



Chartwell Technology Inc.

Interim Consolidated Financial Statements
For the three months ended January 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

(Unaudited)

	January 31, 2009	October 31, 2008
Assets		
Current assets:		
Cash	\$ 1,671,871	\$ 1,728,161
Short term investments	19,491,293	20,570,221
Accounts receivable	3,288,276	3,023,196
Income tax receivable	330,642	250,990
Prepaid expenses and deposits	853,438	1,078,565
Deferred set-up expense	17,558	3,421
Foreign exchange contracts	12,721	26,991
Total current assets	25,665,799	26,681,545
Restricted cash (note 2)	139,836	344,491
Property and equipment	2,355,933	2,363,245
Intangible assets	528,454	650,404
Goodwill	3,106,177	3,106,177
Deferred software development costs	863,216	1,109,850
Deferred set-up expense	55,614	63,621
	\$ 32,715,029	\$ 34,319,333
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,240,734	\$ 2,908,617
Deferred revenue	62,222	93,606
Total current liabilities	2,302,956	3,002,223
Deferred revenue	110,385	112,252
Future income tax liability (note 7)	334,404	511,579
Shareholders' equity:		
Share capital (note 5)	26,799,585	26,988,340
Shares repurchased, pending cancellation	-	(27,630)
Contributed surplus (note 6)	2,605,463	2,495,347
Retained earnings	562,236	1,237,222
Total shareholders' equity	29,967,284	30,693,279
	\$ 32,715,029	\$ 34,319,333

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Income and Retained Earnings (Deficit)
(unaudited)

	Three Months ended January 31,	
	2009	2008
Revenue:		
Software license fees	\$ 4,300,259	\$ 5,582,127
Software set-up fees	20,944	25,437
Service fees	224,377	29,324
Interest and other	82,853	138,373
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	4,628,433	5,775,261
Expenses:		
Software development and support	2,805,504	2,304,505
Sales and marketing	744,785	744,830
General and administrative	1,080,102	788,114
Amortization of deferred software development costs	246,633	288,183
Stock-based compensation	110,115	139,263
Depreciation and amortization	212,190	172,726
Amortization of intangible assets	121,950	121,951
Foreign currency (gain) loss	230,204	(67,447)
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	5,551,483	4,492,125
Income (loss) before income taxes	(923,050)	1,283,136
Income taxes:		
Current income tax expense (recovery)	(77,866)	400,462
Future income tax reduction	(177,175)	(47,392)
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	(255,041)	353,070
Net income (loss) and other comprehensive income (loss)	(668,009)	930,066
Retained earnings (deficit), beginning of period	1,237,222	(1,498,966)
Repurchase of common shares under Normal Course Issuer Bid	(6,977)	-
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Retained earnings (deficit) end of period	\$ 562,236	\$ (568,900)
Net income per share:		
Basic	\$ (0.04)	\$ 0.05
Diluted	\$ (0.04)	\$ 0.05
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Weighted-average shares basic	18,458,784	18,842,172
Weighted-average shares diluted	18,951,784	19,117,466

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Cash Flows

(unaudited)

	Three months ended January 31,	
	2009	2008
Cash provided by (used in):		
Operations:		
Funds from operations:		
Net income	\$ (668,009)	\$ 930,066
Unrealized foreign exchange gains/losses	54,959	(206,784)
Depreciation and amortization	212,190	172,726
Amortization of deferred software development costs	246,633	288,183
Amortization of intangible assets	121,950	121,951
Stock-based compensation	110,115	139,263
Future income tax reduction	(177,175)	(47,392)
Restricted cash (note 2)	204,655	-
	<u>105,318</u>	<u>1,398,013</u>
Change in non-cash working capital:		
Accounts receivable	(265,080)	(614,552)
Deferred set-up expense	(6,130)	13,817
Prepaid expenses and deposits	225,127	149,422
Deferred revenue	(33,251)	(29,083)
Accounts payable and accrued liabilities	(667,883)	290,151
Income tax receivable (payable)	(79,652)	229,827
	<u>(826,869)</u>	<u>39,582</u>
	(721,551)	1,437,595
Financing:		
Issue of shares for cash	-	4,400
Repurchase of shares for cash	(168,102)	-
	<u>(168,102)</u>	<u>4,400</u>
Investments:		
Redemption (purchase) of short term investments	1,078,928	(813,993)
Purchase of property and equipment	(204,878)	(153,071)
	<u>874,050</u>	<u>(967,064)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(40,687)	-
Increase (decrease) in cash	(15,603)	474,931
Cash, beginning of period	1,728,161	4,413,871
Cash, end of period	<u>\$ 1,671,871</u>	<u>\$ 4,888,802</u>
Supplemental cash flow information:		
Interest received	\$ 62,823	\$ 86,461
Interest paid	89	82
Taxes paid	-	-

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

1. Significant accounting policies:

Basis of presentation

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, 2008 except as noted below. 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, 2008.

