



Chartwell Technology Inc.

Interim Consolidated Financial Statements
For the three and nine months ended July 31, 2005

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Balance Sheets

(unaudited)

	July 31, 2005	October 31, 2004
Assets		
Current assets:		
Cash	3,960,392	\$ 5,995,863
Short term investments	15,911,075	3,318,286
Accounts receivable	4,244,218	1,916,309
Deferred set-up expense	206,423	58,585
Prepaid expenses and deposits	320,245	230,632
Notes receivable	131,133	117,873
Future income tax asset (note 5)	33,863	115,000
Total Current Assets	24,807,349	11,752,548
Due from related parties (note 7)	155,685	178,961
Property and equipment	1,151,794	431,824
Deferred software development costs	431,413	607,900
Deferred set-up expense	175,158	68,186
Notes receivable	180,573	180,573
Future Income tax asset (note 5)	731,547	929,964
Goodwill (note 2)	2,749,317	811,666
Intangible assets (note 2)	1,870,443	-
	\$32,253,279	\$14,961,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 878,591	\$ 708,900
Income tax payable	1,304,655	-
Due to Honeycomb Holdings Limited (note 2)	499,684	-
Current portion of obligations under capital lease	16,296	15,640
Deferred revenue	301,794	478,952
Total Current Liabilities	3,001,020	1,203,492
Deferred revenue	396,725	615,748
Due to Honeycomb Holdings Limited (note 2)	734,280	-
Obligations under capital lease	8,488	20,793
Shareholders' equity:		
Share capital (note 3 (b))	27,886,600	16,502,188
Contributed surplus (note 4)	912,441	102,572
Accumulated deficit	(686,275)	(3,483,171)
Total Shareholders' Equity	28,112,766	13,121,589
	\$32,253,279	\$14,961,622

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Income and Deficit
(unaudited)

	Three months ended July 31,		Nine Months ended July 31,	
	2005	2004	2005	2004
Revenue:				
Software license fees	\$ 4,027,705	\$ 3,392,556	\$ 12,279,007	\$ 8,031,217
Software set-up fees	347,886	184,168	587,419	589,611
Interest and other	132,228	20,867	333,286	90,233
	4,507,819	3,597,591	13,199,712	8,711,061
Expenses:				
Software development and support	1,753,896	1,172,293	4,398,674	3,179,887
Sales and marketing	488,285	446,531	1,639,301	1,110,639
General and administrative	417,829	316,974	1,102,982	1,403,150
Stock-based compensation	197,652	-	406,145	-
Depreciation and amortization	53,889	103,493	157,631	191,457
Amortization of deferred software development costs	58,829	39,219	176,487	39,219
Amortization of intangible assets	18,973	-	18,973	-
Foreign currency loss (gain)	338,169	104,905	303,295	(14,289)
Contracts acquired on acquisition	-	-	-	25,000
	3,327,522	2,183,415	8,203,488	5,935,063
Income from operations	1,180,297	1,414,176	4,996,224	2,775,998
Income taxes:				
Current income tax expense	653,277	494,705	1,304,655	971,645
Future income tax expense (recovery)	(201,133)	(290,430)	543,026	(755,860)
	452,144	204,275	1,847,681	215,785
Net income	728,153	1,209,901	3,148,543	2,560,213
Deficit, beginning of period	(1,414,428)	(7,118,183)	(3,483,171)	(7,504,952)
Stock based compensation (note 1)		-	(351,647)	-
Deficit, end of period	\$ (686,275)	\$ (5,908,282)	\$ (686,275)	\$ (4,944,739)
Net income per share:				
Basic	\$ 0.04	\$ 0.08	\$ 0.18	\$ 0.18
Diluted	\$ 0.04	\$ 0.07	\$ 0.16	\$ 0.16
Weighted-average shares basic	18,507,592	14,524,388	17,976,172	14,039,076
Weighted-average shares diluted	20,056,064	16,742,739	19,633,964	16,110,428

