from \$2,427 in the first quarter of 2009 to \$1,435 in the first quarter of 2010.

Net equity order flow and clearing revenues executed on U.S. exchanges decreased by 46% year over year. Total U.S. trading volumes decreased by 54% in the first quarter of 2010 when compared to the same year ago quarter. The decrease can be mainly attributable to the loss of a very high volume, low commission rate customer. The cost of equity exchange and clearance fees decreased by 81% in the same year ago quarter due mainly from the loss of a low commission high volume customer. A weakening U.S. dollar accounted for approximately \$240 of the net decrease in revenues. The Corporation 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 revenues executed on Canadian exchanges increased by 22% quarter over quarter mainly as a result of various customers moving to a transaction fee model for certain products. The following table summarizes key performance indicators relating to our U.S. equity order flow:

U.S. Equity Order Flow and clearing	Three months ended March 31,			
	2010	2009	change	% change
Total trading volume (in billions of shares)	1.7	3.7	(2.0)	(54)%
Avg trading volume per day (in millions of shares)	28.5	60.4	(31.9)	(54)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 20.0	\$ 36.9	\$ (16.9)	(46)%
Avg net transaction fee revenue per share	\$ 0.0007	\$ 0.0006	\$ 0.0001	17%
U.S market trading days	61	61	-	

## (ii) Electronic Options and Futures Contracts

### Electronic option and futures revenues for the three months ended March 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Electronic option and futures contracts	\$ 10	\$ 1,088	\$ 1,098	\$ 12	\$ 2,014	\$ 2,026
Cost of exchange and clearance fees	-	(253)	(253)	-	(632)	(632)
<b>Total net electronic option and futures revenues</b>	<b>\$ 10</b>	<b>\$ 835</b>	<b>\$ 845</b>	<b>\$ 12</b>	<b>\$ 1,382</b>	<b>\$ 1,394</b>

Net transaction fee revenue from the electronic execution of options and futures contracts decreased 39% from \$1,394 in the first quarter of 2009 to \$845 in the first quarter of 2010. A weakening U.S. dollar accounted for approximately \$163 of the net decrease in revenues. The total volume of the Corporation's electronic options contracts executed decreased by 36% in the first quarter of 2010 when compared to the same year ago quarter. The decrease is mainly attributable to a reduction of volatility in the markets and

the loss of customers. The cost of option exchange and clearance fees decreased 60% year over year due to lower volumes cleared and executed.

The following table summarizes key performance indicators relating to the Corporation's U.S. electronic options contracts executed:

U.S. Electronic Options Contracts Executed	Three months ended March 31,			
	2010	2009	change	% change
Total trading volume (in millions of contracts)	4.5	7.0	(2.5)	(36)%
Avg trading volume per day (in thousands of contracts)	74.1	114.7	(40.6)	(36)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 13.7	\$ 22.7	\$ (9.0)	(40)%
Avg net transaction fee revenue per contract	\$ 0.18	\$ 0.20	\$ (0.02)	(10)%
U.S market trading days	61	61	-	

### Transaction Fee Revenue – Brokerage

#### Brokerage option contract revenues for the three months ended March 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Brokerage option contracts	\$ -	\$ 613	\$ 613	\$ -	\$ 1,163	\$ 1,163
Cost of exchange and clearance fees	-	(40)	(40)	-	(64)	(64)
<b>Total net brokerage option contract revenues</b>	\$ -	\$ 573	\$ 573	\$ -	\$ 1,099	\$ 1,099

Net transaction fee revenue from the brokerage segment decreased 48% from \$1,099 in the first quarter of 2009 to \$573 in the first quarter of 2010. A weakening U.S. dollar accounted for approximately \$113 of the net decrease in revenues. The average daily volume of floor option exchange contracts executed decreased 35% in the first quarter of 2010 compared to the same year ago quarter and the average fee per contract decreased approximately 19% as competition with electronic execution pricing increased. The cost of brokerage exchange and clearance fees decreased 38% in the first quarter of 2010 compared to the same year ago quarter due to lower option volumes that were cleared by the brokerage segment. The Corporation does not incur exchange fees on contracts executed which it does not clear.

