



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OPTIMAL GROUP INC.

(Exact name of registrant as specified in its charter)

Canada

(State or Other Jurisdiction of Incorporation)

0-28572

(Commission File Number)

98-0160833

(IRS Employer Identification No.)

3500 de Maisonneuve Blvd. W., Suite 1700, Montreal, Québec, Canada H3Z 3C1

(Address of Principal Executive Offices, Including Zip Code)

(514) 738-8885

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At November 7, 2005, the registrant had 23,201,415 Class "A" shares (without nominal or par value) outstanding.

OPTIMAL GROUP INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Financial Statements of
(Unaudited)

OPTIMAL GROUP INC.

Nine-month periods ended September 30, 2005 and 2004
(expressed in U.S. dollars)

OPTIMAL GROUP INC.

Consolidated Financial Statements
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in U.S. dollars)

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OPTIMAL GROUP INC.

Consolidated Balance Sheets

(Unaudited)

September 30, 2005 and December 31, 2004

(expressed in thousands of U.S. dollars)

	September 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 155,957	\$ 62,937
Cash held as reserves	19,698	18,739
Cash held in escrow	-	3,536
Short-term investments	28,008	88,213
Short-term investments held as reserves	3,014	2,104
Settlement assets	14,244	14,375
Accounts receivable	8,701	7,121
Income taxes receivable and refundable investment tax credits	993	773
Inventory	1,678	1,953
Prepaid expenses and deposits	2,218	1,138
Future income taxes	1,605	-
Current assets from discontinued operations	570	2,845
	236,686	203,734
Long-term receivables (note 6)	3,590	3,666
Non-refundable investment tax credits	192	4,747
Property and equipment	5,263	4,462
Goodwill and other intangible assets (note 7)	109,052	68,525
Deferred compensation cost (note 4 (b))	1,069	1,807
Future income taxes	682	3,979
Other asset (note 3)	10,810	-
Long-term assets from discontinued operations	600	4,326
	\$ 367,944	\$ 295,246
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	\$ 6,445	\$ 8,301
Customer reserves and security deposits	93,947	77,574
Accounts payable and accrued liabilities	28,709	24,219
Income taxes payable	9,297	403
Future income taxes	856	917
Current liabilities from discontinued operations	272	3,357
	139,526	114,771
Future income taxes	7,409	3,794
Non-controlling interest (note 3)	8,932	-
Shareholders' equity:		
Share capital (note 9 (a))	194,210	184,191
Additional paid-in capital (note 9 (c))	14,714	10,557
Retained earnings (deficit)	4,637	(16,583)
Cumulative translation adjustment	(1,484)	(1,484)
	212,077	176,681
Contingencies (note 10)		
Subsequent events (note 17)		
	\$ 367,944	\$ 295,246

See accompanying notes to unaudited consolidated financial statements.

OPTIMAL GROUP INC.

Consolidated Statements of Operations

(Unaudited)

Periods ended September 30, 2005 and 2004

(expressed in thousands of U.S. dollars, except per share amounts)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenues	\$ 44,786	\$ 28,265	\$ 119,460	\$ 58,500
Expenses:				
Transaction processing and service costs	22,172	16,469	62,258	37,069
Selling, general and administrative	11,860	6,866	31,889	17,654
Operating leases	1,120	925	3,042	2,435
Stock-based compensation pertaining to selling, general and administrative (note 11)	3,579	1,898	8,313	3,832
Amortization of intangibles pertaining to transaction processing and service costs	2,485	918	5,487	1,713
Amortization of property and equipment	508	450	1,575	1,239
Foreign exchange	629	(77)	1,343	(127)
Restructuring costs	–	–	266	925
Inventory write-downs pertaining to service costs	–	–	–	2,931
Goodwill impairment (note 7)	–	–	1,515	–
Earnings (loss) from continuing operations before undernoted items	2,433	816	3,772	(9,171)
Investment income	1,133	515	2,631	1,080
(Loss) gain on sale of interest in FireOne (note 3)	(167)	–	30,411	–
Earnings (loss) from continuing operations before income taxes and non-controlling interest	3,399	1,331	36,814	(8,091)
Provision for income taxes (note 12)	1,424	537	7,341	517
Earnings (loss) from continuing operations before non-controlling interest	1,975	794	29,473	(8,608)
Non-controlling interest	1,508	–	1,738	–
Earnings (loss) from continuing operations	467	794	27,735	(8,608)
Loss from discontinued operations (notes 4 (a) (ii) and 4 (d))	–	(662)	(6,327)	(5,264)
(Loss) gain on disposal of net assets from discontinued operations (notes 4 (a) (ii) and 4 (d))	–	–	(188)	4,164
Net earnings (loss)	\$ 467	\$ 132	\$ 21,220	\$ (9,708)
Weighted average number of shares:				
Basic	23,044,050	22,199,002	22,751,982	19,639,118
Plus impact of stock options and warrants	2,595,454	–	2,260,674	337
Diluted	25,639,504	22,199,002	25,012,656	19,639,455
Earnings (loss) per share:				
Continuing operations:				
Basic	\$ 0.02	\$ 0.04	\$ 1.22	\$ (0.44)
Diluted	0.02	0.04	1.11	(0.44)
Discontinued operations:				
Basic	–	(0.03)	(0.29)	(0.06)
Diluted	–	(0.03)	(0.26)	(0.06)
Total:				
Basic	0.02	0.01	0.93	(0.50)
Diluted	0.02	0.01	0.85	(0.50)

See accompanying notes to unaudited consolidated financial statements.

OPTIMAL GROUP INC.

Consolidated Statements of Retained Earnings

(Unaudited)

Periods ended September 30, 2005 and 2004

(expressed in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Retained earnings (deficit), beginning of period	\$ 4,170	\$ (17,170)	\$ (16,583)	\$ (7,330)
Net earnings (loss)	467	132	21,220	(9,708)
Retained earnings (deficit), end of period	\$ 4,637	\$ (17,038)	\$ 4,637	\$ (17,038)

See accompanying notes to unaudited consolidated financial statements.

OPTIMAL GROUP INC.

Consolidated Statements of Cash Flows

(Unaudited)

Periods ended September 30, 2005 and 2004

(expressed in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Cash flows from (used in) operating activities:				
Net earnings (loss) from continuing operations	\$ 467	\$ 794	\$ 27,735	\$ (8,608)
Adjustments for items not affecting cash:				
Non-controlling interest	1,508	–	1,738	–
Stock-based compensation	3,579	1,898	8,313	3,832
Amortization	2,993	1,368	7,062	2,952
Goodwill impairment	–	–	1,515	–
Gain on sale of interest in FireOne	167	–	(30,411)	–
Loss on disposal of property and equipment	–	–	48	–
Foreign exchange	74	7	555	–
Inventory write-downs	–	–	–	2,931
Future income taxes	307	452	1,217	406
Net change in operating assets and liabilities (note 14 (a))	21,115	3,417	24,470	(5,512)
	30,210	7,936	42,242	(3,999)
Cash flows (used in) from investing activities:				
Purchase of property, equipment and intangible assets	(703)	(508)	(1,916)	(2,032)
Proceeds from sale of property, equipment and intangibles	–	–	69	–
Proceeds from sale of assets	–	–	518	–
Proceeds from maturity of short-term investments	143	(4,756)	60,205	47,146
Proceeds from note receivable	(61)	(79)	76	68
Proceeds from sale of interest in FireOne	–	–	44,146	–
Decrease in cash held in escrow	816	–	3,536	–
Cash acquired on acquisition of Terra	–	–	–	43,427
Acquisition of NPS, net of cash of \$126 in 2004	(1,500)	(11,892)	(3,000)	(11,892)
Acquisition of MCA, including acquisition costs of \$49 (note 4 (f))	(1,020)	–	(3,722)	–
Acquisition of UBC, including acquisition costs of \$277 (note 4 (g))	–	–	(44,277)	–
Proceeds from sale of business, before repayment of purchase price adjustment in July 2004 (note 4 (d))	–	(4,806)	–	30,194
Proceeds from disposal of EBS	–	–	–	3,975
Transaction costs	(1,491)	–	(5,918)	(1,389)
Acquisition of Systech Retail Systems (note 4 (a))	–	(11)	–	(838)
	(3,816)	(22,052)	49,717	108,659
Cash flows from financing activities:				
Increase (decrease) in bank indebtedness	50	667	(2,195)	298
Proceeds from issuance of Class "A" shares	1,741	143	6,702	175
	1,791	810	4,507	473
Effect of exchange rate on cash and cash equivalents	264	(101)	(392)	(220)
Increase (decrease) in cash and cash equivalents during the period	28,449	(13,407)	96,074	104,913
Net decrease in cash from discontinued operations	(191)	(1,258)	(3,054)	(5,553)
Cash and cash equivalents, beginning of period	127,699	118,237	62,937	4,212
Cash and cash equivalents, end of period	\$ 155,957	\$ 103,572	\$ 155,957	\$ 103,572

Supplemental disclosure of cash flow information (note 14).

See accompanying notes to unaudited consolidated financial statements.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements

(Unaudited)

Nine-month periods ended September 30, 2005 and 2004

(expressed in thousands of U.S. dollars, except share and per-share amounts)

1. Interim financial information:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The unaudited consolidated balance sheet as at September 30, 2005 and the unaudited consolidated statements of operations, retained earnings and cash flows for the periods ended September 30, 2005 and 2004 reflect all adjustments which, in the opinion of management, are necessary to present a fair statement of the results of the interim periods. The results of operations and cash flows for any quarter are not necessarily indicative of the results or cash flows for an entire year. These interim consolidated financial statements follow the same accounting policies and methods of their application as described in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2004. The interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent annual audited consolidated financial statements of Optimal Group Inc. (the “Company”) as at and for the year ended December 31, 2004.

All amounts in the attached notes are unaudited unless specifically identified.

2. Significant accounting policies:

(a) Discontinued operations:

As a result of the sale of the U.S. field maintenance service division, which includes Systech Retail Systems referred to in note 4 (a) (ii) and the sale of the *U-Scan*® self-checkout business referred to in note 4 (d), the results of these discontinued operations are included in the net earnings (loss), but are presented separately under discontinued operations for the current and prior periods.

(b) Revenue recognition:

As a result of the business acquisitions and disposals referred to in note 4, the Company is engaged in payment services and provides hardware maintenance and repair outsourcing services.

The majority of payment service revenues are generated from fees charged to customers for payment processing services. Customers are charged a discount fee or rate, which is based upon the customer’s monthly charge volume and risk profile, and is calculated as a percentage of the dollar amount of each credit or debit transaction. Higher discount rates are charged for card-not-present transactions than for card-present transactions in order to compensate for the higher cost of underwriting and managing the increased chargeback risk associated with such transactions. The balance of payment service revenues are derived from a variety of fixed transaction or service fees, including set-up fees, fees for monthly minimum charge volume requirements, statement fees, annual fees and fees for other miscellaneous services, such as handling chargebacks. Discount and other fees related to payment transactions are recognized at the time the customer’s transactions are processed. Revenues derived from service fees are recognized at the time the service is performed. Revenues from set-up fees are deferred and amortized over the expected term of the customer relationship, which is approximately five years.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Where the Company is the primary party responsible for providing payment processing services, revenue is recorded on a gross basis and amounts paid to the acquiring processing suppliers are recorded as part of the transaction processing expenses. Where the Company is not the primary party in providing a merchant with processing services, it records revenue net of amounts paid to the acquiring processing supplier.

Revenues from repair services are recognized at the time the services are rendered. Revenues from maintenance contracts are deferred and amortized ratably over the term of the contract.

3. FireOne Group plc:

In April 2005, the Company created FireOne Group plc ("FireOne") and transferred to this newly-created, wholly-owned Irish subsidiary the net assets of the payments processing business related to online gaming previously held in Optimal Payments Inc. (formerly Terra Payments Inc.) and its subsidiaries. On May 27, 2005, the Company completed the placing of 10 million ordinary shares of FireOne, representing a 20% interest, with U.K. institutional and other shareholders. The Company received gross proceeds of \$44,146 (£24.1 million) as a result of this transaction. The ordinary shares of FireOne were admitted for trading on the Alternative Investment Market (AIM) of the London Stock Exchange plc on June 2, 2005.

The Company recognized a gain on sale of its 20% interest in FireOne of \$30,578 in the period ended June 30, 2005, net of transaction costs of \$6,476. The non-controlling interest in these assets at the date of the transaction was \$7,092. In the period ended September 30, 2005, an additional \$167 for transaction costs was incurred, reducing the gain to \$30,411.

As a result of the internal reorganization to transfer the payments processing business related to online gaming to FireOne, the Company incurred a tax charge of \$13,732, of which approximately \$2,400 represents taxes currently payable and the remainder represents the utilization of future tax assets and investment tax credits previously recognized. Taxes paid or incurred as a result of the transfer of net assets to FireOne have been recorded as an "Other asset" in the consolidated balance sheet, which will be recognized when the Company's interest in FireOne is transferred, by sale or otherwise, outside the consolidated group.

In the period ended June 30, 2005, the Company amortized \$2,746 of this asset as a future tax expense as a result of the sale of the Company's 20% interest referred to above. In the third quarter, the Company's interest in FireOne was effectively diluted to 78.7% from 80% as a result of the vesting of one-third of restricted stock units issued by FireOne referred to in note 9 (b) (iii). As a result, the Company amortized a further \$176 of the other asset as a future tax expense and recorded a dilution loss of \$528 in the third quarter, which is included in non-controlling interest in the consolidated statements of operations.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals:

(a) Systech Retail Systems:

(i) Acquisition:

On February 27, 2004, the Company acquired the hardware service division of Systech Retail Systems ("Systech"). The acquisition of Systech resulted in the recognition of goodwill primarily because of the Company's then strategy to re-establish a repair services business in the United States in light of the then anticipated sale of its *U-Scan*® self-checkout business.

