

2010

*Management's Discussion and Analysis*  
**BELZBERG TECHNOLOGIES INC.**  
*For The Year Ended December 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, 2010. 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 March 21, 2011.

## **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.

## **Market and Economic Situation Review**

Market conditions were very difficult for the Corporation in 2010. The general economic downturn and contraction in the financial services industry lead to a net loss of clients and increased pricing pressure in order to maintain existing clients. Trading volumes were down across all segments in which the Corporation operates. New client revenues were insufficient to compensate for the loss of revenues resulting from price cuts, client downsizing or client elimination.

## **Strategy**

In 2010, the Corporation's focus was on improving its operating results through cost savings, infrastructure changes and seeking scale through partnerships and combinations.

On February 23, 2011 the Corporation announced a change in its strategic direction to refocus on its technology business. At the same time, the Corporation announced a definitive agreement to merge with Frontline Technologies Corporation ("Frontline") through an acquisition of Frontline by the Corporation. Under the terms of the Frontline agreement, approved by the Boards of Directors of both companies, Frontline shareholders will receive \$1 million in cash plus 7,881,826 Class A Restricted Shares of the Corporation. Each Class A Restricted Share will be converted into common shares of the Corporation on a 1 for 1 basis subsequent to the 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 Corporation's outstanding shares.

The Frontline transaction is expected to close in the second quarter of 2011 and is subject to the satisfaction of customary closing conditions, including all necessary regulatory and stock exchange approvals and approval by the shareholders of Belzberg. Frontline offers infrastructure as well as a varied suite of IT outsourcing services to clients in the financial industry including a comprehensive platform for managing various aspects of trading including order management, position management, post trade matching and electronic ticketing. The combined entity, which will operate under the Frontline brand name, will establish a larger, more diversified and competitive provider of services and technologies for the professional trading community. Together, the combined company will also benefit from cost savings and synergies in operations, infrastructure and administration.

As part of this new strategic direction, the Corporation also announced on February 23, 2011 that it had entered into an agreement to refer most of the clients of its US execution businesses operated under its wholly-owned subsidiaries, Electronic Brokerage Systems, LLC ("EBS") and R.C. Sheehan and Associates, LLC ("RCS"), to BNY ConvergeEx Execution Solutions LLC and LiquidPoint LLC (collectively "ConvergeEx").

It is the Corporation'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 equivalent to the amount by which the working capital of the

Corporation as of closing of the Frontline transaction exceeds \$2.75 million plus the total proceeds received for the referral of the US execution clients of its wholly-owned subsidiaries, less any costs related thereto or to the sale or wind-up of the businesses of Electronic Brokerage Systems, LLC and RCS.

## **Financial Overview**

### **2010 Financial Highlights and Summary**

- Net revenue decreased by 35% for the year ended December 31, 2010 to \$15,050 from \$23,114 for the year ended December 31, 2009.
- Loss of \$7,499 or (\$0.51) per share for the year ended December 31, 2010 as compared to loss of \$16,480 (which included a \$1,658 restructuring charge and non cash charges of \$5,823 relating to goodwill and intangible asset impairment charges and valuation allowances and write-downs against tax assets) or (\$1.11) per share for the year ended December 31, 2009.
- Cash flow utilized by operations of \$6,261 for the year ended December 31, 2010 compared to cash flow utilized by operations of \$1,114 for the year ended December 31, 2009.
- Working capital position of \$10,255 at December 31, 2010 as compared to \$16,201 at December 31, 2009.

The 2010 fiscal year presented a challenging economic and operating environment for the Corporation with the continued reduction of subscription based revenues as customers cancelled seats either as a result of cost cutting measures or the implementation of alternative solutions. The Corporation also experienced a 32% drop in its net options execution revenues and a 44% drop in its net equity order flow and clearing revenues through the loss of customers, slowdown in trading activity, and pricing compression from 2009. Important client gains were made, however they were not sufficient to compensate for the general decline in equity trading volumes and revenues.

In 2010 the Corporation continued their review of its cost structure, including headcount, market data, telecommunications, brokerage and occupancy, given the continuing lower revenues. Compensation expense was \$3,933 lower in 2010 as compared to the prior year, administrative expenses were \$1,212 lower in 2010, telecommunication and datafeed services were \$1,474 lower in 2010 and Brokerage fees were \$921 lower in 2010 as compared to the prior year.

The Corporation's year-end financial position included cash and cash equivalents of \$8,319 (2009 - \$15,670).

### **Key Performance Indicators**

Management regularly reviews the following key performance indicators to measure our progress and success:

- Average daily volumes of U.S. equity order flow and electronic option contracts executed;
- Average daily revenue of U.S. equity order flow and electronic option contracts executed;
- Days sales outstanding.

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

## Selected Annual Information

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

(\$000's except per share amounts)	Year ended December 31,		
	2010	2009	2008
Net revenue	\$ 15,050	\$ 23,114	\$ 30,265
Net earnings (loss)	(7,499) (a)	(16,480) (b)	118 (c)
Basic earnings (loss) per share	(0.51)	(1.11)	0.01
Diluted earnings (loss) per share	(0.51)	(1.11)	0.01
Total assets	21,713	26,221	41,958

(a) includes a \$(221) recovery of restructuring charges

(b) Includes \$1,745 of goodwill and intangible asset impairment charge, \$1,658 of restructuring charges, \$1,471 write-down against investment tax credits recoverable and future tax expense of \$2,607 related to valuation allowance against future tax assets

(c) Includes \$936 of income tax recovery and \$1,052 of restructuring charges

## Results of Operations

### Total Revenues

#### Total revenues for the twelve months ended December 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 846	\$ 4,084	\$ 4,930	\$ 836	\$ 20,196	\$ 21,032
Electronic option and futures contracts	84	4,106	4,190	46	7,407	7,453
Brokerage option contracts	-	2,766	2,766	-	3,362	3,362
Subscription fees	3,331	18	3,349	4,687	220	4,907
Other revenue	1,092	214	1,306	1,103	354	1,457
<b>Total revenue</b>	<b>5,353</b>	<b>11,188</b>	<b>16,541</b>	<b>6,672</b>	<b>31,539</b>	<b>38,211</b>
Cost of exchange and clearance fees	-	(1,491)	(1,491)	-	(15,097)	(15,097)
<b>Total net revenue</b>	<b>\$ 5,353</b>	<b>\$ 9,697</b>	<b>\$ 15,050</b>	<b>\$ 6,672</b>	<b>\$ 16,442</b>	<b>\$ 23,114</b>

Total net revenue decreased by 35% from \$23,114 in 2009 to \$15,050 in 2010. In 2010, the Corporation generated approximately 64% (2009 - 71%) of its net revenues in the U.S. and 36% (2009 - 29%) of its net revenues in Canada. Net revenues in the U.S. decreased by 41% in 2010 (decreased by 19% in 2009) and revenues in Canada decreased by 20% in 2010 (decreased by 32% in 2009).