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 March 31,			
	2010	2009	change	% change
Total trading volume (in millions of contracts)	4.3	6.7	(2.4)	(36)%
Avg trading volume per day (in thousands of contracts)	70.8	109.7	(38.9)	(36)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 9.4	\$ 18.0	\$ (8.6)	(48)%
Avg net transaction fee revenue per contract	\$ 0.13	\$ 0.16	\$ (0.03)	(19)%
U.S market trading days	61	61	-	

### Subscription Fee Revenue

Subscription fee revenue in the core business, which is based on customers paying a fixed monthly fee for use of the Belzberg trading systems and connectivity to the Belzberg network on a per terminal or other contracted basis, decreased by 33% in the first quarter of 2010 to \$935 from \$1,395 in the first quarter of 2009. This decrease resulted from price adjustments and from the 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 Corporation transitions certain customers to a transaction based model. A transaction based pricing model will allow the Corporation to benefit in increased trading volumes and better match the volume related cost growth to its revenue stream.

### Other Revenue

Other revenue, which includes revenue from information distribution, software development fees, installation fees and recovery of telecommunication charges, decreased by 24% to \$313 in the first quarter of 2010 from \$412 in the first quarter of 2009. The decrease related mainly to lower information distribution revenues and lower recovery of telecommunication charges.

## Expenses (Income)

### Expenses (Income) for the three months ended March 31,

(\$000's)	Core	Brokerage	Total	% of	Core	Brokerage	Total	% of
	2010	2010	2010	Net	2009	2009	2009	Net
				Revenues				Revenues
Compensation and related benefits	\$ 2,209	\$ 343	\$ 2,552	62 %	\$ 3,310	\$ 445	\$ 3,755	56 %
Telecommunication and datafeed services	1,645	55	1,700	41 %	1,981	69	2,050	30 %
Administrative and other expenses	733	32	765	19 %	1,132	58	1,190	18 %
Brokerage fees	498	169	667	16 %	673	312	985	15 %
Amortization of capital assets	438	4	442	11 %	519	4	523	8 %
Amortization of intangible asset	37	-	37	1 %	55	-	55	1 %
Foreign exchange loss(gain)	407	75	482	12 %	273	(105)	168	2 %
Restructuring charges	-	-	-	0 %	839	-	839	12 %
Interest expense	3	-	3	-	6	-	6	-
Interest income	(2)	-	(2)	0 %	(84)	(3)	(87)	(1)%
	\$ 5,968	\$ 678	\$ 6,646	162%	\$ 8,704	\$ 780	\$ 9,484	141%

## Compensation and Related Benefits

Compensation and related benefits comprise the payroll cost of the Corporation's 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 32% to \$2,552 for the quarter ended March 31, 2010 from \$3,755 for the quarter ended March 31, 2009. The decrease can be attributed to the restructuring of the Corporation in the first and fourth quarter of 2009. The average headcount was reduced from 106 full-time employees and 5 part-time employees in the first quarter of 2009 to 82 full-time employees and 2 part-time employees in the first quarter of 2010. A weakening U.S. dollar accounted for approximately \$280 of the net decrease in compensation and related benefits.

## Telecommunication and Datafeed Services

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

Telecommunication and datafeed services decreased by 17% to \$1,700 for the three months ended March 31, 2010 from \$2,050 for the same year-ago quarter. Approximately \$139 of the decrease resulted from a decrease in customer connections, of which \$72 was not being recovered from customers, \$137 decrease relates to market data feed reductions and \$74 of the decrease relates to a reduction of exchange trading, interoffice, and internet connections. Approximately \$137 of the decrease is due to the foreign exchange effect of a weaker average U.S.\$ exchange rate in the first quarter of 2010 as compared to the same year-ago quarter.

## **Administrative and Other Expenses**

Administrative and other expenses comprise of the Corporation's occupancy costs, professional fees for legal and audit services, insurance costs and other office and general expenses.

