



STIKINE ENERGY CORP.

(formerly Stikine Gold Corporation)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(FORM 51-102F1)

YEAR ENDED FEBRUARY 28, 2011

JUNE 1, 2011



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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED FEBRUARY 28, 2011

Date of Report

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements and related notes thereto for years ended February 28, 2011 and 2010, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A is prepared as of June 1, 2011. All amounts in the financial statements and this MD&A are expressed in Canadian dollars, unless otherwise indicated.

Description of Business

Stikine Energy Corp. (the "Company") is engaged in the exploration for mineral resources. Currently, the Company is focused on evaluating various silica sources located in north eastern British Columbia for commercial frac sand potential.

Selected Annual Financial Results

The information below has been extracted from the Company's audited annual financial statements.

	Years Ended		
	February 28, 2011	February 28, 2010	February 28, 2009
Total revenues	Nil	Nil	Nil
Net income (loss)	48,457 ¹	(140,568)	(1,769,922) ²
Net income (loss) per share - basic and diluted	0.00	(0.01)	(0.04)
Total assets	10,913,634	1,017,378	103,276
Total long term debt	Nil	Nil	Nil

Note 1: The net income for year-ended February 28, 2011 includes a future income tax recovery of \$994,246.

Note 2: The loss for the year-ended February 28, 2009 includes a write-off of \$1,542,781 in resource property costs.

Summary of Quarterly Results

The information below has been extracted from the Company's unaudited interim quarterly financial statements.

	Feb. 28, 2011	Nov. 30, 2010	Aug. 31, 2010	May 31, 2010
Total revenues	Nil	Nil	Nil	Nil
Net income (loss)	392,231 ¹	(67,451)	(101,004)	(175,319) ²
Net income (loss) per share - basic and diluted	0.00	(0.01)	(0.01)	(0.01)
Total assets	10,913,634	4,566,160	4,851,488	1,368,342
Total long term debt	Nil	Nil	Nil	Nil

	Feb. 28, 2010	Nov. 30, 2009	Aug. 31, 2009	May 31, 2009
Total revenues	Nil	Nil	Nil	Nil
Net income (loss)	14,525 ³	(83,035)	(43,635)	(28,423)
Net income (loss) per share -basic and diluted	0.01	(0.01)	(0.01)	(0.01)
Total assets	1,017,378	1,146,666	352,631	105,241
Total long term debt	Nil	Nil	Nil	Nil

Note 1: The net income recorded during the quarter ended February 28, 2011 includes future income tax recoveries of \$994,246.

Note 2: The net loss for the quarter ended May 31, 2010 includes stock based compensation expense of \$120,630.

Note 3: The net income for the quarter ended February 28, 2010 includes a tax credit of \$49,721 and a future income tax recovery of \$16,719.



Quarter Ended February 28, 2011

During the three months ended February 28, 2011, the Company recorded income of \$392,231 compared to income of \$14,525 in the fourth quarter ended February 28, 2010. The income increased substantially as the Company recorded a future income tax recovery of \$994,246 versus only \$16,719 in the fourth quarter of the previous year.

Results of Operations

During the year ended February 28, 2011, the Company recorded income of \$48,457 and deferred acquisition and exploration costs of 4,930,311 versus a loss of \$140,568 and deferred acquisition and exploration costs of \$983,193 for the year ended February 28, 2010. During the current year the Company recorded a future income tax recovery of \$994,236 versus only \$16,719 in the prior year. The gain from future income taxes was partially offset by substantially higher stock based compensation expense in 2011, and generally higher administrative expenses (a function of the Company's greater activity level).

British Columbia Silica Properties

The Company holds a 100% interest in approximately 125,000 hectares of mineral claims covering prospective silica zones and potential access/infrastructure sites in northeastern British Columbia. Based on preliminary field work conducted in 2009, the Company determined that several of the properties meet the criteria for raw silica sources that could potentially be used in the production of frac sand. Frac sand is an indispensable component in the development of unconventional tight shale gas wells, such as the nearby Horn River, Liard and Montney basins.

Work to date indicates that the Nonda and Angus properties represent the most advanced opportunities to develop frac sand sources, subject to further sampling and process testwork. Sampling and mapping at the Nonda property highlight its very large-scale potential over an impressive 11,500-metre by 1,000-metre area. Petrographic analysis of samples collected from Nonda indicate the rocks are very pure with up to 99 percent silica comprising variably sized quartz grains that fall within the required range for commercial frac sand.

Over the past year, bench-scale process testing of samples has resulted in the development of a process flow sheet for Nonda and Angus material using industry standard equipment. At various stages in the development of the flow sheet, products were sampled and submitted for proppant testing and characterization at Stim-Lab (a Core Laboratories company). The results of that work showed that liberation of monocristalline quartz (sand) grains could be readily achieved and that through cleaning and sorting stages, final products could be made that exceed recommended parameters for frac-quality sand.

