



CHARTWELL TECHNOLOGY INC.

**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three and nine months ended July 31, 2007 and 2006.**

September 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company is available on SEDAR at www.sedar.com under Chartwell Technology Inc. and on the Company's website at www.chartwelltechnology.com.

Special Note Regarding Forward-Looking Statements

This MD&A contains certain forward-looking statements which reflect Management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance or achievements or other future events constitute forward-looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "should", "could", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words, have been used to identify these forward-looking statements.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements.

Factors which could cause results or events to differ from current expectations include, among other things: the impact of government legislation; the impact of price competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and prospective major customers; general industry and market conditions and growth rates; currency rate fluctuations and the impact of consolidation in the on-line gaming industry. Chartwell disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Past performance has been considered in drawing conclusions with respect to forward-looking statements contained in this MD&A.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. Management believes however that EBITDA is a useful supplementary measure as it provides indication of the results of Chartwell's business operations without regard to how these activities were financed or how these results were taxed. Chartwell's method of calculating EBITDA may differ from that of other companies, and accordingly, EBITDA may not be directly comparable to measures used by other companies.

OVERVIEW

Chartwell develops, markets, licenses, implements and supports gaming applications and entertainment content for the internet and wireless platforms. Chartwell's JAVA and Flash based software products and games are designed for deployment in gaming, entertainment and promotional applications. Chartwell does not operate a gaming site nor do we operate our clients' gaming sites.

Business Plan

The Company's business plan and objectives through fiscal 2007 are to continue to increase our market share in the traditional internet casino market, with a continued emphasis on the European market, further develop the liquidity of our poker community, establish liquidity in our bingo community and further develop poker variants. We will continue to focus on product development and diversification of our products, customers and revenues.

Business Model

The majority of Chartwell's revenue is in the form of software license fees. License fees, including fees from master license agreements, most of which are contingent upon customer usage, are recognized on an accrual basis as earned over the life of the contract. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a three to five year term. The license fee is calculated as a percentage of each licensee's level of activity. Additional revenue is derived from software set-up fees and software development fees. Software set-up fees are one time fees for new customer installations. The Company's contractual agreements with licensees provide for the provision of graphics, web design, software implementation services, licensing of the software and provision of software upgrades over the fixed term of the contract. Set-up fee revenue and related costs are recognized ratably over the term of the contract. The Company manages PokerNexus, a community of independent Poker site operators who are Chartwell software licensees. The Company recognizes service fees for community management services provided to a third party that in turn sub-licenses, provides hosting and other related services to poker site operators. Software development fees are fees that the Company charges for software development services relating to software programming services. These fees are recognized on a percentage-of-completion basis and reported in interest and other revenue.

Expenses are classified into eight categories, namely: software development and support; sales and marketing; general and administrative; amortization of deferred software development costs; stock-based compensation expense; depreciation and amortization; amortization of intangible assets, and foreign currency gains or losses. Software development and support consists of personnel and related costs associated with the design and development of new products, support of existing products, hosting costs for the poker community paid to a hosting provider, customer implementation and quality assurance. Sales and marketing expenses consist of personnel and related costs associated with the Company's sales, marketing and business development activities. General and administrative expenses include the costs of all administrative, financial and information technology (IT) support personnel, investor relations and professional fees relating to our public company listing. Stock-based compensation expense consists of the estimated fair value of options granted to employees and consultants. Depreciation and amortization are based on the estimated useful life of our assets and include the amortization of deferred software development costs and intangible assets. The Company operates internationally with 100% of its revenue derived from non-Canadian licensees. Under the Company's licensing agreements, the majority of the Company's revenue is received in UK Pounds Sterling and Euros. Consequently, the Company is exposed to currency fluctuations, which result in foreign currency gains or losses, which are reported in that expense category.

HIGHLIGHTS

Total revenue for the three and nine months ended July 31, 2007 was \$5.3 and \$16.3 million compared to \$4.7 and \$13.9 million for the same period a year earlier. Net income was \$0.4 million for the third quarter of 2007, and \$0.5 million for the same period last year. For the nine months ended July 31, 2007, net income was \$1.0 million, and \$1.1 million for the same period in 2006. Basic and diluted earnings per share were \$0.02 for the three months ended July 31, 2007 and \$0.03 for the same period in 2006. For the nine month period ending July 31, 2007, basic and fully diluted earnings per share were \$0.05 and \$0.06 for the same period in 2006.

License fees increased by 15% and total revenue increased by 13% in the third quarter of 2007 as compared to the same period of 2006. Total operating expenses including sales and marketing, software development and support and general and administrative increased by 11% in the third quarter of the same period in 2006. While the Company incurred higher operating expenses in sales and marketing and software development and support, reduced

staffing has resulted in lower general and administrative expense in the third quarter of 2007 over the comparable period in 2006.

