



## Chartwell Technology

### CHARTWELL ANNOUNCES FISCAL YEAR 2004 FOURTH QUARTER AND YEAR END RESULTS

- Annual Revenue Growth of 66%, Net Income of \$4.0M, EPS of \$0.24 -

Chartwell Technology Inc.

TSX:CWH

Calgary, Canada, January 10, 2005, Chartwell Technology Inc. (TSX:CWH), a leading provider of gaming software systems to the online and remote gaming industry, is pleased to announce audited financial results for the fourth quarter and year ended October 31, 2004.

Highlights of the year included:

- Revenue of \$12.2M compared to \$7.3M in 2003;
- Operating income of \$3.6M and net income of \$4.0M compared to operating income of \$1.1M and net income of \$1.7M in 2003;
- Earnings per diluted share of \$0.24 compared to \$0.12 in 2003;
- Recurring software license fees \$11.3M compared to \$6.3M in 2003;
- Cash flow from operations of \$4.2M compared to \$1.4M in 2003;
- Remained debt-free with working capital of \$10.5M compared to \$6.5M in 2003;
- Two consecutive years of profitability.

Highlights of the fourth quarter included:

- Revenue of \$3.5M compared to \$2.1M in the comparative quarter of 2003;
- Operating income of \$831K and net income of \$1.5 million compared to operating income of \$744K and net income of \$1.4 million in the comparative quarter of 2003;
- Earnings per diluted share of \$0.08 compared to \$0.06 in the comparative quarter of 2003 (prior to restatement) and \$0.10 following restatement;
- Recurring software license fees of \$3.2 million compared to \$1.8 million in the comparative quarter of 2003;
- Cash flow from operations of \$1.8M compared to \$919K in the comparative quarter of 2003;
- Eighth consecutive quarter of profitability.

*"We are very pleased with our fourth quarter and fiscal year 2004 results", states Don Gleason, CFO. "We ended the year with significant revenue growth, increased our profitability by 139%, doubled our earnings per share and generated in excess of \$4.0M in cash flow from operations. Our investment in product development, sales, marketing and business development gives us confidence in our ability to drive continued growth in the expanding market for our products. We are extremely proud of the hard work and accomplishments of the entire Chartwell team and we look forward to 2005 and carrying this momentum throughout the year."*

#### Twelve Months Ended October 31, 2004

Compared to the same twelve-month period of 2003, total revenue increased 66%, net income increased 139% and earnings per diluted share increased 100%.

Total revenue increased to \$12.2 million compared to \$7.3M in fiscal 2003. Recurring software license fees increased 79% to \$11.3 compared to \$6.3 million in fiscal 2003. Recurring revenue represented 92% of total revenue in fiscal 2004 compared to 86% in fiscal 2003.

Total operating expenses, including foreign exchange, increased 37% to \$8.6 million compared to \$6.3 million in fiscal 2003. As a percentage of total revenue, operating expenses have decreased to 70% from 86% in fiscal 2003. Compared to the same twelve-month period of 2003, software development and support expenses increased 34% to \$4.4 million compared to \$3.2 million; sales, general and administrative expenses increased 80% to \$3.5 million compared to \$1.9 million and foreign exchange losses decreased 71% to \$233K from \$795K. In fiscal 2004, the Company opened a sales office in the United Kingdom, moved to a larger facility in Calgary to accommodate additional personnel and upgraded its listing to the TSX Exchange from the TSX Venture Exchange. All of these factors contributed to the increase in expenses as noted above.

Income from operations increased 243% to \$3.6 million compared to \$1.1 million in fiscal 2003.

Net income after tax increased 139% to \$4.0 million compared to \$1.7 million in fiscal 2003. Basic and diluted earnings per share increased to \$0.28 and \$0.24 compared to \$0.12 and \$0.12 in fiscal 2003.

### **Three Months Ended October 31, 2004**

Compared to the same period of 2003, total revenue increased 65%, net income increased 6% and earnings per diluted share decreased 20%. The decrease in diluted EPS is attributable to the significant increase in the weighted average share count resulting from the addition of in the money options.

Total revenue increased to \$3.5 million compared to \$2.1 million in the comparative period of 2003. Recurring software license fees increased 75% to \$3.2 million compared to \$1.8 million.