The CICA implemented revisions to standards dealing with Intangible Assets effective for fiscal years beginning on or after October 1, 2008. The revisions are intended to align the definition of an Intangible Asset in Canadian GAAP with that in IFRS and U.S. GAAP. Section 1000 - Financial Statement Concepts was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the IASB's Framework for the Preparation and Presentation of Financial Statements that will help distinguish assets from expenses. Section 3064 - Goodwill and Intangible Assets, which replaced Section 3062 - Goodwill and Other Intangible Assets, gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. Section 3450 - Research and Development Costs will be withdrawn from the Handbook. The adoption of these new accounting standards did not impact the amounts in the Company's financial statements as they primarily relate to disclosure.

Future accounting changes

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the Company's first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with IFRS. The Company has not assessed the impact of this standard.

With the Canadian Accounting Standards Board's recent announcement that January 1, 2011 will be the date International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for publicly accountable enterprises, the Company has been carefully evaluating its own implementation plan and assessing the impact the numerous accounting changes will have on the organization. As the final implementation date approaches, the Company will continue to monitor developments.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

2. Restricted Cash:

The restricted cash balance in Canadian dollars is equivalent to the cash held by the Courts of Malta. After the courts decreased the amount on the first garnishee order, on October 1, 2008, the Company filed a recourse with the Courts of Malta for the funds that were still withheld but are not covered by the garnishee order to be returned to the Company. See Note 10 - Contingent Liability for further information.

3. Capital management:

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining sufficient level of funds, in order to support and further expand upon the Company's current product base. Management defines capital as the Company's cash, short term investments and shareholders' equity.

The Company manages its capital structure and makes adjustments to it, based on the level of funds required to manage its operations. In order to achieve these objectives, the Company invests its excess capital in highly liquid financial instruments. The Board does not establish quantitative return on capital criteria for management, but rather promotes sustainable operation goals. The Company is not subject to any externally imposed capital requirements.

4. Financial risk factors:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to software license fees receivable. The Company has a concentration of credit risk with three customers accounting for 55% of its accounts receivable. The Company manages its credit risk associated with accounts receivable by maintaining reserves for potential credit losses. The Company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the Company believes that its accounts receivable represent a low credit risk.

Liquidity risk

The Company may be exposed to liquidity risk if it is unable to collect its trade receivables on a timely basis, which in turn could impact the Company's ability to meet its commitments to creditors. The Company is managing this liquidity risk by carrying a target level of cash and short-term investments, by maintaining a conservative capital structure and by prudently managing its credit risks.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

4. Financial risk factors (continued):

Market risk

(a) Interest rate risk

The Company has significant cash balances and short term investments and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates, guaranteed investment certificates and bankers' acceptances. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is exposed to foreign currency fluctuations as the majority of the Company's revenues are received in UK Pounds Sterling and Euros while the majority of the Company's expenses are incurred in Canadian dollars. The Company has mitigated some of this exchange risk by entering into foreign exchange collars.

As of January 31, 2009, the Company had contracts with collars that have a strike price range of Euros to Canadian dollars between 1.5900 to 1.6300. The estimated fair value of the foreign exchange collars has been determined based on the amount the Company would receive or pay to terminate the contracts as at January 31, 2009. The amount the Company would receive to terminate the foreign exchange collar as at January 31, 2009 would be \$12,721.

The net unrealised loss on the foreign currency collar has been recorded in the statement of income and retained earnings (deficit).

At January 31, 2009, the Company's gross balance sheet exposure to foreign currency risk was substantially as follows:

<i>In Canadian Dollar equivalent</i>	GBP	EURO	USD	SGD	Total
Cash and cash equivalent	210,411	1,401,651	38,564	133,728	\$ 1,784,354
Accounts receivable and other	848,968	1,643,237	257,873	-	\$ 2,750,078
Accounts payable and other accrued liabilities	(240,867)	(553,034)	(209,109)	-	\$ (1,003,010)
Net balance sheet exposure	\$ 818,512	2,491,854	87,328	133,728	\$ 3,531,422

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements
For the three months ended January 31, 2009
(unaudited)

4. Financial risk factors (continued):

Quantification of risk exposure: foreign currency risk

The Company's revenue denomination in foreign currencies was as follows:

<i>In Canadian Dollar equivalent</i>	GBP	EURO	USD	Total
Revenue				
Three months ended January 31, 2009	1,621,618	2,632,142	112,290	\$ 4,366,050
Three months ended January 31, 2008	2,307,577	3,238,769	105,380	\$ 5,651,726

Sensitivity analysis

The Company has designated its cash and short term investments as held-for-trading, which are measured at fair value. As of January 31, 2009, the carrying amount of the financial instruments equals fair market value.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

Software license revenue would be impacted by changes in the exchange rates between the Canadian dollar and either the Euro or the UK Pound Sterling. A 1% change in the Euro to the Canadian dollar exchange rate would change software license revenue by \$24,000 and a 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change software license revenue by \$16,000.

