



**Chartwell Technology Inc.**  
Interim Consolidated Financial Statements  
For the three months ended January 31, 2008

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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 2008 (Unaudited)	October 31, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ 4,888,802	\$ 4,413,871
Short term investments	11,479,252	10,665,259
Accounts receivable	5,228,879	4,401,872
Deferred set-up expense	8,099	21,078
Prepaid expenses and deposits	565,947	708,466
Income tax receivable	1,442,171	1,671,998
Total current assets	23,613,150	21,882,544
Property and equipment	2,235,285	2,254,939
Intangible assets	1,016,255	1,138,206
Goodwill	2,749,317	2,749,317
Deferred software development costs	2,161,371	2,449,554
Deferred set-up expense	43,355	44,195
Deposits	20,708	27,610
	<b>\$ 31,839,441</b>	<b>\$ 30,546,365</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,094,340	\$ 1,804,188
Future income taxes liability (note 6)	155,548	-
Unrealized loss on foreign exchange hedge	5,671	-
Deferred revenue	77,974	110,212
Total current liabilities	2,333,533	1,914,400
Deferred revenue	189,975	186,821
Future income tax liability (note 6)	439,994	642,934
Shareholders' equity:		
Share capital (note 4)	27,404,617	27,400,217
Contributed surplus (note 5)	2,040,222	1,900,959
Deficit	(568,900)	(1,498,966)
Total shareholders' equity	28,875,939	27,802,210
	<b>\$ 31,839,441</b>	<b>\$ 30,546,365</b>

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Income and Deficit  
(unaudited)

	Three Months ended January 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Revenue:		
Software license fees	\$ 5,582,127	\$ 5,289,111
Software set-up fees	25,437	55,072
Service fees	29,324	6,375
Interest and other	138,373	147,244
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	5,775,261	5,497,802
Expenses:		
Software development and support	2,304,505	2,469,528
Sales and marketing	744,830	924,353
General and administrative	788,114	1,020,793
Amortization of deferred software development costs	288,183	171,546
Stock-based compensation	139,263	133,183
Depreciation and amortization	172,726	115,380
Amortization of intangible assets	121,951	123,242
Foreign currency (gain)	(67,447)	(272,856)
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	4,492,125	4,685,169
Income before income taxes	1,283,136	812,633
Income taxes:		
Current income tax expense	400,462	630,950
Future income tax expense (reduction)	(47,392)	(312,992)
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	353,070	317,958
Net income	930,066	494,675
Deficit, beginning of period	(1,498,966)	(1,415,392)
<b>Deficit, end of period</b>	<hr/> <b>\$ (568,900)</b>	<hr/> <b>\$ (920,717)</b>
Net income per share:		
Basic	\$ 0.05	\$ 0.03
Diluted	\$ 0.05	\$ 0.03
Weighted-average shares basic	18,842,172	18,307,855
Weighted-average shares diluted	19,117,466	18,524,575

See accompanying notes to interim consolidated financial statements.

# CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Cash Flows  
(unaudited)

	Three Months ended January 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operations:		
Funds from operations:		
Net income	\$ 930,066	\$ 494,675
Unrealized foreign exchange losses	(206,784)	(84,962)
Depreciation and amortization	172,726	115,380
Amortization of deferred software development costs	288,183	171,546
Amortization of intangible assets	121,951	123,242
Stock-based compensation	139,263	133,183
Interest income capitalized	-	(2,424)
Future income tax expense (reduction)	(47,392)	(312,992)
	1,398,013	637,648
Change in non-cash working capital:		
Accounts receivable	(614,552)	1,196,466
Deferred set-up expense	13,817	24,784
Prepaid expenses and deposits	149,422	129,476
Notes receivable	-	(17,468)
Deferred revenue	(29,083)	(138,772)
Accounts payable and accrued liabilities	290,151	14,355
Income tax receivable	229,827	560,140
	39,582	1,768,981
	1,437,595	2,406,629
Financing:		
Issue of shares for cash	4,400	-
Repayment of lease obligations	-	(5,711)
	4,400	(5,711)
Investments:		
Redemption (purchase) of short term investments	(813,993)	284,638
Purchase of property and equipment	(153,071)	(406,501)
Deferred software development costs	-	(202,759)
	(967,064)	(324,622)
Increase (decrease) in cash	474,931	2,076,296
Cash, beginning of period	4,413,871	1,626,617
Cash, end of period	\$ 4,888,802	\$ 3,702,913
Supplemental cash flow information:		
Interest received	\$ 86,461	\$ 127,352
Interest paid	82	426
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, 2008

(unaudited)

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## 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, 2007 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, 2007.

