



**Chartwell Technology Inc.**

Interim Consolidated Financial Statements  
For the three months ended January 31, 2007

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## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

# CHARTWELL TECHNOLOGY INC.

## Interim Consolidated Balance Sheets

	January 31, 2007 (Unaudited)	October 31, 2006
<b>Assets</b>		
Current assets:		
Cash	\$ 3,702,913	\$ 1,626,617
Short term investments	10,862,671	11,147,309
Accounts receivable	4,559,493	5,670,997
Deferred set-up expense	82,632	99,133
Prepaid expenses and deposits	471,713	649,506
Notes receivable	280,300	280,300
Future income tax asset (note 4)	24,165	24,100
Total current assets	19,983,887	19,497,962
Due from related parties (note 6)	169,916	167,492
Property and equipment	1,706,711	1,415,590
Intangible assets	1,167,851	1,291,093
Goodwill	2,749,317	2,749,317
Deferred software development costs	3,416,601	3,385,388
Deferred set-up expense	29,410	37,693
Notes receivable	679,781	662,313
Future income tax asset (note 4)	542,666	229,739
Prepaid expenses and deposits	54,761	6,444
	<b>\$30,500,901</b>	<b>\$29,443,031</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,377,497	\$ 1,363,142
Income taxes payable	630,408	70,268
Due to Honeycomb Holdings Limited	-	-
Current portion of obligations under capital lease	-	5,711
Deferred revenue	224,306	284,779
Total current liabilities	2,232,211	1,723,900
Deferred revenue	202,227	280,526
Shareholders' equity:		
Share capital (note 2)	27,155,073	27,155,073
Contributed surplus (note 3)	1,832,107	1,698,924
Deficit	(920,717)	(1,415,392)
Total Shareholders' Equity	28,066,463	27,438,605
	<b>\$30,500,901</b>	<b>\$29,443,031</b>

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

## Interim Consolidated Statements of Income and Deficit

	Three months ended January 31,	
	2007	2006
	(Unaudited)	(Unaudited)
Revenue:		
Software license fees	\$ 5,289,111	\$ 4,275,137
Software set-up fees	55,072	50,521
Interest and other	153,619	115,036
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	5,497,802	4,440,694
Expenses:		
Software development and support	2,469,528	1,794,926
Sales and marketing	924,353	580,024
General and administrative	1,020,793	547,577
Stock-based compensation	133,183	223,758
Depreciation and amortization	115,380	94,753
Amortization of deferred software development costs	171,546	58,829
Amortization of intangible assets	123,242	123,242
Foreign currency loss (gain)	(272,856)	131,887
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	4,685,169	3,554,996
Income from operations	812,633	885,698
Income taxes:		
Current income tax expense	630,950	445,354
Future income tax expense (reduction)	-312,992	-63,106
	<hr/>	<hr/>
	317,958	382,248
Net income and other comprehensive income	494,675	503,450
Deficit, beginning of period	(1,415,392)	(339,198)
Repurchase of common shares under Normal Course Issuer Bid	-	(415,392)
Deficit, end of period	<hr/>	<hr/>
	\$ (920,717)	\$ (251,140)
Net income per share:		
Basic	\$ 0.03	\$ 0.03
Diluted	\$ 0.03	\$ 0.03
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Weighted-average shares basic	18,307,855	18,822,390
Weighted-average shares diluted	18,524,575	19,594,838

