



**Chartwell Technology Inc.**

Interim Consolidated Financial Statements  
For the three months ended January 31, 2005

# CHARTWELL TECHNOLOGY INC.

## Interim Consolidated Balance Sheets

(unaudited)

	January 31, 2005	October 31, 2004
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 7,214,678	\$ 5,995,863
Short term investments	13,684,056	3,318,286
Accounts receivable	3,406,924	1,916,309
Deferred set-up expense	54,804	58,585
Prepaid expenses and deposits	179,548	230,632
Notes receivable	122,341	117,873
Future income tax asset (note 5)	143,219	115,000
<b>Total Current Assets</b>	<b>24,805,570</b>	<b>11,752,548</b>
Due from related parties	181,142	178,961
Property and equipment	503,288	431,824
Deferred software development costs	549,070	607,900
Deferred set-up expense	58,513	68,186
Notes receivable	180,573	180,573
Future Income tax asset (note 5)	412,392	929,964
Goodwill	811,666	811,666
	<b>\$27,502,214</b>	<b>\$14,961,622</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 924,597	\$ 708,900
Current portion of obligations under capital lease	15,784	15,640
Deferred revenue	541,695	478,952
<b>Total Current Liabilities</b>	<b>1,482,076</b>	<b>1,203,492</b>
Deferred revenue	538,200	615,748
Obligations under capital lease	16,652	20,793
Shareholders' equity:		
Share capital (note 1(b))	27,056,836	16,502,188
Contributed surplus (note 3)	756,910	102,572
Accumulated deficit (note 4)	(2,348,460)	(3,483,171)
<b>Total Shareholders' Equity</b>	<b>25,465,286</b>	<b>13,121,589</b>
	<b>\$27,502,214</b>	<b>\$14,961,622</b>

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Income and Deficit  
(unaudited)

	Three months ended January 31	
	2005	2004
Revenue:		
Software license fees	\$ 4,621,722	\$ 1,939,199
Software set-up fees	114,730	214,936
Interest and other	78,777	43,708
	<u>4,815,229</u>	<u>2,197,843</u>
Expenses:		
Software development and support	1,325,278	1,001,867
General and administrative	458,252	479,658
Sales and marketing	599,628	291,446
Stock-based compensation	117,763	-
Depreciation and amortization	36,013	34,533
Amortization of deferred software development costs	58,830	-
Foreign currency gain	(19,718)	(41,430)
	<u>2,576,046</u>	<u>1,766,074</u>
Income from operations	2,239,183	431,769
Income taxes:		
Income tax expense	752,825	45,000
	<u>752,825</u>	<u>45,000</u>
Net income	1,486,358	386,769
Deficit, beginning of period	(3,483,171)	(7,504,952)
Stock based compensation (note 1(a))	(351,647)	-
Deficit, end of period	<u>\$ (2,348,460)</u>	<u>\$ (7,118,183)</u>
Net income per share:		
Basic	\$ 0.09	\$ 0.03
Diluted	\$ 0.08	\$ 0.03
Weighted-average shares basic	17,160,725	13,669,842
Weighted-average shares diluted	19,152,063	14,651,116

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Cash Flows  
(unaudited)

	Three Months ended January 31	
	2005	2004
Cash provided by (used in):		
Operations:		
Funds from operations:		
Net income	\$ 1,486,358	\$ 386,769
Depreciation and amortization	36,013	34,533
Unrealized foreign exchange (gains) losses	16,475	(41,430)
Amortization of deferred software development costs	58,830	-
Stock-based compensation	117,763	-
Notes receivable	(4,468)	-
Interest income capitalized	(2,181)	17,948
Future income tax reduction	752,825	45,000
	<u>2,461,615</u>	<u>442,820</u>
Change in non-cash working capital:		
Accounts receivable	(1,490,615)	312,664
Deferred set-up expense	13,454	29,627
Prepaid expenses and deposits	51,084	(3,402)
Deferred revenue	(14,805)	(92,468)
Accounts payable and accrued liabilities	215,697	131,545
	<u>(1,225,185)</u>	<u>377,966</u>
	<u>1,236,430</u>	<u>820,786</u>
Financing:		
Issue of shares for cash	11,228,881	115,360
Share issue costs	(752,777)	-
Repayment of lease obligations	(3,997)	(1,902)
	<u>10,472,107</u>	<u>113,458</u>
Investments:		
Purchase of short term investments	(10,365,770)	(1,530,313)
Purchase of property and equipment	(107,477)	(185,435)
	<u>(10,473,247)</u>	<u>(1,715,748)</u>
Effect of foreign exchange rate changes on cash		
	(16,475)	41,430
	<u>(16,475)</u>	<u>41,430</u>
Increase (decrease) in cash	<u>1,218,815</u>	<u>(740,074)</u>
Cash, beginning of period	5,995,863	3,465,120
Cash, end of period	<u>\$ 7,214,678</u>	<u>\$ 2,725,046</u>
Supplemental cash flow information:		
Cash interest received	\$ 72,128	\$ 41,656
Cash interest paid	315	298