### Transaction Fee Revenue

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

#### Equity orderflow and clearing revenues for twelve months ended December 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 846	\$ 4,084	\$ 4,930	\$ 836	\$ 20,196	\$ 21,032
Cost of exchange and clearance fees	-	(211)	(211)	-	(12,663)	(12,663)
<b>Total net equity orderflow and clearing revenue</b>	<b>\$ 846</b>	<b>\$ 3,873</b>	<b>\$ 4,719</b>	<b>\$ 836</b>	<b>\$ 7,533</b>	<b>\$ 8,369</b>

Net transaction fee revenue from equity order flow decreased by 44% from \$8,369 in 2009 to \$4,719 in 2010.

Net equity order flow and clearing revenues executed on U.S. exchanges decreased by 49% year over year. Total U.S. trading volumes decreased by 41% year over year mainly due to a slow down in trading volumes from existing customers. The cost of equity exchange and clearance fees decreased by 98% year over year as a result of customers receiving rebates from exchanges instead of paying exchange fees for their underlying trading strategy. On certain equity exchanges, liquidity providers are paid rebates instead of being charged trading fees. The Corporation typically passes through exchange rebates or fees to the customer at no markup. 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.

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

<b>U.S. Equity Order Flow and clearing</b>	<b>twelve months ended December 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>change</b>	<b>% change</b>
Total trading volume (in billions of shares)	7.2	12.2	(5.0)	(41)%
Avg trading volume per day (in millions of shares)	28.6	48.5	(19.9)	(41)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 15.4	\$ 29.9	\$ (14.5)	(49)%
Avg net transaction fee revenue per share	\$ 0.0005	\$ 0.0006	\$ (0.0001)	(13)%
U.S market trading days	252	252	-	

## (ii) Electronic Options and Futures Contracts

### Electronic option and futures revenues for the twelve months ended December 31,

(\$000's)	<b>2010</b>			<b>2009</b>		
	<b>Canada</b>	<b>USA</b>	<b>Total</b>	<b>Canada</b>	<b>USA</b>	<b>Total</b>
Electronic option and futures contracts	\$ 84	\$ 4,106	\$ <b>4,190</b>	\$ 46	\$ 7,407	\$ <b>7,453</b>
Cost of exchange and clearance fees	-	(1,177)	<b>(1,177)</b>	-	(2,240)	<b>(2,240)</b>
<b>Total net electronic option and futures revenues</b>	\$ 84	\$ 2,929	\$ <b>3,013</b>	\$ 46	\$ 5,167	\$ <b>5,213</b>

Net transaction fee revenue from the electronic execution of options and futures contracts decreased by 42% from \$5,213 in 2009 to \$3,013 in 2010. The total volume of our electronic options contracts executed decreased by 26% on a year over year basis which relates mainly to a slowdown or cessation of trading by U.S. banks and brokerage houses. The cost of option exchange and clearance fees decreased by 47% year over year due to lower volumes cleared and executed.

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

U.S. Electronic Options Contracts Executed	twelve months ended December 31,			
	2010	2009	change	% change
Total trading volume (in millions of contracts)	20.1	27.1	(7.0)	(26)%
Avg trading volume per day (in thousands of contracts)	79.7	107.6	(27.9)	(26)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 11.6	\$ 20.5	\$ (8.9)	(43)%
Avg net transaction fee revenue per contract	\$ 0.15	\$ 0.19	\$ (0.04)	(23)%
U.S market trading days	252	252	-	

## Transaction Fee Revenue – Brokerage

### Brokerage option contract revenues for the twelve months ended December 31,

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Brokerage option contracts	\$ -	\$ 2,766	\$ 2,766	\$ -	\$ 3,362	\$ 3,362
Cost of exchange and clearance fees	-	(103)	\$ (103)	-	(194)	(194)
<b>Total net brokerage option contract revenues</b>	<b>\$ -</b>	<b>\$ 2,663</b>	<b>\$ 2,663</b>	<b>\$ -</b>	<b>\$ 3,168</b>	<b>\$ 3,168</b>

Net transaction fee revenue from the brokerage segment decreased by 16% from \$3,168 in 2009 to \$2,663 in 2010. The average daily volume of floor option exchange contracts executed decreased by 3% on a year over year basis but the average fee per contract decreased by approximately 13% as competition with electronic execution pricing increased. The cost of brokerage exchange and clearance fees decreased by 47% year over year due to lower option volumes that were cleared by the brokerage segment and the elimination of costs. 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	twelve months ended December 31,			
	2010	2009	change	% change
Total trading volume (in millions of contracts)	21.9	22.6	(0.7)	(3)%
Avg trading volume per day (in thousands of contracts)	86.7	89.5	(2.8)	(3)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 10.6	\$ 12.6	\$ (2.0)	(16)%
Avg net transaction fee revenue per contract	\$ 0.12	\$ 0.14	\$ (0.02)	(13)%
U.S market trading days	252	252	-	

## 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 32% in 2010 to \$3,349 from \$4,907 in 2009. This decrease resulted from price adjustments and from cancellation of seats by customers either downsizing their trading desks or implementing alternative solutions. There was also a shift of certain subscription based revenues to variable pricing model as the Corporation transitions certain customers to a variable based model. A variable 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 10% to \$1,306 in the year ended December 31, 2010 from \$1,457 in the year ended December 31, 2009. The decrease related mainly to lower information distribution revenues and lower recovery of telecommunication charges.

## Expenses (Income)

### Expenses (Income) for the twelve months ended December 31,

	Core	Brokerage	Total	% of	Core	Brokerage	Total	% of
(\$000's)	2010	2010	2010	Net	2009	2009	2009	Net
				Revenues				Revenues
Compensation and related benefits	\$ 7,584	\$ 1,307	\$ 8,891	59 %	\$ 11,251	\$ 1,573	\$ 12,824	55 %
Telecommunication and datafeed services	6,105	194	6,299	42 %	7,524	250	7,774	34 %
Administrative and other expenses	2,916	107	3,023	20 %	4,063	172	4,235	18 %
Brokerage fees	1,569	654	2,223	15 %	2,025	1,119	3,144	14 %
Amortization of capital assets	1,538	12	1,550	10 %	2,028	14	2,042	9 %
Amortization of intangible asset	124	-	124	1 %	202	-	202	1 %
Foreign exchange loss	536	130	666	4 %	1,678	409	2,087	9 %
Government assistance	(11)	-	(11)	0 %	1,295	-	1,295	6 %
Restructuring charges	(221)	-	(221)	(1)%	1,654	4	1,658	7 %
Impairment of goodwill and intangible assets	-	-	-	0 %	1,372	373	1,745	8 %
Interest expense	9	1	10	0 %	25	-	25	0 %
Interest income	(5)	-	(5)	0 %	(190)	(3)	(193)	(1)%
	\$ 20,144	\$ 2,405	\$ 22,549	150%	\$ 32,927	\$ 3,911	\$ 36,838	159%

## **Compensation and Related Benefits**

Compensation and related benefits comprise the payroll cost of our headcount, incentive compensation to employees and any stock based compensation related to the grant of stock options to employees and directors.

Compensation and related benefits decreased by 31% to \$8,891 for the year ended December 31, 2010 from \$12,824 for the year ended December 31, 2009. The decrease can be attributed to the restructuring of the Corporation in the first and fourth quarter of 2009 and general attrition during 2010. The average headcount was reduced from 108 employees in 2009 to 77 employees in 2010. Headcount was reduced from 85 employees at the end of 2009 to 73 employees at the end of 2010. A weakening U.S. dollar accounted for approximately \$548 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 our customers and our offices to each other and to the various exchanges and datafeed suppliers. Datafeed service costs comprise of the cost of receiving datafeeds from the various exchanges and other providers to redistribute to our customers.

