



**Chartwell Technology Inc.**

Consolidated Interim Financial Statements

For the three months and nine months ended July 31, 2003

# CHARTWELL TECHNOLOGY INC.

## Consolidated Balance Sheets (unaudited)

	July 31 2003 (unaudited)	October 31, 2002
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,125,517	\$ 1,704,267
Short term investments	1,705,286	3,181,494
Accounts receivable	1,989,564	1,128,639
Deferred set-up expense	-	91,629
Prepaid expenses	113,344	79,147
	<u>6,933,711</u>	<u>6,185,176</u>
Due from related parties	168,460	162,565
Capital assets	391,780	268,374
Deferred software development costs	27,517	110,068
	<u>\$ 7,521,468</u>	<u>\$ 6,726,183</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 215,048	\$ 169,154
Current portion of obligations under capital lease	6,936	6,841
Deferred revenue	13,982	-
	<u>235,966</u>	<u>175,995</u>
Obligations under capital lease	3,873	8,987
Shareholders' equity:		
Share capital	14,657,223	14,632,223
Deficit	(7,375,594)	(8,091,022)
	<u>7,281,629</u>	<u>6,541,201</u>
	<u>\$ 7,521,468</u>	<u>\$ 6,726,183</u>

See accompanying notes to consolidated interim financial statements.

# CHARTWELL TECHNOLOGY INC.

## Consolidated Statements of Income (Loss) and Deficit

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
Revenue:				
Software set-up fees	\$ 241,645	\$ 303,119	\$ 1,064,645	\$ 620,579
Software license fees	1,693,190	625,513	4,453,238	1,501,818
Interest and other	31,933	189,307	86,858	268,695
	<u>1,966,768</u>	<u>1,117,939</u>	<u>5,604,741</u>	<u>2,391,092</u>
Expenses:				
Software development and support	1,023,603	716,407	2,866,637	2,016,769
General and administrative	473,422	360,027	1,284,868	1,571,937
Depreciation and amortization	26,231	27,783	69,799	77,964
Amortization of deferred software development costs	27,517	27,519	82,551	82,557
	<u>1,550,773</u>	<u>1,131,736</u>	<u>4,303,855</u>	<u>3,749,227</u>
Income from operations	415,995	(13,797)	1,300,886	(1,358,135)
Foreign currency losses	201,043	-	585,458	732
Net income (loss)	<u>214,952</u>	<u>(13,797)</u>	<u>715,428</u>	<u>(1,358,867)</u>
Deficit, beginning of period	(7,590,546)	(8,004,810)	(8,091,022)	(6,659,740)
Deficit, end of period	<u>\$ (7,375,594)</u>	<u>\$ (8,018,607)</u>	<u>\$ (7,375,594)</u>	<u>\$ (8,018,607)</u>
Net income (loss) per share basic & diluted	\$ 0.02	\$ (0.00)	\$ 0.05	\$ (0.10)

See accompanying notes to consolidated interim financial statements.

Weighted-average shares basic & diluted	13,512,301	13,487,301	13,501,037	13,487,301
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# CHARTWELL TECHNOLOGY INC.

## Consolidated Statements of Cash Flows

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations:				
Funds from operations:				
Net income (loss)	\$ 214,952	\$ (13,797)	\$ 715,428	\$ (1,358,867)
Depreciation and amortization	26,231	27,783	69,799	77,964
Unrealized foreign exchange losses	145,139	-	398,620	-
Interest income capitalized	(2,052)	-	(5,895)	-
Amortization of deferred software development costs	27,517	27,519	82,551	82,557
Deferred set-up costs	-	-	91,629	-
	411,787	41,505	1,352,132	(1,198,346)
Change in non-cash working capital:				
Accounts receivable	(204,521)	350,010	(860,925)	18,890
Prepaid expenses	9,976	(5,797)	(34,197)	2,551
Deferred revenue	(17,018)	(102,377)	13,982	-
Accounts payable and accrued liabilities	108,112	2,908	45,894	(19,235)
	(103,451)	244,744	(835,246)	2,206
	308,336	286,249	516,886	(1,196,140)
Financing:				
Issue of shares	-	-	25,000	121,088
Repayment of lease obligations	(1,746)	(2,633)	(5,019)	(8,751)
	(1,746)	(2,633)	19,981	112,337
Investments:				
Purchase of short term investments	(22,471)	2,825,975	1,476,208	2,901,445
Purchase of capital assets	(155,282)	(12,163)	(193,205)	(58,568)
	(177,753)	2,813,812	1,283,003	2,842,877
Effect of foreign exchange rate changes on cash and cash equivalents				
	(145,139)	-	(398,620)	-
	(145,139)	-	(398,620)	-
Increase (decrease) in cash	(16,302)	3,097,428	1,421,250	1,759,074
Cash, beginning of period	3,141,819	1,402,724	1,704,267	2,741,078
Cash, end of period	\$ 3,125,517	\$ 4,500,152	\$ 3,125,517	\$ 4,500,152
Supplemental cash flow information:				
Cash interest received	\$ 29,881	\$ 189,307	\$ 80,963	\$ 268,695
Cash interest paid	454	729	1,578	2,201

See accompanying notes to consolidated interim financial statements.

# CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Interim Financial Statements  
For the three months and nine months ended July 31, 2003  
(unaudited)

These consolidated interim financial statements of Chartwell Technology Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the consolidated financial statements for the year ended October 31, 2002, except as described below in Note 3 Change in Accounting Policy. These consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2002.

## 1. Share capital:

As at July 31, 2003 and October 31, 2002 the Company had 15,842,701 and 15,817,701 common shares outstanding and 2,827,766 and 2,388,866 options to acquire common shares respectively.

## 2. 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 operations:

2003	Three months ended July 31			Nine months ended July 31		
	Canada	Belize	Total	Canada	Belize	Total
Software set-up fees	\$ -	\$ 241,645	\$ 241,645	\$ -	\$ 1,064,645	\$ 1,064,645
Software license fees	\$ 55,942	\$ 1,637,248	\$ 1,693,190	174,020	4,279,218	4,453,238

  

2002	Three months ended July 31			Nine months ended July 31		
	Canada	Belize	Total	Canada	Belize	Total
Software set-up fees	\$ 47,259	\$ 255,590	\$ 302,849	\$ 47,259	\$ 573,050	\$ 620,309
Software license fees	\$ 60,420	\$ 565,093	\$ 625,513	\$ 179,873	\$ 1,321,945	\$ 1,501,818

## 3. Change in accounting policy:

Effective November 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. The new recommendations permit the measurement of compensation expense for stock options granted to employees and directors that are not direct awards of stock, stock appreciation rights or otherwise call for settlement in cash or other assets by an alternative method and to provide pro forma disclosure of the financial results using the fair value method.

The Company has elected to follow an alternative method of accounting for stock options awarded to employees and recognize no compensation expense when stock options are granted. The Company has calculated the fair value of stock options granted to employees, directors, and officers using the Black Scholes option pricing model with a dividend yield of 0% and with the following weighted-average assumptions: Risk free interest rate-4%, Volatility-100%, Expected option life-5 years. Had compensation expense been determined based on the fair value of the employee stock option awards at the grant dates in accordance with the new recommendations, the Company's net income and earnings per share would have been changed to the following pro forma amounts:

	Three months ended July 31, 2003		Nine months ended July 31, 2003	
	As reported	Pro forma	As reported	Pro forma
Net income	\$ 214,952	\$ 183,535	\$ 715,428	\$ 677,270
Earnings per share basic & diluted	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.05