



## **CHARTWELL TECHNOLOGY INC.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended July 31, 2005 and 2004.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2005 AND 2004.**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for the three and nine months ended July 31, 2005, dated July 14, 2005, should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2004, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) under Chartwell Technology Inc. and on the Company's website at [www.chartwelltechnology.com](http://www.chartwelltechnology.com).

### **Special Note Regarding Forward-Looking Statements**

This MD&A contains certain forward-looking statements, which reflect Management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance or achievements or other future events constitute forward-looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "should", "could", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words, have been used to identify these forward-looking statements.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements.

Factors which could cause results or events to differ from current expectations include; among other things: the impact of government legislation; the impact of price competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and prospective major customers; general industry and market conditions and growth rates; currency rate fluctuations and the impact of consolidations in the on-line gaming industry. Chartwell disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). Management believes however that EBITDA is a useful supplementary measure as it provides indication of the results of Chartwell's typical business operations without regard to how these activities were financed or how these results were taxed. Chartwell's method of calculating EBITDA may differ from those of other companies, and accordingly EBITDA may not be directly comparable to measures used by other companies.

Cash flow is defined as cash flow from operations before changes in non-cash working capital items. Cash flow is not a recognized measure under GAAP. Management believes that cash flow is a useful supplementary measure as it provides an indication of cash flow generated by operations before working capital adjustments.

## Summary of Financial Results

### Comparative Quarterly Operating Results (in thousands, except share data)

	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004Q1	2003 Q4
Revenue								
License fees	4,028	3,630	4,622	3,237	3,393	2,699	1,939	1,847
Set-up fees	348	125	115	208	184	191	215	247
	<b>4,376</b>	3,755	4,737	3,445	<b>3,577</b>	2,890	2,154	2,094
Interest	132	122	78	44	21	26	44	22
Total Revenue	<b>4,508</b>	3,877	4,815	3,489	<b>3,598</b>	2,916	2,198	2,116
Operating Exp.								
Software dev. & sup.	1,754	1,319	1,325	1,238	1,172	1,006	1,002	405
General & admin.	418	227	458	657	317	715	480	475
Sales & marketing	488	551	600	303	447	289	291	187
Stock-based comp.	198	91	118	103	-	-	-	-
Deprec. & amort.	54	68	36	53	103	53	35	68
Amort. of deferred software dev. costs	59	59	59	59	39	-	-	26
Amort. of intangibles	19	-	-	-	-	-	-	-
FX (gain) loss	338	(15)	(20)	247	105	(78)	(41)	211
Total Operating Exp.	<b>3,328</b>	2,300	2,576	2,660	<b>2,183</b>	1,985	1,767	1,372
Operating Income	<b>1,180</b>	1,577	2,239	829	<b>1,415</b>	931	431	744
Taxes	452	643	753	(631)	204	(33)	45	(630)
Net Income	<b>728</b>	934	1,486	1,460	<b>1,211</b>	964	386	1,374
Earnings per share								
Basic	\$ 0.04	\$ 0.05	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.07	\$ 0.03	\$ 0.10
Diluted	\$ 0.04	\$ 0.05	\$ 0.08	\$ 0.08	\$ 0.07	\$ 0.06	\$ 0.03	\$ 0.10
EBITDA	<b>\$1,180</b>	\$1,582	\$2,256	\$ 897	<b>\$1,536</b>	\$ 958	\$422	\$816
Total Assets	<b>\$32,253</b>	\$29,328	\$27,502	\$14,962	<b>\$12,952</b>	\$11,864	\$9,718	\$9,219
L.T. Liabilities	<b>\$1,139</b>	\$599	\$555	\$637	<b>\$1,121</b>	\$730	\$890	\$984

## OVERVIEW

Chartwell develops, markets, implements and supports gaming applications and entertainment content for the Internet and wireless platforms. Chartwell's JAVA and Flash based software products and games are designed for deployment in gaming, entertainment and promotional applications. Chartwell does not operate a gaming site nor do we operate our clients' gaming sites.