Total operating expenses, including foreign exchange, increased 94% to \$2.7 million compared to \$1.4 million in the comparative period of 2003. Overall, operating expenses as a percentage of total revenue increased to 76% from 65% in the comparative period of 2003. Compared to the same period in 2003, software development and support expenses increased 206% to \$1.2 million compared to \$405K; sales, general and administrative expenses increased 45% to \$960K compared to \$661K and foreign exchange losses increased 17% to \$247K compared to \$211K. The percentage increase in total expenses in the comparative quarters is primarily due to \$103K of stock based compensation expense recorded in the current quarter and the deferral of \$531K of software development expense recorded in the fourth quarter of fiscal 2003. Without the stock based compensation expense in the 4<sup>th</sup> quarter 2004 and software development deferral expense in the 4<sup>th</sup> quarter 2003, the increase in operating expenses would have been limited to 34%.

Income from operations increased 12% to \$831K compared to \$744K in the comparative period of 2003.

Net income after tax increased 6% to \$1.5 million compared to \$1.4 million in the same period of 2003. Net income is net of the future tax recovery of \$631K in fiscal 2004 compared to \$630K in the comparative period of 2003. Basic and diluted earnings per share were \$0.10 and \$0.08 compared to \$0.10 and \$0.10 in the comparative quarter of 2003. The decrease in diluted earning per share is solely attributable to the increase in the number of shares resulting from options that are in the money.

The fourth quarter of 2004 represents Chartwell's eighth consecutive quarter of profitability.

### **Balance Sheet**

Chartwell continues to maintain a solid financial base from which to execute its growth strategy. In fiscal 2004, the Company realized \$4.2 million in cash flow from operations compared to \$1.4 million in fiscal 2003. Cash at October 31, 2004, including short term investments, increased to \$9.3 million from \$5.2 million and working capital increased to \$10.5 million compared to \$6.5 million at October 31, 2003. The Company's balance sheet has been further strengthened by its recent private placement of \$11.0 million completed in the first quarter of fiscal 2005.

### **Audited Consolidated Financial Statements**

Audited 2004 consolidated financial statements may be accessed through [www.sedar.com](http://www.sedar.com) or on the Chartwell website at [www.chartwelltechnology.com](http://www.chartwelltechnology.com). In addition, copies of the filed statements will be available upon request by contacting Chartwell Investor Relations by e-mail at [investor@chartwelltechnology.com](mailto:investor@chartwelltechnology.com). The audited 2004 consolidated statements will also be published in the Company's 2004 Annual Report that will be mailed to shareholders along with meeting materials for the 2005 Annual General Meeting.

## **Forward Looking Statements**

This news release and the documents referred to herein may contain forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. Such statements reflect the Company's current views with respect to future events and are subject to risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made including, but not limited to, certain delays in testing and evaluation of products, regulation of the online gaming industry, and other factors and risks detailed from time to time in filings made by the Company with Canadian and U.S. Securities Regulators. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated or expected. The Company does not intend and does not assume any obligation to update these forward-looking statements. We do not assume any responsibility for the accuracy or completeness of these forward-looking statements.

## **About Chartwell**

Chartwell Technology Inc. specializes in the development of gaming applications and entertainment content for the Internet and wireless platforms and other remote access devices. Chartwell's JAVA and Flash based software products and games are designed for deployment in gaming, entertainment, advertising and promotional applications. Chartwell does not participate in the online gaming business of its clients. Chartwell's team of highly trained professionals is committed to delivering the highest quality software and maintaining its leading edge through continuous development and unparalleled customer support.

**Chartwell invites you to preview and play our games at [www.chartwelltechnology.com](http://www.chartwelltechnology.com)**

For further information, please contact **Chartwell Technology Inc.**

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The TSX does not accept responsibility for the adequacy or accuracy of this release.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: The statements contained herein which are not historical fact are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements, including, but not limited to, certain delays in testing and evaluation of products, regulation of the online gaming industry, and other risks detailed from time to time in Chartwell's filings with the Securities & Exchange Commission. We assume no responsibility for the accuracy and completeness of these statements and are under no duty to update any of the forward-looking statements contained herein to conform these statements to actual results. This is not an offer to sell or a solicitation of an offer to purchase any securities.