Administrative and other expenses decreased by 36% to \$765 for the first quarter ended March 31, 2010 from \$1,190 for the same year ago quarter. The decrease is mainly attributable to: (i) a decrease in professional fees of \$166, (ii) a decrease in travel, advertising and promotional expenses of \$118, (iii) a decrease in occupancy of \$50, and (iv) a decrease in office and general expenses of \$43.

## **Brokerage Fees**

Brokerage fees are comprised of: (i) the commissions we paid to other brokers and specialists for execution services and/or for the introduction of orderflow, (ii) the cost of exchange and clearing organization memberships, (iii) the cost of seat leases, trading licenses and other brokerage fees, and (iv) the cost of any trading errors that may arise.

Brokerage fees decreased by 32% to \$667 for the three months ended March 31, 2010 from \$985 for the same year-ago quarter. The decrease can mainly be attributed to lower: (i) trading errors of \$100, (ii) seat leases of \$109, and (iii) client trading compensation of \$105.

## **Amortization of Capital Assets**

Amortization of capital assets decreased by 15% to \$442 for the three months ended March 31, 2010 from \$523 for the same year-ago quarter. The decrease relates mainly to certain capital assets becoming fully depreciated during the year and a reduction in capital expenditures related to computer and network equipment.

## **Amortization of Intangible Assets**

Amortization of intangible assets decreased by 33% to \$37 for the three months ended March 31, 2010 from \$55 for the same year ago quarter. The decrease relates to no amortization on customer list intangibles due to an impairment charge recorded in the fourth quarter of 2009.

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

During the third quarter of 2009, the Corporation ceased its strategy of partially hedging the exposure of its U.S. dollar net assets to fluctuations in the Canadian and U.S. exchange rate. Prior to exiting its hedging strategy, the Corporation 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 Corporation incurred a consolidated foreign exchange loss of \$482 in the first quarter of 2010, which approximately \$407 relates to the core business and \$75 relates to the brokerage business for the three months ended March 31, 2010. The consolidated foreign exchange loss is comprised of non-cash gains and losses incurred in translating the net assets of the Corporation's integrated foreign subsidiaries into Canadian dollars. As at March 31, 2010, the Corporation had no option exchange contracts outstanding.

The Corporation incurred a foreign exchange loss of \$168, of which a gain of \$105 occurred in the brokerage segment and a loss of \$273 occurred in the core segment, for the quarter ended March 31, 2009. The foreign exchange loss resulted mainly from gains and

losses incurred on foreign exchange option contracts, net of the foreign exchange impact of translating the Corporation's integrated foreign subsidiaries. As at March 31, 2009, the Corporation had foreign exchange option contracts outstanding for the purchase of \$11,000 Canadian dollars at US\$0.72 expiring in September 2009. The unrealized gain on these outstanding contracts was approximately \$132. The Corporation also realized losses in the first quarter of 2009 of approximately \$792 on foreign exchange option contracts that were settled in 2009. Gains or losses on foreign exchange option contracts are netted against gains or losses on the translation of integrated foreign subsidiaries in the consolidated statement of operations.

### **Restructuring Charges**

Restructuring charges of \$839 in the first quarter of 2009 were nil for the first quarter of 2010. Restructuring charges include the severance and legal expenses related to employee terminations.

### **Interest Expense**

Interest expense decreased to \$3 for the three months ended March 31, 2010 from \$6 for the same year-ago quarter. The majority of the decrease resulted from less utilization of the Corporation's clearing facility to facilitate clearing breaks.

### **Interest Income**

Interest income decreased to \$2 for the three months ended March 31, 2010 from \$87 for the same year-ago quarter. The decrease resulted mainly from lower cash balances invested and from lower yields on T-Bill, money market and Bankers' Acceptances in which excess cash was invested.

### **Income Taxes**

For the three months ended March 31, 2010, the Corporation did not record a future income tax recovery as management does not have reasonable assurance that the benefit will be utilized in the future. For the three months ended March 31, 2009, the Corporation recorded an income tax recovery of \$933.