Telecommunication and datafeed services decreased by 19% to \$6,299 for the year ended December 31, 2010 from \$7,774 for the year ended December 31, 2009. Approximately \$344 of the decrease resulted from a decrease in customer connections, of which \$175 was not being recovered from customers, \$587 of the decrease relates to market datafeed reductions and \$543 of the decrease relates to a reduction of exchange trading, interoffice, and internet connections. Approximately \$300 of the decrease is due to the foreign exchange effect of a weaker average U.S. dollar exchange rate year over year.

## **Administrative and Other Expenses**

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

Administrative and other expenses decreased by 29% to \$3,023 for the year ended December 31, 2010 from \$4,235 for the year ended December 31, 2009. The decrease is mainly attributable to: (i) a decrease in professional fees of \$484, (ii) a decrease in travel and advertising expense of \$195, (iii) a decrease in occupancy of \$302, and (iv) a decrease in hardware repairs and maintenance of \$73.

## **Brokerage Fees**

Brokerage fees are comprised of: (i) the commissions we pay to other brokers and specialists for execution services and/or for the introduction of orderflow, (ii) the cost of our 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 29% to \$2,223 for the year ended December 31, 2010 from \$3,144 for the year ended December 31, 2009. The decrease can mainly be attributed to lower: (i) seat leases of \$482, (ii) client trading compensation of \$114, and (iii) technology fees of \$164.

### **Amortization of Capital Assets**

Amortization of capital assets decreased by 24% to \$1,550 for the year ended December 31, 2010 from \$2,042 for the year ended December 31, 2009. The decrease relates mainly to certain capital assets becoming fully amortized 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 39% to \$124 for the year ended December 31, 2010 from \$202 for the year ended December 31, 2009. The year over year decrease relates mainly to certain capital assets becoming fully depreciated during the year.

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

The foreign exchange loss comprises non-cash gains and losses incurred in translating the net assets of the Corporation's integrated foreign subsidiaries into Canadian dollars.

The Corporation incurred a consolidated foreign exchange loss of \$666 of which a loss of approximately \$537 related to the core business and a loss of \$130 related to the brokerage business for the year ended December 31, 2010. In 2009 the Corporation incurred a consolidated foreign exchange loss of \$2,087 of which a loss of approximately \$1,678 related to the core business and a loss of \$409 related to the brokerage business for the year ended December 31, 2009.

### **Government Assistance**

Government assistance for the year ended December 31, 2010 relates to the Corporations provincial scientific research and development claim for the 2009 year that was filed and refunded in 2010.

The government assistance amount for 2009 of \$1,295 is made up of Canadian provincial scientific research and experimental development ("SR&ED") tax credits for the 2008 year of \$37 refunded in cash during fiscal 2009 and non-refundable Canadian federal SR&ED tax credits for the 2008 year of \$62 offset by a write-down of \$1,394 against Canadian federal SR&ED tax credits ("ITC's"). Management recorded the write-down as it 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.

Any change in management's estimate relating to the use of federal ITC's could result in additional income or expense for the Corporation in the future. These assets remain available for use by the Corporation until they expire, beginning in 2021.

Government assistance relates to the core business.

### **Restructuring charges**

There was a \$221 recovery of restructuring charges for the year ended December 31, 2010 and in the same year ago period there was a \$1,658 restructuring charge. The recovery in 2010 relates mainly to the reversal of accrued severance settlements for employee terminations that occurred in 2009. Restructuring charges include the severance and legal expenses related to employee terminations.

## **Impairment of Goodwill and Intangible Assets**

In 2009, we conducted our annual goodwill and intangible asset impairment tests. We 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 value. As the goodwill and intangible asset impairment tests indicated that their carrying values exceeded their fair value, impairment existed and we 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 goodwill and intangible asset impairment charges are non-cash in nature and did not affect our liquidity or cash flows from operating activities.

## **Income Taxes**

The Company records a valuation allowance against future income tax assets when management believes it is more likely than not that some portion or all of the future income tax assets will not be realized. Management considers factors such as the reversal of future income tax liabilities, projected taxable income, the character of the income tax asset and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

The Corporation has net operating loss carry forwards in the United States of approximately \$11,512 and in Canada of \$6,993 that may be used to offset future taxable earnings. The losses expire in the United States beginning in 2023 and in Canada beginning in 2029. The Corporation has an accumulated SR&ED expenditure pool in Canada of approximately \$2,131 that may be used to reduce future taxable income in Canada. The SR&ED expenditure pool can be carried forward indefinitely. The Corporation also has unrecorded investment tax credits of approximately \$1,419 in Canada that may be used to offset future federal income taxes payable in Canada and that expire beginning in 2021.

## **Net Loss**

The net loss for the year ended December 31, 2010 was \$7,499 from a net loss of \$16,480 (including restructuring charges of \$1,658 and non cash charges of \$5,823 relating to goodwill and intangible asset impairment as well as write-downs and valuation allowances against tax assets) for the year ended December 31, 2009. The diluted loss per share for the year ended December 31, 2010, was \$0.51 per share as compared to a diluted loss of \$1.11 per share for the year ended December 31, 2009.

## Summary of Quarterly Results

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

(Unaudited)	FY 2010				FY 2009			
(\$000's except per share amounts)	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
<b>Revenue</b>								
Transaction fees:								
Equity order flow and clearing	\$ 497	\$ 616	\$ 1,663	\$ 2,154	\$ 4,353	\$ 4,147	\$ 6,242	\$ 6,290
Options and futures contracts	1,724	1,692	1,829	1,711	2,192	2,437	2,997	3,189
Subscription fees	770	803	841	935	1,075	1,214	1,223	1,395
Other	310	321	362	313	322	363	360	412
	3,301	3,432	4,695	5,113	7,942	8,161	10,822	11,286
Cost of exchange and clearance fees	341	52	(872)	(1,012)	(2,916)	(2,813)	(4,809)	(4,559)
<b>Total net revenue</b>	<b>3,642</b>	<b>3,484</b>	<b>3,823</b>	<b>4,101</b>	<b>5,026</b>	<b>5,348</b>	<b>6,013</b>	<b>6,727</b>
<b>Expenses (Income):</b>								
Compensation and related benefits	2,097	2,085	2,157	2,552	2,881	3,026	3,162	3,755
Telecommunication and datafeed services	1,475	1,564	1,560	1,700	1,842	1,815	2,067	2,050
Administrative and other expenses	790	736	732	765	1,121	872	1,052	1,190
Brokerage fees	621	418	517	667	840	650	669	985
Amortization of capital assets	335	363	410	442	463	522	534	523
Amortization of intangible assets	24	26	37	37	37	55	55	55
	5,342	5,192	5,413	6,163	7,184	6,940	7,539	8,558
Loss before the undemoted	(1,700)	(1,708)	(1,590)	(2,062)	(2,158)	(1,592)	(1,526)	(1,831)
Restructuring charges (recovery)	-	-	(221)	-	819	-	-	839
Government assistance	-	-	(11)	-	1,390	-	(95)	-
Impairment of goodwill and intangible assets	-	-	-	-	1,745	-	-	-
Foreign exchange loss (gain)	375	445	(636)	482	355	1,200	364	168
Interest expense	3	4	-	3	3	4	12	6
Interest income	(1)	(1)	(1)	(2)	(22)	(40)	(44)	(87)
	377	448	(869)	483	4,290	1,164	237	926
<b>Loss before income taxes</b>	<b>(2,077)</b>	<b>(2,156)</b>	<b>(721)</b>	<b>(2,545)</b>	<b>(6,448)</b>	<b>(2,756)</b>	<b>(1,763)</b>	<b>(2,757)</b>
Provision for (recovery of) income taxes:								
Current	-	-	-	-	149	-	-	-
Future	-	-	-	-	4,304	(406)	(358)	(933)
	-	-	-	-	4,453	(406)	(358)	(933)
<b>Net loss</b>	<b>\$ (2,077)</b>	<b>\$ (2,156)</b>	<b>\$ (721)</b>	<b>\$ (2,545)</b>	<b>\$ (10,901)</b>	<b>\$ (2,350)</b>	<b>\$ (1,405)</b>	<b>\$ (1,824)</b>
Loss per share:								
Basic	\$ (0.14)	\$ (0.15)	\$ (0.05)	\$ (0.17)	\$ (0.74)	\$ (0.16)	\$ (0.09)	\$ (0.12)
Diluted	(0.14)	(0.15)	(0.05)	(0.17)	(0.74)	(0.16)	(0.09)	(0.12)