## Results of Operations

Three and nine months ended July 31, 2005 compared to three and nine months ended July 31, 2004.

### Highlights

Chartwell continued to realize top line growth in the three and nine months ended July 31, 2005 compared to the same periods of 2004. Total revenue increased to \$4,508K and \$13,200K compared to \$3,598K and \$8,711K; net income decreased to \$728K and increased to \$3,149K compared to \$1,210K and \$2,560K with diluted earnings per share of \$0.04 and \$0.16 compared to \$0.07 and \$0.16.

Although operating margins (defined as revenues less operating expenses) declined to 26.2% for the three months ended July 31, 2005 compared to 39.3% for the same period of 2004, operating margins increased for the nine-month period ended July 31, 2005 to 37.9% versus 31.9% for the same period of 2004. The quarter over quarter decline was due to the significant stock-based compensation expense and increase in foreign currency loss which were not experienced in Q3 2004

Chartwell also continued to strengthen its balance sheet in the nine months ended July 31, 2005. Cash and short-term investments increased to \$19,871K compared to \$9,314K at October 31, 2004 and working capital (defined as current assets less current liabilities) improved to \$21,806K compared to \$10,549K at October 31, 2004. The Company's strong cash position is the result of continued positive cash flow from operations and a private placement financing in December for net proceeds of \$10,247K.

Effective May 20, 2005, Chartwell completed an acquisition Micropower Corporation Limited ("Micropower") for total consideration of approx. \$3,900K. The purchase of Micropower allows Chartwell to more effectively compete in the market for online multi-player poker.

In fiscal 2005, the Company continues to invest in key areas of its business specifically related to product development and support and sales and marketing. To sustain and build for long term growth increased expenditures will continue to be necessary throughout fiscal 2005.

### Revenue

In the three and nine months ended July 31, 2005, total revenue increased by 25.3% and 51.5% to \$4,508K and \$13,200K compared to \$3,598K and \$8,711K in the same period of 2004. The growth in total revenue was attributable to both the growth in volumes from existing major licensees and to new customers who began generating revenue in the second and third quarters of 2005.

#### *SOFTWARE LICENSE FEES*

Software license fees continue to show year over year growth. Software license fees increased by 18.7% and 52.9% to \$4,028K and \$12,279K for the three and nine months ended July 31, 2005 compared to \$3,393K and \$8,031K in the same period of 2004. Substantially all of the Company's software licensing revenue is presently derived from our core Internet casino products.

## *SOFTWARE SET-UP AND DEVELOPMENT FEES*

Software set-up and development fees increased by 88.9% to \$348K from \$184K for the three months ended July 31, 2005 and 2004, respectively. For the nine months ended July 31, 2005 and 2004, software set-up fees decreased slightly by 0.4% to \$587K from \$590K. Software set-up fees, as a percentage of total sales revenue, increased to 7.7% from 5.1% for the three months ended July 31, 2005 and 2004, while the ratio decreased for the nine months ended July 1, 2005 to 4.5% from 6.8% in the same period of 2004.

Incremental software set-up and development fees for the three months ended July 31, 2005 represent certain non-material amounts related to the recognition of deferred revenue on contracts that were terminated in the quarter. Chartwell had agreements with clients where those clients paid set-up fees upon contract commencement with the Company, but did not "go live" or contract any further business with the Company. Chartwell has effectively cancelled the agreements with these clients and has no further obligations to the customer, therefore triggering the recognition of the remaining deferred set-up fees in the quarter (rather than continuing to amortize them, given that the contract term was terminated).

We expect that software set-up fees will continue to represent a progressively smaller percentage of the Company's sales revenue as we continue to build our license fee component.