The net assets acquired for cash were approximately \$3,500, of which \$2,639 were for the U.S. operations of Systech and \$826 was for the Canadian operations. The acquisition was accounted for using the purchase method and the results of Systech were consolidated with those of the Company from the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	(Audited)
Assets acquired:	
Accounts receivable	\$ 1,428
Inventory	750
Property and equipment	1,082
Prepaid expenses and deposits	65
Customer contract and customer relationships	612
Goodwill	4,258
	<hr/> 8,195
Liabilities assumed:	
Accounts payable and accrued liabilities	1,441
Obligations under capital leases	808
Deferred revenue	2,481
	<hr/> 4,730
Net assets acquired for cash	<hr/> \$ 3,465 <hr/>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(a) Systech Retail Systems (continued):

(ii) Sale of U.S. operations:

On June 30, 2005, the Company sold the net assets relating to the U.S. operations of Systech, comprised mainly of inventory and customer contracts, for a cash consideration of \$777. The sale may be subject to post-closing adjustments. The decision to sell the U.S. operations was based on the Company's strategy to focus efforts on its maintenance service business in Canada. The following summarizes the book value of the assets and liabilities at June 30, 2005 relating to the operations sold by the Company:

Current assets:		
Inventory	\$	743
Receivables		12
		<hr/>
		755
Long-term assets:		
Property and equipment		67
Customer contracts and customer relationships		143
		<hr/>
		210
Net assets sold		<hr/>
		965
Proceeds from sale		777
Net loss on sale of net assets	\$	<hr/>
		188

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(a) Systech Retail Systems (continued):

(ii) Sale of U.S. operations (continued):

The results of operations of this business for the three and nine-month periods ended September 30, 2005 and 2004 were as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2005	2004	2005	2004
Revenue	\$ —	\$ 2,954	\$ 5,008	\$ 7,041
Expenses:				
Service costs	—	2,579	6,108	6,213
Selling, general and administrative	—	780	1,134	1,919
Operating leases	—	204	149	548
Restructuring costs	—	—	—	399
Amortization of property, equipment and intangibles	—	37	195	86
Goodwill impairment	—	—	3,790	—
Foreign exchange gain (loss)	—	16	(41)	10
	—	3,616	11,335	9,175
Net loss from discontinued operations	\$ —	\$ (662)	\$ (6,327)	\$ (2,134)

The results of operations include management assumptions and adjustments related to cost allocations which are inherently subjective.

(b) Terra Payments Inc.:

Effective April 6, 2004, the Company completed a Combination Agreement with Terra Payments Inc. ("Terra"), a publicly-traded company that offered proprietary technology and services to businesses to accept credit card, electronic check and direct debit payments. Terra processed credit card payments for non-face-to-face transactions, including mail-order/telephone order, licensed online gaming and other online merchants, as well as for retail point-of-sale merchants. Terra also processed checks and direct debits online and by telephone. The primary reasons for the Company's acquisition of Terra and the primary factors that contributed to a purchase price that resulted in recognition of goodwill include its industry position, management strength, earnings prospects and ability to serve as a platform for potential strategic acquisitions for enhanced growth and profitability in this segment.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(b) Terra Payments Inc. (continued):

The agreement was a stock-for-stock merger in which 0.4532 of the Company's Class "A" shares were exchanged for each share of Terra. The total purchase price of \$66,005 was paid through the issuance by the Company of 7,242,168 Class "A" shares, the acquisition of outstanding options and warrants issued by Terra and transaction costs incurred by the Company.

The acquisition was accounted for using the purchase method and the results of Terra were consolidated with those of the Company from the date of acquisition. The following table presents the estimated fair value of the assets and liabilities assumed from Terra on April 6, 2004:

	(Audited)
Assets acquired:	
Cash and cash equivalents	\$ 32,880
Short-term investments	23,153
Cash and short-term investments held as reserves	23,555
Settlement assets	10,547
Accounts receivable	1,283
Refundable investment tax credits receivable	589
Prepaid expenses and deposits	475
Property and equipment	1,466
Investment in ebs Electronic Billing Systems AG	3,974
Long-term receivables	3,698
Non-refundable investment tax credits	3,954
Future income taxes	3,859
Customer contracts and customer relationships	5,456
Acquired technology	4,520
Non-deductible goodwill	35,650
	<hr/> 155,059
Liabilities assumed:	
Accounts payable and accrued liabilities	10,697
Deferred revenue	444
Customer reserves and security deposits	73,259
Future income taxes	3,922
Obligations under capital leases	732
	<hr/> 89,054
Net assets acquired	<hr/> \$ 66,005 <hr/>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(b) Terra Payments Inc. (continued):

Consideration:	
7,242,168 Class "A" shares	\$ 61,414
Transaction costs	1,389
Options and warrants	5,877
Less: options and warrants considered as deferred compensation	(2,675)
<hr/>	
Total purchase price	<hr/> \$ 66,005 <hr/>

The per share value of the Class "A" shares issued as consideration for the business acquisition was \$8.48, which was determined using the Company's average closing share price on NASDAQ over a reasonable period before and after the date the terms of the business combination were agreed to and announced.

The Company assumed 1,587,058 stock options and warrants having a fair value of \$5,877, or a weighted average of \$3.70 per share, relating to the Terra outstanding stock options and warrants. This also represents 0.4532 stock option or warrant of the Company for each stock option or warrant of Terra. The fair value of the vested stock options and warrants of \$3,202 is included in the purchase consideration. The remaining \$2,675, representing the fair value of the unvested stock options, was recorded as deferred compensation cost and is being amortized over the vesting periods. For the nine months ended September 30, 2005, \$737 was amortized as stock-based compensation in the consolidated statements of operations. As at September 30, 2005, the unamortized deferred compensation cost is \$1,069 (December 31, 2004 - \$1,807).

The fair values were determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Expected volatility	69.8%
Expected life in years	2.9
Risk-free interest rate	2%
Expected dividend rate	0%

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(c) Supplementary information:

The following unaudited pro forma financial information reflects the consolidated results of operations as if the acquisition of Terra had taken place on January 1, 2004. The pro forma financial information is not necessarily indicative of the results of operations as it would have been, had the transactions been reflected on the assumed date. No effect has been given for synergies that may have been realized through the acquisitions.

	Three months ended September 30, 2004	Nine months ended September 30, 2005
Pro forma revenues	\$ 31,219	\$ 78,682
Pro forma loss	132	(10,059)
Pro forma diluted loss per share	0.01	(0.45)

The consolidated results of operations for the three months and nine months ended September 30, 2005 already include those of Terra.

(d) Sale of *U-Scan*® self-checkout business:

Effective April 8, 2004, the Company sold its *U-Scan*® self-checkout business to Fujitsu Transaction Solutions Inc. ("Fujitsu"), including all related tangible assets, intellectual property rights, and obligations, for \$35,000 in cash plus the assumption of liabilities. Fujitsu funded the payment of a termination fee owed by the Company to NCR Corporation ("NCR") as a result of the termination of their offer to purchase the self-checkout business. In July 2004, the Company paid an amount of \$4,806 to Fujitsu due to purchase price adjustments mainly attributed to there being less net assets sold to Fujitsu as the Company collected a large portion of the accounts receivable and realized the cash thereon in advance of the sale. Thus, the net proceeds realized on the sale to Fujitsu were \$30,194.

The sale of the *U-Scan*® self-checkout business is consistent with the Company's strategy to reposition the business as a payments and services leader. As a result of the weak capital spending environment for retail technology and a significantly more competitive landscape in the self-checkout business, which negatively impacted sales, gross margins and overall financial results, the Company decided to exit this business and focus on building a payments and services business.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(d) Sale of *U-Scan*® self-checkout business (continued):

The following table summarizes the book value of the assets and liabilities at April 8, 2004 relating to the business sold by the Company:

	April 8, 2004
Current assets:	
Accounts receivable	\$ 8,194
Inventory	17,915
Prepaid expenses and deposits	169
	<u>26,278</u>
Long-term assets:	
Property and equipment	3,937
Intangible assets	3,500
	<u>7,437</u>
Current liabilities:	
Accounts payable and accrued liabilities	2,895
Deferred revenue	7,132
	<u>10,027</u>
Net assets relating to <i>U-Scan</i> ® self-checkout business	23,688
Proceeds from sale	30,194
Gain on sale of net assets of <i>U-Scan</i> ® self-checkout business before income taxes	6,506
Income taxes	2,342
Net gain on sale of net assets of <i>U-Scan</i> ® self-checkout business	<u>\$ 4,164</u>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(d) Sale of *U-Scan*® self-checkout business (continued):

The results of operations of this business for the three and nine-month periods ended September 30, 2004 were as follows:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
Systems and hardware service revenue	\$ —	\$ 10,870
Cost of sales	—	6,929
	—	3,941
Expenses:		
Selling, general and administrative	—	5,968
Amortization	—	664
Operating leases	—	237
Research and development	—	202
	—	7,071
Net loss from discontinued operations	\$ —	\$ (3,130)

The results of operations include management assumptions and adjustments related to cost allocations which are inherently subjective.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(e) Acquisition of National Processing Services LLC:

On July 1, 2004, the Company acquired National Processing Services LLC ("NPS"), a registered *VISA*® and *Mastercard*® independent sales organization, for a total consideration of \$15,000. The acquisition of NPS resulted in the recognition of goodwill primarily because the NPS operations would deliver earnings prospects and potential strategic and other benefits, including an increase in the Company's revenue base and diversification of the payment services portfolio.

The acquisition was accounted for using the purchase method and the results of NPS were consolidated with those of the Company from the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition:

	(Audited)
Assets acquired:	
Cash	\$ 126
Accounts receivable	4
Inventory	37
Property and equipment	21
Prepaid expenses and deposits	12
Customer relationships	3,523
Supplier contract	597
Goodwill	10,818
	<u>15,138</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	6
<u>Net assets acquired</u>	<u>\$ 15,132</u>
Consideration:	
Cash	\$ 15,000
Transaction costs	132
	<u>\$ 15,132</u>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
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4. Business acquisitions and disposals (continued):

(f) Acquisition of Merchant Card Acceptance Corp.:

On January 1, 2005, Optimal Payments Inc., a wholly-owned subsidiary of the Company, acquired the operating assets of Merchant Card Acceptance Corp. and its affiliated companies, Precision Management Consulting Inc. and Merchant Card Interactive Corp. (collectively, "MCA"), for \$3,722 subject to the determination of certain post-closing adjustments. The agreement also provides for a contingent consideration of \$827 (CA\$1,000) based on the attainment of specified operational targets. MCA is an independent sales organization providing Canadian-based merchants with credit card and Interac PIN-based debit card acceptance. The Company believes that this acquisition will diversify its payment services portfolio and contribute positively to the Company's financial results.

The acquisition was accounted for by using the purchase method and the results of MCA were consolidated with those of the Company from the date of acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets; thus, the allocation of the purchase price is subject to refinement.

Assets acquired:		
Property and equipment	\$	145
Supplier contract		779
Goodwill		2,775
Inventory		23
		<hr/>
	\$	3,722
		<hr/>
Consideration:		
Cash	\$	3,673
Transaction costs		49
		<hr/>
	\$	3,722
		<hr/>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

4. Business acquisitions and disposals (continued):

(g) Acquisition of United Bank Card Inc. ("UBC"):

On May 6, 2005, Optimal Payments Corp., a wholly-owned subsidiary of Optimal Group Inc., acquired a portfolio of merchant processing from UBC, a payment and transaction processor that serves primarily card-present merchants nationwide.

The assets were acquired for cash of \$44,277. The transaction was accounted for by the Company as an acquisition of assets.

The following table summarizes the estimated fair value of the assets acquired at date of acquisition. The Company is in the process of finalizing the valuation of the net assets acquired, thus, the allocation of the purchase price is subject to final modifications.

Assets acquired:	
Customer relationships	\$ 43,777
Customer service agreement	500
<hr/>	<hr/>
Net assets acquired for cash	\$ 44,277

Pursuant to the agreement, UBC shall guarantee the Company a certain minimum contribution margin applicable to each of the fifteen quarters following the closing date. UBC is required to maintain an irrevocable revolving standby letter of credit in the amount of \$10,000 to serve as collateral for the above guarantee. This amount will be reduced at a rate of 17.5% per year until the contract period expires. In addition, UBC's shareholder has provided a personal guarantee of \$2,500 as additional security for maintaining the minimum contribution margin under the agreement. UBC will continue to perform certain customer service obligations at no cost for a period of two years, for a fixed monthly fee per merchant in the third year and for a fee to be negotiated thereafter.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
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5. Cash and short-term investments held as reserves, settlement assets, and customer reserves and security deposits:

Cash and short-term investments held as reserves:

The Company has agreements with various financial institutions for the settlement of payment transactions. Under the terms of these agreements, the Company is required to maintain certain amounts as reserves, which may be applied against any amounts for which the financial institutions would be entitled to reimbursement. Any amounts charged by the financial institutions are charged to the Company's customers.

Settlement assets:

Settlement assets result from timing differences in the Company's settlement process. These timing differences are primarily as a result of settlement amounts due from financial institutions that represent the card associations and debit networks. These amounts are typically funded to the Company within days from the transaction processing date.

Customer reserves and security deposits:

Customer reserves and security deposits are required from certain customers in the payments segment to allow the Company to recover any amounts charged by the financial institutions under the arrangements described above. Customer reserves relate to the short-term portion of collateral and outstanding payments due to customers. Security deposits are held by the Company over the term of the customer relationship, which has generally been of a long-term nature.

6. Long-term receivables:

Included in long-term receivables is the net present value of an interest-free note received on the sale of the assets of a division of Terra in fiscal 2002. The repayment terms require monthly payments equal to 10% of the debtor's sales.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
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7. Goodwill and other intangible assets:

	September 30, 2005		
	Gross carrying amount	Accumulated amortization	Net book value
Goodwill	\$ 54,458	\$ 141	\$ 54,317
Customer contracts and customer relationships	56,776	6,280	50,496
Acquired technology	4,520	1,356	3,164
Supplier contract	1,376	301	1,075
	\$ 117,130	\$ 8,078	\$ 109,052

As a result of the sale of the net assets of the U.S. field maintenance services operations referred to in note 4 (a) (ii), an impairment loss of \$1,515 was recognized by the Company to write down goodwill related to one of the remaining services operations to its estimated fair value. The write-down was calculated based on the present value of future cash flows expected to be generated from the division.

	December 31, 2004		
	Gross carrying amount	Accumulated amortization	Net book value
Goodwill	\$ 53,290	\$ 141	\$ 53,149
Customer contracts and customer relationships	12,499	1,807	10,692
Acquired technology	4,520	678	3,842
Customer list	786	498	288
Supplier contract	597	43	554
	\$ 71,692	\$ 3,167	\$ 68,525

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
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8. Bank indebtedness:

The Company has credit facilities in the amount of approximately \$9,977 (CA\$11,600), which can be utilized in the form of loans, bankers' acceptances or letters of guarantees. At September 30, 2005, the Company utilized \$6,445 of the facilities in borrowings and \$516 (CA\$600) through the issuance of letters of guarantee. The borrowings are due on demand and bear interest either at the bank's prime rate, the market rate for bankers' acceptances plus an acceptance fee of 0.75% per annum or at 115 basis points on the bank's prime rate, depending on the form of the facility utilized. The facilities are secured by a first ranking moveable hypothec on certain short-term investments.

