



CHARTWELL TECHNOLOGY INC.

**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three months ended January 31, 2007 and 2006.**

March 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company is available on SEDAR at www.sedar.com under Chartwell Technology Inc. and on the Company's website at www.chartwelltechnology.com.

Special Note Regarding Forward-Looking Statements

This MD&A contains certain forward-looking statements which reflect Management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance or achievements or other future events constitute forward-looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "should", "could", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words, have been used to identify these forward-looking statements.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements.

Factors which could cause results or events to differ from current expectations include, among other things: the impact of government legislation; the impact of price competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and prospective major customers; general industry and market conditions and growth rates; currency rate fluctuations and the impact of consolidation in the on-line gaming industry. Chartwell disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Past performance has been considered in drawing conclusions with respect to forward-looking statements contained in this MD&A.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. Management believes however that EBITDA is a useful supplementary measure as it provides indication of the results of Chartwell's business operations without regard to how these activities were financed or how these results were taxed. Chartwell's method of calculating EBITDA may differ from that of other companies, and accordingly, EBITDA may not be directly comparable to measures used by other companies.

OVERVIEW

Chartwell develops, markets, licenses, implements and supports gaming applications and entertainment content for the internet and wireless platforms. Chartwell's JAVA and Flash based software products and games are designed for deployment in gaming, entertainment and promotional applications. Chartwell does not operate a gaming site nor do we operate our clients' gaming sites.

Business Plan

The Company's business plan and objectives through fiscal 2007 are to continue to increase our market share in the traditional internet casino market, with a continued emphasis on the European market, further develop the liquidity of our poker community, establish liquidity in our bingo community, further develop poker variants and establish greater market share in these areas. We will continue to focus on product development and diversification of our products, customers and revenues.

Business Model

The majority of Chartwell's revenue is in the form of software license fees. License fees, including fees from master license agreements, most of which are contingent upon customer usage, are recognized on an accrual basis as earned over the life of the contract. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a three to five year term. The license fee is calculated as a percentage of each licensee's level of activity. Additional revenue is derived from software set-up fees and software development fees. Software set-up fees are one time fees for new customer installations. The Company's contractual agreements with licensees provide for the provision of graphics, web design, software implementation services, licensing of the software and provision of software upgrades over the fixed term of the contract. Set-up fee revenue and related costs are recognized ratably over the term of the contract. Software development fees are fees that the Company charges for software development services relating to software programming services. These fees are recognized on a percentage-of-completion basis and reported in other revenue.

Expenses are classified into eight categories, namely: software development and support; sales and marketing; general and administrative ("G&A"); stock-based compensation expense; depreciation and amortization; amortization of deferred software development costs; amortization of intangible assets, and foreign currency gains or losses. Software development and support consists of personnel and related costs associated with the design and development of new products, support of existing products, hosting costs for the poker community paid to a hosting provider, customer implementation and quality assurance. Sales and marketing expenses consist of personnel and related costs associated with the Company's sales, marketing and business development activities. G&A expenses include the costs of all administrative, financial and IT personnel, investor relations and professional fees relating to our public company listing. Stock-based compensation expense consists of the estimated fair value of options granted to employees and consultants. Depreciation and amortization are based on the estimated useful life of our assets and include the amortization of deferred software development costs and intangible assets. The Company operates internationally with 100% of its revenue derived from non-Canadian licensees. Under the Company's licensing agreements, the majority of the Company's revenue is received in UK pound sterling and Euro. Consequently, the Company is exposed to currency fluctuations, which result in foreign currency gains or losses, which are reported in that expense category.

HIGHLIGHTS

Total revenue for the three months ended January 31, 2007 was \$5.5 million compared to \$4.4 million for the same period a year earlier. Net income was \$0.5 million for each the three months ended January 31, 2007 and 2006 with basic and diluted earnings per share of \$0.03 and \$0.03, respectively. The Company incurred approximately 30% higher expenses compared to the same quarter a year earlier; representing an increase of \$1.1 million which included: additional expenditures on personnel, higher sales and marketing costs, and lower levels of deferred software development costs, offset by a foreign currency translation gain. This increase in revenue is due primarily to new customers but is also attributable to growth in previously existing customers.

Chartwell maintains a strong balance sheet. At January 31, 2007 the Company had cash and short-term investments of \$14.6 million, working capital (defined as current assets less current liabilities) of \$17.8 million and no debt.