**CHARTWELL TECHNOLOGY INC.**  
Consolidated Balance Sheets

As at October 31  
(stated in Canadian dollars)

	2004	2003
<b>Assets</b>		
Current assets:		
Cash	\$ 5,995,863	\$ 3,465,120
Short term investments	3,318,286	1,712,890
Accounts receivable	1,916,309	1,991,725
Deferred set-up expense	58,585	47,452
Prepaid expenses and deposits	230,632	148,699
Notes receivable	117,873	-
Future income tax asset	115,000	110,000
<b>Total current assets</b>	<b>11,752,548</b>	<b>7,475,886</b>
Due from related parties	178,961	190,512
Property and equipment	431,824	338,969
Goodwill	811,666	-
Deferred software development costs	607,900	530,948
Deferred set-up expense	68,186	162,390
Notes receivable	180,573	-
Future income tax asset	929,964	520,000
	<b>\$ 14,961,622</b>	<b>\$ 9,218,705</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 708,900	\$ 217,012
Current portion of obligations under capital lease	15,640	5,956
Deferred revenue	478,952	707,433
<b>Total Current liabilities</b>	<b>1,203,492</b>	<b>930,401</b>
Deferred revenue	615,748	980,502
Obligations under capital lease	20,793	3,031
Shareholders' equity:		
Share capital	16,502,188	14,809,723
Contributed surplus	102,572	-
Deficit	(3,483,171)	(7,504,952)
<b>Total Shareholders equity</b>	<b>13,121,589</b>	<b>7,304,771</b>
	<b>\$ 14,961,622</b>	<b>\$ 9,218,705</b>

**CHARTWELL TECHNOLOGY INC.**

## Audited Consolidated Statements of Operations and Deficit

Years ended October 31  
(stated in Canadian dollars)

	2004	2003	2002
Revenue:			
Software license fees	\$ 11,268,494	\$ 6,300,335	\$ 2,646,766
Software set-up fees	798,343	919,892	896,560
Interest and other	134,640	109,411	302,031
	12,201,477	7,329,638	3,845,357
Expenses			
Software development and support	4,417,981	3,288,164	2,648,223
Sales, general and administrative	3,498,607	1,947,372	2,385,652
Amortization of deferred software development costs	98,048	110,068	110,076
Stock-based compensation	102,572	—	—
Depreciation and amortization	244,251	137,310	108,008
Foreign currency loss (gain)	233,201	795,186	(85,795)
	8,594,660	6,278,100	5,166,164
Net income (loss) before income taxes	3,606,817	1,051,538	(1,320,807)
Income taxes:			
Future income tax recovery	(414,964)	(630,000)	—
Net income (loss)	4,021,781	1,681,538	(1,320,807)
Deficit, beginning of year	(7,504,952)	(9,186,490)	(7,865,683)
Deficit, end of year	\$ (3,483,171)	\$ (7,504,952)	\$ (9,186,490)
Net income (loss) per share:			
Basic	\$ 0.28	\$ 0.12	\$ (0.10)
Diluted	0.24	0.12	(0.10)

**CHARTWELL TECHNOLOGY INC.**  
Consolidated Statements of Cash Flows

Years ended October 31  
(stated in Canadian dollars)

	2004	2003	2002
Cash provided by (used in):			
Operations:			
Net income (loss)	\$ 4,021,781	\$ 1,681,538	\$ (1,320,807)
Depreciation and amortization	244,251	137,310	108,008
Unrealized foreign exchange losses	268,327	550,234	–
Amortization of deferred software development costs	98,048	110,068	110,076
Stock-based compensation	102,572	–	–
Interest income capitalized	(11,413)	(27,947)	(11,570)
Issue of shares as finders fee	–	25,000	–
Future income tax recovery	(414,964)	(630,000)	–
Write-down of long-term securities	–	–	42,882
Gain on disposal of Property and Equipment	(9,213)	–	24,258
Contracts acquired on acquisition	25,000	–	–
	4,324,389	1,846,203	(1,047,153)
Change in non-cash working capital:			
Accounts receivable	(34,819)	(863,086)	(79,598)
Due from related parties	20,000	–	–
Deferred set-up expense	83,071	107,441	(94,741)
Prepaid expenses	(100,904)	(69,552)	720
Accounts payable and accrued liabilities	491,888	47,858	109,257
Deferred revenue	(593,235)	366,813	(107,363)
	(133,999)	(410,526)	(171,725)
	4,190,390	1,435,677	(1,218,878)
Financing:			
Issue of shares for cash	855,799	152,500	121,088
Repayment of lease obligations	27,446	(6,841)	(10,286)
	883,245	145,659	110,802
Investing:			
Sale (purchase) of short term investments	(1,605,396)	1,468,604	168,513
Purchase of property and equipment	(604,404)	(207,905)	(97,248)
Deferred software development costs	(175,000)	(530,948)	–
	(2,384,800)	729,751	71,265
Effect of foreign exchange rate changes on cash	(158,092)	(550,234)	–
Increase (decrease) in cash	2,530,743	1,760,853	(1,036,811)
Cash, beginning of year	3,465,120	1,704,267	2,741,078
Cash, end of year	\$ 5,995,863	\$ 3,465,120	\$ 1,704,267
Supplemental cash flow information:			
Cash interest received	\$ 123,228	\$ 101,464	\$ 290,462
Cash interest paid	(2,048)	(1,955)	(2,201)