9. Share capital and additional paid-in capital:

(a) Issued and outstanding share capital was as follows:

	September 30, 2005		December 31, 2004	
	Number	Book value	Number	Book value
Class "A" shares	23,198,395	\$ 194,210	22,251,097	\$ 184,191

Changes in the issued and outstanding share capital were as follows:

	Number	Book value
Balance, December 31, 2004	22,251,097	\$ 184,191
Exercise of stock options	341,698	3,652
Exercise of warrants	605,600	6,367
Balance, September 30, 2005	23,198,395	\$ 194,210

The amounts credited to share capital from the exercise of stock options and warrants in the three months ended September 30, 2005 include a cash consideration of \$1,741, as well as an ascribed value from additional paid-in capital of \$1,285 (cash consideration of \$6,702 and an ascribed value of \$3,317 for the nine months ended September 30, 2005).

(b) Stock options and warrants:

(i) Optimal Group Inc.:

The Company has a stock option plan that provides for the granting of options to employees and directors for the purchase of the Company's Class "A" shares. Options may be granted by the Board of Directors for terms of up to ten years. The Board of Directors establishes the exercise period, vesting terms and other conditions for each grant at the grant date. Options may be granted with exercise prices at the then current market price. Options currently outstanding under the plan expire five years after the date of grant and vest over a period of three years.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

9. Share capital and additional paid-in capital (continued):

(b) Stock options and warrants (continued):

(i) Optimal Group Inc. (continued):

Details of the outstanding stock options are as follows:

	Number	Exercise price per share
Balance, December 31, 2004	4,586,926	\$ 7.10
Granted	—	—
Expired/cancelled	(11,667)	(7.10)
Exercised	(180,636)	(7.10)
Balance, September 30, 2005	4,394,623	\$ 7.10

(ii) Terra Payments Inc.:

Under the terms of the Combination Agreement with Terra, the Company assumed Terra's stock option plan, and as such, stock options governed by this plan will be exercisable for the Company's Class "A" shares. The exercise price and number of options outstanding on April 6, 2004, the effective date of the acquisition of Terra, were adjusted based on the exchange ratio of 0.4532 of the Company's Class "A" shares for each share of Terra.

Details of the outstanding stock options under the Terra plan are as follows:

	U.S. dollar exercise price		Canadian dollar exercise price	
	Number	Exercise price per share	Number	Weighted average exercise price per share
Balance, December 31, 2004	217,451	\$ 7.43	534,083	\$ 14.34
Expired/cancelled	—	—	(5,647)	66.57
Exercised	—	—	(161,062)	6.02
Balance, September 30, 2005	217,451	\$ 7.43	367,374	\$ 17.18

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

9. Share capital and additional paid-in capital (continued):

(b) Stock options and warrants (continued):

(ii) Terra Payments Inc. (continued):

As at December 31, 2004 and September 30, 2005, there were 728,944 and 122,323 warrants outstanding, respectively, with a weighted average exercise price of CA\$9.38 and CA\$7.50, respectively, and expiring on dates up to March 2008.

There are 30,365 options and warrants that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period ended September 30, 2005.

(iii) FireOne:

FireOne has established a restricted stock unit plan whereby eligible individuals are awarded rights to receive ordinary shares in FireOne for a nominal consideration. The plan is administered by FireOne's remuneration committee. Awards are made to eligible individuals at the discretion of the remuneration committee, vest in accordance with a specified vesting schedule and terminate 10 years from date of award.

In May 2005, FireOne made an initial award of 2,443,750 restricted stock units to employees, officers and directors of FireOne and the Company. These units vest as follows: one-third on the 90th day following the admission of FireOne's ordinary shares on AIM, one-third on the first anniversary of their award and one-third on the second anniversary of their award. The Company recorded stock-based compensation of \$1,747 in the period ended September 30, 2005 (\$2,700 for the nine-month period ended September 30, 2005) in connection with the grant of these restricted stock units. Stock-based compensation was determined using the fair value method, based on the estimated fair value of FireOne at the time of grant of the restricted stock units. Management engaged external valuers in determining the fair value of FireOne.

FireOne has also established a stock option plan for employees, directors and officers, which is also administered by the remuneration committee of FireOne. The number of options as well as vesting and performance requirements, if any, are set by the remuneration committee. The exercise price for stock option grants will be based on the average market price of FireOne's ordinary shares for the five preceding days from the date of grant. In general, options will expire seven years from date of grant. No options were granted by FireOne in the period ended September 30, 2005.

Grants under the restricted stock unit plan and the stock option plan are limited to 2.5% of the issued share capital of FireOne to any individual and to 10% of the total issued share capital of FireOne.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
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9. Share capital and additional paid-in capital (continued):

(c) Additional paid-in capital:

Changes in additional paid-in capital were as follows:

Balance, December 31, 2004	\$ 10,557
Stock-based compensation from amortization of compensation cost related to stock options and restricted stock units (note 11)	7,576
Ascribed value credited to share capital from exercise of stock options and warrants (note 9 (a))	(3,317)
Ascribed value credited to non-controlling interest from exercise of restricted stock units (note 9 (b) (iii))	(102)
<hr/>	
Balance, September 30, 2005	\$ 14,714

10. Contingencies:

- (a) The Company received a legal letter from a claimant in 1999, and again in February 2001, alleging infringement of a patent related to the *U-Scan*® self-checkout business, which the Company sold to Fujitsu on April 8, 2004. In March 2003, this claimant also sent a third demand letter alleging infringement of additional patents. The Company believes these claims to be without merit and intends to vigorously defend its position should this claimant initiate a civil action. No amounts have been specified in these claims. It is not possible at this time to make an estimate of the amount of damages, if any, that may result and, accordingly, no provision has been made in these financial statements with respect to such claims.
- (b) In connection with the sale of the *U-Scan*® self-checkout business on April 8, 2004 to Fujitsu, orders were obtained from the Superior Court of Quebec permitting the Company to submit the sale to Fujitsu to the Company's shareholders for approval in lieu of the originally proposed sale to NCR. In May 2004, NCR appealed these decisions. NCR had also delivered a notice of dispute under its now terminated purchase agreement alleging a breach of the non-solicitation provisions of that agreement. NCR has discontinued its appeal of these decisions without any payment by the Company. No provision has ever been made in the Company's financial statements with respect to such claims.
- (c) On March 11, 2005, and again on March 31, 2005, the Company received a letter from Fujitsu claiming recovery of expenses allegedly incurred and forecast by Fujitsu to be incurred in relation to the operation of the Company's former *U-Scan*® self-checkout business. After consultation with counsel, the Company believes that there is no basis for these claims and intends to vigorously defend its position should Fujitsu initiate a lawsuit to assert its claims. Accordingly, no provision has been made in these financial statements with respect to such claims.

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Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
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10. Contingencies (continued):

- (d) The Company is pursuing the recovery of \$6,800 withdrawn from a Terra bank account by one of its credit card suppliers for various service charges assessed. The Company believes these charges are largely unsubstantiated and is pursuing the claim through legal recourse. The amount, if any, which the Company may recover cannot be quantified until the legal process is complete.
- (e) The Company is party to litigation arising in the normal course of operations. The Company does not expect the resolution of such matters to have a material adverse effect on the financial position or results of operations of the Company. However, the results of legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any of these legal matters or should several legal matters be resolved against the Company in the same reporting period, the consolidated operating results of a particular reporting period could be materially adversely affected.
- (f) In the sale or other disposition of assets out of the ordinary course of business, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company might agree to indemnify against claims from its past conduct of its business. Typically, the term and amount of such indemnification will be limited by agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability to indemnified parties. Accordingly, no provision has been made in these financial statements with respect to this item.

11. Stock-based compensation:

Stock-based compensation expense in the consolidated statements of operations was comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Expense related to options granted in 2004	\$ 1,622	\$ 1,604	\$ 4,876	\$ 3,242
Expense related to FireOne restricted share unit plan	1,747	—	2,700	—
Amortization of deferred compensation (note 4 (b))	210	294	737	590
	<u>\$ 3,579</u>	<u>\$ 1,898</u>	<u>\$ 8,313</u>	<u>\$ 3,832</u>

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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12. Income taxes:

The income tax provision differs from the amount computed by applying the combined Canadian federal and Quebec provincial tax rates to earnings before income taxes. The reasons for the difference and the related tax effects are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Earnings (loss) from continuing operations before income taxes	\$ 3,399	\$ 1,331	\$ 36,814	\$ (8,091)
Combined Canadian federal and Quebec provincial income taxes at 31% (2004 - 31%)	\$ 1,055	\$ 411	\$ 11,420	\$ (2,511)
Foreign exchange ⁽¹⁾	(2,035)	(363)	(1,956)	(342)
Utilization of previously unrecognized tax assets	892	—	(7,563)	—
Benefits of losses not recorded	105	509	1,626	2,753
Stock-based compensation not deductible for tax	1,111	493	2,579	1,005
Goodwill impairment	—	—	575	—
Permanent differences and other	296	(513)	660	(388)
Income tax provision of continuing operations	\$ 1,424	\$ 537	\$ 7,341	\$ 517

⁽¹⁾ For purposes of calculating the income tax provision of the Company, a tax liability is recognized on the foreign exchange gains which arise on the conversion into Canadian dollars of the net monetary assets denominated in U.S. dollars; such conversion is required for income tax purposes. As these financial statements are presented in U.S. dollars, this foreign exchange gain does not impact earnings (losses) before income taxes even though the income tax provision would include a tax liability for this gain. Future fluctuations in the foreign exchange rate between the Canadian and U.S. dollar will change the amount of the foreign exchange gains and thus the provision for or recovery of income taxes thereon.

The provision for income taxes of continuing operations is composed of the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Current income taxes	\$ 1,117	\$ 85	\$ 6,124	\$ 111
Future income taxes	307	452	1,217	406
	\$ 1,424	\$ 537	\$ 7,341	\$ 517

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
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13. Segmented information:

As a result of the FireOne placing referred to in note 3, the Company now operates in three segments, namely payment processing services gaming and non-gaming, and hardware maintenance and repair outsourcing services. Previously, the Company operated in two segments, namely payment processing and hardware maintenance and repair outsourcing services. Comparative figures have been reclassified to conform with this new presentation. Management measures the results of operations based on segment income before income taxes adjusted for certain non-cash and non-recurring items provided by each business segment.

Previously, the Company also developed and sold automated transaction products designed for use in the retail sector and provided related hardware and software maintenance. As a result of the sale of the *U-Scan*® self-checkout business, this segment has been reclassified as discontinued operations.

(a) Information on the operating segments is as follows:

	Payment services		Hardware	Eliminations/	
	Gaming	Non-gaming	maintenance	Unallocated	Consolidated
<u>Three months ended September 30, 2005:</u>					
Revenues	\$ 19,968	\$ 17,768	\$ 9,032	\$ (1,982)	\$ 44,786
Transaction processing and service costs	8,001	8,103	6,988	(920)	22,172
Selling, general and administration	3,319	7,339	2,264	(1,062)	11,860
Operating leases	73	299	748	–	1,120
	8,575	2,027	(968)	–	9,634
Stock-based compensation	929	2,282	368	–	3,579
Amortization	235	2,373	385	–	2,993
	7,411	(2,628)	(1,721)	–	3,062
Foreign exchange	94	91	444	–	629
Investment income	(51)	(796)	(286)	–	(1,133)
	7,368	(1,923)	(1,879)	–	3,566
Provision for income taxes	2,696	(1,272)	–	–	1,424
Non-controlling interest	1,508	–	–	–	1,508
Earnings (loss) from continuing operations	3,164	(651)	(1,879)	–	634
Reduction of gain on sale of interest in FireOne	–	–	–	(167)	(167)
Net earnings (loss)	\$ 3,164	\$ (651)	\$ (1,879)	\$ (167)	\$ 467

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

13. Segmented information (continued):

(a) (Continued):

	Payment services		Hardware maintenance	Eliminations/ Unallocated	Consolidated
	Gaming	Non-gaming			
<u>Three months ended September 30, 2004:</u>					
Revenues	\$ 10,489	\$ 8,514	\$ 9,858	\$ (596)	\$ 28,265
Transaction processing and service costs	4,278	5,094	7,693	(596)	16,469
Selling, general and administration	1,512	4,008	1,346	–	6,866
Operating leases	95	97	733	–	925
	4,604	(685)	86	–	4,005
Stock-based compensation	212	1,307	379	–	1,898
Amortization	241	772	355	–	1,368
	4,151	(2,764)	(648)	–	739
Foreign exchange	–	(767)	690	–	(77)
Investment income	(58)	(195)	(262)	–	(515)
	4,209	(1,802)	(1,076)	–	1,331
Provision for income taxes	1,668	(911)	(220)	–	537
Earnings (loss) from continuing operations	2,541	(891)	(856)	–	794
Loss from discontinued operations	–	–	(662)	–	(662)
Net earnings (loss)	\$ 2,541	\$ (891)	\$ (1,518)	\$ –	\$ 132

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
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Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

13. Segmented information (continued):

(a) (Continued):

	Payment services		Hardware maintenance	Eliminations/ Unallocated	Consolidated
	Gaming	Non-gaming			
<u>Nine months ended September 30, 2005:</u>					
Revenues	\$ 52,442	\$ 44,607	\$ 26,590	\$ (4,179)	\$ 119,460
Transaction processing and service costs	21,502	22,441	20,868	(2,553)	62,258
Selling, general and administration	8,927	17,635	6,953	(1,626)	31,889
Operating leases	241	636	2,165	—	3,042
	21,772	3,895	(3,396)	—	22,271
Stock-based compensation	1,595	5,723	995	—	8,313
Amortization	719	5,104	1,239	—	7,062
	19,458	(6,932)	(5,630)	—	6,896
Restructuring costs	—	—	266	—	266
Foreign exchange	95	630	618	—	1,343
Goodwill impairment	—	—	1,515	—	1,515
Investment income	(159)	(1,519)	(953)	—	(2,631)
	19,522	(6,043)	(7,076)	—	6,403
Provision for income taxes	7,193	528	(380)	—	7,341
Non-controlling interest	1,738	—	—	—	1,738
Earnings (loss) from continuing operations before undernoted	10,591	(6,571)	(6,696)	—	(2,676)
Gain on sale of FireOne	—	—	—	(30,411)	(30,411)
Earnings (loss) from continuing operations	10,591	(6,571)	(6,696)	30,411	27,735
Discontinued operations:					
Loss from discontinued operations	—	—	(6,327)	—	(6,327)
Loss on disposal of net assets from discontinued operations	—	—	(188)	—	(188)
Net earnings (loss)	\$ 10,591	\$ (6,571)	\$ (13,211)	\$ 30,411	\$ 21,220