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements  
For the three months ended January 31, 2005  
(unaudited)

## 1. Significant accounting policies:

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies that were used for the consolidated financial statements for the year ended October 31, 2004, except as described in note 1(a) below. Certain prior period figures have been reclassified for consistency of presentation. These consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended October 31, 2004.

### (a) Stock based compensation:

Effective November 1, 2004, the company retroactively adopted, without restatement, the new Canadian accounting standards for stock based compensation to employees. In accordance with these standards, the Company recognizes, at the grant date, the compensation costs of stock options granted to employees and directors, measured at fair value and expensed over the option vesting period, with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company has recorded an adjustment of \$351,647 to beginning deficit at November 1, 2004 to reflect the cumulative effect of the value of the options granted to employees and directors from November 1, 2002 to October 31, 2004. The fair value of stock options granted to consultants are being expensed on a straight line basis over the vesting period of the option grant.

## 2. Share capital:

### (a) Authorized:

100,000,000 common shares without par value.

### (b) Issued & outstanding:

	Shares	Amount
Balance, October 31, 2004	16,022,966	\$16,502,188
Issued for cash on Private Placement financing	2,365,592	11,000,002
Issue costs	-	(752,777)
Income tax effect of issue costs	-	263,472
Compensation options issued to Underwriters	-	(184,928)
Issued for cash on exercise of stock options	191,733	228,879
	2,557,325	\$10,554,648
Balance, January 31, 2005	18,580,291	\$27,056,836

The weighted average number of shares outstanding for the quarter were 17,160,725 (2004 - 13,669,842). Diluted shares of 19,152,063 (2004 - 14,651,116) reflect the dilutive effect of the exercise of the outstanding options.

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2005

(unaudited)

(c ) Continuity of options:

	Number	Weighted average exercise price
Outstanding, beginning of period	2,355,834	\$ 1.49
Granted	141,936	\$ 5.10
Exercised	(191,733)	\$ 1.19
Outstanding, January 31, 2005	2,306,037	\$ 1.74

### 3. Contributed surplus:

In connection with the issuance of options to employees, non-employees and underwriters, the Company has recorded a cumulative contributed surplus of \$ 756,910 to reflect the estimated fair value of the issued stock options.

Balance, beginning of period	\$ 102,572
Retroactive application of stock-based compensation expense	351,647
Stock-based compensation expense	117,763
Stock-based compensation expense of options issued to Underwriters	184,928
Balance, January 31, 2005	\$ 756,910

### 4. Accumulated deficit:

Balance, beginning of period	\$ (3,483,171)
Retroactive stock-based compensation expense	(351,647)
Net Income	1,486,358
Balance, January 31, 2005	\$ (2,348,460)

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2005

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## 5. Future income tax asset:

Balance, beginning of period	\$ 1,044,964
Income tax effect of share issue costs	263,472
Current period tax expense	(752,825)
Balance, January 31, 2005	\$ 555,611

## 6. Segmented information:

The Company has aggregated its Canadian and Belize operating segments into one reporting segment. The Company's software set-up and license fees are from domestic and foreign entities and originate from the following countries of operations:

Three months ended January 31, 2005	Canada	Belize	Total
Software set-up fees	\$ -	\$ 114,730	\$ 114,730
Software license fees	\$ 24,370	\$ 4,597,352	\$ 4,621,722
Total assets	\$ 22,359,324	\$ 5,142,890	\$ 27,502,214

Three months ended January 31, 2005	Canada	Belize	Total
Software set-up fees	\$ -	\$ 214,936	\$ 214,936
Software license fees	\$ 56,791	\$ 1,882,408	\$ 1,939,199
Total assets	\$ 5,692,168	\$ 4,040,146	\$ 9,732,314

## 7. Related party transactions

For the quarter ended January 31, 2005, the Company incurred legal fees of \$15,000 and consulting fees of \$41,250 to certain directors and officers of the Company in the normal course of business. These transactions were paid in Canadian dollars and recorded in general administrative and sales and marketing expenses. Amounts due from related parties of \$181,142 consist of amounts due from certain Company officers, directors and employees. Of these amounts, \$29,907 is non-interest bearing, unsecured and with no set terms of repayment. The remaining \$151,235 bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.