### **Net Loss**

The net loss for the first quarter ended March 31, 2010 was \$2,545 as compared to a net loss of \$1,824 for the same year-ago quarter. Diluted loss per share for the quarter ended March 31, 2010, decreased to (\$0.17) per share from a diluted loss of (\$0.12) per share for the same year-ago quarter.

## Summary of Quarterly Results

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

### Belzberg Technologies Inc.

#### Summary of Quarterly Results

(Unaudited)	FY 2010			FY 2009			FY 2008	
(\$000's except per share amounts)	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08
<b>Revenue</b>								
Transaction fees:								
Equity order flow and clearing	\$ 2,154	\$ 4,353	\$ 4,147	\$ 6,242	\$ 6,290	\$ 6,463	\$ 4,543	\$ 3,157
Options and futures contracts	1,711	2,192	2,437	2,997	3,189	3,679	4,253	3,672
Subscription fees	935	1,075	1,214	1,223	1,395	1,683	1,764	1,787
Other	313	322	363	360	412	409	403	358
	5,113	7,942	8,161	10,822	11,286	12,234	10,963	8,974
Cost of exchange and clearance fees	(1,012)	(2,916)	(2,813)	(4,809)	(4,559)	(4,383)	(3,379)	(2,132)
<b>Total net revenue</b>	<b>4,101</b>	<b>5,026</b>	<b>5,348</b>	<b>6,013</b>	<b>6,727</b>	<b>7,851</b>	<b>7,584</b>	<b>6,842</b>
<b>Expenses (Income):</b>								
Compensation and related benefits	2,552	2,881	3,026	3,162	3,755	3,610	3,161	2,951
Telecommunication and datafeed services	1,700	1,842	1,815	2,067	2,050	2,051	1,721	1,662
Administrative and other expenses	765	1,121	872	1,052	1,190	1,511	1,259	1,416
Brokerage fees	667	840	650	669	985	988	1,815	1,004
Amortization of capital assets	442	463	522	534	523	507	469	465
Amortization of intangible assets	37	37	55	55	55	60	53	47
	6,163	7,184	6,940	7,539	8,558	8,727	8,478	7,545
Loss before the undernoted	(2,062)	(2,158)	(1,592)	(1,526)	(1,831)	(876)	(894)	(703)
Restructuring charges	-	819	-	-	839	1,052	-	-
Government assistance	-	1,390	-	(95)	-	(60)	-	-
Impairment of goodwill and intangible assets	-	1,745	-	-	-	-	-	-
Foreign exchange loss (gain)	482	355	1,200	364	168	(814)	(30)	58
Interest expense	3	3	4	12	6	1	3	-
Interest income	(2)	(22)	(40)	(44)	(87)	(117)	(129)	(149)
	483	4,290	1,164	237	926	62	(156)	(91)
<b>Loss before income taxes</b>	<b>(2,545)</b>	<b>(6,448)</b>	<b>(2,756)</b>	<b>(1,763)</b>	<b>(2,757)</b>	<b>(938)</b>	<b>(738)</b>	<b>(612)</b>
Provision for (recovery of) income taxes:								
Current	-	149	-	-	-	(9)	2	-
Future	-	4,304	(406)	(358)	(933)	(679)	(418)	(184)
	-	4,453	(406)	(358)	(933)	(688)	(416)	(184)
<b>Net loss</b>	<b>\$ (2,545)</b>	<b>\$ (10,901)</b>	<b>\$ (2,350)</b>	<b>\$ (1,405)</b>	<b>\$ (1,824)</b>	<b>\$ (250)</b>	<b>\$ (322)</b>	<b>\$ (428)</b>
Loss per share:								
Basic	\$ (0.17)	\$ (0.74)	\$ (0.16)	\$ (0.09)	\$ (0.12)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Diluted	(0.17)	(0.74)	(0.16)	(0.09)	(0.12)	(0.02)	(0.02)	(0.03)

Revenue from options and futures contracts trended lower in the first quarter of 2010 and 2009 due to reduced volatility levels from 2008 and the loss of a large customer.