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

During Q2'09 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 Q2'09 and subsequent periods was more pronounced than in prior periods other than in Q4'08. In Q4'08 the Corporation had an unusual foreign exchange gain due to the Corporation being able to crystallize gains on a strengthening U.S. dollar.

The Brokerage fees in Q3'08 include an unusual trading error of approximately U.S. \$800.

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

In 2010 the cost of exchange and clearance fees decreased to a negative value as a result of customers receiving rebates from exchanges instead of paying exchange fees for their underlying trading strategy. On certain equity exchanges, liquidity providers are paid rebates instead of being charged trading fees. The Corporation typically passes through exchange rebates or fees to the customer at no markup.

## Fourth Quarter Analysis

### Revenue

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

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 232	\$ 265	\$ 497	\$ 221	\$ 4,132	\$ 4,353
Electronic option and futures contracts	42	997	1,039	10	1,446	1,456
Brokerage option contracts	-	685	685	-	736	736
Subscription fees	766	4	770	1,043	32	1,075
Other revenue	271	39	310	263	59	322
<b>Total revenue</b>	<b>1,311</b>	<b>1,990</b>	<b>3,301</b>	<b>1,537</b>	<b>6,405</b>	<b>7,942</b>
Cost of exchange and clearance fees	-	341	341	-	(2,916)	(2,916)
<b>Total net revenue</b>	<b>\$ 1,311</b>	<b>\$ 2,331</b>	<b>\$ 3,642</b>	<b>\$ 1,537</b>	<b>\$ 3,489</b>	<b>\$ 5,026</b>

Total net revenue decreased by \$1,384 to \$3,642 in the fourth quarter of 2010 from \$5,026 in the fourth quarter of 2009.

### Transaction Fee Revenue

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

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

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Equity orderflow and clearing	\$ 232	\$ 265	\$ 497	\$ 221	\$ 4,132	\$ 4,353
Cost of exchange and clearance fees	-	637	637	-	(2,452)	(2,452)
<b>Total net equity orderflow and clearing revenue</b>	<b>\$ 232</b>	<b>\$ 902</b>	<b>\$ 1,134</b>	<b>\$ 221</b>	<b>\$ 1,680</b>	<b>\$ 1,901</b>

Net transaction fee revenue from equity order flow decreased by 40% from \$1,901 in the fourth quarter of 2009 to \$1,134 in the fourth 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 2% year over year mainly due to a slow down in trading volumes from existing customers. The cost of equity exchange and clearance fees decreased by 126% year over year as a result of customers receiving rebates from exchanges instead of paying exchange fees for their underlying trading strategy. On certain equity exchanges, liquidity providers are paid rebates instead of being charged trading fees. The Corporation typically passes through exchange rebates or fees to the customer at no markup. 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.

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

<b>U.S. Equity Order Flow and clearing</b>	<b>Three months ended December 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>change</b>	<b>% change</b>
Total trading volume (in billions of shares)	2.6	2.7	(0.1)	(2)%
Avg trading volume per day (in millions of shares)	40.7	41.6	(0.9)	(2)%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 14.4	\$ 26.3	\$ (11.9)	(45)%
Avg net transaction fee revenue per share	\$ 0.0004	\$ 0.0006	\$ (0.0002)	(42)%
U.S market trading days	64	64	-	

## (ii) Electronic Options and Futures Contracts

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

(\$000's)	<b>2010</b>			<b>2009</b>		
	Canada	USA	<b>Total</b>	Canada	USA	<b>Total</b>
Electronic option and futures contracts	\$ 42	\$ 997	\$ <b>1,039</b>	\$ 10	\$ 1,446	\$ <b>1,456</b>
Cost of exchange and clearance fees	-	(290)	<b>(290)</b>	-	(423)	<b>(423)</b>
<b>Total net electronic option and futures revenues</b>	\$ 42	\$ 707	\$ <b>749</b>	\$ 10	\$ 1,023	\$ <b>1,033</b>

Net transaction fee revenue from the electronic execution of options and futures contracts decreased by 27% from \$1,033 in the fourth quarter of 2009 to \$749 in the fourth quarter of 2010. A strengthening Canadian dollar adversely impacted net U.S. option revenue by approximately \$43 on a year over year basis.

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

<b>U.S. Electronic Options Contracts Executed</b>	<b>Three months ended December 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>change</b>	<b>% change</b>
Total trading volume (in millions of contracts)	5.4	5.2	0.1	2%
Avg trading volume per day (in thousands of contracts)	83.7	82.0	1.7	2%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 10.8	\$ 16.0	\$ (5.2)	(33)%
Avg net transaction fee revenue per contract	\$ 0.13	\$ 0.20	\$ (0.07)	(34)%
U.S market trading days	64	64	-	

## Transaction Fee Revenue – Brokerage

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

(\$000's)	2010			2009		
	Canada	USA	Total	Canada	USA	Total
Brokerage option contracts	\$ -	\$ 685	\$ 685	\$ -	\$ 736	\$ 736
Cost of exchange and clearance fees	-	(6)	(6)	-	(41)	(41)
<b>Total net brokerage option contract revenues</b>	<b>\$ -</b>	<b>\$ 679</b>	<b>\$ 679</b>	<b>\$ -</b>	<b>\$ 695</b>	<b>\$ 695</b>

Net transaction fee revenue from the brokerage segment decreased by 2% from \$695 in the fourth quarter of 2009 to \$679 in the fourth quarter of 2010. A strengthening Canadian dollar adversely impacted U.S. option floor brokerage revenue by approximately \$28 on a year over year basis. Despite an increase in the trading volume there was a decrease in revenues as a result of increased pricing pressure.