The bench-scale final products of Nonda "40/70" frac sand and "100 mesh" frac sand were then submitted for long term conductivity testing and show excellent results. A similar process flow sheet from Angus material will be employed to liberate and sort generally coarser sand products, including "20/40", "30/50", "40/70" and other mesh sizes for the Montney Basin.

Pilot-scale testing is underway in Abbotsford, BC for 430 tonnes of Nonda samples and approximately 500 tonnes of Angus samples. After the various process components have been adjusted and sized to meet the demands of the larger process testing, the plant will enter a production phase resulting in the delivery of bagged frac sand. Proppant testing of this material will also be carried out to confirm its quality.

To February 28, 2011, the Company had recorded acquisition costs totalling \$87,426 and deferred exploration costs of \$5,826,078.



Personnel Developments

In March of 2010, the Company received the resignation of director John M. Mirko who left the board to focus on other commitments. The Company subsequently appointed Cleve R. Graham to the board of directors and Robert W. (Bob) Chambers, P.Eng, as vice-president, environment and sustainability.

Mr. Graham has been focused on oil and gas well completions for much of his 34 years in the industry. For the past 10 years he has concentrated on project development work and during the last five years has been heavily involved in the horizontal or unconventional aspect of the business. His work has primarily focused on the Horn River basin located in northeast British Columbia. During this time he worked closely with Apache Canada and EnCana Corporation on multistage shale-gas completions including: hydraulic fracturing procedures, equipment and consumables such as frac sand. He helped to develop an entirely new approach to how surface operations for such completions are handled. He is widely recognized as an expert in the field and continues to work with several oil and gas companies in the industry.

Mr. Chambers will be responsible for environmental and development planning for all of the Company's operations and project sites. He is a geotechnical engineer with over 20 years experience in site assessment, design and environmental aspects of tailings, mine rock and water management for mining projects. He has worked on projects in British Columbia, Yukon, Northwest Territories, Manitoba, Saskatchewan, Ontario, United States, Mexico, Peru, Chile, Indonesia, Ireland, Slovakia, Papua New Guinea and the Philippines. Mr. Chambers has a bachelor of applied science degree in geological engineering and a master of engineering in civil engineering from the University of British Columbia. Mr. Chambers is a member of the Association of Professional Engineers and Geoscientists of British Columbia.

Liquidity and Financial Position

The viability of the Company's future operations is dependent on future financing. At February 28, 2011, the Company had cash and cash equivalents of \$4,753,335 and working capital of \$4,489,242. While the Company has sufficient capital to meet its short term exploration and engineering objectives, further capital will be required to advance its various B.C. Silica properties through the development and production phases. While management continues to seek financing for the Company and has been successful in the past; there is no assurance that these initiatives will be successful in the future.

Financial Instruments

Fair Values and Hierarchy Levels

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "*Held-For-Trading*" and recorded at fair value with changes in fair value recorded in net income;
- Reclamation bond amounts are classified as "*Available-for-Sale*" and recorded at fair value with temporary changes in fair value recorded in other comprehensive income;
- Receivables are classified as "Loans and Receivables". These financial assets are recorded at values that approximate their amortized cost using the effective interest method; and
- Accounts payable, accrued liabilities, and due to related parties are classified as "*Other Financial Liabilities*". These financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method.

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:



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- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.

The carrying amounts of financial instruments approximate fair value as of February 28, 2011 as shown below:

	Fair Value Hierarchy Level		Carrying and Fair Values
Financial Assets			
Cash and cash equivalents	2	\$	4,753,335
Reclamation bonds	2	\$	16,000
Accrued interest receivable	N/A	\$	8,498
Financial Liabilities			
Accounts payable and accrued liabilities	N/A	\$	420,716
Due to related parties	N/A	\$	50,435

The fair values of the Company's accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

Financial Instrument Risk Management

The Company is exposed to potential loss from various risks including credit risk, foreign exchange risk, interest rate risk, liquidity risk, market risk and commodity price risk.

i) Credit Risk

Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company maintains its cash and cash equivalents and reclamation bonds in Canadian Chartered Banks. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

ii) Foreign Exchange Risk

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at February 28, 2011.

iii) Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's financial statements or operating results.



iv) Liquidity Risk

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. The Company had working capital of \$4,489,242 and cash and cash equivalents of \$4,753,335 at February 28, 2011. At February 28, 2011, the liquidity risk of the Company was considered high due to the general uncertainty in the world economy.

v) Pledged Financial Assets

The Corporation has financial assets that are pledged for reclamation obligations. Reclamation deposits are maintained to satisfy the Corporation's obligation for future reclamation expenditures at its various exploration properties.

vi) Market and Commodity Price Risk

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities can affect the Company's ability to raise capital to fund its ongoing exploration and development activities.

