



Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

As at October 31, 2002 and 2001 and for
each of the years in the three year period
ended October 31, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the years ended October 31, 2002 and October 31, 2001 we conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended October 31, 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows for each of the years in the three year period ended October 31, 2002 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada
March 5, 2003

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2002	2001
Assets		
Current assets:		
Cash	\$ 1,704,267	\$ 2,741,078
Short term investments (note 8)	3,181,494	3,350,007
Accounts receivable	1,128,639	1,049,041
Deferred set-up expense	91,629	—
Prepaid expenses	79,147	79,867
	<u>6,185,176</u>	<u>7,219,993</u>
Due from related parties (note 6)	162,565	150,995
Available for sale long-term securities	—	42,882
Capital assets (note 2)	268,374	303,392
Deferred software development costs (note 3)	110,068	220,144
	<u>\$ 6,726,183</u>	<u>\$ 7,937,406</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 169,154	\$ 59,897
Current portion of obligations under capital lease (note 4)	6,841	12,668
	<u>175,995</u>	<u>72,565</u>
Obligations under capital lease (note 4)	8,987	13,446
Shareholders' equity:		
Share capital (note 5)	14,632,223	14,511,135
Deficit	(8,091,022)	(6,659,740)
	<u>6,541,201</u>	<u>7,851,395</u>
Commitments (note 9)		
	<u>\$ 6,726,183</u>	<u>\$ 7,937,406</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed "Darold H. Parken" Director

Signed "Rod A. Ferguson" Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Loss and Deficit

Years ended October 31
(stated in Canadian dollars)

	2002	2001	2000
Revenue:			
Software set-up fees	\$ 789,197	\$ 1,928,696	\$ 909,902
Software license fees	2,646,766	908,876	172,463
Interest and other	302,031	394,782	338,924
	<u>3,737,994</u>	<u>3,232,354</u>	<u>1,421,289</u>
Expenses:			
Software development	2,651,335	2,013,601	1,291,899
General and administrative	2,299,857	2,065,710	2,523,572
Gain from extinguishment of debt (note 6)	–	(242,512)	–
Amortization of deferred software development costs	110,076	110,076	110,074
Depreciation and amortization	108,008	121,446	121,050
	<u>5,169,276</u>	<u>4,068,321</u>	<u>4,046,595</u>
Net loss	(1,431,282)	(835,967)	(2,625,306)
Deficit, beginning of year	(6,659,740)	(5,823,773)	(3,198,467)
Deficit, end of year	<u>\$(8,091,022)</u>	<u>\$(6,659,740)</u>	<u>\$(5,823,773)</u>
Net loss per share	\$ (0.11)	\$ (0.06)	\$ (0.25)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flows

Years ended October 31
(stated in Canadian dollars)

	2002	2001	2000
Cash provided by (used in):			
Operations:			
Net loss	\$ (1,431,282)	\$ (835,967)	\$ (2,625,306)
Depreciation and amortization	108,008	121,446	121,050
Amortization of deferred software development costs	110,076	110,076	110,074
Deferred revenue	—	(299,789)	(123,014)
Interest income capitalized	(11,570)	—	—
Write-down of long-term securities	42,882	—	—
Loss on disposal of capital assets	24,258	—	—
Change in non-cash working capital:			
Accounts receivable	(79,598)	(1,056,283)	150,150
Deferred set-up expense	(91,629)	—	—
Prepaid expenses	720	(7,899)	(5,495)
Accounts payable and accrued liabilities	109,257	(725,645)	437,737
	(61,250)	(1,789,827)	582,392
	(1,218,878)	(2,694,061)	(1,934,804)
Financing:			
Issue of shares	121,088	92,500	1,447,500
Issue of special warrants	—	—	10,075,000
Share and special warrant issue costs	—	—	(816,416)
Repayment of lease obligations	(10,286)	(3,735)	(230,375)
Long-term debt	—	—	(42,625)
	110,802	88,765	10,433,084
Investing:			
Sale (purchase) of short term investments	168,513	(3,350,007)	—
Purchase of capital assets	(97,248)	(97,093)	(314,715)
	71,265	(3,447,100)	(314,715)
Increase (decrease) in cash	(1,036,811)	(6,052,396)	8,183,565
Cash, beginning of year	2,741,078	8,793,474	609,909
Cash, end of year	\$ 1,704,267	\$ 2,741,078	\$ 8,793,474
Supplemental cash flow information:			
Cash interest received	\$ 290,462	\$ 393,709	\$ 332,892
Cash interest paid	(3,272)	(3,409)	(4,270)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

Chartwell Technology Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). The Company specializes in the development of leading edge games and entertainment content for Internet and Intranet deployment. The Company's software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Gateway Technology Inc. ("GTI"), a United States company, and Chartwell Games Corp. ("CGC") (formerly Gaming Tech Corporation), a Belize company. GTI is a US incorporated company, which was acquired on November 1, 1998, and Gaming Tech was incorporated in Belize and commenced operations November 1, 1999. The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and Canadian dollars is the functional currency. Except for the information disclosed in note 11 there are no material differences between Canadian and United States generally accepted accounting principles in these consolidated financial statements.