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

## Interim Consolidated Statements of Cash Flows

	Three months ended January 31,	
	2007	2006
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operations:		
Funds from operations:		
Net income	\$ 494,675	\$ 503,450
Unrealized foreign exchange (gains) losses	(84,962)	88,788
Depreciation and amortization	115,380	94,753
Amortization of deferred software development costs	171,546	58,829
Amortization of intangible assets	123,242	123,242
Stock-based compensation	133,183	223,758
Interest income capitalized	(2,424)	(2,312)
Future income tax expense (reduction)	(312,992)	(63,106)
	<u>637,648</u>	<u>1,027,402</u>
Change in non-cash working capital:		
Accounts receivable	1,196,466	(781,568)
Deferred set-up expense	24,784	(4,541)
Prepaid expenses and deposits	129,476	61,104
Notes receivable	(17,468)	120,719
Deferred revenue	(138,772)	52,604
Accounts payable and accrued liabilities	14,355	275,174
Income taxes payable	<u>560,140</u>	<u>(1,544,368)</u>
	<u>1,768,981</u>	<u>(1,820,876)</u>
	<u>2,406,629</u>	<u>(793,474)</u>
Financing:		
Issue of shares for cash	-	17,235
Repurchase of shares for cash	-	(652,736)
Payment to Honeycomb Holdings Limited	-	(612,710)
Repayment of lease obligations	<u>(5,711)</u>	<u>(4,046)</u>
	<u>(5,711)</u>	<u>(1,252,257)</u>
Investments:		
Redemption of short term investments	284,638	2,667,560
Purchase of property and equipment	(406,501)	(333,193)
Deferred software development costs	<u>(202,759)</u>	<u>(466,366)</u>
	<u>(324,622)</u>	<u>1,868,001</u>
Increase (decrease) in cash	<u>2,076,296</u>	<u>(177,730)</u>
Cash, beginning of period	1,626,617	3,901,250
Cash, end of period	<u>\$ 3,702,913</u>	<u>\$ 3,723,520</u>
Supplemental cash flow information:		
Cash interest received	\$ 127,352	\$ 97,513
Cash interest paid	426	267

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements  
For the three months ended January 31, 2007  
(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, 2006, except for the changes made to adopt to the new accounting standards as described in the following paragraph. 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, 2006.

On November 1, 2006, the Company adopted the new CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3865, "Hedges" on a prospective basis.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics based definition of a derivative financial instrument, provides criteria to be used when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished.

Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements.

Section 3865 provides an alternative to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13, "Hedging Relationships", and on the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosure it requires.

## 2. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued & outstanding:

	Shares	Amount
Balance, October 31, 2006	18,682,855	\$27,155,073
Issued for cash on exercise of stock options	-	-
Cancelled on Normal Course Issuer Bid	-	-
Transfer from contributed surplus on options exercised	-	-
	-	-
Balance, January 31, 2007	18,682,855	\$27,155,073

The weighted average number of shares outstanding for the quarter were 18,307,855 (2006 - 18,822,390). Diluted shares of 18,524,575 (2006 - 19,594,838) 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, 2007

(unaudited)

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(c) Continuity of options:

	Number	Weighted average exercise price
Outstanding, October 31, 2006	1,722,068	\$ 2.58
Granted	470,000	2.07
Exercised	-	-
Forfeited	174,000	5.40
Outstanding, January 31, 2007	2,018,068	\$ 2.22

### 3. Contributed surplus:

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Balance, October 31, 2006	\$ 1,698,924
Stock-based compensation expense	133,183
Transferred to share capital on exercise of options	-
Balance, January 31, 2007	\$ 1,832,107

### 4. Future income tax asset:

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Balance, October 31, 2006	\$ 253,839
Current period tax reduction	312,992
Balance, January 31, 2007	\$ 566,831

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2007

(unaudited)

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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, 2007	North America	Europe	Total
Software set-up fees	-	55,072	\$ 55,072
Software license fees	2,612	5,286,499	\$ 5,289,111
Total assets	20,488,769	10,012,132	\$ 30,500,901

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

## 6. Related party transactions

For the quarter ended January 31, 2007, the Company incurred and paid legal fees of \$nil (2006 - \$15,000) and consulting fees of \$56,250 (2006 - \$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 a related party of \$169,916 (2006 - \$160,309) consist of amounts due from a certain Company officer who is also a director. The balance bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.