**CHARTWELL TECHNOLOGY INC.**  
Consolidated Statements of Operations and Deficit

Three months ended October 31  
(stated in Canadian dollars)  
(Unaudited)

	2004	2003
Revenue:		
Software license fees	\$3,237,277	\$ 1,847,097
Software set-up fees	208,732	246,297
Interest and other	44,407	22,553
	<u>3,490,416</u>	<u>2,115,947</u>
Expenses		
Software development and support	1,238,094	404,720
Sales, general and administrative	959,818	660,965
Amortization of deferred software development costs	58,829	27,517
Stock-based compensation	102,572	—
Depreciation and amortization	52,794	67,511
Foreign currency loss (gain)	247,490	211,267
	<u>2,659,597</u>	<u>1,371,980</u>
Net income (loss) before income taxes	830,819	743,967
Income taxes:		
Future income tax recovery (note 7)	(630,749)	(630,000)
Net income (loss)	1,461,568	1,373,967
Deficit, beginning of year	(4,944,739)	(8,878,919)
Deficit, end of year	<u>\$ (3,483,171)</u>	<u>\$ (7,504,952)</u>
Net income (loss) per share:		
Basic	\$ 0.10	\$ 0.10
Diluted	0.08	0.10

**CHARTWELL TECHNOLOGY INC.**  
Consolidated Statements of Cash Flows

Three months ended October 31  
(stated in Canadian dollars)  
(Unaudited)

	2004	2003
Cash provided by (used in):		
Operations:		
Net income (loss)	\$ 1,461,568	\$ 1,373,967
Depreciation and amortization	52,794	67,511
Unrealized foreign exchange losses	282,616	151,614
Amortization of deferred software development costs	58,829	27,517
Stock-based compensation	102,572	-
Interest income capitalized	(5,145)	(22,052)
Issue of shares as finders fee	-	25,000
Future income tax recovery	(630,749)	(630,000)
Write-down of long-term securities	-	-
Gain on disposal of Property and Equipment	(9,213)	-
Contracts acquired on acquisition 25,000	-	-
	1,313,272	993,557
Change in non-cash working capital:		
Accounts receivable	151,814	(2,161)
Due from related parties-	-	-
Deferred set-up expense	17,438	(34,609)
Prepaid expenses	(42,350)	(35,355)
Accounts payable and accrued liabilities	553,133	1,964
Deferred revenue	(233,256)	(4,605)
	446,779	(74,766)
	1,760,051	918,791
Financing:		
Issue of shares for cash	129,374	127,500
Repayment of lease obligations	(3,779)	(1,822)
	125,595	125,678
Investing:		
Sale (purchase) of short term investments	(38,705)	(7,604)
Purchase of property and equipment	(18,332)	(14,700)
Deferred software development costs	-	(530,948)
	(57,037)	(553,252)
Effect of foreign exchange rate changes on cash	(172,381)	(151,614)
Increase (decrease) in cash	1,656,228	389,603
Cash, beginning of period	4,339,635	3,125,517
Cash, end of year	\$ 5,995,863	\$ 3,465,120
Supplemental cash flow information:		
Cash interest received	\$ 39,264	\$ 20,502
Cash interest paid	538	(377)