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Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

13. Segmented information (continued):

(a) (Continued):

	Payment services		Hardware	Eliminations	Consolidated
	Gaming	Non-gaming	maintenance		
<u>Nine months ended September 30, 2004:</u>					
Revenues	\$ 19,627	\$ 11,827	\$ 28,197	\$ (1,151)	\$ 58,500
Transaction processing and service costs	8,170	6,601	23,449	(1,151)	37,069
Selling, general and administration	3,602	6,785	7,267	–	17,654
Operating leases	184	199	2,052	–	2,435
	7,671	(1,758)	(4,571)	–	1,342
Stock-based compensation	413	2,465	954	–	3,832
Amortization	468	1,400	1,084	–	2,952
	6,790	(5,623)	(6,609)	–	(5,442)
Restructuring costs	–	76	849	–	925
Inventory write-down pertaining to service cost	–	–	2,931	–	2,931
Foreign exchange	–	(559)	432	–	(127)
Investment income	(122)	(317)	(641)	–	(1,080)
	6,912	(4,823)	(10,180)	–	(8,091)
Provision for income taxes	2,759	(1,694)	(548)	–	517
Earnings (loss) from continuing operations	4,153	(3,129)	(9,632)	–	(8,608)
Discontinued operations:					
Loss from discontinued operations	–	–	(5,264)	–	(5,264)
Gain on disposal of net assets from discontinued operations	–	–	4,164	–	4,164
Net earnings (loss)	\$ 4,153	\$ (3,129)	\$ (10,732)	\$ –	\$ (9,708)

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

13. Segmented information (continued):

(a) (Continued):

	Payment services		Hardware	Consolidated
	gaming	non-gaming	maintenance and repair services	
<u>September 30, 2005:</u>				
Total assets	\$ 55,545	\$ 231,708	\$ 80,691	\$ 367,944
Total additions to goodwill for the nine months ended September 30, 2005	–	2,775	–	2,775
Total additions to property and equipment and other intangibles for the nine months ended September 30, 2005:				
- through business acquisitions	\$ –	\$ 45,201	\$ –	\$ 45,201
- other	311	1,069	534	1,914
<u>December 31, 2004:</u>				
Total assets	\$ 127,859	\$ 59,975	\$ 107,412	\$ 295,246
Total additions to goodwill for the year ended December 31, 2004	\$ 22,249	\$ 24,219	\$ 467	\$ 46,935
Total additions to property and equipment and intangibles for the year ended December 31, 2004:				
- through business acquisitions	\$ 2,345	\$ 13,238	\$ 344	\$ 15,927
- other	17	1,247	1,522	2,786

(b) Geographic information is as follows:

	Revenues		Revenues		Property and equipment, goodwill and intangibles	
	Three months ended		Nine months ended		September 30, 2005	December 31, 2004
	September 30, 2005	2004	September 30, 2005	2004		
Canada	\$ 9,644	\$ 8,391	\$ 26,427	\$ 22,732	\$ 56,579	\$ 54,423
United States	17,417	11,403	48,038	19,748	57,668	18,493
Other	17,725	8,471	44,995	16,020	68	71
	\$ 44,786	\$ 28,265	\$ 119,460	\$ 58,500	\$ 114,315	\$ 72,987

Revenues are attributed to countries based on the location of the customers.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

14. Supplemental disclosure of cash flow information:

(a) Net change in operating assets and liabilities:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Accounts receivable	\$ (1,921)	\$ (1,373)	\$ (1,579)	\$ (246)
Inventory	(25)	(148)	(209)	(247)
Income taxes receivable and refundable investment tax credits receivable	(618)	596	(412)	552
Prepaid expenses and deposits	(156)	(175)	(1,123)	(374)
Accounts payable and accrued liabilities	8,780	1,472	6,400	1,725
Income taxes payable	1,476	–	6,759	–
Cash and short-term investments - held as reserves	(1,312)	–	(1,870)	–
Settlement assets	2,666	–	131	–
Customer reserves and security deposits	12,225	3,045	16,373	(6,922)
Net change in operating assets and liabilities	\$ 21,115	\$ 3,417	\$ 24,470	\$ (5,512)

(b) Cash paid for interest and income taxes:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Cash paid during the period for:				
Interest	\$ 39	\$ 11	\$ 87	\$ 87
Income taxes	31	20	291	67

(c) Cash and cash equivalents:

	September 30,	September 30,	December 31,
	2005	2004	2004
Cash and cash equivalents consist of:			
Cash balances with banks	\$ 112,709	\$ 75,136	\$ 59,232
Short-term investments interest at 3.35% to 3.57% (September 2004 - 1.4% to 1.8%; December 2004 - 1.4% to 2.4%)	43,248	28,436	3,705
	\$ 155,957	\$ 103,572	\$ 62,937

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

14. Supplemental disclosure of cash flow information (continued):

(d) Non-cash transactions:

	September 30, 2005
FireOne transaction costs included in accounts payable and accrued liabilities	\$ 558
Tax charge in connection with transfer of payments processing business related to online gaming to FireOne	13,732

15. Canada/U.S. reporting differences:

The consolidated financial statements of the Company are prepared in accordance with Canadian GAAP, which conform, in all material respects, with accounting principles generally accepted in the United States. Differences between Canadian and U.S. GAAP in the presentation of the components of shareholders' equity are as follows:

	September 30, 2005		December 31, 2004	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Shareholders' equity:				(Audited)
Share capital	\$ 194,210	\$ 236,666	\$ 184,191	\$ 226,647
Additional paid-in capital	14,714	44,571	10,557	40,414
Retained earnings (deficit)	4,637	(66,142)	(16,583)	(87,362)
Cumulative translation adjustment	(1,484)	-	(1,484)	-
Accumulated other comprehensive loss	-	(3,018)	-	(3,018)
	\$ 212,077	\$ 212,077	\$ 176,681	\$ 176,681

16. Comparative figures:

Certain of the comparative figures have been reclassified in order to conform with the current period's presentation.

OPTIMAL GROUP INC.

Notes to Consolidated Financial Statements, Continued
(Unaudited)

Nine-month periods ended September 30, 2005 and 2004
(expressed in thousands of U.S. dollars, except share and per-share amounts)

17. Subsequent events:

(a) Acquisition of Moneris Solutions, Inc.:

On October 6, 2005, Optimal Payments Corp., a wholly-owned subsidiary of the Company, acquired from Moneris Solutions, Inc. a portfolio of US merchant processing contracts and associated sales channel contracts for cash consideration of \$18,000.

The acquired portfolio comprises approximately 6,500 U.S.-based merchants processing in excess of \$1,500,000 of credit card, debit card, and electronic benefit payments, annually. The acquired sales channel comprises approximately fifty independent sales organizations.

The Company will account for this acquisition using the purchase method and the results of this acquisition will be consolidated with those of the Company from the date of acquisition. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets.

(b) Share Buyback plan:

On November 7, 2005, the Company announced a stock buyback program which authorizes the Company to purchase up to 1,100,000, or approximately 4.7%, of its issued and outstanding Class "A" shares. The shares may be purchased through the facilities of the Nasdaq National Market over the course of 12 months commencing November 21, 2005. All shares purchased under the program will be cancelled.

(c) Accelerated Vesting of Stock Options and Restricted Stock Units:

On November 7, 2005, the Company's Board of Directors approved the accelerated vesting, in the fourth quarter, of all unvested stock options previously awarded to employees, officers and directors. As a result of the accelerated vesting, and the concurrent accelerated vesting of unvested FireOne restricted stock units, the Company will record stock-based compensation in the fourth quarter of approximately \$13,800, which will result in the elimination of quarterly stock-based compensation expense in the same aggregate amount that would otherwise be required to be recognized over the six quarters ending June 30, 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and consolidated results of operations of our Company should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2004, and the factors set forth below under "Forward-Looking Statements". All dollar amounts are expressed in U.S. dollars and, other than those expressed in millions of dollars, have been rounded to the nearest thousand. Our accounting policies are in accordance with Canadian generally accepted accounting principals ("GAAP"). These differ in some respects from GAAP in the United States ("U.S. GAAP"). Our results are reconciled to U.S. GAAP; see note 15 to our interim consolidated financial statements. Any reference in this report to uniform resource locator (URL) website locations are inactive textual references only.

Overview

We are a leading payments and services company with operations throughout North America and the United Kingdom. Through Optimal Payments we process credit card payments for Internet businesses, mail-order/telephone-order and retail point-of-sale merchants, and process electronic checks and direct debits online and by phone. Through FireOne Group plc ("FireOne Group") and its subsidiaries we process online gaming transactions through the use of credit and debit cards, electronic debit and through FirePay® (www.firepay.com), a leading stored-value, electronic wallet. FireOne Group offers FirePay for non-gaming purchases as well. Through Optimal Services Group, we provide repair depot and field maintenance services to retail, financial services and other third-party accounts.

In fiscal 2004, we completed a number of business acquisitions and disposals in pursuit of our strategy to reposition our business activities with the goal of enhancing long-term financial results. We believe the completion of these transactions has realigned our company into a strong payments and services company with a more balanced and stable business mix. We plan to continue to grow our core businesses on a strategic basis, both organically and through acquisition. Furthermore, by leveraging our strong balance sheet, we intend to take advantage of strategic and transactional opportunities that may arise, with a focused approach on potential acquisitions.

We currently operate in three business segments; payment processing for small and medium-sized merchants, through Optimal Payments, payment processing for online gaming merchants through FireOne Group, and hardware maintenance and repair outsourcing services, through Optimal Services Group.

For additional information relating to our company, readers may review the documentation filed with the U.S. Securities and Exchange Commission (including our Annual Report on Form 10-K) available at www.sec.gov and with the securities regulatory authorities of British Columbia, Alberta, Ontario and Quebec available at www.sedar.com.

Optimal Payments and FireOne Group

Optimal Payments and FireOne Group provide technology and services that businesses require to accept credit card, electronic check and direct debit payments.

Optimal Payments processes credit card payments for card-not-present and card-present (or, "swipe") transactions, including Internet businesses, mail-order/telephone-order ("MOTO") merchants, and retail point-of-sale merchants. Optimal Payments also processes checks and direct debits online and by telephone. Optimal Payments employs approximately 175 people throughout North America and in England.

FireOne Group and its subsidiaries process online gaming transactions through the use of credit and debit cards, electronic debit and through FirePay®, a leading stored-value, electronic wallet. FireOne Group offers FirePay for non-gaming purchases as well. FireOne Group and its subsidiaries employ approximately 50 people in Dublin, Ireland and Montreal, Canada. FireOne Group and its subsidiaries began operations on May 11, 2005. Prior to this date, the activities relating to the processing of online gaming transactions were carried on within Optimal Payments.

Our payments businesses, Optimal Payments and FireOne Group, generate revenues primarily from fees charged to merchants for processing services, as well as, in the case of FireOne Group, from fees charged to consumers who utilize FireOne Group's FirePay® stored-value offering. Fees charged to merchants typically include a discount rate, based upon a percentage of the dollar amounts processed, and a variety of fixed transaction or service fees. Merchant fees charged are based upon the merchant's volume and risk profile. Fees charged to FireOne Group's FirePay consumers are based on a fixed amount per transaction. Revenue is recognized primarily at the time the transaction or service is performed. Where we are the primary party responsible for providing processing services, revenue is recorded on a gross basis and amounts paid to the acquiring processing supplier are recorded as part of our transaction processing expenses. FireOne Group's revenues are recorded on a gross basis. Where Optimal Payments is not the primary party in providing a merchant with processing services, Optimal Payments records revenue net of amounts paid to the acquiring processing supplier. See note 2(b) to our interim consolidated financial statements.

We retain a percentage of amounts owed to certain merchants based on processing dollar volume for a period of typically six months to cover potential merchant credit losses, which can arise as a result of, among other things, disputes between consumers and merchants or association fines related to chargeback activity. The aggregate amount withheld is referred to as "reserves" and the amount of our liability to eventually pay our customers in respect of remaining reserves is included in the line item "Customer reserves and security deposits" in the balance sheet contained in the consolidated financial statements included in this report. If disputes are not resolved in the merchant's favour, the transaction is charged back to us and the purchase price is refunded to the merchant's customer. If we are unable to collect from the merchant, we bear the credit risk for the full amount of the transaction. As a result, our acquiring processing suppliers require us to maintain certain amounts with them as reserves. Amounts withheld by our acquiring processing suppliers as reserves are included in cash and short-term investments on our balance sheet as "held as reserve". For merchants who continue to use our services, we withhold and refund reserves on a rolling basis so that as new transactions are processed, we withhold a portion as the reserve, while at the same time refunding the reserves for which the (typically) six-month period has expired.

Hardware Maintenance and Repair Outsourcing Services - Optimal Services Group

Optimal Services Group ("OSG") offers its customers a single-source solution for many of their computer maintenance and technology support requirements, including hardware maintenance services, software support, end-user/help desk services, network support and other technology support services. OSG also provides multi-vendor parts repair, refurbishment and inventory management services as part of its logistics services portfolio. OSG delivers services through its repair depots located in the United States and Canada and an extensive field service organization maintained throughout Canada. OSG has approximately 558 employees located throughout Canada and in the United States.

OSG's primary source of revenue is contracted computer maintenance and technology support services. These contracts typically have a stipulated monthly fee over a fixed initial term, and continue thereafter unless canceled by either party. In addition, we enter into per-incident contracts with customers. Per-incident contracts can cover a range of services for computer maintenance or support services or can be for a specific service. Another form of per-incident service revenue is time and material billings for services provided on an as needed basis, principally for maintenance and repair.