### Capital disclosures and financial instruments - disclosures and presentation

On December 1, 2006, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862), and Financial Instruments - Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

#### Capital disclosures

Handbook Section 1535 specifies the disclosure of (i) an entities objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the Handbook section in note 2 to these interim financial statements.

#### Financial instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 3 to these interim financial statements.

#### Future accounting change

Handbook Section 3031, Inventories, relates to the new accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008, and will be effective for the Company's annual and interim financial statements for the periods beginning on and after November 1, 2008.

As the Company has no inventory, this section is not expected to have any impact on its consolidated financial statements.

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# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the three months ended January 31, 2008

(unaudited)

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## 2. 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.

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.

## 3. 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 five customers accounting for 65% of its accounts receivable.

### Liquidity risk

The Company has sufficient funds (October 31, 2007 - \$4,413,871 and January 31, 2008 - \$4,888,802) to settle current liabilities. The Company has no long term debt.

### 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, bankers' acceptances, equity and equity funds. 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 a foreign exchange collar.

As of January 31, 2008, the Company had a partial economic hedge with a collar that has a strike price range of Euros to Canadian dollars 1.4400 to 1.5000. The estimated fair value of the foreign exchange collar has been determined based on the amount the Company would receive or pay to terminate the contract as at January 31, 2008. The amount the Company would pay to terminate the foreign exchange collar as at January 31, 2008 would be approximately \$6,000.

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

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# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements  
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## 3. Financial risk factors (continued):

### 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, 2008, 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 \$33,000. A 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change software license revenue by \$27,000.

Similarly, accounts receivable, before taking into consideration the effect of hedging activity, would be impacted by changes in the exchange rates between the 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 impact net income by \$16,000. A 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change net income by \$9,000.

The Company does not hold significant cash balances in foreign currencies to give rise to exposure to foreign exchange risk other than noted above.

## 4. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding:

	<b>Number of Shares</b>	<b>Amount</b>
Balance, October 31, 2007	18,840,689	\$ 27,400,217
Issued for cash on exercise of stock options	4,400	4,400
Balance, January 31, 2008	18,845,089	\$ 27,404,617

The weighted average number of shares outstanding for the quarter were 18,842,172 (2007 - 18,307,855). Diluted shares of 19,117,466 (2007 - 18,524,575) reflect the dilutive effect of the exercise of the outstanding options.

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# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

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## 4. Share capital (continued):

(c) Continuity of options:

	Number	Weighted average exercise price
Outstanding, October 31, 2007	2,240,734	\$ 1.97
Granted	20,000	1.56
Exercised	(4,400)	1.00
Forfeited	(21,000)	2.21
Outstanding, January 31, 2008	2,235,334	\$ 2.01

## 5. Contributed surplus:

Balance, October 31, 2007	\$ 1,900,959
Stock-based compensation expense	139,263
Balance, January 31, 2008	\$ 2,040,222

## 6. Future income tax liability:

Balance, October 31, 2007	\$ 642,934
Current period tax reduction	(47,392)
Balance, January 31, 2008	\$ 595,542

## 7. 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, 2008	North America	Europe	Total
Software set-up fees	-	25,437	25,437
Software license fees	31,133	5,550,994	5,582,127
Total assets	6,847,376	24,992,065	\$ 31,839,441
Three months ended January 31, 2007	North America	Europe	Total
Software set-up fees	-	55,072	55,072
Software license fees	23,709	5,265,402	5,289,111
Total assets	18,533,822	12,012,543	\$ 30,546,365

# CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

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(unaudited)

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## **8. Related party transactions:**

For the three months ended January 31, 2008, the Company incurred legal fees of \$1,400 (2007 - \$47,000), sales and marketing consultancy fees of \$31,000 (2007 - \$124,000), and general and administrative consulting fees of \$10,000 (2007 - \$71,000) from companies related to certain officers and directors of the company in the normal course of business. These transactions were measured at the exchange amount and recorded in general and administrative, sales and marketing, and software development expenses. As at January 31, 2008, \$7,000 is reflected in accounts payable and accrued liabilities, while all other amounts have been paid.

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