(b) Capital assets:

Capital assets are recorded at cost and amortization is provided for on a declining balance basis using the following rates:

Capital assets under lease	30%
Computer equipment	30%
Furniture and equipment	20%

(c) Research and deferred software development:

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. The criteria are the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and the existence of adequate resources to complete the project. To October 31, 2002, the Company has deferred the purchase cost of acquired software, which is being amortized over its expected useful life of five years. No other software development costs have been deferred. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 2

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(d) Foreign currency translation:

The Company uses the temporal method of foreign currency translation to translate the accounts of its foreign subsidiaries. Monetary items are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(e) Revenue recognition:

Revenue is recognized in accordance with the terms of the Company's various licensing agreements. Software set-up fees, which require software customization, modification and integration, are recognized following the completed contract method. Licensing revenue, including revenue related to software maintenance and upgrades, is recognized on an accrual basis as earned over the life of the licensing agreement.

(f) Per share amounts:

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, which were 13,485,109 (2001 – 13,286,063; 2000 – 10,477,211). Contingently returnable and issuable shares held in escrow have been excluded from the calculation. 2001 and 2000 per share amounts have been restated to remove 2,330,400 contingently returnable or issuable shares from the calculation. Diluted per share amounts, which are calculated using the treasury stock method, have not been shown, as the results would be anti-dilutive.

(g) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(h) Income taxes:

The Company follows the liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 3

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(i) Stock option plan:

The Company has a stock option plan which is described in note 5(c). No compensation expense is recognized under the plan when stock options are issued. The consideration paid on exercise of stock options is credited to share capital.

2. Capital assets:

2002	Cost	Accumulated amortization	Net book value
Capital assets under lease	\$ 47,005	\$ 31,350	\$ 15,655
Computer equipment	535,356	325,898	209,458
Furniture and equipment	77,070	33,809	43,261
	\$ 659,431	\$ 391,057	\$ 268,374
2001			
Capital assets under lease	\$ 47,005	\$ 24,641	\$ 22,364
Computer equipment	476,602	246,778	229,824
Furniture and equipment	78,582	27,378	51,204
	\$ 602,189	\$ 298,797	\$ 303,392

3. Deferred software development costs:

	2002	2001
Software development costs	\$ 524,149	\$ 524,149
Less: accumulated amortization	(414,081)	(304,005)
Net book value	\$ 110,068	\$ 220,144

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 4

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

4. Capital leases:

The capital lease obligations were incurred to purchase office equipment. The following is a summary of the capital lease obligations at October 31, 2002:

Capital lease obligation	\$ 15,828
Less current portion	(6,841)
	<hr/> \$ 8,987 <hr/>

The following is a schedule by years of future minimum lease payments together with the net present value as at October 31, 2002:

Fiscal year ending:	
2003	\$ 8,796
2004	6,728
2005	3,195
	<hr/>
Total minimum lease payments	18,719
Less interest amount	(2,891)
	<hr/> \$ 15,828 <hr/>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 5

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

5. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of shares	Amount
Balance, October 31, 1999	11,305,501	\$ 2,779,751
Issued for cash on exercise of stock options	45,000	72,500
Issued on conversion of Special Warrants (iii)	550,000	932,800
Issued for cash on exercise of Warrants (iii)	550,000	1,375,000
Issued on conversion of Special Warrants (ii)	3,100,000	9,258,584
Balance, October 31, 2000	15,550,501	14,418,635
Issued for cash on exercise of stock options	20,000	20,000
Issued for cash on exercise of Warrants	58,000	72,500
Balance, October 31, 2001	15,628,501	14,511,135
Issued for cash on exercise of stock options	189,200	121,088
Balance, October 31, 2002	15,817,701	\$14,632,223

(i) 375,000 shares are held in escrow on behalf of the principals of the Company and are subject to the direction and determination of the regulatory authorities in the Province of British Columbia.

955,400 shares are held in escrow on behalf of the principals of the Company and others and subject to the direction and determination of the regulatory authorities in the Province of Alberta.