Critical Accounting Estimates

The Company's accounting policies are described in Note 2 to the Company's annual and interim financial statements. The preparation of these financial statements in conformity with Canadian generally accepted accounting policies requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. The estimates made in applying the policies below can be uncertain and a change in these estimates could materially impact the financial statements.

Resource Property Costs

The costs associated with resource costs and/or equipment include acquired interests in exploration stage properties representing the fair value at the time they were acquired. The values of such mineral properties are primarily driven by the nature and amount of mineral interests believed to be contained or potentially contained, in properties to which they relate. The Company reviews and evaluates its mining interests for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs. Where future net cash flows cannot be estimated and other events or changes in circumstances suggest impairment, management determines whether the carrying cost is recoverable and at fair value using best estimates and comparative situations in the marketplace.

Asset Retirement Obligations

The Company is subject to various laws governing reclamation of its exploration sites. These laws are continually changing and these changes may affect the procedures and costs required to complete reclamation obligations. Estimates of the fair value of these liabilities for asset retirement obligations are recognized in the period they are incurred. A corresponding increase in the related asset is recorded and depreciated over the estimated life of the asset. If the fair value of the liability decreases due to changes in future cash flow estimates, a corresponding decrease in the related asset is recorded. If the reduction exceeds the value of the related asset, the remaining amount is reduced through earnings. Where a



related asset is not identifiable with a liability, the change in fair value is charged to earnings in the period. Each period, the liability is increased to reflect the accretion (or interest) portion of the initial fair value estimate and changes in estimated cost and timing of the reclamation procedures. Actual future reclamation costs may be materially different from the costs estimated by the Company.

Stock Option and Warrant Valuation

The determination of the fair value of stock options and warrants issued requires management to estimate future stock volatility, expected life, and a risk-free rate of return. The Company uses historic information to estimate these future variables and these estimates could materially impact the financial statements.

Income and Mining Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts and their respective tax bases, and for tax losses and other deductions carried forward. The Company evaluates the carrying values of its future tax assets periodically by assessing its valuation allowance and by adjusting the amount of such valuation allowance in the period, if necessary.

New Accounting Pronouncements

i) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has published a strategic plan outlining the convergence of Canadian GAAP with IFRS and determined that publicly-listed companies must adopt IFRS for fiscal years beginning on or after January 1, 2011. The Company's transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company will shortly be completing its IFRS-compliant financial statements for use as comparative figures.

The Company's IFRS changeover plan involves a scoping and planning phase, an assessment and evaluation phase, and an implementation phase. Management has now generally completed the first and second phases having identified and prioritized areas of difference between Canadian GAAP and IFRS.

As part of its assessment and evaluation phase, management is analyzing the various exemptions available for the purpose of determining which, if any, it will elect to apply upon adoption of IFRS. The key personnel involved in the development and execution of the implementation phase have undergone training. While assessment and evaluation are not entirely complete, the adoption of IFRS is not expected to have a significant impact on the Company's information technology and data systems, internal control over financial reporting, disclosure controls and procedures, investor relations, and financial reporting personnel.

While the Company has performed its initial reviews of IFRS as of the date of this report, the full financial reporting impact of the transition to IFRS has not been determined at this time. The Company's assessment of differences between Canadian GAAP and IFRS is based on known standards at the date of this report, and the Company's current and expected future business activities. Changes in standards, and future business activities could lead to differences in the Company's financial statements and related disclosures under Canadian GAAP and IFRS. Those changes could have material effects on the Company's initial analysis as discussed above.

Related Party Transactions

During the year ended February 28, 2011, consulting fees of \$62,400 (2010 - \$23,200) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations. During the year ended February 28, 2011, consulting fees of \$25,200



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(2010 - \$14,700) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance initiatives, fund raising, contract negotiations, accounting, office and general management. During the year ended February 28, 2010, contract fees of \$88,350 (2010 - \$24,000) were paid or accrued to a company controlled by a former director. These amounts were included in resource costs. During the year ended February 28, 2011, rent costs of \$43,703 (2010 - \$36,687) were paid or accrued to a company with directors of the Company in common. At February 28, 2011 current liabilities include \$50,435 (2010 - \$30,478) payable to related parties. The transactions are measured at the exchange amount, which is the fair value consideration established and agreed to by the related parties.