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 December 31,			
	2010	2009	change	% change
Total trading volume (in millions of contracts)	6.1	5.7	0.4	7%
Avg trading volume per day (in thousands of contracts)	95.3	89.3	6.0	7%
Avg net transaction fee revenue per trading day (in thousands of CDN\$)	\$ 10.6	\$ 10.9	\$ (0.3)	(2)%
Avg net transaction fee revenue per contract	\$ 0.11	\$ 0.12	\$ (0.01)	(8)%
U.S market trading days	64	64	-	

## Subscription Fee Revenue

Subscription fee revenue in the core business, which is based on customers paying a fixed monthly fee for use of our Belzberg trading systems and connectivity to the Belzberg network on a per terminal or other contracted basis, decreased by 28% from \$1,075 in the fourth quarter of 2009 to \$770 in the fourth quarter of 2010. This decrease resulted from price adjustments and from cancellation of terminals by customers either downsizing their trading desks or implementing alternative solutions. There was also a shift of certain subscription based revenues to transaction based revenues as the Corporation transitions certain customers to a transaction based model.

## Other Revenue

Other revenue, which includes revenue from information distribution, software development fees, installation fees and recovery of telecommunication charges, decreased by 4% from \$322 in the fourth quarter of 2009 to \$310 in the fourth quarter of 2010. The decrease related to lower telecommunication and datafeed recoveries.

## Expenses (Income)

### Expenses (Income) for the three months ended December 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	\$ 1,780	\$ 317	\$ 2,097	58 %	\$ 2,545	\$ 336	\$ 2,881	57 %
Telecommunication and datafeed services	1,423	52	1,475	40 %	1,780	62	1,842	37 %
Administrative and other expenses	766	24	790	22 %	1,087	34	1,121	22 %
Brokerage fees	439	182	621	17 %	571	269	840	17 %
Amortization of capital assets	332	3	335	9 %	461	2	463	9 %
Amortization of intangible asset	24	-	24	1 %	37	-	37	1 %
Foreign exchange loss	293	82	375	10 %	311	44	355	7 %
Government assistance	-	-	-	0 %	1,390	-	1,390	28 %
Restructuring charges	-	-	-	0 %	815	4	819	16 %
Impairment of goodwill and intangible assets	-	-	-	0 %	1,372	373	1,745	35 %
Interest expense	3	-	3	0 %	3	-	3	0 %
Interest income	(1)	-	(1)	0 %	(22)	-	(22)	0 %
	\$ 5,059	\$ 660	\$ 5,719	157%	\$ 10,350	\$ 1,124	\$ 11,474	228%

### Compensation and Related Benefits

Compensation and related benefits decreased by 27% to \$2,097 in the fourth quarter of 2010 from \$2,881 in the fourth quarter of 2009. The decrease can be attributed to lower compensation and benefits of approximately \$524 from headcount reductions and from a stronger Canadian dollar that decreased US dollar compensation reported in Canadian dollars.

### Telecommunication and Datafeed Services

Telecommunication and datafeed services decreased by 20% to \$1,475 in the fourth quarter of 2010 from \$1,842 in the fourth quarter of 2009.

The decrease was made up of a \$120 decrease in market data costs from favourable contract negotiations and \$246 relates to reductions in customer and non-customer telecommunication connections.

### Administrative and Other Expenses

Administrative and other expenses decreased by 30% to \$790 in the fourth quarter of 2010 from \$1,121 in the fourth quarter of 2009. The decrease is mainly attributable to: (i) a \$90 decrease in occupancy costs, (ii) Lower professional fees of \$266, and (iii) lower travel, advertising, entertainment and promotional expenses of \$21.

### Brokerage Fees

Brokerage fees decreased by 26% to \$621 in the fourth quarter of 2010 from \$840 in the fourth quarter of 2009. The decrease can be attributed to lower: (i) brokerage expenses and (ii) commissions paid to other brokers for the introduction of business and for execution services performed.

### **Amortization of Capital Assets**

Amortization of capital assets decreased by 28% to \$335 in the fourth quarter of 2010 from \$463 in the fourth quarter of 2009. The year over year decrease relates mainly to certain capital assets becoming fully depreciated during the year.

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

The Corporation incurred a non-cash foreign exchange translation loss of \$375 in the fourth quarter of 2010 (of which a loss of \$82 related to the brokerage business and a loss of \$293 related to the core business) that arose from the foreign exchange impact of translating the net assets of our integrated foreign subsidiaries into Canadian dollars. The strengthening of the Canadian dollar against the U.S. dollar will result in foreign exchange losses on translation.

The Corporation incurred a non-cash foreign exchange translation loss of \$355 in the fourth quarter of 2009 (of which a loss of \$44 related to the brokerage business and a loss of \$311 related to the core business) that arose from the foreign exchange impact of translating the net assets of our integrated foreign subsidiaries into Canadian dollars.

### **Government Assistance**

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.

Any change in management's estimate relating to the use of federal ITC's could result in additional income or expense for the Corporation in the future.

### **Impairment of goodwill and intangible assets**

In the fourth quarter of 2009, we conducted our annual goodwill and intangible asset impairment tests. We 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 value. As the goodwill and intangible asset impairment tests indicated that their carrying values exceeded their fair value, impairment existed and we 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 goodwill and intangible asset impairment charges were non-cash in nature and did not affect our liquidity or cash flows from operating activities.

### **Restructuring Charges**

Restructuring charges in the fourth quarter of 2009 include the severance and legal expenses related to employee terminations. There were no restructuring charges in the fourth quarter of 2010.

## **Income Taxes**

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 related to a write-down of \$77 against Canadian corporate minimum taxes and other income taxes paid of \$72.

Management's estimate considered factors by taxing jurisdiction, such as estimated taxable income, the history of losses for tax purposes and the growth of the Corporation. Any change in management's estimates could result in an additional income tax recovery or expense in the future.

## **Net Loss**

The net loss for the fourth quarter of 2010 was \$2,077 as compared to a net loss of \$10,901 (including \$819 related to restructuring charges and non-cash charges of \$7,520 relating to goodwill and intangible asset impairment and valuation allowances against tax assets). Diluted loss per share for the fourth quarter of 2010, decreased to \$0.14 per share from a loss of \$0.74 per share for the fourth quarter of 2009.

## **Transactions with Related Parties**

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

## **Liquidity and Capital Resources**

The Corporation has incurred significant operating losses and negative cash flows from operations in recent years. Specifically, in 2010 the Corporation incurred a loss of \$7,499 and available cash of \$8,319. Cash outflow from operating activities was \$6,211 and during the year ended December 31, 2010, net revenue funded 68 percent of operating costs and in 2009 net revenue funded 76 percent of operating costs.

The continuation of the Corporation as a going concern is dependent on management's ability to improve operating results. Subsequent to year end the Corporation announced it is executing a plan in 2011 to refer its list of U.S. execution clients and purchase Frontline. These plans are expected to be completed in the second and third quarter of 2011 and are expected to generate sufficient liquidity to finance operations. While management believes that the likelihood of completing these plans is high the transaction with Frontline requires shareholder approval and therefore no assurance can be placed on the outcome.

## **Financial Position**

At December 31, 2010 the Corporation had cash and cash equivalents of \$8,319 and working capital of \$10,255.