## *INTEREST & OTHER INCOME*

Interest and other income increased by 533.7% and 269.4% to \$132K and \$333K in the three and nine months ended July 31, 2005, compared to \$21K and \$90K in the same period of 2004. The increase was attributable to significantly higher cash and investment balances resulting from increased cash flow from operations and the private placement in December 2004.

## **Operating Expenses**

Total operating expenses increased by 52.4% and 38.2% to \$3,328K and \$8,203K for the three and nine months ended July 31, 2005 compared to \$2,183K and \$5,935K for the same period of 2004. Operating margins decreased to 26.2% from 39.3% for the three months ended July 31, 2005 and 2004 respectively. For the nine month periods ended July 31, 2005 and 2004, operating margins have increased to 37.9% versus 31.9%.

The 2005 results reflect the impact of expensing stock options commencing November 1, 2004 when there were no comparable expenses in the same period of 2004. Also, the 2005 results reflect a foreign exchange loss experienced in Q3 which resulted from the weakening of the Euro and US dollar, in which Chartwell contracts the majority of its revenue. The significant decline in the value of these currencies caused unrealized foreign exchange losses on the company's cash and accounts receivable that were outstanding in these foreign amounts.

The increase in operating expenses mainly reflects the impact of the Company's investment program which began in fiscal 2004 and is continuing in 2005 and which included operating expenses associated with the acquisition of Micropower. During the three and nine months ended July 31, 2005, increased expenses were incurred for continued development of new casino and soft games and our poker community, enhancements to our back-office system, project management and quality assurance and testing. This increased expenditure level is expected to continue in order to sustain growth.

## *SOFTWARE DEVELOPMENT & SUPPORT*

Software development and support costs include compensation costs of software development, quality assurance, and customer implementation and support teams working on the continuing enhancement and support of our products as well as quality assurance and testing activities. These expenses also include

independent contractors and consultants, recruitment costs, deferred set-up expenses and allocated operating expenses.

Software development and support costs increased by 49.6% and 38.3% to \$1,754K and \$4,399K for the three and nine months ended July 31, 2005 compared to \$1,172K and \$3,180K for the same period of 2004. Salaries and consulting fees continue to represent the largest expenditure area and accounted for 89.1% and 91.1% of total software development expenses for the three and nine months ended July 31, 2005. Salary and consulting expenses increased 70.6% in the three months ended July 31, 2005 compared to the same period of 2004 and increased by 40.8% over the previous quarter (Q2FY05). The increased salary expenses reflect the addition of approximately 34 development and technology related staff since November 1, 2004, of which 16 are the result of the acquisition of Micropower in May 2005.

As a percentage of revenue, software development and support expenses were 38.9% and 33.3% for the three and nine months ended July 31, 2005 compared to 32.6% and 36.5% % for the same period of 2004. Expenses are planned and in-line with the Company's growth strategies.

Due to the increasing demands for new gaming products and the Company's product development and support initiatives, we anticipate adding technical resources throughout the remainder of fiscal 2005, which will result in a corresponding increase in software development expenses.

#### *SALES AND MARKETING*

Sales and marketing expenses include compensation of sales and marketing personnel, advertising, trade shows, marketing materials and facility lease costs.

Sales and marketing expenses increased by 9.4% and 47.6% to \$488K and \$1,639K for the three and nine months ended July 31, 2005 compared to \$447K and \$1,111K for the same period of 2004. The increase is attributable to the additional sales and marketing headcount, which has grown from 3 to 5 over the comparative periods.

As a percentage of revenue, sales and marketing expenses remained fairly consistent at 10.8% and 12.4% for the three and nine months ended July 31, 2005 compared to 12.4% and 12.8% for the same period of 2004.

#### *GENERAL AND ADMINISTRATIVE*

General and administrative (G&A) expenses include the salaries and benefits for corporate personnel, legal and professional fees associated with the Company's public filings, annual audit fees and quarterly review fees, bad debt expenses and all costs associated with investor relations. Our corporate staff includes finance and accounting, investor relations, IT support and corporate administrative staff.