We also derive revenue from the repair of hardware and components at our logistics services and depot repair facilities. Pricing of these services is based on various factors, including equipment failure

rates and costs of parts and labor. We customize our contracts to the customer, in general, based upon the nature of the customer's requirements, the term and the services to be provided. Revenue is recognized upon the completion of services performed on a per-incident basis and ratably for contracts under which we charge a monthly fee.

Recent developments

On October 6, 2005, we acquired, from Moneris Solutions, Inc. ("Moneris"), a portfolio of U.S. merchant processing contracts and associated sales channel contracts for a cash consideration of \$18.0 million. The acquired portfolio comprises approximately 6,500 U.S. based merchants with in excess of \$1.5 billion in annual credit card, debit card and electronic benefits payments processing volume. The acquired sales channel comprises approximately fifty independent sales organizations, expanding our existing U.S. distribution network. See note 17 to our interim consolidated financial statements.

On June 30, 2005, we sold the net assets relating to the U.S. field maintenance service operations of our hardware maintenance and repair outsourcing services business segment.

On June 2, 2005, FireOne Group plc, our Irish based subsidiary commenced trading on the London Stock Exchange's AIM Market under the ticker symbol "FPA" following the successful placing by Optimal Group of 10 million ordinary FireOne Group shares, representing 20% of FireOne Group's issued and outstanding share capital. FireOne Group and its subsidiaries carry on our activities that relate to the processing of online gaming transactions through the use of credit and debit cards and through FirePay (www.firepay.com), a leading stored value, electronic wallet. Our assets relating to the processing of online gaming transactions were transferred to FireOne Group and its subsidiaries on May 11, 2005. The placing price was 241 pence per share, resulting in gross proceeds to Optimal Group of 24.1 million British pounds (approximately \$44.0 million). Optimal Group consolidates the financial results of FireOne Group and reports a non-controlling interest relating to the 21.3% interest (on a fully diluted basis) in FireOne Group not owned by Optimal Group. See note 3 to our interim consolidated financial statements.

On May 6, 2005, we acquired, from United Bank Card, Inc. ("UBC"), a portfolio of merchant processing for a cash consideration of approximately \$44.0 million. The merchant accounts underlying the acquired portfolio represented approximately 15,500 merchant locations across the United States and over \$1.5 billion in annual card-present credit and debit card processing volume. See note 4(g) to our interim consolidated financial statements.

On February 14, 2005, Optimal Services Group appointed Brian Sullivan as President. Mr. Sullivan has many years of experience within the global technology and service industries, including most recently as President and Chief Executive Officer of NCR Canada.

On January 1, 2005, Optimal Payments completed the acquisition of the operating assets of Merchant Card Acceptance Corp. and affiliated companies, Precision Management Consulting Inc. and Merchant Card Interactive Corp. (collectively, "MCA") for approximately \$3.7 million. MCA is an independent sales organization providing Canadian-based merchants with credit card and Interac PIN-based debit card acceptance. The purchase agreement provides for the purchase price to be increased by \$0.8 million in the event that the business achieves specific financial targets. The acquisition is accounted for using the purchase method of accounting and the financial results are consolidated from the date of the acquisition. See note 4(f) to our interim consolidated financial statements.

Critical accounting policies and estimates

The accompanying interim consolidated financial statements have been prepared in accordance with Canadian GAAP. In the preparation of financial statements we are required to make numerous estimates and assumptions. Financial results as determined by actual events could differ from those estimates and assumptions, impacting our reported results of operations and financial position. Our significant accounting policies are more fully described in note 3 of our annual audited consolidated financial statements included in our Form 10-K Annual Report for the year ended December 31, 2004. The critical accounting policies described here are those that are most important to the depiction of our financial condition and results of operations and their application requires our most subjective judgment in making estimates about the effect of matters that are inherently uncertain.

Stock-based Compensation

Effective January 1, 2003, we adopted the fair value-based method to account for stock-based compensation and other stock-based payments. Under the fair value-based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The fair value of stock options granted is determined at the date of grant using the Black-Scholes option pricing model. The fair value of restricted stock units was based on a valuation prepared by an independent valuator.

Merchant Losses

When a consumer pays a merchant for goods or services and the consumer subsequently disputes the charge, the amount of the disputed item gets returned/charged back to us and the credit and debit card associations may levy fees against us. In addition, if our return/chargeback rate becomes excessive, the associations may levy a fee against us and may also require us to pay fines. In turn, we attempt to recover from the merchant the amount returned/charged back and the amount of such fees and fines. However, we may not always be successful in doing so, for reasons which could include merchant insolvency. We evaluate the risk associated with each merchant and estimate our potential loss for returns/chargebacks based primarily on historical experience and other relevant factors.

Goodwill and Other Intangibles

Goodwill is not amortized but rather evaluated at least annually under an impairment approach. In our assessment of impairment, we are required to determine the fair value of the businesses acquired from which the goodwill originated.

Other intangible assets with finite lives continue to be amortized over their estimated useful lives. The amounts recorded as intangible assets at the date of acquisition represent the estimated fair value of these assets based on estimated future cash flows discounted at appropriate discount rates. For intangibles with finite lives, we estimate the fair value based on future cash flows to be generated from the related assets.

Income Taxes

We provide for income taxes using the asset and liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. We establish a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Financial Condition

As at September 30, 2005, cash, cash equivalents, short-term investments and settlement assets totaled \$220.9 million (including \$22.7 million held as reserves), compared to \$189.9 million as at December 31, 2004 (including \$20.8 million held as reserves and \$3.5 million held in escrow). As already described, a significant portion of cash, cash equivalents and short-term investments have a corresponding liability as these amounts are derived from reserves and security deposits which are due to merchants (see *Overview – Optimal Payments and FireOne Group*). Settlement assets result from timing differences in the settlement process of our payments segment. Settlement assets are typically funded to us within days from the transaction processing date. As at September 30, 2005 and December 31, 2004, our cash, short-term investments and settlement assets positions, net of bank indebtedness and customer reserves and security deposits, were as follows:

(in \$000s)	September 30, 2005	December 31, 2004
Cash and cash equivalents	155,957	62,937
Cash held as reserves	19,698	18,739
Cash held in escrow	-	3,536
Short-term investments	28,008	88,213
Short-term investments held as reserves	3,014	2,104
Settlement assets	14,244	14,375
	<u>220,921</u>	<u>189,904</u>
Less:		
Bank indebtedness	6,445	8,301
Customer reserves and security deposits	93,947	77,574
	<u>120,529</u>	<u>104,029</u>

Our portfolio of liquid and investment grade short-term investments consists primarily of U.S. and Canadian dollar denominated discounted and undiscounted notes and bonds.

Working capital, excluding cash and short-term investments held as reserves and cash held in escrow, as at September 30, 2005 was \$74.4 million (December 31, 2004 - \$64.6 million).

Goodwill and other intangible assets increased by \$40.5 million, from \$68.5 million as at December 31, 2004 to \$109.1 million as at September 30, 2005. This increase resulted from the acquisitions from MCA and UBC (see notes 4(f) and 4(g) to our interim consolidated financial statements).

Customer reserves and security deposits (as described above) as at September 30, 2005 were \$94.0 million compared to \$77.6 million as at December 31, 2004. Customer reserves and security deposits pertain exclusively to Optimal Payments (\$22.1 million) and FireOne Group (\$71.9 million).

Shareholders' equity as at September 30, 2005 was \$212.1 million as compared to \$176.7 million as at December 31, 2004.

Results of Operations

(Current and comparative figures have been reclassified to reflect the April 2004 disposition of the *U-Scan*® self-checkout business and the June 2005 sale of the U.S. field maintenance service operations which have been accounted for as discontinued operations.)

Nine-month period ended September 30, 2005 compared to the nine-month period ended September 30, 2004

Revenues from continuing operations increased by \$61.0 million, from \$58.5 million in the nine-month period ended September 30, 2004 to \$119.5 million in the nine-month period ended September 30, 2005. The increase in revenues is due primarily to the following business acquisitions:

- On April 6, 2004, Terra Payments amalgamated with a wholly-owned subsidiary of ours;
- On July 1, 2004, Optimal Payments acquired National Processing Services LLC, a Detroit, Michigan-based registered Visa® and MasterCard® independent sale organization;
- On January 1, 2005, Optimal Payments acquired the operating assets of MCA; and
- On May 6, 2005, Optimal Payments acquired a portfolio of merchant processing from UBC.

Revenues for the nine-month period ended September 30, 2005 include revenues from the Optimal Payments business segment amounting to \$44.6 million, (including \$4.2 million of revenue charged to the FireOne Group business segment, pursuant to an inter-company services agreement), revenues from the FireOne Group business segment of \$52.4 million and revenues from the hardware maintenance and repair outsourcing services business segment of \$26.6 million. For the nine-month period ended September 30, 2004, \$31.4 million (before inter-company charges of \$1.2 million) was attributed to the Optimal Payments business segment (which included the business now conducted by the FireOne Group business segment) and \$28.2 million was attributed to the hardware maintenance and repair outsourcing services business segment.

Transaction processing and service costs increased by \$25.2 million, from \$37.1 million in the nine-month period ended September 30, 2004 to \$62.3 million in the nine-month period ended September 30, 2005. The increase in transaction processing and service costs is due primarily to increased transaction processing activity as a result of organic growth as well as the business acquisitions as described above. Transaction processing and service costs include the direct costs of providing such services, including interchange for the payments business segment and direct labour, freight charges, consumables and fleet costs for the hardware maintenance and repair outsourcing services business segment.

Amortization of intangibles pertaining to transaction processing and service costs increased by \$3.8 million, from \$1.7 million in the nine-month period ended September 30, 2004 to \$5.5 million in the nine-month period ended September 30, 2005. The increase in amortization is due primarily to the intangible assets acquired from the various Optimal Payments business segment acquisitions, as described above.

Selling, general and administrative (“SG&A”) expenses increased by \$14.2 million, from \$17.7 million in the nine-month period ended September 30, 2004 to \$31.9 million in the nine-month period ended September 30, 2005. The increase in SG&A expenses is due primarily to the Optimal Payments business segment acquisitions, as described above.

Stock-based compensation pertaining to SG&A expense is attributable to the accounting for the fair value of stock options and restricted stock units granted. Stock-based compensation expense for the nine-month period ended September 30, 2005 increased by \$4.5 million, from \$3.8 million in the nine-month period ended September 30, 2004 to \$8.3 million. The increase in stock-based compensation results primarily from restricted share units granted by FireOne Group in 2005.

Operating lease expenses increased by \$0.6 million, from \$2.4 million in the nine-month period ended September 30, 2004 to \$3.0 million in the nine-month period ended September 30, 2005. The increase in operating lease expenses is due primarily to the MCA and UBC acquisitions, as described above.

Amortization of property and equipment increased by \$0.4 million, from \$1.2 million in the nine-month period ended September 30, 2004 to \$1.6 million in the nine-month period ended September 30, 2005. The increase in amortization is due primarily to the MCA and UBC acquisitions, as described above.

On June 30, 2005, we sold the net assets relating to the U.S. field maintenance service operations of our hardware maintenance and repair outsourcing services business segment. As a result of the sale, a goodwill impairment loss of \$1.5 million was recorded in the three-month period ended June 30, 2005 to write down goodwill to its estimated fair value.

Investment income increased by \$1.5 million, from \$1.1 million in the nine-month period ended September 30, 2004 to \$2.6 million in the nine-month period ended September 30, 2005. The increase in investment income is due primarily to higher average cash balances and increased interest rates as compared to the prior period.

The gain on the sale of our interest in FireOne Group of \$30.4 million resulted from the disposition of 20% of Optimal Group's ownership interest in FireOne Group. See note 3 to the interim consolidated financial statements.

The provision for income taxes was \$7.3 million for the nine-month period ended September 30, 2005 compared to \$0.5 million for the nine-month period ended September 30, 2004. The increase in the provision is due to the improvement in our earnings. The significant components of the provision in the current period include the utilization of previously unrecognized tax assets as a result of the sale of our interest in FireOne Group, the non-recognition of certain income tax benefits in our hardware maintenance and repair outsourcing services business segment, as well as the effect of non-deductible stock-based compensation and goodwill impairment in 2005 (see note 12 to our interim consolidated financial statements). In the nine-month period ended September 30, 2004, the income tax provision reflected the non-recognition of certain losses arising in our hardware maintenance and repair outsourcing services business segment.

Net earnings for the nine-month period ended September 30, 2005 were \$21.2 million (or \$0.85 per diluted share), compared to a net loss of \$9.7 million for the nine-month period ended September 30, 2004 (or \$0.50 per diluted share).

Underlying earnings from continuing operations before incomes taxes and non-controlling interest were \$24.9 million for the nine-month period ended September 30, 2005 compared to underlying earnings from continuing operations before income taxes and non-controlling interest of \$2.4 million for the nine-month period ended September 30, 2004. A reconciliation of this non-GAAP financial information is presented in the table below. We supplement our reporting of earnings (loss) from continuing operations before income taxes and non-controlling interest determined in accordance with Canadian and U.S. GAAP by reporting "underlying earnings (loss) from continuing operations before income taxes and non-controlling interest" as a measure of earnings (loss). In establishing this supplemental measure of earnings (loss), we exclude from earnings (loss) from continuing operations before income taxes and non-controlling interest those items which, in our opinion, are not reflective of our underlying core operations.

Examples of the type of items which are included in our earnings (loss) from continuing operations before income taxes and non-controlling interest as determined in accordance with Canadian and U.S. GAAP, but which are excluded in establishing underlying earnings (loss) from continuing operations before income taxes and non-controlling interest may include, but are not limited to restructuring charges, inventory write-downs, stock-based compensation, amortization of intangible assets, amortization of property and equipment, foreign exchange gains and losses, gain on sale of shares, income taxes, non-controlling interest and discontinued operations. Management believes that underlying earnings (loss) from continuing operations before income taxes and non-controlling interest is useful to investors as a measure of our earnings (loss) because it is, for us, a primary measure of our growth and performance, and provides a more meaningful reflection of underlying trends of our business.

Underlying earnings (loss) from continuing operations before income taxes and non-controlling interest does not have a standardized meaning under Canadian or U.S. GAAP and therefore should be considered in addition to, and not as a substitute for, earnings (loss) from continuing operations before

income taxes and non-controlling interest or any other amount determined in accordance with Canadian and U.S. GAAP. Our measure of underlying earnings (loss) from continuing operations before income taxes and non-controlling interest reflects management's judgment in regard to the impact of particular items on our core operations, and may not be comparable to similarly titled measures reported by other companies.