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 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.

Electronic Brokerage Systems, LLC is currently required by the Options Clearing Corporation ("OCC") to maintain minimum net capital of U.S. \$2,000. At December 31, 2010, Electronic Brokerage Systems, LLC was in compliance with this requirement.

## **Operating Activities**

The Corporation utilized \$6,261 of cash for operations for the year ended December 31, 2010 as compared to utilizing \$1,114 of cash for operations for the year ended December 31, 2009. The decrease in cash flow from operations is mainly attributable to the profitability of the Corporation adjusted for the following non-cash items. The change in accounts receivable increased 2010 cash provided by operating activities by \$687 and decreased cash flows by \$2,881 compared to 2009, mainly due to lower revenues at the end of 2010 as compared to 2009. The change in net payable/receivable from brokers, dealers and clearing organizations increased cash provided by operating activities by \$434 in 2010, a decrease of \$607 compared to 2009 partially as a result of transferring cash from a broker dealer to our cash and cash equivalents. Decreases in accounts payable and accrued liabilities reduced 2010 cash provided by operating activities by \$2,840, a decrease of \$1,666 compared to 2009 mainly due to a slow down in operations in the current year. The change in cash segregated under regulations and other increased 2010 cash provided by operating activities by \$662, an increase of \$3,283 compared to 2009 mainly due to segregating cash to cover increases in payables to customers in the current year.

## **Investing Activities**

The Corporation utilized \$473 of cash for investing activities in the year ended December 31, 2010 as compared to utilizing \$943 of cash for investing activities in the year ended December 31, 2009. Investing activities in 2010 consisted primarily of the acquisition of network equipment of \$413 and acquisition of software intangibles of \$60. Investing activities in 2009 consisted primarily of the acquisition of network equipment of \$949.

## Financing Activities

The Corporation utilized \$67 of cash for financing activities in the year ended December 31, 2010 as compared to utilizing \$97 of cash for financing activities in the year ended December 31, 2009. Financing activities in the year ended December 31, 2010 included repurchase of common shares under a NCIB of \$67. Financing activities in the year ended December 31, 2009 included repurchase of common shares under a NCIB of \$97.

## Liquidity and Sources of Financing

The Corporation's subsidiary, Electronic Brokerage Systems, LLC, has a secured credit facility of U.S. \$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 December 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 Options Clearing Corp ("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

As at December 31, 2010, the Corporation had future commitments and contractual obligations as summarized in the following table. These commitments are principally comprised of operating leases for the Corporation's leased premises and purchase obligations for telecommunications services.

Contractual Obligations as at December 31, 2010 (\$000's)	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases	\$ 2,039	\$ 1,391	\$ 648	\$ -	\$ -
Purchase Obligations (1)	\$ 1,708	\$ 1,335	\$ 320	\$ 37	\$ 16
Total Contractual Obligations	\$ 3,747	\$ 2,726	\$ 968	\$ 37	\$ 16

(1) Purchase obligations consist of an agreement to purchase certain services that are enforceable and legally binding. The purchase obligations relate primarily to telecommunication services.

## **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**

In 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).

As at December 31, 2010 and 2009, the Corporation had no outstanding foreign exchange option contracts. The Corporation realized gains in the 2009 year of approximately \$368 on the settlement of foreign exchange option contracts. Gains or losses on foreign exchange option and futures contracts are netted against gains or losses on the translation of our integrated foreign subsidiaries in the consolidated statement of operations.

## **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 of its common shares over the period from December 8, 2009 to December 7, 2010. During fiscal 2010 the Corporation repurchased 88 common shares at an average price of \$0.76 per share under this Normal Course Issuer Bid.

## **Patent Information**

The Corporation received Canadian Patent No. 2,119,921, Computerized Stock Exchange Trading System, on September 29, 2009.

## **Critical Accounting Policies and Estimates**

The Corporation's consolidated financial statements are prepared in accordance with Canadian GAAP. The preparation of the consolidated financial statements in accordance with GAAP necessarily requires the Corporation to make estimates and judgments that affect the reported amounts on assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Corporation evaluates its estimates, including those related to revenues, bad debts, income taxes, valuation of goodwill and intangible assets and stock-based compensation. The Corporation bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of these conditions impacting these assumptions and estimates are outside of the Corporation's control.

The Corporation believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### **Revenue**

The Corporation derives its revenues from three primary sources. Subscription fees are charged for providing routing software and services, used for equity and options trading, on a flat fee per terminal or per month basis. Transaction fees are charged for providing routing software and execution 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. Lastly, other revenue is derived from the development and installation of software for equity and options trading as well as 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 once evidence of an arrangement exists, the software has been delivered and accepted and collectability is assured.

Transaction fees from both the broker-dealer and floor brokerage operations are recognized once the trades have been executed and collectability is assured.

Revenue derived from the development of software for equity and options trading execution is recognized on a percentage of completion or completed contract basis, as applicable.

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 collectability is assured.

## **Allowance for Doubtful Accounts**

The Corporation determines its allowance for doubtful accounts using a combination of factors to ensure that trade receivable balances are not overstated due to uncollectibility. The Corporation maintains an allowance for doubtful accounts for all customers based on a variety of factors, including the length of time the receivables are outstanding, the current business environment and its historical experience. The Corporation also records specific provisions for individual accounts when it becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations to the Corporation. If the financial condition of the Corporation's customers deteriorates or if economic conditions worsen, additional allowances may be required.

## **Stock-Based Compensation**

The Corporation accounts for stock option grants using the fair value method. Under this method, compensation expense for options is measured at the grant date using the Black-Scholes option pricing model based on certain estimates and assumptions and is recognized on a straight-line basis over the vesting period. Management employs considerable judgment in estimating, on the date of grant, the options' expected life and expected volatility. Additionally, management estimates the number of options that are expected to vest based on the expected outcomes of the service related conditions. If estimates or assumptions change in the future, the Corporation could be required to reduce or increase contributed surplus, resulting in compensation expense or recovery.

## **Income Taxes**

The Corporation records a valuation allowance against future income tax assets when management believes it is more likely than not that some portion or all of the future income tax assets will not be realized. Management considers factors such as the reversal of future income tax liabilities, projected taxable income, the character of the income tax asset and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense (recovery).

## **Changes in Accounting Policies**

### **Recent Accounting Pronouncements**

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

In March 2009, the Accounting Standards Board ("AcSB") reconfirmed in its third 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 and a third party consultant. The team reports 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.

### **Conversion Plan Status Update**

An update on the progress of the Corporation’s IFRS conversion plan is as follows:

- 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 and is expected to be completed in the first quarter of 2011;
- Management has determined the exceptions and elections that will be elected by the Corporation under IFRS 1 *“First-Time Adoption of International Financial Reporting Standards”*;
- The selection of the Corporation’s IFRS policies is in progress and is expected to be completed in the first quarter of 2011;
- The development of the financial statement format and changes to note disclosure is in progress and targeted for completion in the first quarter of 2011;
- 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 Corporation engaged a third party consultant in the third quarter of 2010 to assist in the IFRS implementation plan;

- The Corporation is reviewing its internal controls over financial reporting and disclosure controls and procedures in accordance with its conversion plan, and will update them during the implementation to ensure they are appropriate for reporting under IFRS; and
- Management has completed their assessment of the business implications of the transition to IFRS and has not identified any material implications
- Management and a third party has reviewed and finalized their assessment of the January 1, 2010 opening balance sheet quantitative impacts on the differences between IFRS and Canadian GAAP and concluded there would be no opening differences;
- Management is still assessing the impact of IFRS on the proposed transaction with Frontline and the referral agreement with ConvergeEx.