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

	Three Months ended July 31,		Nine Months ended July 31,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Funds from operations:				
Net income	\$ 728,153	\$ 1,209,901	3,148,543	\$ 2,560,213
Depreciation and amortization	53,889	103,488	157,631	191,457
Amortization of deferred software development costs	58,829	39,219	176,487	39,219
Amortization of intangible assets	18,973	-	18,973	-
Stock-based compensation	197,652	-	406,145	-
Notes receivable	(4,468)	-	(13,260)	-
Due from related parties	-	-	29,907	-
Interest income capitalized	(2,312)	(2,181)	(6,631)	(6,268)
Contracts acquired on acquisition	-	-	-	25,000
Future income tax expense (recovery)	(201,133)	204,275	543,026	215,785
	849,583	1,554,702	4,460,821	3,025,406
Change in non-cash working capital:				
Accounts receivable	(1,158,086)	(6,321)	(2,327,909)	(186,633)
Due from related parties	-	-	-	20,000
Deferred set-up expense	(176,350)	16,763	(254,810)	65,633
Prepaid expenses and deposits	(21,719)	(2,424)	(89,613)	(58,554)
Deferred revenue	(386,882)	(80,338)	(396,181)	(359,979)
Accounts payable and accrued liabilities	158,442	(176,038)	169,691	(61,245)
Income tax payable	653,277	-	1,304,655	-
	(931,318)	(248,358)	(1,594,167)	(580,778)
	(81,735)	1,306,344	2,866,654	2,444,628
Financing:				
Issue of shares for cash	340,317	138,821	11,921,622	726,425
Share issue costs	4,172	-	(748,605)	-
Repayment of lease obligations	(3,936)	(4,748)	(11,649)	31,225
	340,553	134,073	11,161,368	757,650
Investments:				
Redemption (purchase) of short term investments	2,878,810	(16,773)	(12,592,789)	(1,566,691)
Purchase of property and equipment	(461,284)	(273,387)	(877,601)	(586,072)
Deferred software development costs	-	-	-	(175,000)
Business acquisition (note 2)	(1,680,128)	-	(2,593,103)	-
	737,398	(290,160)	(16,063,493)	(2,327,763)
Increase (decrease) in cash	996,216	1,150,257	(2,035,471)	874,515
Cash, beginning of period	2,964,176	3,189,378	5,995,863	3,465,120
Cash, end of period	\$ 3,960,392	\$ 4,339,635	\$ 3,960,392	\$ 4,339,635
Supplemental cash flow information:				
Interest received	\$ 29,630	\$ 18,685	\$ 311,971	\$ 83,964
Interest paid	376	391	1,287	1,514

See accompanying notes to interim consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the nine months ended July 31, 2005

(unaudited)

1. Significant accounting policies:

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, 2004. Certain prior period figures have been reclassified for consistency of presentation. 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, 2004.

Stock based compensation:

Effective November 1, 2004, Chartwell Technology Inc. (the "Company") retroactively adopted, without restatement, the new Canadian accounting standards for stock based compensation to employees and directors. In accordance with these standards, the Company recognizes, at the grant date, the compensation cost of stock options granted to employees and directors, measured at fair value and expensed over the option vesting period, with a corresponding increase to contributed surplus. Upon exercise of the option consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company has recorded an adjustment of \$351,647 to beginning deficit at November 1, 2004 to reflect the cumulative effect of the value of the options granted to employees and directors from November 1, 2002 to October 31, 2004. The Company also recorded a reduction to contributed surplus of \$132,851 representing the fair value of options exercised in the nine months ended July 31, 2005. The fair value of stock options granted to consultants are being expensed on a straight line basis over the vestin

2. Business acquisition:

Effective May 20, 2005, the Company acquired all of the issued and outstanding shares of Micropower Corporation Limited ("Micropower") for US\$3,000,000 consisting of US\$2,000,000 of cash and US\$1,000,000 of payables due to Honeycomb Holdings Limited ("Honeycomb"), the parent company of Micropower. The unpaid amount is payable based on certain future milestones and events which are expected to occur by the end of fiscal 2006. In addition, transaction costs of Cdn\$115,634 were incurred and allocated to the purchase price.

Included in the share purchase agreement with Micropower is contingent consideration payable to Micropower based on the successful negotiation and closing of sales agreements with customers that Micropower was in negotiations with at the time of the acquisition. The contingent consideration is equal to a maximum of 55,000 shares of the Company to be issued to Honeycomb based on securing certain revenue contracts. In addition, nine seventeenths (9/17) of any payments received from specified customers would be due to Micropower. Since the likelihood of the specified customers entering into such agreements cannot be determined beyond a reasonable doubt, the contingent consideration has been valued at nil consideration. As sales agreements are entered into with the specified customers, the associated share issuances and cash payments will be recorded as additional costs of the acquisition at that time.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of income from the date of acquisition.

