



Chartwell Technology Inc.

Interim Consolidated Financial Statements
For the three months ended January 31, 2006

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Balance Sheets

(unaudited)

	January 31, 2006	October 31, 2005
Assets		
Current assets:		
Cash	\$ 3,723,520	\$ 3,901,250
Short term investments	12,553,328	15,220,888
Accounts receivable	4,861,524	4,271,829
Deferred set-up expense	124,864	97,595
Prepaid expenses and deposits	271,880	332,990
Notes receivable	307,212	588,550
Future income tax asset (note 4)	64,073	56,026
Total Current Assets	21,906,401	24,469,128
Due from related parties (note 6)	160,309	157,997
Property and equipment	1,420,634	1,182,194
Goodwill	2,749,317	2,749,317
Intangible assets	1,660,818	1,784,060
Deposits	15,411	15,411
Deferred software development costs	1,442,446	1,034,909
Deferred set-up expense	132,083	154,801
Notes receivable	517,268	356,649
Future income tax asset (note 4)	903,248	848,189
	\$30,907,935	\$32,752,655
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 980,909	\$ 550,300
Income taxes payable	445,354	1,989,722
Due to Honeycomb Holdings Limited	-	760,475
Current portion of obligations under capital lease	16,747	16,520
Deferred revenue	272,818	219,105
Total Current Liabilities	1,715,828	3,536,122
Deferred revenue	253,181	254,290
Due to Honeycomb Holdings Limited	-	110,750
Obligations under capital lease	-	4,273
Shareholders' equity:		
Share capital (note 2)	27,828,111	28,046,490
Contributed surplus (note 3)	1,361,955	1,139,928
Deficit	(251,140)	(339,198)
Total Shareholders' Equity	28,938,926	28,847,220
	\$30,907,935	\$32,752,655

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Income and Deficit (unaudited)

	Three months ended January 31,	
	2006	2005
Revenue:		
Software license fees	\$ 4,275,137	\$ 4,621,722
Software set-up fees	50,521	114,730
Interest and other	115,036	78,777
	<u>4,440,694</u>	<u>4,815,229</u>
Expenses:		
Software development and support	1,794,926	1,325,278
General and administrative	547,577	407,521
Sales and marketing	580,024	650,359
Stock-based compensation	223,758	117,763
Depreciation and amortization	94,753	36,013
Amortization of deferred software development costs	58,829	58,830
Amortization of intangible assets	123,242	-
Foreign currency loss (gain)	131,887	(19,718)
	<u>3,554,996</u>	<u>2,576,046</u>
Income from operations	885,698	2,239,183
Income taxes:		
Current income tax expense	445,354	-
Future income tax expense (reduction)	-63,106	752,825
	<u>382,248</u>	<u>752,825</u>
Net income	503,450	1,486,358
Deficit, beginning of period	(339,198)	(3,483,171)
Stock based compensation (note 1(a))	-	(351,647)
Repurchase of common shares under Normal Course Issuer Bid	(415,392)	-
Deficit, end of period	<u>\$ (251,140)</u>	<u>\$ (2,348,460)</u>
Net income per share:		
Basic	\$ 0.03	\$ 0.09
Diluted	\$ 0.03	\$ 0.08
Weighted-average shares basic	18,822,390	17,160,725
Weighted-average shares diluted	19,594,838	19,152,063

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

	Three Months ended January 31	
	2006	2005
Cash provided by (used in):		
Operations:		
Funds from operations:		
Net income	\$ 503,450	\$ 1,486,358
Unrealized foreign exchange (gains) losses	88,788	-
Depreciation and amortization	94,753	36,013
Amortization of deferred software development costs	58,829	58,830
Amortization of intangible assets	123,242	-
Stock-based compensation	223,758	117,763
Interest income capitalized	(2,312)	(2,181)
Future income tax expense (reduction)	(63,106)	752,825
	1,027,402	2,449,608
Change in non-cash working capital:		
Accounts receivable	(781,568)	(1,490,615)
Deferred set-up expense	(4,541)	13,454
Prepaid expenses and deposits	61,104	51,084
Notes receivable	120,719	(4,468)
Deferred revenue	52,604	(14,805)
Accounts payable and accrued liabilities	275,174	215,697
Income taxes payable	(1,544,368)	-
	(1,820,876)	(1,229,653)
	(793,474)	1,219,955
Financing:		
Issue of shares for cash	17,235	11,228,881
Repurchase of shares for cash	(652,736)	-
Share issue costs	-	(752,777)
Payment to Honeycomb Holdings Limited	(612,710)	-
Repayment of lease obligations	(4,046)	(3,997)
	(1,252,257)	10,472,107
Investments:		
Redemption (purchase) of short term investments	2,667,560	(10,365,770)
Purchase of property and equipment	(333,193)	(107,477)
Deferred software development costs	(466,366)	-
	1,868,001	(10,473,247)
Increase (decrease) in cash	(177,730)	1,218,815
Cash, beginning of period	3,901,250	5,995,863
Cash, end of period	\$ 3,723,520	\$ 7,214,678
Supplemental cash flow information:		
Cash interest received	\$ 97,513	\$ 72,128
Cash interest paid	267	315

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements
For the three months ended January 31, 2006
(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, 2005. 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, 2005.

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.

(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, 2005	19,247,437	\$28,046,490
Issued for cash on exercise of stock options	14,834	17,235
Cancelled on Normal Course Issuer Bid	(162,900)	(237,345)
Transfer from contributed surplus on options exercised	-	1,731
	(148,066)	\$ (218,379)
Balance, January 31, 2006	19,099,371	\$27,828,111

The weighted average number of shares outstanding for the quarter were 18,822,390 (2005 - 17,160,725). Diluted shares of 19,594,838 (2005 - 19,152,063) 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, 2006

(unaudited)

(c) Continuity of options:

	Number	Weighted average exercise price
Outstanding, October 31, 2005	1,743,390	\$ 3.48
Granted	75,000	\$ 4.68
Exercised	(14,834)	\$ 1.16
Forfeited	-14,000	\$ 9.00
Outstanding, January 31, 2006	1,789,556	\$ 3.51

3. Contributed surplus:

Balance, October 31, 2005	\$ 1,139,928
Stock-based compensation expense	223,758
Transferred to share capital on exercise of options	(1,731)
Balance, January 31, 2006	\$ 1,361,955

4. Future income tax asset:

Balance, October 31, 2005	\$ 904,215
Current period tax reduction	63,106
Balance, January 31, 2006	\$ 967,321

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5. Segmented information:

The Company has aggregated its operating segments (North America and Europe) into one reporting segment as management has determined that the nature of the operations in each segment meets the aggregation criteria specified by Canadian standards. The Company's software set-up and license fees are from domestic and foreign entities and originate from the following areas of operations:

Three months ended January 31, 2006	North America	Europe	Total
Software set-up fees	\$ -	\$ 50,521	\$ 50,521
Software license fees	\$ 23,709	\$ 4,251,428	\$ 4,275,137
Total assets	\$ 18,533,822	\$ 12,374,113	\$ 30,907,935

Three months ended January 31, 2005	North America	Europe	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

6. Related party transactions

For the quarter ended January 31, 2006, the Company incurred and paid 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 \$160,309 consist of amounts due from certain Company officers, directors and employees. The balance bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.