### **First-Time Adoption – IFRS 1 Elections**

The Corporation's adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does not require certain and limited option exemptions in specified areas of certain standards from this general requirement. The following are the optional exemptions available under IFRS 1 that are significant to the Corporation:

1. Cumulative Translation Adjustments - Retrospective application of IFRS would require us to determine cumulative translation differences (CTA) in accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. The Corporation will be electing to recognize all CTA of the foreign subsidiaries into opening retained earnings as of January 1, 2010.
2. Share-based Payments - The Corporation may elect prospective application for options granted on or after November 7, 2002, that vested before the date of transition to IFRS. Although not expected to be significant, the Corporation is still in the process of assessing the application of the first time adoption option.
3. Business Combinations - An entity may elect to restate business combinations that occurred before the date of transition to IFRS. The Corporation intends to adopt this exemption, thereby resulting in no changes to the accounting for prior business combinations.

The remaining elective exemptions are expected to have limited or no applicability to the Corporation.

## **Risks and Uncertainties**

An investment in the securities of the Corporation will involve a number of potential risks. The following risk factors should be carefully considered.

### **Lack of Profitable Operations**

Fiscal 2010 was a challenging year for the Corporation as revenues and margins declined resulting in an operating loss. There is no assurance that the Corporation will be profitable in the future.

### **Dependency on Securities Trading Activities**

The Corporation's revenue could decrease if there is a decline in securities trading activity. Because most of the Corporation's current customers are financial institutions or securities brokerage firms, and because the Corporation relies on transaction-based billing, the Corporation's revenue is sensitive to changes in the amount of securities trading activity. A decline in securities trading activity may result from:

- loss of confidence in the reliability or security of online systems;
- changes in government regulation of the securities industry or on-line trading activities; or
- a downturn in the stock market.

### **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 year ended December 31, 2010, five customers accounted for approximately 23% of net revenue (December 31, 2009 – five customers for approximately 23%). The Corporation's dependence on a limited number of customers for a substantial amount of its revenue could lead to fluctuations in its operating results.

Any of the Corporation's customers could stop using its products or services in the future. As a result, a customer that generates substantial revenue for the Corporation in one period may not be a source of revenue in subsequent periods. The loss of a significant customer would have a material and adverse effect on the Corporation's revenue and results of operations.

The Corporation's revenue depends on arrangements with its customers, all of which can be cancelled either immediately or on 30 days notice. If customers choose to cancel or cease to use the Corporation's services, the Corporation's future operating results may suffer.

### **Execution and Clearing Risk**

The Corporation's execution and clearing activities require that the Corporation execute transactions in accordance with customer instructions and accurately record and process the resulting transactions. Any failure, error or delay in executing, recording and processing transactions, whether due to human error or failure of the Corporation's information or communication systems could cause substantial losses for the Corporation's clients and possibly the Corporation if it has to purchase or sell securities at a loss to cover any of the above instances.

Clearing activities include settling each transaction with both the contra broker, and the customer, or the customer's clearing firm. The default by any one of these entities could expose the Corporation to credit and market risk.

### **Credit and Market Risk**

The Corporation is subject to risk of non-payment of accounts receivable. At December 31, 2010, amounts due from two customers accounted for approximately 21% of total accounts receivable (December 31, 2009 – two customers accounted for approximately 20% of total accounts receivable).

EBC and Sheehan are registered broker-dealers, providing agency only trading services. The Corporation does not act as a market-maker with respect to any securities or otherwise act as a principal in any securities transactions. The Corporation has counterparty credit exposure to its clients which may result in exposure to market risks in addition to accounts receivable credit risks. A default on the part of a client could result in the Corporation holding securities. The Corporation's normal procedures in such circumstances require the immediate liquidation of the securities; however, there is no certainty that the securities could be liquidated in a timely manner or without incurring a loss.

The Corporation has been providing clearing services since the quarter ended June 30, 2009. Market and credit risk arises through intraday trading exposure. A default on the part of a client could result in the Corporation holding securities. The Corporation's normal procedures in such circumstances require the immediate liquidation of the securities; however, there is no certainty that the securities could be liquidated in a timely manner or without incurring a loss.

### **Regulatory and Compliance Risk**

The securities brokerage industry is subject to extensive government regulation under both federal and state laws in the United States of America. If either EBS or Sheehan fails to comply with these regulations, it may be subject to fines, censure, disciplinary or other action by regulatory organizations.

EBS and Sheehan must comply with rules of the SEC and FINRA state securities commissions and other regulatory bodies charged with safeguarding the integrity of the securities markets and other financial markets and protecting the interests of investors participating in these markets. As registered broker-dealers, EBS and Sheehan and their employees are subject to numerous regulations covering the securities business, including marketing practices, securities lending, handling funds and securities held by them on behalf of customers, capital structure, including net capital requirements, record keeping and conduct of directors, officers and employees. The size, scope and nature of securities regulations have increased over the past several years and are expected to continue to increase in the future. The increase in regulations will increase the compliance risk and may require the investment of additional resources and systems.

Any failure to comply with these regulations could subject either EBS or Sheehan to censure, fines, the issuance of cease-and-desist orders or the suspension, and/or disqualification of its officers, directors or employees.

### **Maintenance of Capital Levels by Regulators and Clearing Organizations**

The SEC, NYSE, FINRA, OCC and various other regulatory agencies and clearing organizations have stringent rules with respect to the maintenance of specific levels of net capital by broker-dealers.

Net capital is the net worth of a broker-dealer (assets minus liabilities), less deductions for certain types of assets. Failure to maintain the required net capital could result in

suspension or revocation of registration by the SEC and suspension or expulsion by one or more of the NYSE, FINRA and OCC, and could ultimately lead to the Corporation's liquidation. If such net capital rules are changed or expanded, the Corporation's ability to withdraw capital from the US Broker Dealer Subsidiaries could be restricted, which could limit the Corporation's ability to fund its working capital requirements or capital asset expenditures required.

### **Foreign Exchange Risk**

In the year ended December 31, 2010, the Corporation generated approximately 60% of its revenue (year ended December 31, 2009 – approximately 83%) and approximately 58% of its operating expenses (year ended December 31, 2009 – approximately 71%) in the United States. As at December 31, 2010, the Corporation held approximately 91% of its net assets in the United States (as at December 31, 2009 - 78%). The Corporation does not hedge the risks associated with fluctuations in exchange rates between the United States dollar and the Canadian dollar and may be exposed in the future to adverse fluctuations in these exchange rates.

### **Innovation Risk**

Rapidly changing technology and new product introductions characterize the markets for the Corporation's products. Accordingly, the Corporation believes that its future success will depend on its ability to enhance existing products and to develop and introduce in a timely fashion new products that achieve market acceptance. The Corporation cannot assure that it will be able to identify, develop, assemble and market or support its products successfully or that it will be able to respond effectively to technological changes or product announcements of the Corporation's competitors.