SUMMARY OF FINANCIAL RESULTS

Comparative Quarterly Operating Results (in thousands, except share data)

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters.

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Revenue								
Software license fees	\$5,289	\$4,367	\$4,383	\$4,449	\$4,275	\$4,113	\$4,028	\$3,630
Software set-up fees	55	111	69	65	51	69	348	125
Interest & other	154	224	211	243	115	467	132	122
	<u>5,498</u>	<u>4,702</u>	<u>4,663</u>	<u>4,757</u>	<u>4,441</u>	<u>4,649</u>	<u>4,508</u>	<u>3,877</u>
Expenses								
Software development & support	2,470	2,394	2,141	1,740	1,795	1,639	1,754	1,319
Sales & marketing	924	618	566	545	580	519	449	516
General & administrative	1,021	1,502	841	1,650	548	558	457	262
Stock-based compensation	133	139	89	171	224	230	198	91
Depreciation and amortization	115	117	114	100	95	102	54	68
Amortization of deferred software development costs	172	58	59	59	59	58	59	59
Amortization of intangible assets	123	124	123	123	123	86	19	-
Foreign currency loss (gain)	(273)	48	(68)	45	132	72	338	(15)
	<u>4,685</u>	<u>5,000</u>	<u>3,865</u>	<u>4,433</u>	<u>3,555</u>	<u>3,264</u>	<u>3,328</u>	<u>2,300</u>
Net income (loss) before taxes	813	(298)	798	324	885	1,384	1,180	1,577
Income tax expense (recovery)	318	(77)	322	223	382	534	452	643
	<u>495</u>	<u>(221)</u>	<u>476</u>	<u>547</u>	<u>1,267</u>	<u>1,918</u>	<u>1,632</u>	<u>2,220</u>
Net Income (Loss)	<u>\$495</u>	<u>(\$221)</u>	<u>\$476</u>	<u>\$547</u>	<u>\$1,267</u>	<u>\$1,918</u>	<u>\$1,632</u>	<u>\$2,220</u>
Basic earnings per share	\$0.03	(\$0.01)	\$0.03	\$0.01	\$0.03	\$0.04	\$0.04	\$0.05
Diluted earnings per share	\$0.03	(\$0.01)	\$0.03	\$0.01	\$0.03	\$0.04	\$0.04	\$0.05

QUARTERLY RESULTS

FOR THE THREE MONTHS ENDED JANUARY 31, 2007 COMPARED TO THE THREE MONTHS ENDED JANUARY 31, 2006.

Revenue

In the three months ended January 31, 2007, total revenue increased by 23.8% to \$5.5 million compared to \$4.4 million in the same period of 2006. The year over year increase in total revenue was mainly due to a 23.7% increase in software license fees in the first quarter of 2007 compared to the comparable quarter of 2006.

Software license fees increased to \$5.3 million in the first quarter of 2007 from \$4.3million in the first quarter of 2006. Software license fees represented 96% of total revenue for the 2007 first quarter compared to 96% the same period a year earlier. The quarter over quarter increase in software license revenue is from new customers as well as from growth from existing customers.

Software set-up fees increased by 9.0% to \$55,000 from \$51,000 for the three months ended January 31, 2007 and 2006, respectively.

Interest and other income increased by 33.5% to \$154,000 in the three months ended January 31, 2007 compared to \$115,000 for the same period of 2006. The quarter over quarter increase is due primarily to a higher average interest rate on cash and short term investments in the three months ended January 31, 2007 over 2006.

Operating Expenses

Total operating expenses, including foreign exchange gains and losses, increased by 31.8% to \$4.7 million for the three months ended January 31, 2007 compared to \$3.6 million for the same period of 2006. The Company incurred higher levels of expense in sales and marketing, software development and support and general and administrative and invested in new product development and expanding the customer base. Offsetting these higher expenses, the Company incurred lower expense in stock-based compensation as well as a foreign exchange gain for the three months ended January 31, 2007 compared to a foreign exchange loss in the comparable period of 2006.

SOFTWARE DEVELOPMENT & SUPPORT

Software development and support expense, net of deferred software development costs of \$203,000, increased by 37.6% to \$2.5 million for the three months ended January 31, 2007 compared to \$1.8 million for the same period of 2006. Included in this increase was \$264,000 less in deferred software development costs compared to the same quarter in 2006. Salary and consulting expenses increased by 10.2% quarter over quarter reflecting five additional staff for the three months ended January 31, 2007 compared to the same period of 2006. The higher level of expenses also reflects an increased level of cost associated with the poker community.