Pursuant to the Company's acquisition of all of the issued shares of GTI, 1,000,000 shares are held in escrow and are realizable from time to time as to one escrowed share for each \$1.00 of cash flow generated by GTI subsequent to its acquisition by the Company. Shares remaining in escrow at October 31, 2003 are to be returned to the Company and cancelled. At October 31, 2002 all these shares remain held in escrow.

The Company has agreed to issue an additional 25,000 shares as a finder's fee in connection with the acquisition of GTI. This additional share issue will be subject to regulatory approval and will be subject to escrow as determined by regulatory authorities. As of October 31, 2002, these shares have not been issued.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 6

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

5. Share capital (continued):

(b) Issued (continued):

(ii) On March 10, 2000, the Company received \$10,075,000, less \$816,416 of related issue costs, through a private placement of 3,100,000 Special Warrants. These Special Warrants entitle the holder to acquire one common share and one half common share purchase warrant. Each whole purchase warrant entitles the holder thereof to acquire one common share of the Company at a price of \$3.80 and is exercisable for a period of one year from the date of issue. In conjunction with the issue of Special Warrants, the Company issued to its Agent 310,000 broker warrants and 500,000 warrants to a financial consultant as compensation for financial advisory services. Each warrant entitled the holder to acquire an option to purchase one common share at a price of \$3.25 per share, exercisable until March 10, 2001. These warrants have expired.

On July 14, 2000 the 3,100,000 Special Warrants were converted to 3,100,000 common shares and 1,550,000 purchase warrants. These warrants expired on March 10, 2001.

(iii) During the year ended, October 31, 1999 the Company received \$1,000,000 through a private placement of 500,000 Special Warrants. The Special Warrants originally entitled the holder to acquire one common share and one warrant. Each warrant entitled the holder thereof to acquire one common share of the Company at a price of \$2.50 until May 26, 2000. The Company did not complete the prospectus filing to clear the securities by September 24, 1999 and, accordingly, the Special Warrants were convertible or exchangeable for 1.1 common shares and 1.1 warrants each. All of the Special Warrants were converted to common shares, and in addition, 550,000 warrants to purchase common shares were exercised at \$2.50 per common share.

(c) Stock options and warrants:

The Company has a stock option plan for its directors, officers, employees and key consultants whereby an amount of options to a maximum of 3,110,100 shares may be granted subject to certain terms and conditions. Stock option vesting privileges are at the discretion of the Board. The exercise price for stock options granted is no less than the quoted market price on grant date.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 7

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

5. Share capital (continued):

(c) Stock options and warrants:

Changes in the number of options, with these weighted average exercise prices are summarized below:

	October 31, 2002		October 31, 2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,011,566	\$1.15	1,777,532	\$1.02
Granted	426,400	1.54	579,100	1.35
Exercised	—	—	(209,200)	0.67
Forfeited	49,100	1.80	(135,866)	1.03
Outstanding, end of year	2,388,866	\$1.21	2,011,566	\$1.15

On June 5, 2001 the Company re-priced certain employee stock options with an original exercise price ranging from \$1.77 to \$4.20, to a new exercise price ranging from \$1.06 to \$1.17.

The following table summarizes information about the stock options outstanding at October 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted average remaining contractual life (years)	Weighted average Exercise price	Number	Weighted average exercise price
\$ 1.00-1.50	1,896,366	2.6	\$ 1.07	1,575,070	\$ 1.08
1.51-2.00	442,500	3.7	1.72	67,732	1.72
2.01-2.09	50,000	3.8	2.09	33,333	2.09
\$ 1.00-2.09	2,388,866	2.8	\$ 1.21	1,676,135	\$ 1.12

In November 2000, 58,000 of the 1998 warrants were converted to common shares and the remaining 192,000 warrants expired.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 8

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

6. Related party transactions:

For the year ended October 31, 2002, the Company paid legal fees of \$60,000 (2001 - \$60,000; 2000 - \$62,000) and consulting fees of \$165,000 (2001 - \$162,000; 2000 - \$135,000) to various directors of the Company in the normal course of business. These transactions were measured at the exchange amount and recorded in general and administrative expenses.

Amounts due from related parties of \$162,565 consist of amounts due from Company officers, directors and employees. Of these amounts, \$29,907 is non-interest bearing, unsecured and with no set terms of repayment. The remaining \$132,658 bears 6% interest and is secured by 189,200 common shares of the Company.

In fiscal 2001, the Company determined that \$242,512 of liabilities, which were recognized upon the acquisition of the issued and outstanding shares of GTI, were no longer payable, and therefore these amounts have been recognized as income in the fiscal 2001 year.