Reconciliation of Non-GAAP Financial Information
(in \$000s)

	<u>Nine months ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
Earnings (loss) from continuing operations before income taxes and non-controlling interest	36,814	(8,091)
Add (deduct):		
Gain on sale of interest in FireOne	(30,411)	-
Goodwill impairment	1,515	-
Restructuring costs	266	925
Inventory write-downs	-	2,931
Stock-based compensation pertaining to selling, general and administrative expenses	8,313	3,832
Amortization of intangibles pertaining to transaction processing and service costs	5,487	1,713
Amortization of property and equipment	1,575	1,239
Foreign exchange loss (gain)	1,343	(127)
	<hr/>	<hr/>
Underlying earnings from continuing operations before income taxes and non-controlling interest	<u>24,902</u>	<u>2,422</u>

Three-month period ended September 30, 2005 compared to the three-month period ended September 30, 2004

Revenues from continuing operations increased by \$16.5 million, from \$28.3 million in the three-month period ended September 30, 2004 to \$44.8 million in the three-month period ended September 30, 2005. The increase in revenues is due primarily to the following business acquisitions:

- On January 1, 2005, Optimal Payments acquired the operating assets of MCA; and
- On May 6, 2005, Optimal Payments acquired a portfolio of merchant processing from UBC.

Revenues for the three-month period ended September 30, 2005 include revenues from the Optimal Payments business segment amounting to \$17.8 million (including \$2.0 million of revenue charged to the FireOne Group business segment, pursuant to an inter-company services agreement), revenues from the FireOne Group business segment of \$20.0 million and revenues from the hardware maintenance and repair outsourcing services business segment of \$9.0 million. For the three-month period ended September 30, 2004, \$19.0 million (before inter-company charges of \$0.6 million) was attributed to the Optimal Payments business segment (which included the business now conducted by the FireOne Group business segment) and \$9.9 million was attributed to the hardware maintenance and repair outsourcing services business segment.

Transaction processing and service costs increased by \$5.7 million, from \$16.5 million in the three-month period ended September 30, 2004 to \$22.2 million in the three-month period ended September 30, 2005. The increase in transaction processing and service costs is due primarily to increased transaction processing activity as a result organic growth as well as the business acquisitions as described above. Transaction processing and service costs include the direct costs of providing such services, including interchange for the payments business segment and direct labour, freight charges, consumables and fleet costs for the hardware maintenance and repair outsourcing services business segment.

Amortization of intangibles pertaining to transaction processing and service costs increased by \$1.6 million, from \$0.9 million in the three-month period ended September 30, 2004 to \$2.5 million in the three-month period ended September 30, 2005. The increase in amortization is due primarily to the intangible assets acquired pursuant to the MCA and UBC acquisitions, as described above.

SG&A expenses increased by \$5.0 million, from \$6.9 million in the three-month period ended September 30, 2004 to \$11.9 million in the three-month period ended September 30, 2005. The increase in SG&A expenses is due primarily to the Optimal Payments business segment acquisitions, as described above and to support the growth experienced in our operations.

Stock-based compensation pertaining to SG&A expense is attributable to the accounting for the fair value of stock options and restricted share units granted. Stock-based compensation expense for the three-month period ended September 30, 2005 increased by \$1.7 million, from \$1.9 million in the three-month period ended September 30, 2004 to \$3.6 million. The increase in stock-based compensation in the current period is as a result of \$1.7 million of stock-based compensation relating to restricted share units granted by FireOne Group.

Operating lease expenses increased by \$0.2 million, from \$0.9 million in the three-month period ended September 30, 2004 to \$1.1 million in the three-month period ended September 30, 2005.

Amortization of property and equipment increased by \$0.1 million, from \$0.4 million in the three-month period ended September 30, 2004 to \$0.5 million in the three-month period ended September 30, 2005.

Investment income increased by \$0.6 million, from \$0.5 million in the three-month period ended September 30, 2004 to \$1.1 million in the three-month period ended September 30, 2005. The increase in investment income is due primarily to higher average cash balances and increased interest rates as compared to the prior period.

The provision for income taxes was \$1.4 million for the three-month period ended September 30, 2005 compared to a provision of \$0.5 million for the three-month period ended September 30, 2004. The increase in the provision is due to the improvement in our earnings, the non-recognition of certain income tax benefits in our hardware maintenance and repair outsourcing services business segment, as well as the effect of non-deductible stock-based compensation and goodwill impairment in 2005 (see note 12 to our interim consolidated financial statements). In the three-month period ended September 30, 2004, the income tax provision reflects the non-recognition of certain losses arising in our hardware maintenance and repair outsourcing services business segment.

Net earnings for the three-month period ended September 30, 2005 were \$0.5 million (or \$0.02 per diluted share), compared to net earnings of \$0.1 million for the three-month period ended September 30, 2004 (or \$0.01 per diluted share).

Underlying earnings from continuing operations before incomes taxes and non-controlling interest were \$10.8 million for the three-month period ended September 30, 2005 compared to underlying earnings from continuing operations before income taxes and non-controlling interest of \$4.5 million for the three-month period ended September 30, 2004. A reconciliation of this non-GAAP financial information is presented in the table below. We supplement our reporting of earnings (loss) from

continuing operations before income taxes and non-controlling interest determined in accordance with Canadian and U.S. GAAP by reporting “underlying earnings (loss) from continuing operations before income taxes and non-controlling interest” as a measure of earnings (loss). In establishing this supplemental measure of earnings (loss), we exclude from earnings (loss) from continuing operations before income taxes and non-controlling interest those items which, in our opinion, are not reflective of our underlying core operations.

Examples of the type of items which are included in our earnings (loss) from continuing operations before income taxes and non-controlling interest as determined in accordance with Canadian and U.S. GAAP, but which are excluded in establishing underlying earnings (loss) from continuing operations before income taxes and non-controlling interest may include, but are not limited to, restructuring charges, inventory write-downs, stock-based compensation, amortization of intangible assets, amortization of property and equipment, foreign exchange gains and losses, gain on sale of shares, income taxes, non-controlling interest and discontinued operations. Management believes that underlying earnings (loss) from continuing operations before income taxes and non-controlling interest is useful to investors as a measure of our earnings (loss) because it is, for us, a primary measure of our growth and performance, and provides a more meaningful reflection of underlying trends of our business.

Underlying earnings (loss) from continuing operations before income taxes and non-controlling interest does not have a standardized meaning under Canadian or U.S. GAAP and therefore should be considered in addition to, and not as a substitute for, earnings (loss) from continuing operations before income taxes and non-controlling interest or any other amount determined in accordance with Canadian and U.S. GAAP. Our measure of underlying earnings (loss) from continuing operations before income taxes and non-controlling interest reflects management’s judgment in regard to the impact of particular items on our core operations, and may not be comparable to similarly titled measures reported by other companies.

Reconciliation of Non-GAAP Financial Information
(in \$000s)

	<u>Three months ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
Earnings from continuing operations before income taxes and non-controlling interest	3,399	1,331
Add (deduct):		
Sale of interest in FireOne	167	-
Goodwill impairment	-	-
Restructuring costs	-	-
Inventory write-downs	-	-
Stock-based compensation pertaining to selling, general and administrative expenses	3,579	1,898
Amortization of intangibles pertaining to transaction processing and service costs	2,485	918
Amortization of property and equipment	508	450
Foreign exchange loss (gain)	629	(77)
	<hr/>	<hr/>
Underlying earnings from continuing operations before income taxes and non-controlling interest	<u>10,767</u>	<u>4,520</u>

Liquidity and Capital Resources

As at September 30, 2005, we had cash, cash equivalents, short-term investments and settlement assets of \$220.9 million (including \$22.7 million held as reserves) compared to \$189.9 million (including \$20.8 million held as reserves and \$3.5 million held in escrow) at December 31, 2004. Working capital, excluding cash and short-term investments held as reserves and cash held in escrow as at September 30, 2005, was \$74.4 million (December 31, 2004 - \$64.6 million). As described above, a significant portion of cash, cash equivalents and short-term investments have a corresponding liability as these amounts are derived from reserves and security deposits which are due to merchants (see *Overview – Optimal Payments and FireOne Group*). As at September 30, 2005, our cash, short-term investments and settlement assets position, net of bank indebtedness and customer reserves and security deposits, was \$120.5 million (see *Financial Condition* section above).

Operating activities generated \$42.2 million of cash and cash equivalents in the nine-month period ended September 30, 2005, compared to \$4.0 million used in the nine-month period ended September 30, 2004. The increase in cash generated was due to the improvement in net earnings and cash generated from the net change in operating assets and liabilities.

For the nine-month period ended September 30, 2005, cash generated from financing activities was \$4.5 million compared to \$0.5 million generated in the nine-month period ended September 30, 2004. The increase is due primarily to proceeds of \$6.7 million from the issuance of common shares on the exercise of stock options and warrants and the decrease in bank indebtedness of \$2.2 million.

For the nine-month period ended September 30, 2005, \$49.7 million was generated from investing activities compared to \$108.7 million generated in the nine-month period ended September 30, 2004. The decrease in cash generated from investing activities is due primarily to \$51.0 million used in the nine-month period ended September 30, 2005 for acquisitions.

We believe that our cash and short-term investments will be adequate to meet our currently anticipated needs for at least the next 12 months.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”), and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Words such as “expects”, “intends”, “anticipates”, “plans”, “believes”, “seeks”, “estimates”, or variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements include, but are not limited to, statements about our future growth opportunities and future business prospects. Investors are cautioned that all forward-looking statements involve risk and uncertainty. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation of our company or any other person that the objectives and plans of our company will be achieved.

The following factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, presently or in the future, and the factors discussed below may affect us to a greater extent than indicated. These risk factors are discussed in the context of the business as it existed at the date of this Form 10-Q. Risks related to our operations, including both the service and payments businesses are presented below under “RISKS RELATED TO OUR OPERATIONS”. Risks related specifically to our Optimal Payments and FireOne Group business segments are presented below under “RISKS RELATED TO OUR OPTIMAL PAYMENTS AND FIREONE GROUP BUSINESS SEGMENTS”, risks specifically related to our FireOne Group business segment are presented below under “RISKS RELATED TO OUR FIREONE GROUP BUSINESS SEGMENT” and risks related specifically to our service business are presented below under “RISKS RELATED TO OUR SERVICE BUSINESS”. Except to the extent set forth below under “RISKS RELATED TO OUR OPERATION OF THE *U-SCAN*® SELF-CHECKOUT BUSINESS”, risk factors related to the self-checkout business, which we no longer operate have ceased to be relevant to us. **All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth herein.** Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

RISKS RELATED TO OUR OPERATIONS

OUR ABILITY TO RETAIN KEY PERSONNEL IS IMPORTANT TO OUR GROWTH AND PROSPECTS. Our ability to complete the integration of acquisitions and to grow our business is particularly dependent upon the services of a few key personnel, the loss of any of whom could adversely affect our business and overall results of operations. The loss of key personnel or damage to their reputations could adversely affect our relationships with our strategic service providers, which would adversely affect our business.

WE MAY BE UNABLE TO FIND SUITABLE ACQUISITION CANDIDATES AND MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE BUSINESSES THAT MAY BE ACQUIRED INTO OUR OPERATIONS. As part of our recent history and future growth strategy, we have acquired, and intend to continue to acquire, other businesses. In the future, we may continue to seek acquisition candidates and, from time to time, engage in exploratory discussions with suitable candidates. There can be no assurance, however, that we will be able to identify and acquire targeted businesses or, to the extent required, obtain financing for such acquisitions on satisfactory terms. The process of integrating acquired businesses into our operations may involve unforeseen difficulties and may require a disproportionate amount of resources and management attention. In connection with future acquisitions, we may incur significant charges to earnings. Acquisitions involve a number of special risks, including the time and expense associated with identifying and evaluating acquisitions, the diversion of management's attention from day-to-day operations, the difficulty in integrating widely dispersed operations with distinct corporate cultures, the potential loss of key employees of the acquired company, the difficulty of incorporating acquired technologies successfully, the potential impairment of relationships with employees, clients and strategic partners and the inability to maintain uniform standards, controls, procedures and policies. In addition, customer satisfaction or performance problems at a single acquired firm could have a material adverse effect on our reputation. Future acquisitions may be financed through the issuance of common shares, which may dilute the ownership of our shareholders, or through the incurrence of indebtedness. Furthermore, there can be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of making acquisitions or making suitable acquisitions unattainable.

WE ARE SUBJECT TO THE RISK THAT A TAXATION AUTHORITY COULD CHALLENGE CERTAIN FILING POSITIONS WE HAVE TAKEN, AND THAT A SUCCESSFUL CHALLENGE COULD REQUIRE US TO PAY SIGNIFICANT ADDITIONAL TAXES. Although we believe that all filing positions we take in our tax returns are reasonable and appropriate, there is no assurance that a taxation authority will not challenge those positions. Such challenges could include disputing positions

taken in connection with the transfer of our online gaming processing business to FireOne Group earlier this year, and the subsequent public offering of a portion of its shares. A challenge to certain filing positions we have taken, if successful despite our best efforts to defend our original position, could result in us being required to pay additional taxes (including penalties and interest) and the amount of such additional taxes could be material to us.

RISKS RELATED TO OUR OPTIMAL PAYMENTS AND FIREONE GROUP BUSINESS SEGMENTS (COLLECTIVELY, “THE PAYMENTS BUSINESSES”)

The Payments Businesses are subject to a number of risks, which, should they materialize, can have a material adverse effect on our business, revenues, operating results and financial condition, including those set forth below:

OUR PAYMENTS BUSINESSES ARE AT RISK OF LOSS DUE TO FRAUD, DISPUTES AND MERCHANT INSOLVENCY. We face risks of loss due to fraud and disputes between consumers and merchants, including the unauthorized use of credit card and bank account information and identity theft, merchant fraud, disputes over the quality of goods and services, breaches of system security, employee fraud and use of our system for illegal or improper purposes.

When a consumer pays a merchant for goods or services using a credit card and the cardholder disputes the charge, the amount of the disputed item gets charged back to us and the credit card associations may levy fees against us. Chargebacks may arise from the unauthorized use of a cardholder's card number or from a cardholder's claim that a merchant failed to perform. Disputes may also arise when a consumer pays a merchant for goods or services using a check and the financial institution returns the check. In addition, if our chargeback or dispute rate becomes excessive, credit card and check clearing associations can also require us to pay fines and have done so in the past. There is no assurance that we will not be required to pay fines in the future and the amount of such fines may be material.