As a percentage of revenue, software development and support expenses were 44.9% and 40.4% for the three months ended January 31, 2007 and 2006, respectively.

SALES AND MARKETING

For the three months ended January 31, 2007, sales and marketing expenses increased by 59.4% to \$924,000 from \$580,000 in the same period of 2006. The increase is due to higher trade show and related travel costs as well as higher expenses related to marketing the poker community.

As a percentage of revenue, sales and marketing expenses increased to 16.8% from 13.1% for the three months ended January 31, 2007 and 2006, respectively.

GENERAL AND ADMINISTRATIVE

G&A expense for the three months ended January 31, 2007 increased to \$1.0 million, from \$547,000 compared to the same period of 2006. The increase is due primarily to additional staffing in the Company's European office, higher levels of compensation for new and replacement staff and recruiting costs to attract new employees in a challenging labour market. The Company experienced generally higher expenses across telecommunications, travel, professional fees and business taxes.

As a percentage of revenue, G&A expenses increased to 18.6% for the three months ended January 31, 2007 from 12.3% for the same period of 2006.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is related to the customer contracts and intellectual property acquired in the acquisition of Micropower. The expense for the three months ended January 31, 2007 is \$123,000, which is the same as the comparable quarter in 2006. The value recorded for customer contracts is being amortized over the contract period for each acquired contract (i.e. as cash flows are being generated for Chartwell). The value recorded for intellectual property is being amortized over five years, which is Management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for the three months ended January 31, 2007 was \$172,000 compared to \$59,000 for 2006. The increase in amortization reflects the amortization of deferred software development costs of version 2.0 of its Poker product. Prior to the first quarter of 2007, the Company deferred a total of \$2.7 million of software development costs related to the development of version 2.0 of the Company's community poker product, which builds on the intellectual property acquired in the acquisition of Micropower Corporation. Management has estimated the appropriate amortization period to be three years.

STOCK-BASED COMPENSATION

The Company recorded \$133,000 of stock-based compensation expense for the three months ended January 31, 2007 compared to \$224,000 for the three months ended January 31, 2006. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years. The year over year decrease in this expense is due to relatively fewer options issued throughout 2006 which have a cumulative impact on expenses in the current quarter.

DEPRECIATION & AMORTIZATION

Depreciation and amortization expenses increased by 21.8% to \$115,000 for the three months ended January 31, 2007 versus \$95,000 for the similar period of 2006. This increased depreciation is due to higher levels of property and equipment at January 31, 2007 versus January 31, 2006. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow.

FOREIGN CURRENCY GAIN

The Company recognized a foreign currency gain of \$273,000 for the three months ended January 31, 2007 compared to a foreign currency loss of \$132,000 for the comparable period of 2006. The foreign currency gains experienced in the first quarter of 2007 reflect foreign denominated amounts receivable translated into Canadian dollar equivalents at higher foreign exchange rates than in the past. The Company does not utilize hedges or forward contracts to mitigate foreign currency risk.

PROVISION FOR INCOME TAXES

Income taxes for the three months ended January 31, 2007 decreased to \$318,000 compared to \$382,000 for the comparable period of 2006. The reduction in tax expense is attributable to the lower level of pre-tax income in the first quarter of 2007 compared to the first quarter of 2006.

EBITDA

EBITDA (defined as net income less interest, plus taxes, depreciation and amortization) increased by 2.2% to \$1.1 million in the three months ended January 31, 2007 from \$1.1 million for the comparable period of 2006. The increase in the EBITDA between the two periods is due to the same factors effecting net income, for reasons which are noted above.

Net Income

Net income decreased by 1.7% to \$495,000 for the three months ended January 31, 2007 versus \$503,000 for the three months ended January 31, 2006. This is due to increased levels of expense, despite an increase in revenue.

Diluted earnings per share were \$0.03 for the three month period ended January 31, 2007 compared to \$0.03 in the same period of 2006. There was no change in the diluted earnings per share due to relatively comparable net income, and a 5.5% decrease in the number of weighted average shares diluted for the three month period ended January 31, 2007.

Liquidity and Capital Resources

Operating Activities

Operating cash flow for the three months ended January 31, 2007 was \$2.4 million compared to negative \$793,000 for the three months ended January 31, 2006. The increase is mainly attributable to an increase in working capital resulting from a higher level of income taxes payable and a decrease in accounts receivable from the October 31, 2006 level.