7. Income taxes:

Income tax recovery differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net loss for the year. The reasons for the differences are as follows:

	2002	2001	2000
Net loss	\$(1,431,282)	\$ (835,967)	\$(2,625,306)
Combined Canadian federal and provincial statutory rate	39.7%	42.6%	43.6%
Computed recovery	(568,219)	(356,121)	(1,144,633)
Non-tax-based amortization	43,653	44,605	47,992
Difference in foreign tax rates	(956,101)	(762,816)	5,338
Foreign accrual property income	1,034,320	741,800	—
Benefit of future tax assets not recognized	438,060	321,978	802,625
Non deductible expenses	8,287	10,554	288,678
Actual recovery	\$ —	\$ —	\$ —

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 9

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

7. Income taxes (continued):

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income in the various jurisdictions in which the Company operates.

The components of the Company's net future income tax asset at October 31, 2002, no portion of which has been recorded in these financial statements, are as follows:

	Canada	United States	Total
Benefit of non-capital/net operating losses	\$ 1,200,628	\$ 24,823	\$ 1,225,451
Capital assets	116,966	—	116,966
Benefit of share issue costs	120,340	—	120,340
Resource deductions	87,963	—	87,963
Deferred development costs	449,460	—	449,460
	\$ 1,975,357	\$ 24,823	\$ 2,000,180

As at October 31, 2002, the Company has Canadian unrecognized loss carry-forwards for income tax purposes of approximately \$3,418,645 (2001 - \$4,187,000) available for deduction against future years' taxable income. These losses expire as follows:

2003	\$ 85,773
2004	136,870
2005	140,519
2006	955,395
2007	—
2008	848,902
2009	1,251,186
	\$ 3,418,645

In addition, for income tax purposes GTI has net operating losses carry-forward of \$73,008 (2001 - \$74,243) available for deduction against future year's taxable income in the United States. These losses expire between 2018 and 2019.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 10

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

8. Financial instruments:

The Company's financial instruments consist of cash, short term investments (provincial government bonds), accounts receivable, amounts due from related parties, accounts payable and accrued liabilities and capital lease obligations. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. It is management's opinion that the Company is not exposed to significant interest and or credit risk. The Company's short term investments consist of investments in low risk, fixed interest, corporate bonds. A substantial portion of the Company's revenue is exposed to currency fluctuations.

9. Commitments:

Operating leases:

The Company operates from leased premises. Future minimum annual payments under the leases are as follows:

2003	\$	159,000
2004		159,000
2005		79,500

10. Segmented information:

The Company has aggregated its Canadian and Belize operating segments into one reporting segment as management has determined that the nature of the operations in each segment meets the aggregation criteria specified by the CICA.

The Company's software set-up and license fees are from domestic and foreign entities and originate from the following countries of operation:

2002	Canada	Belize	Total
Software set-up fees	\$ 47,529	\$ 741,668	\$ 789,197
Software license fees	\$ 231,071	\$ 2,415,695	\$ 2,646,766
Total assets	\$ 4,660,842	\$ 2,065,341	\$ 6,726,183

2001

Software set-up fees	\$ 212,361	\$ 1,716,335	\$ 1,928,696
Software license fees	\$ 67,022	\$ 841,854	\$ 908,876
Total assets	\$ 6,723,320	\$ 1,214,086	\$ 7,937,406

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 11

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

10. Segmented information (continued):

2000	Canada	Belize	Total
Software set-up fees	\$ 44,375	\$ 865,527	\$ 909,902
Software license fees	\$ –	\$ 172,463	\$ 172,463

During the year ended October 31, 2002, three licensees (2001 – 5; 2000 – 3), each of which provided more than 10% of the Company's set-up fees and license revenue, accounted for 68.5% (2001 – 54.9%; 2000 – 42.9%) of the Company's 2002 total set-up fee and license revenue.

11. Differences in generally accepted accounting principles between Canada and the United States:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles "Canadian GAAP". Any differences in United States generally accepted accounting principles ("U.S. GAAP") as they pertain to the Company's financial statements are not material except as follows:

(a) Reconciliation of Canadian GAAP Loss to U.S. GAAP Net Loss:

The effect on the loss for each of the years in the three year period ended October 31, 2002 of the differences between Canadian GAAP and US GAAP is summarized as follows:

	Years ended October 31,		
	2002	2001	2000
Net loss from continuing operations for the period as reported in accordance with Canadian GAAP	\$ (1,431,282)	\$ (835,967)	\$(2,625,306)
Repricing of stock options	95,820	(702,660)	–
Stock based compensation expense:			
APB 25	(7,981)	(37,580)	(118,785)
FAS 123	(105,119)	(94,870)	–
Net loss under U.S. GAAP	(1,448,562)	(1,671,077)	(2,744,091)
Deficit, beginning of year, under U.S. GAAP	(7,826,907)	(6,155,830)	(3,411,739)
Deficit, end of year, under U.S. GAAP	\$ (9,275,469)	\$ (7,826,907)	\$(6,155,830)