G&A expenses increased by 31.8% to \$418K from \$317K for the three months ended July 31, 2005 compared to the same period of 2004. Given the growth of the Company, additional infrastructure costs were required to support this growth including professional fees, office expenses, administration, etc. It is expected that with the planned increase in the number of technical personnel and the growth of the business in general that G& A expenses will increase marginally over the remainder of the year.

G&A expenses for the nine months ended July 31, 2005 decreased by 21.4% to \$1,103K compared to \$1,403K for the same period of 2004. The decrease in expenses is primarily attributable to a reduction in the provision for doubtful accounts of \$132K in the first nine months of 2005 compared to an equivalent expense in the first nine months of 2004 of \$209K.

As a percentage of revenue, G & A expenses increased to 9.3% from 8.8% for the three month periods ended July 31, 2005 and 2004, respectively. For the nine months ended July 31, 2005 and 2004, the percentages decreased to 8.4% compared to 16.1%. The reasons for these changes are explained above.

### *STOCK BASED COMPENSATION*

The Company recorded \$198K and \$406K of stock-based compensation expense for the three and nine months ended July 31, 2005. There was no comparative expense for the same period of 2004. The expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years. The increase in this expense over the prior quarter ended April 30, 2005 is due to additional options granted in the third quarter and a full quarter of amortization of the option value of options issued later in the second quarter.

### *DEPRECIATION & AMORTIZATION*

Depreciation and amortization expenses decreased by 47.9% and 17.7% to \$54K and \$158K for the three and nine months ended July 31, 2005 compared to \$103K and \$191K for the same period of 2004. Although net book values have increased at July 31, 2005 versus July 31, 2004, additions in the second and third quarters of 2005 were significant, resulting in lower depreciation costs given the dates of the additions versus 2004.

As a percentage of revenue, depreciation and amortization expenses decreased to 1.2% and 1.2% for the three and nine months ended July 31, 2005 compared to 2.9% and 2.2% for the same period of 2004. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow but that depreciation and amortization should remain constant as a percentage of revenue.

### *AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS*

Amortization of deferred software development costs for the three and nine months ended July 31, 2005 were \$59K and \$176K compared to \$39K and \$39K for the same periods of 2004. In fiscal 2003 and fiscal 2004 the Company deferred \$531K and \$175K, respectively, of software development costs relating to the development of the Company's Community Poker product. Management has estimated that the appropriate amortization period would be three years. The Company began amortizing these costs on a straight line basis in the third quarter of fiscal 2004.

### *AMORTIZATION OF INTANGIBLE ASSETS*

Amortization of intangible assets is related to amortization charges on the customer contracts and intellectual property acquired in the acquisition of Micropower. The expense for the three and nine month periods ended July 31, 2005 is \$19K, with no comparative expense in 2004. The expense recorded at July 31, 2005 relates to the amortization of the acquired intangibles from the acquisition date to July 31, 2005. The value recorded for customer contracts is being amortized over three years once the contract is active (i.e. cash flows are being generated for Chartwell), which is the average life of the contracts acquired. The value recorded for intellectual property is being amortized over five years, which is management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell.

### *FOREIGN CURRENCY LOSS (GAIN)*

The Company incurred a foreign currency loss of \$338K and \$303K for the three and nine months ended July 31, 2005 compared to a foreign currency loss of \$105K for the three months ended July 31, 2004 and a foreign currency gain of \$14K for the nine months ended July 31, 2004. The foreign currency losses experienced in Q3 2005 were due to the weakening of the Euro and the US dollar in comparison to the Canadian dollar, which resulted in losses in the value of the Company's foreign cash and receivables. The Company does not utilize hedges or forward contracts to mitigate foreign currency risk.

### *PROVISION FOR INCOME TAXES*

Income taxes for the three and nine months ended July 31, 2005 were \$452K and \$1,848K compared to tax expense of \$204K and \$216K for the comparative periods of 2004, respectively. Tax expense in the current quarter reflects the non-deductibility of stock based compensation and increased income from operations for the nine month period compared to the prior year.