Fair value of net assets acquired:	Cdn \$
Non-cash working capital	\$ (16,772)
Capital assets	51,664
Customer contracts	281,045
Intellectual property	1,608,371
Goodwill	1,937,651
	\$ 3,861,959
Consideration:	
Cash	\$ 2,486,225
Due to Honeycomb Holdings	1,260,100
Transaction costs	115,634
	\$ 3,861,959

CHARTWELL TECHNOLOGY INC.

Notes to Interim Consolidated Financial Statements

For the nine months ended July 31, 2005

(unaudited)

3. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding:

	Number of Shares	Amount
Balance, October 31, 2004	16,022,966	\$16,502,188
Issued for cash on Private Placement financing	2,365,592	11,000,002
Issue costs	-	(748,605)
Income tax effect of issue costs	-	263,472
Compensation options issued to Underwriters	-	(184,928)
Issued for cash on exercise of stock options	632,612	921,620
Contributed surplus of options exercised		132,851
Balance, July 31, 2005	19,021,170	\$27,886,600

The weighted average number of shares outstanding for the quarter was 18,507,592 (2004 - 14,524,388). Diluted shares of 20,056,064 (2004 - 16,742,739) reflect the dilutive effect of the exercise of outstanding options.

(c) Continuity of options:

	Number of Options	Weighted average exercise price
Outstanding, October 31, 2004	2,355,834	\$ 1.49
Granted	528,936	\$ 8.05
Exercised	(632,612)	\$ 1.46
Forfeited	(75,001)	\$ 2.29
Outstanding, July 31, 2005	2,177,157	\$ 3.06

4. Contributed surplus:

Balance, October 31, 2004	\$ 102,572
Retroactive application of stock-based compensation expense	351,647
Stock-based compensation expense	406,145
Stock-based compensation expense of options issued to Underwriters	184,928
Contributed surplus of options exercised	(132,851)
Balance, July 31, 2005	\$ 912,441

CHARTWELL TECHNOLOGY INC.

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5. Future income tax asset:

Balance, October 31, 2004	\$ 1,044,964
Income tax effect of share issue costs	263,472
Future tax expense	(543,026)
Balance, July 31, 2005	\$ 765,410

6. Segmented information:

The Company has aggregated its Canadian, Belize and Malta operating segments into one reporting segment. The Company's software set-up and license fees are from domestic and foreign entities and originate from the following countries of operations:

2005	Three months ended July 31			
	Malta	Canada	Belize	Total
Software set-up fees		\$ -	\$ 347,886	\$ 347,886
Software license fees	\$ 181,203	\$ 564,634	\$ 3,281,868	\$ 4,027,705
Total assets	\$ 228,459	\$ 25,856,187	\$ 6,168,633	\$ 32,253,279

2005	Nine months ended July 31			
	Malta	Canada	Belize	Total
Software set-up fees		\$ -	\$ 587,419	\$ 587,419
Software license fees	\$ 181,203	\$ 613,953	#####	\$ 12,279,007
Total assets	\$ 228,459	\$ 25,856,187	\$ 6,168,633	\$ 32,253,279

2004	Three months ended July 31			
	Malta	Canada	Belize	Total
Software set-up fees		\$ -	\$ 184,168	\$ 184,168
Software license fees		\$ 56,088	\$ 3,336,468	\$ 3,392,556
Total assets		\$ 7,256,042	\$ 5,667,474	\$ 12,923,516

2004	Nine months ended July 31			
	Malta	Canada	Belize	Total
Software set-up fees		\$ -	\$ 589,611	\$ 589,611
Software license fees		\$ 168,395	\$ 7,862,822	\$ 8,031,217
Total assets		\$ 7,256,042	\$ 5,667,474	\$ 12,923,516

7. Related party transactions:

For the quarter ended July 31, 2005, the Company incurred legal fees of \$15,000 and consulting fees of \$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 and administrative and sales and marketing expenses. Amounts due from related parties of \$155,685 consists of amounts due from certain Company officers, directors and employees. Of this amount \$121,088 bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.