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 12

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

11. Differences in generally accepted accounting principles between Canada and the United States (continued):

(a) Reconciliation of Canadian GAAP Loss to U.S. GAAP Net Loss (continued):

	Years ended October 31,		
	2002	2001	2000
Net loss per share, basic	\$ (0.11)	\$ (0.13)	\$ (0.25)
Weighted average shares for basic EPS	13,485,109	13,286,063	10,796,530

For U.S. GAAP purposes, the amounts of interest income would not be included in the subtotal of revenue.

The components of comprehensive income are as follows:

	2002	2001	2000
Net loss – US GAAP	\$(1,448,562)	\$(1,671,077)	\$ –
Other comprehensive income: Change in fair value of available for sale long-term securities	(85,426)	27,625	–
Comprehensive income (loss)	\$(1,533,988)	\$(1,643,452)	\$ –

Balance sheet items which vary in conformity with US GAAP and SEC requirements:

	2002	2001
Assets:		
Available for sale long-term securities	\$ 1,365	\$ 70,507
Shareholders' Equity:		
Common Stock	\$ –	\$ –
Accumulated other comprehensive income	(85,426)	27,625
Deficit	(9,275,469)	(7,826,907)
	\$ (9,360,895)	\$(7,799,282)

There are no variations between the amounts of assets and liabilities and those amounts measured using U.S. GAAP.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 13

Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

11. Differences in generally accepted accounting principles between Canada and the United States (continued):

(b) Stock based compensation:

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock options issued to employees, directors and officers of the Company for purposes of reconciliation to U.S. GAAP. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above and has adopted the disclosure requirements of SFAS No. 123. Stock options issued to consultants and other third parties are accounted for at their fair values in accordance with SFAS No. 123. The fair value of the options granted to consultants and other third parties is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions for grants; expected volatility of 72%, risk free interest rate of 5% and expected option lives of 5 years.

With the exception of 100,000 options granted to a consultant in the year ended October 31, 2002, and 50,000 options granted to a consultant in each of the years ended October 31, 2001 and 2000, all options granted to date have been fixed and granted to employees, directors and officers of the Company. \$105,119 (2001 – 94,870; 2000 - nil) has been charged against income for those options in 2002.

The Company has calculated the fair value of stock options granted to employees, directors and officers under the minimum valued method using the Black Scholes option pricing model with the following weighted-average assumptions:

	2002	2001	2000
Risk free interest rate	5%	6%	6%
Volatility	72%	100%	100%
Expected option life (in years)	5	5	5
Dividend yield	0%	0%	0%

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Years ended October 31, 2002, 2001 and 2000
(stated in Canadian dollars)

11. Differences in generally accepted accounting principles between Canada and the United States (continued):

(b) Stock based compensation (continued):

Had the Company determined compensation costs based on the fair value at the date of grant for its stock options under SFAS 123, net earnings in accordance with US GAAP would have been as reported in the following table. The Company has not recognized in income any amount under SFAS 123 for stock-based employee compensation expense. These pro forma earnings reflect compensation cost amortized over the options' vesting period.

	Years ended October 31,		
	2002	2001	2000
Net loss under U.S. GAAP			
As reported	\$ (1,448,562)	\$ (1,671,077)	\$(2,744,091)
Pro forma	(1,683,131)	(1,889,073)	(3,656,095)
Basic loss per common share:			
As reported	\$ (0.11)	\$ (0.13)	\$ (0.25)
Pro forma	(0.12)	(0.14)	(0.34)

(c) Additional disclosures under U.S. GAAP:

- (i) The Company follows SFAS 130 regarding comprehensive income for purposes of reconciliation to U.S. GAAP. Under U.S. GAAP, items defined as other comprehensive income are separately classified in the financial statements and the accumulated balance of other comprehensive income (loss) is reported separately in shareholders' equity on the balance sheet. For the three years ended October 31, 2002 there are no items classified as other comprehensive income, with the exception of a change in the fair value of available for sale securities of \$(85,426) for the year ended October 31, 2002 (2001 – \$27,625).
- (ii) The 2,330,400 common shares held in escrow for the year ended October 31, 2002 (2001 – 2,330,400 and 2000 - 1,627,700), have not been included in the calculation of basic or diluted earnings per share as doing so would be anti-dilutive.