Similarly, the working capital exposure, before taking into consideration the effect of foreign exchange collar, would be impacted by changes in the exchange rates between the Canadian dollar and either the Euro or UK Pound Sterling. A 1% change in the Euro to the Canadian dollar exchange rate would impact net income by \$25,000 and a 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change net income by \$11,000.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

5. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding:

	Number of Shares	Amount
Balance, October 31, 2008	18,580,923	\$ 26,988,340
Cancelled on Normal Course Issuer Bid (d)	(129,800)	(188,755)
Balance, January 31, 2009	18,451,123	\$ 26,799,585

The weighted average number of shares outstanding for the quarter were 18,458,784 (2008 - 18,842,172). Diluted shares for the quarter of 18,951,784 (2008 - 19,117,466) reflect the dilutive effect of the exercise of the outstanding options.

(c) Continuity of options:

	Number	Weighted average exercise price
Outstanding, October 31, 2008	2,196,000	\$ 1.97
Granted	215,000	1.52
Forfeited	(5,000)	2.10
Outstanding, January 31, 2009	2,406,000	\$ 1.93

(d) Normal Course Issuer Bid:

A Normal Course Issuer Bid was filed with the Toronto Stock Exchange on January 25, 2008, whereby the Company was permitted to purchase and cancel up to 1,725,000 of its common shares prior to February 1, 2009. During the current period, 110,800 shares were repurchased. The repurchase resulted in \$161,125 being recorded as a reduction to share capital and \$6,977 as a reduction to retained earnings. In addition, the 19,000 shares held for cancellation as at October 31, 2008 were cancelled in the period.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

6. Contributed surplus:

Balance, October 31, 2008	\$ 2,495,347
Stock-based compensation expense	110,116
Balance, January 31, 2009	\$ 2,605,463

7. Future income tax liability:

Balance, October 31, 2008	\$ 511,579
Current period tax reduction	(177,175)
Balance, January 31, 2009	\$ 334,404

8. Segmented information:

The Company has one operating segment as management has determined that the nature of the operations meet the aggregation criteria specified by Canadian standards. The Company's software license fees, set-up fees, service fees and total assets are from domestic and foreign entities and originate from the following areas of operations:

Three months ended January 31, 2009	Asia	North America	Europe	Total
Software set-up fees	-	-	20,944	20,944
Software license fees	15,753	36,938	4,247,568	4,300,259
Service fees	-	1,662	222,715	224,377
Total assets	915,210	26,924,409	4,875,410	\$ 32,715,029

Three months ended January 31, 2008	Asia	North America	Europe	Total
Software set-up fees	-	-	25,437	25,437
Software license fees	-	29,776	5,521,018	5,550,794
Service fees	-	1,357	29,977	31,334
Total assets	-	6,847,376	24,992,065	\$ 31,839,441

During the period ended January 31, 2009, three licenses (2008 - two), each of which provided more than 10% of the Company's total sales revenue, accounted for 55.2% (2008 - 42.2%) of the Company's software license fees revenue.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2009

(unaudited)

9. Related party transactions:

For the three months ending January 31, 2009, the Company incurred legal fees in the normal course of business of \$5,600 (2008: \$1,400) in respect of a firm in which a certain director of the Company is a partner. The Company also incurred sales and marketing consultancy fees of \$42,000 (2008: \$31,000) to a certain director and officer. In addition, general and administrative consultancy fees of \$19,000 (2008: \$16,000) were incurred to a certain director and officer as well as a former officer. These transactions were measured at the exchange amount which approximates fair value and are recorded in software development, sales and marketing, and general administrative expenses. As at January 31, 2009, balances relating to legal fees of \$1,200 (2008: \$1,400) and general and administrative consulting fees of \$5,400 (2008: \$5,300) was recorded to accounts payable, while all other amounts have been paid.

10. Contingent liability:

On June 17, 2008, the Company received notice of two warrants of seizure totaling €605,000 and two corresponding garnishee orders for equivalent amounts filed by one of the Company's former clients in the Courts of Malta. Acting on these warrants, the Courts were able to initially seize €10,000 and \$13,000 in cash.

The initial warrants and related garnishee orders have been reduced by the Courts of Malta to a combined total of €85,000. At the end of the first quarter of 2009, the Company received €130,500 following the Company's successful application to reduce the warrants and related garnishee orders.

Management is of the opinion that these claims are unfounded and that the possibility of a material liability is unlikely.