### **EBITDA**

EBITDA (defined as net income less interest, plus taxes, depreciation and amortization), decreased by 23.2% to \$1,180K from \$1,536K for the three months ended July 31, 2005 and 2004 respectively. This decrease is mainly due to the difference in foreign exchange losses experienced in Q3 2005 versus Q3 2004 and the increase in stock based compensation expense. EBITDA increased by 72.0% to \$5,019 from \$2,936 for the nine months ended July 31, 2005 and 2004 respectively. Chartwell has shown strong growth in revenues and operating margins, which has positively impacted the EBITDA position of the Company for the nine months ended July 31, 2005.

### **Net Income**

Net income decreased by 39.8% to \$728K and increased by 23.0% to \$3,149K for the three and nine months ended July 31, 2005 compared to \$1,210K and \$2,560K in the same periods of 2004.

Diluted earnings per share were \$0.04 and \$0.16 for the three and nine months ended July 31, 2005 compared to \$0.07 and \$0.16 in the same period of 2004. The decrease in the diluted earnings per share in the current quarter reflects the impact of the additional shares issued in the private placement financing in December of 2004, the additional stock options granted in fiscal 2005 and increased in income tax expense

### **Liquidity and Capital Resources**

Positive cash generation continued to add to a strong balance sheet. At July 31, 2005 the Company had no debt, \$19,871K in cash and short term investments and working capital (defined as current assets less current liabilities) of \$21,806K.

### **Operating Activities**

Operating cash flow for the three and nine months ended July 31, 2005 was (\$82K) and \$2,867K compared to \$1,306K and \$2,445K for the same periods of 2004. The decrease for the three month periods comparatively is mainly due to the decrease in net income due to significant foreign exchange losses and a build in the accounts receivable balance due to slower collections from certain customers. The increase for the nine month periods comparatively is due primarily to the Company's strong bottom line performance in the first three quarters (contributing positively to the cash position), offset by builds in accounts receivable and reductions in accounts payable (both of which are draws on the cash position).

## **Financing Activities**

Cash flows from financing activities were \$341K and \$11,161K for the three and nine months ended July 31, 2005. The Company's financing activities consisted primarily of the issuance of shares for cash resulting from the exercise of stock options and the issuance of shares from a private placement financing in December of 2004. In the three months ended July 31, 2005, the Company realized net proceeds of \$340K from the exercise of approximately 234,000 stock options at an average price of \$1.45. In the nine months ended July 31, 2005, the Company realized \$922K from the exercise of approx. 633,000 stock options at an average price of \$1.46 and net proceeds of \$10,247K from the issuance of approx. 2,366,000 shares from treasury at a price of \$4.65 per share. In the three and nine months ended July 31, 2004 the Company realized proceeds of \$139K and \$726K from the exercise of stock options. There were no other significant financing activities in 2004.

## **Investing Activities**

The Company's investing activities consisted mainly of the acquisition of Micropower on May 20, 2005 with other investments in the purchase of short term investments and the purchase of property and equipment which include computers and software for internal use and furniture and fixtures. Total cash from (used in) investing activities was \$737K and (\$16,063K) for the three and nine months ended July 31, 2005 compared to (\$290K) and (\$2,328K) for the same period of 2004. Cash from investing activities for the three months ended July 31, 2005 was attributable to the business acquisition of Micropower, which was a cash outlay of (\$1,680K) for the third quarter of 2005. In addition, the Company redeemed \$2,879K of short-term investments, and purchased \$461K of property and equipment. For the nine months ended July 31, 2005, cash used in investing activities was attributable to the business acquisition of Micropower Corporation for \$2,593K, the purchase of \$12,593K of short term investments and the purchase of \$878 in property and equipment.