Risks and Uncertainties

The Company's financial success will be dependent upon the extent to which it can discover mineralization or acquire mineral properties and the economic viability of developing its properties. The Company competes with many companies possessing greater financial resources and technical facilities than itself. The market price of minerals and/or metals is volatile and cannot be controlled. There is no assurance that the Company's mineral exploration and development activities will be successful. The development of mineral resources involves many risks in which even a combination of experience, knowledge and careful evaluation may not be able to overcome. All of the Company's short to medium term operating and exploration cash flow must be derived from external financing. Actual funding may vary from what is planned due to a number of factors including the progress of exploration and development on its current properties. Should changes in equity market conditions prevent the Company from obtaining additional external financing, the Company will need to review its exploration property holdings to prioritize project expenditures based on funding availability.

Additional Disclosure for Venture Issuers without Significant Revenue

Additional disclosure concerning the Company's general and administrative expenses and capitalized resource property costs is provided in the Company's *Statements of Operations and Deficit* and the *Schedule of Resource Property Costs* contained in its Annual Financial Statements dated February 28, 2011 and 2010. These statements are available on the Company's website at www.stikineenergy.com or on the SEDAR website www.sedar.com.

Outstanding Share Data

On June 17, 2010, the Company completed a brokered private placement of flow-through common ("FT") shares and units at a price of \$0.20 for total gross proceeds of \$3,100,000. 13,775,000 FT shares and 1,725,000 units were issued, each unit consisting of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share until December 17, 2011 at price of \$0.25. In the event that the Company's common shares close at a price greater than \$0.50 cents for 20 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders that the warrants will expire on the 30th day after the date of notice. The agents of the financing received cash commissions of \$217,000 and 1,085,000 agent warrants, each exercisable until December 17, 2011 at a price of \$0.25.

On December 30, 2010, the Company closed a private placement raising gross proceeds \$5,865,000 through the issuance of 19,550,000 units at a price of \$0.30 per unit. Each unit consisted of one common share and one half of a purchase warrant, each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$0.40 until December 30, 2011, and at an exercise price of \$0.50 until December 30, 2012. In consideration for their services, the Company paid the agents cash commissions of 7 per cent of the gross proceeds, and issued the agents non-transferable common share purchase warrants to acquire up to 7 per cent of the units sold. Each agent's warrant entitles the holder to purchase one common share of the Company until December 30, 2012, at an exercise price of \$0.40.



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On January 17, 2011, the Company granted 3,800,000 incentive stock options exercisable at a price of \$0.50 per share for a period of five years. On May 3, 2010, the Company granted 2,100,000 incentive stock options exercisable at a price of \$0.30 per share for a period of five years.

During the year ended February 28, 2011, a total of 615,000 outstanding stock options were cancelled or expired unexercised and a total of 685,000 stock options were exercised for proceeds of \$68,500. 2,000,000 warrants were also exercised during the year for proceeds of \$300,000. Subsequent to February 28, 2011, 100,000 stock options were exercised for proceeds of \$10,000.

Common shares and convertible securities outstanding as at the date of this report are:

Security	Expiry Dates	Exercise Prices	Common Shares on Exercise
Common Shares	-	-	87,827,917
Warrants	Dec. 17, 2011 to Dec. 30, 2012	\$0.25-\$0.40	13,091,000
Options	Feb. 20, 2012 to January 17, 2016	\$0.10 to \$0.50	8,510,000
Total			109,428,917

Legal Claims and Contingent Liabilities

At the date of this report there are no material legal claims or contingent liabilities outstanding.

Off-balance Sheet Arrangements

The Company has no material off-balance sheet arrangements.

Outlook

Frac sand already has high value for product delivered to northeastern British Columbia ("NEBC") well heads, but much of the cost is attributed to shipping and transport from great distances. Increased drilling activity as a result of current success of the NEBC gas play and the ongoing development of other gas fields in North America could increase demand dramatically over the next three years. A key component to the Company's strategy is to quickly establish potential off-take / investor relationships with the gas producers in the area. The Company's goal is to quickly define resources and processes to produce frac sand; to accelerate permitting and development activities; and, rapidly become a cash flowing producer of high-quality silica sand products located in close proximity to growing demand.

Pilot-scale testing is underway in Abbotsford, BC and the plant will complete an optimization phase shortly. After the various process components have been adjusted and sized to meet the demands of the larger process testing, the plant will enter a production phase resulting in the delivery of bagged frac sand. Proppant testing of this material will also be carried out to confirm its quality.

To reflect its strengthening commitment to the energy sector, the Company has changed its name to Stikine Energy Corp.

Additional Information

Additional information is available for viewing at the Company's website www.stikineenergy.com or on the SEDAR website www.sedar.com.



Forward-Looking Information

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, amongst other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company's properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties, and assumptions. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change except as required by law. These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the transactions described herein, the ability of the Company and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.