In turn, we attempt to recover from the merchant the amount charged back and the amount of such fines, however, we may not always be successful in doing so, for various reasons which could include merchant insolvency. We have taken measures to detect and reduce the risk of fraud, but cannot be assured of their total effectiveness.

WE MAY NOT BE ABLE TO SAFEGUARD AGAINST SECURITY AND PRIVACY BREACHES IN OUR ELECTRONIC TRANSACTIONS. Any inability on our part to protect the security and privacy of our electronic transactions could have a material adverse effect on our profitability. A security or privacy breach could:

- expose us to additional liability and to potentially costly litigation;
- increase expenses relating to the resolution of these breaches;
- deter customers from using our products; and
- decrease market acceptance of electronic commerce transactions generally.

We cannot assure that the use of applications designed for data security and integrity will address changing technologies or the security and privacy concerns of existing and potential customers.

OUR PAYMENTS SYSTEMS MIGHT BE USED FOR ILLEGAL OR IMPROPER PURPOSES. Despite measures that have been taken to detect and prevent identity theft, unauthorized uses of credit cards and similar misconduct, our payments systems remain susceptible to potentially illegal or improper uses. These may include illegal Internet gaming, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, software and other intellectual property piracy, money laundering, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages and tobacco products and online securities fraud. Despite measures that we have taken to detect and lessen the risk of this kind of conduct, we cannot be assured that these measures will succeed. Such illegal or improper use

may lead to increased government regulation or other legal consequences which may have an adverse impact on our operations and profitability.

WE MUST COMPLY WITH CREDIT CARD AND CHECK CLEARING ASSOCIATION RULES AND PRACTICES WHICH COULD IMPOSE ADDITIONAL COSTS AND BURDENS ON OUR PAYMENTS BUSINESSES. As a registered party, we must comply with the operating rules of various credit card associations and the National Automated Clearing House Association for checks. The associations' members set these rules. The associations could adopt operating rules with which we might find it difficult or even impossible to comply.

Furthermore, in cases of fraud or disputes between consumers and merchants, we face chargebacks and disputes when consumers dispute items for which they have been billed. If our chargebacks or disputes become excessive, our processing suppliers could fine us or terminate our ability to accept credit cards or checks for payments. The termination of our relationship with credit card or check clearing associations or acquiring banks would limit our ability to provide transaction-processing services.

WE MAY NOT BE ABLE TO DEVELOP NEW PRODUCTS THAT ARE ACCEPTED BY OUR CUSTOMERS. The success of our electronic payments operations depends upon acceptance of our technology. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products and enhancements, or that our new products and enhancements will be introduced in a timely fashion or will adequately meet the requirements of the marketplace and achieve market acceptance.

THE FAILURE OF OUR SYSTEMS, THE SYSTEMS OF THIRD PARTIES OR THE INTERNET COULD NEGATIVELY IMPACT OUR BUSINESS SYSTEMS AND OUR REPUTATION. Fires, floods, earthquakes, power losses, telecommunications failures, break-ins, security breaches and similar events could damage our systems. Computer viruses, disgruntled or rogue employees, electronic break-ins or other similar disruptive problems, including those beyond our control, could also adversely affect our systems. Our businesses and reputation could be adversely affected if such systems were affected by any of these occurrences. Our existing or future insurance policies may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems.

In particular, depending on volume growth, we may need to expand and upgrade our technology, transaction-processing systems and network infrastructure. We could experience periodic temporary capacity constraints, which may cause unanticipated system disruptions, slower response times and lower levels of customer service. We may be unable to accurately project the rate or timing of increases, if any, in the use of our services or to expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner.

Our success in our online businesses will depend, in large part, on other companies maintaining the Internet infrastructure. In particular, we will rely on the ability of Internet service providers (“ISPs”), telecommunication and other companies to maintain a reliable network backbone that provides adequate speed, data capacity and the infrastructure or complementary products and services necessary to establish and maintain the Internet as a viable commercial medium.

Users of electronic payment services are highly concerned about the security of transmissions over public networks. Individuals could possibly circumvent the measures that we take to protect customer transaction data. To the extent that our activities involve the storage and transmission of proprietary information, such as credit card or bank account numbers, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability.

INCREASING GOVERNMENT REGULATION OF INTERNET COMMERCE COULD MAKE IT MORE COSTLY OR DIFFICULT TO CONTINUE OUR BUSINESSES. As electronic commerce over the Internet develops, it may be the subject of increasing government regulation and there is a risk that well-established financial institutions and credit card companies will be able to influence the development of regulations in a manner which prioritizes their interests to our detriment. In addition, much of the

current legislation relating to commercial transactions pre-dates and may be incompatible with Internet electronic commerce. There can be no assurance that regulators will not choose to enact or enforce legislation in a manner that would restrict our operations and other aspects of the electronic commerce market. Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet.

Existing legislation in Canada, the United States and abroad regulates communications or commerce specifically; however, the application of such laws in the context of the Internet and electronic commerce is uncertain. Laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation and the characteristics and quality of online products and services are under consideration by federal, provincial, state, local and foreign governments and agencies.

In Canada, the *Personal Information Protection and Electronic Documents Act* was passed into law by the federal government effective January 1, 2001. Currently, this law regulates the inter-provincial collection, use and disclosure of personal information. This law is in addition to several provincial laws covering the same subject matter within a province currently in force or being considered.

In the United States, several telecommunication companies have petitioned the Federal Communications Commission to regulate ISPs and online service providers. The Federal Trade Commission and government agencies in certain states of the United States have been investigating certain Internet companies regarding their use of personal information. We could incur additional expenses if any new regulations regarding the use of personal information are introduced affecting the way in which we do business or if these agencies choose to investigate our privacy practices.

Any new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for our electronic commerce services, or increase the costs associated with providing such services or transmitting data over the Internet and generally stunt the development of the Internet and our growth.

WE RELY ON STRATEGIC RELATIONSHIPS AND SUPPLIERS. We have established and will continue to establish relationships with strategic partners and suppliers to help supply, promote and distribute our products and services. We are dependent upon maintaining as well as creating these relationships with strategic partners and suppliers, especially strategic banking relationships. The credit card association members and financial institutions on whom we rely in order to process our electronic transactions have adopted guidelines for the processing of transactions, including Internet gaming transactions. We believe that our operations comply in all material respects with these guidelines. However, credit card association members and financial institutions could nonetheless decide in the future to refuse to process transactions for us, or with respect to FireOne Group, to process Internet gaming transactions generally. Any such decision, when made by a particular credit card association member or financial institution, could be implemented with little or no advance notice to us. Should we not be able to conclude alternative arrangements with other credit card association members or financial institutions within the delays imposed by any such termination, or at all, our ability to carry out payment transactions would be impaired and we may not then be able to continue to carry on our business.

IT MAY BE COSTLY AND/OR TIME-CONSUMING TO ENFORCE OUR RIGHTS WITH RESPECT TO ASSETS HELD IN FOREIGN JURISDICTIONS. Certain of our suppliers' processing agreements require us to maintain cash reserves with such supplier. In some instances, these suppliers are located in overseas jurisdictions including the Caribbean and Europe. Should such a processing supplier not release our reserves in accordance with contractual requirements, we would be required to take legal action within that foreign jurisdiction. Any delay or inability in obtaining the funds held as reserve and the diversion of resources required to pursue the funds could negatively impact our financial condition and results of operations.

OUR ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY IS KEY TO OUR FUTURE GROWTH. We rely primarily upon a combination of copyright, trademark and trade secret laws, non-

disclosure and release of interest in intellectual property agreements and license agreements to establish and protect proprietary rights in our products and technology. The source codes for our products and technology are protected both as trade secrets and as unpublished, unregistered copyrighted works; however, we currently have no patents for our products and technology.

Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization or to develop similar technology independently. Policing unauthorized use of our products and services is and will continue to be difficult, particularly in the global environment in which we operate, and the laws of other jurisdictions may afford us little or no effective protection of our intellectual property. The global nature of the Internet will make it difficult to control the ultimate destinations of our products or services. We rely in part on "on-screen" licenses, which are not manually signed by end-users and, therefore, may be unenforceable under some laws. There is no assurance that any steps taken by us will prevent others from misappropriating our technology. We may engage in litigation related to our intellectual property; however, such litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources.

In addition, there is no assurance that our products and services are not within the scope of intellectual property rights held by others, either now or in the future. If any claims are asserted, we may seek to obtain a license under a third party's intellectual property rights. There can be no assurance that such a license would be available on reasonable terms or at all. We may also decide to defend against a claim of infringement; but litigation, even if successful, is costly and may have a material adverse effect on us regardless of the eventual outcome.

WE OPERATE IN A COMPETITIVE MARKET FOR OUR PRODUCTS AND SERVICES. Potential competitors to our electronic commerce solutions include credit card association members, financial institutions, payment processors and other entities, any of which may have greater financial resources, an entrenched position in the market or greater brand recognition. These potential competitors may be able to require that their own technology, rather than the technology of others, including our own, be used in connection with their payment mechanisms. Competition is likely to intensify as our market develops and matures, which could result in price reductions, reduced margins or loss of market share.

Furthermore, there can be no assurance that we will be able to identify, develop, manufacture, market or support new products or offer new services successfully, that such new products or services will gain market acceptance, or that we will be able to respond effectively to technological changes or product announcements by competitors. Any failure by us to anticipate or respond adequately to technological developments and customer requirements or any significant delays in product developments or introductions could result in a loss of market share or revenues.

There can be no assurance that our competitors will not develop technologies and products that are as or more effective and efficient than our products or that our technologies and products will not be rendered obsolete by such developments. As well, there can be no assurance that other companies with greater financial and technological resources will not develop electronic commerce technologies for the Internet with similar or better capabilities than our products or that we will be able to compete successfully against existing competitors or future entrants into the market. Products developed by competitors may achieve greater market acceptance than our products.

WE RELY UPON INDEPENDENT SALES AGENTS TO RETAIN AND ACQUIRE OUR CUSTOMERS. In addition to our internal sales and marketing efforts, we rely upon independent sales agents to retain and acquire customers. Our arrangements with these independent sales agents are non-exclusive. Any failure by us to maintain our relationships with our independent sales agents could negatively impact our results of operations.

OUR BUSINESS SYSTEMS ARE BASED ON SOPHISTICATED TECHNOLOGY WHICH MAY BE NEGATIVELY AFFECTED BY TECHNOLOGICAL DEFECTS AND PRODUCT DEVELOPMENT DELAYS. Products and services based on sophisticated technology and computing systems often encounter development delays, and the underlying technology may contain undetected errors or failures when introduced or when the volume of services provided increases. We may experience delays in the development of our products, or the technology and computing systems underlying our services, such as our transaction processing services. In addition, despite testing, it is possible that our technology may nevertheless contain errors, and this could delay product launches and innovations and damage customer relations.

WE RELY UPON ENCRYPTION TECHNOLOGY TO CONDUCT SECURE ELECTRONIC COMMERCE TRANSACTIONS. A significant barrier to electronic commerce and communication is the secure transmission of confidential information over public networks. Our electronic commerce software uses encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Despite the fact that we strive to make use of proven applications for premium data security and integrity to process electronic transactions, there can be no assurance that use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential clients. A security or privacy breach may cause our clients to lose confidence in our services, deter clients from using our services, harm our reputation, expose us to liability, increase our expenses from potential remediation costs and decrease market acceptance and growth of our product offerings.

OUR ABILITY TO PROCESS ELECTRONIC TRANSACTIONS DEPENDS ON BANK PROCESSING AND CREDIT CARD SYSTEMS. These systems and operations are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. In order to prepare for certain types of system problems, we have developed and are testing formal disaster recovery plans, however, there is no assurance that any disaster recovery plan which we might implement will protect us from all possible system failures. Any system failure, including network, software or hardware failure, that causes a delay or interruption in our electronic payment services could result in reduced use, reduced revenue and harm to our reputation, brands and relations with merchants and end-users.

Delayed response times and interruptions in service associated with our electronic transaction processing, including delays or interruptions relating to high volumes of traffic or technological problems, may result in a loss of merchants and end-users using our electronic payment software for transaction processing.

WE ARE SUBJECT TO EXCHANGE RATE FLUCTUATIONS BETWEEN THE U.S. AND CANADIAN DOLLARS. The majority of our revenues are generated in U.S. dollars and a significant portion of our expenses is incurred in Canadian dollars. Any fluctuation in the value of the Canadian dollar relative to the U.S. dollar may result in variations in our revenues and earnings. We have not implemented a currency hedging program.

WE MAY BE SUBJECT TO LIABILITY OR BUSINESS INTERRUPTION AS A RESULT OF UNAUTHORIZED DISCLOSURE OF MERCHANT AND CARDHOLDER DATA THAT WE STORE. We collect and store sensitive data about merchants and cardholders, including names, addresses, social security numbers, drivers' license numbers, checking and savings account numbers and payment history records, such as account closures and returned checks. In addition, we maintain a database of cardholder data relating to specific transactions, including payment card numbers and cardholder addresses, in order to process the transactions and for fraud prevention and other internal processes. If a person penetrates our network security or otherwise misappropriates sensitive merchant or cardholder data, we could be subject to liability or business interruption.

Although we require that our agreements with service providers who have access to merchant and customer data include confidentiality obligations that restrict these parties from using or disclosing any customer or merchant data except as necessary to perform their services under the applicable agreements,

there can be no assurance that these contractual measures will prevent the unauthorized disclosure of merchant or customer data. In addition, our agreements with financial institutions require us to take certain protective measures to ensure the confidentiality of merchant and consumer data. Any failure to adequately take these protective measures could result in protracted or costly litigation.

OUR BUSINESSES ARE SUBJECT TO FLUCTUATIONS IN GENERAL BUSINESS CONDITIONS. General economic conditions have caused some of the merchants we serve to experience difficulty in supporting their current operations and implementing their business plans. If these merchants make fewer sales of their products and services, we will have fewer transactions to process, resulting in lower revenues.

In addition, in a recessionary environment, the merchants we serve could be subject to a higher rate of insolvency, which could adversely affect us financially. We bear credit risk for chargebacks related to billing disputes between credit card holders and bankrupt merchants. If a merchant seeks relief under bankruptcy laws or is otherwise unable or unwilling to pay, we may be liable for the full transaction amount of a chargeback.