## **Critical Accounting Estimates**

In the opinion of management, the only material accounting estimates in the financial statements contained herein, involve the recoverability of deferred software development costs, amortization periods for property and equipment, provision for doubtful accounts, deferred set-up fee expenses and stock based compensation. Actual results could differ from management's best estimates and underlying assumptions as additional information becomes available in the future.

## **Risks and Uncertainties**

Chartwell operates in a rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond our control and which could have a material affect on our business, revenue, operating results and financial condition. The following discussion highlights some of these risks and uncertainties.

## **Government Regulation**

Our licensees are subject to applicable laws in the jurisdictions in which they operate. Some jurisdictions have introduced regulations attempting to restrict or prohibit online gaming, while other jurisdictions have taken the position that online gaming is legal and have (or are in the process of considering) legislation to regulate online gaming. As companies and consumers involved in online gaming are located around the world, including our licensees and their players, there is uncertainty regarding the future legislative landscape for online gaming. There is a risk that proposed legislation supporting online gaming may not be passed or existing legislation supporting online gaming may be changed. Changes to the regulatory framework could have an adverse affect on the Company's revenue and financial condition.

## ***Competition***

Some of the Company's competitors have significantly greater financial, technical, marketing and sales resources and they may be able to respond more quickly to changes in customer needs. In addition, these competitors may be able to devote a greater number of resources to the enhancement, promotion, and sale of their games and gaming systems. Our success is dependant on our ability to win our share of sales against these larger competitors. Failure to do so could result in an adverse material effect on the Company's revenue, results of operation and financial condition.

## ***Dependence on Market Growth***

The online gaming market has experienced and is expected to continue to experience significant growth. There can be no assurance that the market for the Company's gaming solutions will continue to grow, that customers will continue to adopt the Company's solutions, or that the Company will be successful in selling into new and existing markets. If the markets in which the Company's products compete fail to grow, or grow more slowly than the Company currently anticipates, the Company's business, operating results and financial condition could be materially adversely affected.

## ***Renewal of Software License Agreements***

Substantially all of the Company's revenue is in the form of software license fees. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a three to five year term. The license fee, or royalty, is calculated as a percentage of each licensee's level of activity. There is no assurance that the Company will be able to renew agreements with existing clients or that the Company will be able to renew agreements under similar financial and other terms. Failure to renew agreements or failure to renew agreements under similar financial and other terms could have a significant adverse effect on the Company's revenue, operating results and financial condition.

## ***Failure to Manage Growth Successfully***

The company's business has grown rapidly in the last three years. The accelerated growth of the Company's revenue places a strain on managerial and financial resources. In addition, the Company's recent expansion has resulted in a substantial growth in the number of its employees, the scope of its infrastructure and the geographic area of its operation, resulting in increased responsibility for existing and new management personnel. The Company's ability to successfully manage this growth depends in large part upon our ability to:

- retain and attract qualified management;
- attract and retain technical personnel to continue to develop reliable solutions that respond to evolving customer needs; and
- retain, attract and train sales and marketing personnel to create an expanding presence in the rapidly growing marketplace for the Company's products.

Chartwell's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results.

## ***Dependence on Key Personnel***

The success of the Company is largely dependant on the performance of its key management and technical personnel. Competition for highly skilled technical and management personnel is intense. Failure to retain key employees and to attract and retain additional key employees with the necessary skills could have an adverse material effect upon the Company's growth and profitability.

## ***Lengthy Sales Cycle***

The Company's sales cycle, beginning with an interested customer and culminating in entering into a commercial agreement with the customer, typically ranges from 6 to 12 months and may be longer. This lengthy sales cycle limits the Company's ability to forecast the timing of new sales in a specific quarter. Any extension in the length of the sales cycle could have a material adverse effect on revenues and financial condition.

### ***Risks Associated with Currency Fluctuations***

The majority of the Company's revenue is realized in foreign currencies, while the majority of the Company's expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the Euro and the U.S. dollar, may have a material adverse effect on the Company's operating results and financial condition.