Financing Activities

Cash flows used in financing activities were \$5,700 for the three months ended January 31, 2007 compared to cash flows used in financing activities for the three months ended January 31, 2006 of \$1.3 million. In the prior year, the Company repaid indebtedness of \$613,000 and repurchased its common shares under a Normal Course Issuer Bid for \$653,000. The Company did not issue any shares or repurchase any shares in the first quarter of 2007.

Investing Activities

Cash flows used in investing activities were \$325,000 for the three months ended January 31, 2007 versus cash flows provided by investing activities for the three months ended January 31, 2006 of \$1.9 million. The Company's investing activities in the first quarter of 2007 consisted mainly of the purchase of property and equipment, the redemption of short term investments and deferred development costs. The variance from the first quarter of 2006 was due to relatively less short term investments redeemed in the quarter, more invested in property and equipment and a lower amount of software development costs deferred.

Contractual Obligations

The Company's future minimum annual payments under operating and capital leases are the following:

2007	\$536,390
2008	\$646,847
2009	\$534,655
2010	\$ 31,264
2011	\$ 42,739
Thereafter	\$ NIL

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.

Critical Accounting Policies

Critical accounting policies and methods used in the preparation of the Company's financial statements are described in note 1 to the consolidated financial statements of the Company 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 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.

Risks and Uncertainties

Important risk factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

- Uncertainty as to the degree of new and continuing market acceptance of our products
- Our products could contain defects that lead to costs, damage of reputation or litigation
- Our dependence on customer performance
- Uncertainty regarding future profitability

- Uncertainty regarding the pricing, reporting and collection of accounts
- Risk associated with sales in foreign countries and government policy and regulation therein
- Our ability to diligently ensure that our customers operate in accordance with the terms of our license agreements that require observation of the laws of Canada and foreign countries
- Our ability to attract and retain key personnel

Proposed Transactions

There is no proposed asset or business acquisition or disposition transactions pending as at January 31, 2007, except as noted below.

Subsequent to October 31, 2006 the Company concluded that it wished to acquire the business of poker and bingo community management from Elite Club Management N.V. (“ECM”), who is at present the community manager for the poker community. As part of the acquisition of the community management business of ECM, Chartwell has proposed that it will acquire hardware and software related to the provision of community management services. The Company proposes to enter into an agreement with ECM that, in part, acquires the hardware and software in consideration of satisfaction of approximately US\$577,000 of notes receivable. These arrangements are conditional on ECM’s acceptance of proposed terms.

Off Balance Sheet Arrangements

As at January 31, 2007, the Company has not entered into any off balance sheet arrangements

Financial Instruments and Other Instruments

The Company’s financial instruments consist of cash, short term investments, accounts receivable, notes receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair values of these financial instruments approximate their carrying values, except as noted below. It is management’s opinion that the Company is not exposed to significant interest risk. The Company’s credit risk lies in its accounts receivable and notes receivable where the balances due reflect a concentration among a relatively small number of accounts. The Company’s short term investments consist of investments in low risk corporate and government bonds. A substantial portion of the Company’s revenue is earned in foreign currencies and is exposed to currency fluctuations.

Notes Receivable

The Company’s notes receivable consists of two promissory notes. The first is a US \$250,000 short term non interest bearing note due on demand from a customer under a Master License Agreement, which is measured at the note value converted to Canadian dollars at the year-end exchange rate which approximates its fair value. The Company received payment on this note subsequent to the first quarter of 2007. In addition, a promissory note in the amount of \$679,781 bearing interest at 12% is due from another arm’s length party. The terms of the promissory note require monthly payments of CDN \$20,000 to be made for the period from November 30, 2006 to July 31, 2007 and payment of the remaining outstanding balance, including accrued interest, to be made on August 31, 2007. At January 31, 2007, the fair value of the promissory note approximates its carrying value.

Other MD&A Requirements

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended January 31, 2007, and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of Chartwell Technology Inc.'s annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

Given the size of the Company, the evaluation of the design of internal controls over financial reporting for the Company resulted in the identification of the following weaknesses:

Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company requires outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company has 18,741,189 common shares outstanding at March 16, 2007. If all of the Company's options were exercised, the Company would have 20,661,991 common shares outstanding.

The Company's 2006 Annual Information Form is available on www.sedar.com.