RISKS RELATED TO OUR FIREONE GROUP BUSINESS SEGMENT

THE LEGAL STATUS OF INTERNET GAMING IS UNCERTAIN AND FUTURE REGULATION MAY MAKE IT COSTLY OR IMPOSSIBLE TO CONTINUE PROCESSING FOR GAMING MERCHANTS. As electronic commerce in general and most of the products and services that we offer are relatively new, the manner in which existing state, provincial, federal and foreign government regulations may be applied is uncertain and difficult to predict. Due to the relatively recent development of Internet gaming, there are few, if any, laws or regulations that deal directly with payment processing for Internet gaming transactions. In addition, the legal status of Internet gaming itself is uncertain. While some jurisdictions have taken the position that Internet gaming is legal and have adopted or are in the process of reviewing legislation to regulate Internet gaming, other jurisdictions have taken the opposite view and enacted legislation to attempt to restrict or prohibit Internet gaming. For example, in the United States for the past several years there have been conflicting efforts to clarify the status of Internet gaming. The impact of those efforts cannot be predicted. To date, no legislation on the subject has successfully passed the U.S. Congress and become law. Moreover, the impact of enactment of Internet gaming legislation would not necessarily be immediately apparent. Among other things, any new law addressing the funding of Internet gaming likely would require implementing regulations in order to take full effect. Those regulations may require some time to formulate and adopt. Should the United States government decide to enact legislation making the funding of Internet gaming activities by U.S. residents unlawful, it may have a significant negative impact on us. Since we derive a substantial portion of our revenue from processing transactions for licensed Internet gaming, we may be exposed to governmental investigations or lawsuits initiated by the public in jurisdictions where Internet gaming is restricted or prohibited. Any adverse findings or rulings rendered against us in such jurisdictions could have a material adverse effect on our business, revenues, operating results and financial condition. The present uncertainty also could affect us indirectly through the effect experienced by our clients and on their revenues and directly in the event that we are restricted from conducting our activities through, for example, a decision by banks through which we settle our clients' transactions to terminate their agreements with us or to significantly increase the costs to us for their services, or through further decisions by credit card issuing banks to reject Internet gaming transactions.

WE FACE UNCERTAINTIES WITH REGARD TO LAWSUITS, REGULATIONS AND SIMILAR MATTERS. There is a risk that criminal and civil proceedings, including class actions brought by or on behalf of public entities or private individuals, could be initiated against us, ISPs, credit card processors and others involved in the Internet gaming industry. Any future legal proceedings against us relating to Internet gaming could involve substantial litigation expense, penalties, fines, injunctions or other prohibitions being invoked against us or our licensees or others and the diversion of the attention of key executives. The outcome of any litigation cannot be predicted.

OUR STATUS UNDER CERTAIN FINANCIAL SERVICES REGULATIONS IS UNCLEAR. We operate in an industry subject to government regulation. We currently are subject to money laundering regulations and might now or in the future be subject to money transmitter or e-money regulations, in various jurisdictions. If we are found to be in violation of any current or future regulations, we could be exposed to financial liability, including substantial fines which could be imposed on a per transaction basis and disgorgement of our profits; forced to change our business practices; or forced to cease doing business altogether or with the residents of one or more jurisdictions.

RISKS RELATED TO OUR SERVICES BUSINESS

The services business is subject to a number of risks, which, should they materialize, can have a material adverse effect on our business, revenues, operating results and financial condition, including those set forth below:

OUR CONTRACTS FOR SERVICES MAY NOT BE RENEWED OR MAY BE REDUCED. As is customary in the hardware services industry, we can experience reductions in our contract-based revenue, as customers may eliminate certain equipment or services from coverage under their contracts. We believe that the principal reasons for the loss of contract-based revenue are the replacement of the equipment being serviced with new equipment covered under a manufacturer's warranty, the discontinuance of the use of equipment being serviced for a customer due to obsolescence or a customer's determination (based on cost, quality and scope of services) to utilize a competitor's services or to move technical support services in house. There can be no assurance that we will be able to offset the reduction of contract-based revenue and maintain revenue growth through new contracts in the future. Any failure to enter into new contracts or add additional services and equipment to existing contracts could have a material adverse effect on our results.

WE RELY UPON CERTAIN CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SERVICES REVENUES. Two customers accounted for approximately 25% and 16% of our year to date revenues from our services business, respectively. Any reduction in volume from either of these customers could have a material adverse effect on our services results.

OUR BUSINESS IS AFFECTED BY COMPUTER INDUSTRY TRENDS. Our future success is dependent upon (i) the continuation of a number of trends in the computer industry, including the migration by information technology end-users to multi-vendor and multi-system computing environments, the overall increase in the sophistication and interdependency of computing technology, and a focus by information technology managers on cost efficient management and (ii) our ability to diversify our services to meet the needs of clients with respect to these trends. We believe that these trends have resulted in a movement by both end-users and OEMs towards outsourcing and an increased demand for support service providers that have the ability to provide a broad range of multi-vendor support services. There can be no assurance that these trends will continue in the future.

WE OPERATE IN A MARKET SUBJECT TO RAPID TECHNOLOGICAL CHANGE. Rapid technological change and compressed product life cycles are prevalent in the computer industry, which may lead to the development of improved or lower cost technologies, higher quality hardware with significantly reduced failure rates and maintenance needs, or customer decisions to replace rather than continue to repair and maintain aging hardware, which could result in a reduced need for our services in the future. Moreover, such rapid technological changes could adversely affect our ability to predict equipment failure rates and, therefore, to establish prices that provide adequate financial results. Similarly, new computer systems could be built based upon proprietary, as opposed to open, systems that cannot be serviced by us.

THE FAILURE OF OUR SYSTEMS COULD NEGATIVELY IMPACT OUR BUSINESS AND OUR REPUTATION. Fires, floods, earthquakes, power losses, telecommunications failures, break-ins, security breaches and similar events could damage our systems. Computer viruses, disgruntled or rogue

employees, electronic break-ins or other similar disruptive problems, including those beyond our control, could also adversely affect our systems. Our business and reputation could be adversely affected if such systems were affected by any of these occurrences. Our existing or future insurance policies may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. In order to prepare for certain types of system problems, we have developed a formal disaster recovery plan, however, there is no assurance that any disaster recovery plan which we might implement will protect us from all possible system failures. Any system failure, including network, software or hardware failure, that causes a delay or interruption in our services could result in reduced revenue and harm to our reputation, brand and relations with our customers.

OUR PER INCIDENT REVENUES ARE VARIABLE. Per incident revenues, which consist primarily of revenues from services performed for customers on an as requested basis (e.g., projects, help desk services, parts repair, installations and moves, installation and de-installation of computer equipment), are subject to monthly variation due to the nature of per incident revenue transactions. It is difficult for us to estimate the impact or amount of future per incident revenues because per incident revenues are dependent on customer demand, which fluctuates based upon various factors such as competition and customers' use of internal employees. We may not be able to generate significant amounts of per incident revenue in the future.

WE OPERATE IN A HIGHLY COMPETITIVE MARKET AND THERE IS NO ASSURANCE THAT WE WILL BE ABLE TO COMPETE SUCCESSFULLY AGAINST CURRENT OR FUTURE COMPETITORS. Competition among hardware support service providers, both OEMs and independent service organizations, is intense. We believe that a significant portion of industry hardware maintenance services is currently serviced by OEM service organizations. The remainder of the technology support services market is serviced by a small number of larger, independent companies, such as ourselves, offering a broader range of service capabilities, as well as numerous small companies focusing on narrower areas of expertise or serving limited geographic areas.

In many instances, OEM service organizations have greater resources than us, and, because of their access to the OEM's engineering data, may be able to respond more quickly to servicing equipment that incorporates new or emerging technologies. Moreover, some OEMs do not make available to end-users or independent service organizations the technical information, repairable parts, diagnostics, information that relates to engineering changes and other support items required to service their products, and design and sell their products in a manner so as to make it virtually impossible for a third party to perform maintenance services without potentially infringing upon certain proprietary rights of the OEM. In addition, OEMs are sometimes able to develop proprietary remote diagnostic or monitoring systems, which we may not be able to offer. Therefore, OEM service organizations sometimes have a cost and timing advantage over us because we must first develop or acquire from another party the required support items before we can provide services for that equipment. An OEM's cost advantage, the unavailability of required support items or various proprietary rights of the OEM may preclude us from servicing certain products. Furthermore, OEMs usually provide warranty coverage for new equipment for specified periods, during which it is not economically feasible for us to compete for the provision of maintenance services. To the extent that OEMs choose, for marketing reasons or otherwise, to expand their warranty periods or terms, our business may be adversely affected.

WE RELY ON SINGLE SUPPLIERS FOR SOME OF OUR INVENTORY. Spare parts purchases are made from OEMs and other vendors. We, from time to time, will have only a single supplier for a particular part, which, in some cases, may be the OEM for such spare part. Should a supplier be unwilling or unable to supply any part or component in a timely manner, our business could be adversely affected.

WE MAY NOT BE ABLE TO ACCURATELY PREDICT OUR INVENTORY REQUIREMENTS. In order to service our customers, we are required to maintain a high level of spare parts for extended periods of time. Any decrease in the demand for our maintenance services could result in a substantial portion of our spare parts becoming excess, obsolete or otherwise unusable. In addition, rapid changes in technology could render significant portions of our spare parts obsolete, thereby giving rise to write-offs and a reduction in financial results. Our inability to manage our spare parts or the need to write them off

in the future could have a material adverse effect on our business, financial results and results of operations.

WE MAY BE SUBJECT TO UNFORESEEN DIFFICULTIES IN MANAGING CUSTOMERS' EQUIPMENT. In some instances, we manage equipment on behalf of our customers. In these cases, we are required to adhere to specific service level agreements. Any negative variation from the contractual service level agreement could result in us having to reimburse the customer for the variance. As well, we could have to provide discounts to the customer for a negative variation in the specified service level.

WE MAY FAIL TO PRICE FIXED FEE CONTRACTS ACCURATELY. Under some of our contracts, the customer pays a fixed fee for customized bundled services that are priced by us based on our best estimates of various factors, including estimated future equipment failure rates, cost of spare parts and labor expenses. There can be no assurance that we will be able to estimate these factors with sufficient accuracy in order to price these fixed fee contracts on terms favorable to us. Our failure to price these fixed fee contracts accurately could have a material adverse effect on our financial results.

RISKS RELATED TO OUR OPERATION OF THE U-SCAN® SELF-CHECKOUT BUSINESS

WE MAY BE SUBJECT TO ADDITIONAL LITIGATION STEMMING FROM OUR OPERATION OF THE U-SCAN® SELF-CHECKOUT BUSINESS. In 2004, we settled an action alleging that the *U-Scan*® self-checkout systems that we marketed infringed upon the claimant's patent. A second party has sent demand letters to us alleging a different patent infringement (see *Part II - Other Information; Item 1 – Legal Proceedings*). We may in the future be subject to other litigation, which relates to our having carried on the self-checkout business. Litigation may be time consuming, expensive and distracting from the conduct of our current businesses, and the outcome of litigation is difficult to predict. The adverse resolution of any specific lawsuit could have a material adverse effect on our business, results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the disclosures of market risk, as contained in our Annual Report on Form 10-K for the year ended December 31, 2004.

Item 4. Controls and Procedures

As of September 30, 2005 (the "Evaluation Date"), under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Additionally, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we concluded that there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our most recent fiscal quarter.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We received a demand letter in 1999, and again in February 2001 from the same party, alleging a patent infringement related to the *U-Scan*® self-checkout business that we were operating at that time. In March 2003, this party sent a third demand letter to us alleging infringement of additional patents. Although, after consultation with counsel, we believe that this claimant should not prevail if a lawsuit is brought to assert its claims and that the assertion of these claims will not have a material adverse effect on our business or prospects, no assurance can be given that a court will not find that the *U-Scan*® self-checkout system infringes upon such claimant's rights. We sold our self-checkout business on April 8, 2004, and no longer market or sell the *U-Scan*® self-checkout system. Nevertheless, we remain responsible for this claim.

On March 11, 2005, and again on March 31, 2005, we received a letter from Fujitsu claiming recovery of expenses allegedly incurred and forecast by Fujitsu to be incurred in relation to the operation of our former *U-Scan*® self-checkout business. After consultation with counsel, we believe that there is no basis for these claims and we intend to vigorously defend our position should Fujitsu initiate a lawsuit to assert its claims.

We are also party to litigation arising in the normal course of operations. We do not expect the resolution of such matters to have a materially adverse effect on our financial position or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three-month period ended September 30, 2005, we issued 9,064 common shares as a result of the exercise of warrants. The proceeds of approximately \$0.1 million will be used for general corporate purposes. The holders of the warrants were not located in the United States and were not "U.S. Persons" within the meaning of Regulation S, and, accordingly, the issuances of common shares pursuant to the exercise of the warrants were not subject to the registration requirements of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

The registrant has nothing to report under this item.

Item 4. Submission of Matters to a Vote of Security Holders

The registrant has nothing to report under this item.

Item 5. Other Information

Reporting Status

We were a foreign private issuer under the rules and regulations of the Commission as of September 30, 2005. As in the past, we intend to voluntarily file annual reports on Form 10-K and quarterly reports on Form 10-Q.

Item 6. Exhibits

Exhibits

<u>Exhibit Number</u>	<u>Exhibit</u>
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- | | |
|------|---|
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 9, 2005

Optimal Group Inc.

By: /s/ Neil S. Wechsler
Neil S. Wechsler, Co-Chairman
and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Gary S. Wechsler
Gary S. Wechsler, Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Neil S. Wechsler, certify that:

1. I have reviewed this report on Form 10-Q of Optimal Group Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - iii) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - iv) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 9, 2005

By: /s/ Neil S. Wechsler
Neil S. Wechsler
Co-Chairman and
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary S. Wechsler, certify that:

1. I have reviewed this report on Form 10-Q of Optimal Group Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - iii) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - iv) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 9, 2005

By: /s/ Gary S. Wechsler
Gary S. Wechsler
Treasurer and
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Co-Chairman and Chief Executive Officer of Optimal Group Inc. (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the "Report"), fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated November 9, 2005

/s/ Neil S. Wechsler
Neil S. Wechsler
Co-Chairman and
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of this report or as a separate disclosure document.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Treasurer and Chief Financial Officer of Optimal Group Inc. (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the "Report"), fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2005

/s/ Gary S. Wechsler
Gary S. Wechsler
Treasurer and
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of this report or as a separate disclosure document.