Revenue from subscription fees trended lower in the first quarter of 2010 and 2009 from customer seat cancellations either as a result of cost cutting measures or the implementation of alternative solutions.

In the fourth quarter of 2009, the Corporation conducted an annual goodwill and intangible asset impairment tests. The Corporation compared the fair value of the reporting units to their carrying value for the goodwill impairment test and compared the fair value of the customer list intangibles to their carrying values. As the goodwill and intangible asset impairment tests indicated that their carrying values exceeded their fair values, impairment existed and the Corporation recorded a \$1,745 impairment charge, of

which \$137 related to customer list intangibles in the core business unit, \$1,235 to goodwill in the core business unit and \$373 to goodwill in the brokerage unit.

The Corporation recorded a write-down of \$1,394 against Canadian federal ITC's in the fourth quarter of 2009 as management determined that it no longer has reasonable assurance given the uncertainty of the timing when the Corporation may realize the benefit of the federal ITC's carried forward. The write-down of these tax assets is non-cash in nature and does not affect our liquidity or cash flows from operating activities. These assets remain available for use by the Corporation until they expire, beginning in 2021.

The Corporation recorded a future tax expense of \$4,304 in the fourth quarter of 2009 based upon management's best estimate, not more likely than not, of tax attributes that will be utilized against future taxable income. The current tax expense of \$149 in the fourth quarter of 2009 relates to a write-down of \$77 against Canadian corporate minimum taxes and other income taxes paid of \$72.

Restructuring charges in the fourth quarters of 2009 and 2008 include the severance and legal expenses related to employee terminations.

During the second quarter of 2009, the Corporation decided to cease the process of partially mitigating its exposure to non-cash foreign exchange translation gains and losses. As a result, the foreign exchange translation gain or loss in second quarter of 2009 and subsequent periods was more pronounced than in prior periods other than in the fourth quarter of 2008. In the fourth quarter of 2008, the Corporation had an unusual foreign exchange gain due to the Corporation being able to crystallize gains on a strengthening US\$.

The brokerage fees in the third quarter of 2008 include an unusual trading error of US\$800.

## **Transactions with Related Parties**

During the first quarter of 2010, the Corporation's subsidiary, Electronic Brokerage Systems, LLC, paid seat lease expenses at market rates of approximately \$8 (period ended March 31, 2009 - \$38) and paid for execution services in the amount of \$41 (period ended March 31, 2008 - \$54) to a company controlled by the president of Electronic Brokerage Systems, LLC. In addition, Electronic Brokerage Systems, LLC recorded transaction fee revenues of approximately \$4 from the same company for the period ended March 31, 2010 (period ended March 31, 2009 - \$104).

## **Liquidity and Capital Resources**

### **Financial Position**

At March 31, 2010, the Corporation had cash and cash equivalents of \$10,797 and working capital of \$14,059 compared to cash and cash equivalents of \$15,670 and working capital of \$16,201 at December 31, 2009.

The Corporation'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 that 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\$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 US\$100 or 6-2/3% of aggregate

indebtedness, as defined. As at March 31, 2010, Electronic Brokerage Systems, LLC and Robert C. Sheehan & Associates, LLC had net capital of US\$8,266 and US\$1,767 and a net capital requirement of US\$1,000 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 March 31, 2010, Electronic Brokerage Systems, LLC was in compliance with this requirement.

### **Operating Activities**

The Corporation utilized cash flow from operations of \$4,348 for the quarter ended March 31, 2010, as compared to utilizing \$11,472 of cash from operations for the quarter ended March 31, 2009. The year-over-year improvement in cash flow generated by operations is mainly attributable to cash flows from non-cash operating working capital. Net cash flows from non-cash operating working capital increased by \$6,526 year-over-year mainly from:

- (i) The Corporation’s cash and cash equivalents segregated under regulations and other to cover customer and correspondent deposits and amounts owed back to proprietary accounts of introducing brokers “(PAIB)” increased by \$58 at March 31, 2010 as compared to an increase of \$6,249 at March 31, 2009 (positive year-over-year change of \$6,191);
- (ii) The Corporation’s cash and cash equivalents on deposit with clearing and depository organizations increased by \$284 at March 31, 2010 compared to an increase of \$3,049 at March 31, 2009 (positive year-over-year change of \$2,765);
- (iii) The net receivable/payable from/to brokers, dealers and clearing organizations increased by \$20 at March 31, 2010 as compared to an increase of \$8,953 at March 31, 2009 (positive year-over-year change of \$8,933);
- (iv) The Corporation’s accounts receivable balance increased by \$437 at March 31, 2010 as compared to an increase of \$2,532 at March 31, 2009 (positive year-over-year change of \$2,095).

These positive operating cash inflows were offset by:

- (v) The Corporation’s accounts payable and accrual balances including accrued restructuring decreased by \$2,030 at March 31, 2010 compared to an increase of \$1,379 at March 31, 2009 (negative year-over-year change of \$3,409);
- (vi) The Corporation’s payable to customers and correspondents relating to customer and correspondent deposits and amounts owed back PAIB increased by \$117 at March 31, 2010 compared to an increase of \$5,598 at March 31, 2009 (negative year-over-year change of \$5,481); and
- (vii) The Corporation did not have an outstanding clearing facility loan at March 31, 2010 compared to \$4,099 at March 31, 2009 to cover trade breaks (negative year-over-year change of \$4,099).

### **Investing Activities**

The Corporation utilized \$93 of cash for investing activities in the quarter ended March 31, 2010 as compared to utilizing \$421 of cash for investing activities in the quarter ended March 31, 2009. Investing activities in the quarter ended March 31, 2010 included the purchase of capital assets for \$93. Investing activities in the quarter ended March 31, 2009 included the purchase of capital assets of \$427, the purchase of intangibles of \$7 (related

to computer software), proceeds from the sale of an investment of \$15 and the purchase of an investment of \$2.

### **Financing Activities**

The Corporation utilized \$67 of cash for financing activities in the quarter ended March 31, 2010 as compared to utilizing \$10 of cash from financing activities in the quarter ended March 31, 2009. Financing activities in the quarter ended March 31, 2010 and the same year ago quarter can be attributed to the repurchase of common shares under a Normal Course Issuer Bid. (“NCIB”)

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

The Corporation’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 Corporation (“DTC”) as a result of a clearing break. There were no amounts outstanding under this facility at March 31, 2010.

The Corporation’s wholly owned U.S. broker-dealer, Electronic Brokerage Systems, LLC, is required by the Securities Exchange Commission (“SEC”) and the OCC to maintain specific levels of net capital (refer to financial position above) defined as assets minus liabilities less deductions for certain types of assets. Any changes in such net capital rules or the maintenance of the existing levels of net capital or any additional fund deposits required by the OCC as a result of the growth in the Corporation’s options business may restrict the Corporation’s ability to withdraw capital from its brokerage subsidiary to fund its working capital requirements.

The Corporation is dependent upon Electronic Brokerage Systems, LLC to fund a certain portion of its working capital requirements and to fund a certain amount of its capital asset expenditures.

The Corporation may be required to raise additional capital in the next twelve months to fund its operations if its ability to withdraw capital from its brokerage subsidiaries becomes restricted due to continuing losses.

### **Commitments and Contractual Obligations**

These items are substantially unchanged from those disclosed in Corporation's annual MD&A for the year ended December 31, 2009.

### **Off-Balance Sheet Arrangements**

The Corporation 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 Corporation typically agrees in its sales contracts to indemnify its customers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties. The term of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is generally limited as specified on a contract-by-contract basis. To date, the Corporation has not paid any amounts to settle claims or defend lawsuits.

## **Derivative Financial Instruments**

During the third quarter of 2009, the Corporation 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 Corporation utilized foreign currency futures and options contracts to manage a portion of its exposure to fluctuations in foreign exchange rates (primarily U.S. and Canadian dollars). The Corporation's financial derivative instruments are marked to market and are carried at fair value as assets or liabilities, as appropriate, with changes in fair value recognized in the statement of operations in the period in which they occur. There were no derivative financial instruments outstanding at March 31, 2010. The fair value of outstanding derivative financial instruments at March 31, 2009 was based upon quoted market prices.