The Corporation's future financial performance will depend in part on continued growth in the number of organizations demanding trading systems, market connectivity, clearing and execution services. Many of the Corporation's potential customers have made significant investments in internally developed systems and many new entrants and existing competitors are investing in new products and technology. The Corporation's products could be replaced by new products or other innovations in the industry.

### **Competition**

The market for global trading solutions, market connectivity and trade management solutions is intensely competitive, fragmented and rapidly changing. Many of the Corporation's competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger customer bases than the Corporation. It is, therefore, impossible to guarantee that the products developed by other entities will not cause the Corporation's products and technologies to become uncompetitive. The Corporation faces competition from NYSE Euronext Inc., IRESS Market Technology Canada LP, Penson Worldwide Inc., Fidessa Group PLC, Wedbush Securities Inc., Interactive Brokers LLC, ConvergEx and other competitors.

The Corporation must continue to overcome significant and increasing competition in order to continue its growth and productivity.

### **Uncertainty of the Ability to Protect Proprietary Technology**

The Corporation's success will depend, in part, to a significant extent on its ability to protect its proprietary software and its other proprietary rights from copying, infringement or use by unauthorized parties and to operate without infringing on the exclusive rights of third parties.

The Corporation may be unable to adequately protect its proprietary rights. In addition, the Corporation may decide to not seek the protection of its proprietary rights in some circumstances on the basis that the costs of initiating or maintaining these protections would exceed the expected benefits of the protection. The Corporation's failure to protect its proprietary rights may significantly impair its competitive position.

To protect its proprietary rights, the Corporation relies primarily on a combination of patent, copyright, trade secret and trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in agreements with consultants, vendors and customers, although the Corporation has not signed these types of agreements in every case. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may copy aspects of the Corporation's products and obtain and use information that the Corporation regards as proprietary. Other parties may breach confidentiality agreements and other protective contracts the Corporation has entered into. The Corporation may not become aware of, or have adequate remedies in the event of, these types of breaches or unauthorized activities. In addition, any claims relating to the infringement of third-party proprietary rights, even if not successful or meritorious, could result in costly litigation, divert resources and management's attention or require the Corporation to enter into royalty or license agreements which are not advantageous to it.

The patents, copyrights, trade secrets and trademarks granted to the Corporation may not make its products more competitive. Any patents, copyrights, trade secrets and trademarks may be contested by third parties and the patents, copyrights, trade secrets and trademarks of others may be detrimental to the Corporation's commercial activities. Other entities may independently develop products similar to the Corporation's products, imitate any of the Corporation's products or manufacture products designed to circumvent the exclusive rights granted to the Corporation. The Corporation may also be required to obtain licenses under patents or other exclusive rights from third parties. There is no guarantee that any license required under these patents or other exclusive rights will be offered upon conditions acceptable to the Corporation.

### **Reliance on Third Party Software and Systems**

The Corporation has contracted with a third party provider to provide a major portion of the software and systems necessary for the Corporation's clearing operations. Any major interruption in the Corporation's ability to process its transactions through the third party system would harm the Corporation's relationships with its clients and impact its growth. The Corporation also licenses many additional, generally available or custom software packages. Failures in any of these applications could harm the Corporation's business operations.

### **Encryption Technology**

The Corporation's product contains encryption technology whose export is restricted by law, which may slow the Corporation's growth or result in significant costs. The United States and Canadian governments generally limit the export of encryption technology, which the Corporation's product incorporates. A variety of cryptographic products generally require export approvals from certain United States government agencies in the case of exports from the United States and from Canadian government agencies in the case of exports from Canada, although there are currently no restrictions on exports of these products from Canada into the United States.

If any export approval that the Corporation receives is revoked or modified, if the Corporation's software is unlawfully exported or if the United States government or the Canadian government adopts new legislation or regulations restricting export of software

and encryption technology, the Corporation may not be able to distribute its products to potential customers, which will cause a decline in its sales.

The Corporation may need to incur significant costs and divert resources to develop replacement technologies or may need to adopt inferior substitute technologies to satisfy these export restrictions. These replacement or substitute technologies may not be the preferred security technologies of the Corporation's customers, in which case, the Corporation's business may not grow. In addition, the Corporation may suffer similar consequences if the laws of any other country limit the ability of third parties to sell encryption technologies to the Corporation.

### **Product and Service Liability**

The Corporation may be exposed to product and service liability in the event that use of the Corporation's trading system or execution and clearing services results, or is alleged to have resulted, in adverse effects. To manage this risk, the Corporation endeavors to enter into contracts with its customers which include exculpatory clauses. However, there is no certainty that these clauses will be upheld in the event of a legal challenge and the Corporation has presently, and may have in the future, customers for whom it provides services and products and with whom it has not entered into written agreements which include these clauses.

The Corporation's clearing and brokerage operations could expose the Corporation to legal liability for errors in performing clearing and brokerage functions and improper activities of the Corporation's customers. These errors could result in over or under trading in securities or trading in error. Clients may seek compensation from the Corporation to cover these errors. The Corporation could also be exposed to settlement risk and may result in holding securities. The Corporation's normal procedures in such circumstances require the immediate liquidation of the securities, however, there is no certainty that the securities could be liquidated in a timely manner or that such liquidation could be effected without incurring a loss.

### **Litigation**

The Corporation is exposed to litigation risk arising for allegations of negligence in the normal course of its operations or as a result of contractual disputes. In 2009, the Corporation and a customer of the Corporation were jointly named as defendants in the Litigation which was 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 Corporation'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 Corporation and its customer, the Corporation has no basis to estimate its portion of the claim. The Corporation does not believe that it is liable for these claims and has engaged legal counsel to vigorously defend the claim. The Corporation has no direct contractual relationship with the party who filed the suit. In addition, the Corporation's contract with its customer limits the Corporation's liability for the services and software provided. The Corporation has no certainty regarding the likelihood of a successful conclusion of the suit, of the timing of resolution, of the enforceability of the limitation of liability or the costs required to defend against these allegations, all of which could create a material exposure for the Corporation.

### **Dependence on Key Personnel**

The Corporation's success depends upon the continued contributions of members of its senior management and core software development team. The loss of any of these

individuals could have a material adverse effect on the Corporation's business, financial condition and operating results. The future success of the Corporation also depends on its ability to continue to attract, retain and motivate qualified technical and management personnel, for whom competition is intense. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to be successful in the future.

The competition for qualified personnel in the computer software and brokerage industries is intense and the Corporation may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Corporation to increase the level of compensation paid to existing and new employees to the degree that the Corporation's operating expenses could be materially increased.

### **Outstanding Share Data**

Set out below is the outstanding share data for the Corporation as at March 21, 2011:

<b>Common Shares</b>	14,637
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	1,328

## **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 of Finance, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2010, Belzberg's management, with the participation of the President and CEO and the Vice President of 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**

At December 31, 2010, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation the President and Chief Executive Officer (CEO) and the Vice President of Finance concluded that the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards of COSO, a recognized control model, and the requirements of Multilateral Instrument 52-109.

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