As at March 31, 2009, the Corporation had outstanding foreign exchange option contracts for the purchase of CDN\$11,000 at U.S.\$0.72 maturing in September 2009. The unrealized gain on these outstanding contracts was approximately \$132. The Corporation also realized losses in the first quarter of 2009 of approximately \$792 on foreign exchange option contracts that were settled in 2009. Gains or losses on foreign exchange option contracts are netted against gains or losses on the translation of our integrated foreign subsidiaries in the consolidated statement of operations.

## **Normal Course Issuer Bid**

In December 2009, the Toronto Stock Exchange approved a Normal Course Issuer Bid for the Corporation to repurchase up to 740,000 of its common shares over the period from December 8, 2009 to December 7, 2010. During the first quarter March 31, 2010, the Corporation repurchased 88,000 common shares at an average price of \$0.76 per share under this Normal Course Issuer Bid. In 2009, the Corporation repurchased 84,000 common shares at an average price of \$0.77 per share under this NCIB.

In November 2008, the Toronto Stock Exchange approved a NCIB for the Corporation to repurchase up to 742,000 of its common shares over the period from December 1, 2008 to November 30, 2009. During fiscal 2009, the Corporation repurchased 25 common shares at an average price of \$1.27 per share under this NCIB.

## **Future Accounting Changes**

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

In March 2009, the Accounting Standards Board ("AcSB") reconfirmed in its second omnibus Exposure Draft that Canadian GAAP for publicly accountable enterprises will be converged with IFRS for interim and annual financial statements relating to fiscal years beginning on or after 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 Corporation's implementation team currently consists of the Vice President of Finance who is currently seeking the expertise of a third party and reporting progress 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 Corporation’s consolidated financial statements. Management is still in the process of quantifying the expected material differences 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 Corporation’s Vice President of Finance has attended IFRS training courses and continues 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 Corporation’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); and
- (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 Corporation 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 Corporation issues stock-based awards in the form of stock options that vest evenly over a three-year period. Under Canadian GAAP, the Corporation 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 Corporation 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 Corporation has a joint venture arrangement which currently uses proportionate consolidation as the accounting treatment under Canadian GAAP. Under proportionate consolidation, the Corporation records its proportionate share of the assets, liabilities, revenues and expenses of the joint venture arrangement. Under the recent IFRS exposure draft, the Corporation 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 Corporation 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: (i) first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and (ii) then measuring any impairment by comparing asset carrying values with fair values. International Accounting Standards (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 Corporation 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 Corporation expects to elect the exemption under IAS 1 allowing the Corporation not to restate any business combinations that occurred prior to January 1, 2010.

### **Risks and Uncertainties**

The primary risks affecting the Corporation are substantially unchanged from those discussed in the Corporation's annual MD&A for the year ended December 31, 2009 except for the following:

#### **Customer Dependence**

The Corporation is dependent on a limited number of customers for a substantial amount of its revenue. The loss of a significant customer would have a material adverse effect on revenue and results of operations. For the three months ended March 31, 2010, five customers accounted for approximately 29% of net revenue (three months March 31, 2009, five customers for approximately 24%). The dependence on a limited number of customers for a substantial amount of our revenue could lead to fluctuations in our operating results.

### **Outstanding Share Data**

Set out below is the outstanding share data for the Corporation as at May 11, 2010.

<b>Common Shares:</b>	14,637,863
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	1,513,334

During the first quarter ended March 31, 2010, the Company repurchased and cancelled 88 thousand common shares for a total consideration of \$142 under its NCIB.

### **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 Vice President Finance, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at March 31, 2010, Belzberg's management, with the participation of the President and CEO and the Vice President Finance, evaluated the effectiveness of Belzberg's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and concluded that such controls and procedures were effective.

## **Managements Report on Internal Control Over Financial Reporting**

There were no changes over the Corporation's internal controls over financial reporting during the period ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.