In both the three and nine months ended July 31, 2007, the Company had significantly higher non-cash amortization charges for deferred software development and the depreciation and amortization of tangible and intangible assets.

Chartwell maintains a strong balance sheet. At July 31, 2007 the Company had cash and short-term investments of \$14.1 million, working capital (defined as current assets less current liabilities) of \$17.5 million and no debt.

SUMMARY OF FINANCIAL RESULTS

Comparative Quarterly Operating Results (in thousands, except share data)

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters.

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Revenue								
Software license fees	\$5,019	\$5,334	\$5,289	\$4,367	\$4,383	\$4,449	\$4,275	\$4,113
Software set-up fees	81	55	55	111	69	65	51	69
Service fees	49	53	-	-	-	-	-	-
Interest & other	121	120	154	224	211	243	115	467
	<u>5,270</u>	<u>5,562</u>	<u>5,498</u>	<u>4,702</u>	<u>4,663</u>	<u>4,757</u>	<u>4,441</u>	<u>4,649</u>
Expenses								
Software development & support	2,439	2,357	2,470	2,394	2,141	1,740	1,795	1,639
Sales & marketing	740	716	924	618	566	545	580	519
General & administrative	775	1,292	1,021	1,502	841	1,650	548	558
Amortization of deferred software development costs	248	284	172	58	59	59	59	58
Stock-based compensation	(149)	139	133	139	89	171	224	230
Depreciation and amortization	201	187	115	117	114	100	95	102
Amortization of intangible assets	245	205	123	124	123	123	123	86
Foreign currency loss (gain)	237	298	(273)	48	(68)	45	132	72
	<u>4,736</u>	<u>5,477</u>	<u>4,685</u>	<u>5,000</u>	<u>3,865</u>	<u>4,433</u>	<u>3,555</u>	<u>3,264</u>
Net income (loss) before taxes	534	85	813	(298)	798	324	885	1,384
Income tax expense (recovery)	130	(23)	318	(77)	322	223	382	534
Net Income (Loss)	<u>\$404</u>	<u>\$108</u>	<u>\$495</u>	<u>(221)</u>	<u>\$476</u>	<u>\$101</u>	<u>\$503</u>	<u>\$850</u>
Basic earnings per share	\$0.02	\$0.01	\$0.03	(\$0.01)	\$0.03	\$0.01	\$0.03	\$0.04
Diluted earnings per share	\$0.02	\$0.01	\$0.03	(\$0.01)	\$0.03	\$0.01	\$0.03	\$0.04

QUARTERLY RESULTS

FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2007 COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2006.

Revenue

In the three and nine months ended July 31, 2007, total revenue increased by 13.0% and 17.8% to \$5.3 million and \$16.3 million compared to \$4.7 million and \$13.9 million in the same periods of 2006. The increase in total revenue in both periods was mainly due to an increase in software license fees which offset reduced interest and other revenue.

Total revenue in the quarter declined by 5.3% from the second quarter as compared to a similar decline of 2.0% in 2006 showing typical seasonal weakness over the summer period.

Software license fees increased by 14.5% and 19.3% to \$5.0 million and \$15.6 million in the three and nine months ending July 31, 2007 over comparable periods in 2006. Software license fees represented 95.2% and 95.8% of total revenue in the three and nine months ending July 31, 2007 compared to 94.0% and 94.6% in the same periods a year earlier. The quarter over quarter increase in software license revenue is from new customers as well as growth from existing customers.

Software set-up fees increased by 16.4% and 3.4% to \$81,000 and \$191,000 from \$70,000 and \$185,000 for the three and nine months ended July 31, 2007 and 2006, respectively. The increase in the third quarter is due to recognizing the balance of set-up fees for customers whose contracts have been terminated.

Services revenue is for Poker Community Management provided to a third party who in turn sublicenses the Company's poker software.

Interest and other income decreased by 42.5% and 30.5% to \$121,000 and \$211,000 in the three and nine months ended July 31, 2007 compared to \$395,000 and \$569,000 for the same periods of 2006. The decrease is due primarily to reduced notes receivable balances throughout the three and nine month period ended July 31, 2007 over 2006.

Operating Expenses

Total operating expenses, including foreign exchange losses, increased by 20.4% and 23.6% to \$4.2 million and \$13.0 million for the three and nine months ended July 31, 2007 compared to \$3.5 million and \$10.5 million for the same period of 2006. The Company incurred higher levels of expense in sales and marketing and software development and support while general and administrative expenses declined in the quarter. Along with the purchase of the Poker Community Management business, the Company incurred higher amortization of property and equipment and intangible assets. The Company also incurred a foreign exchange loss in the third quarter of 2007 of \$237,000, which combined with a loss in the second quarter and offset a gain in the first quarter of 2007 for a combined loss of \$263,000 for the nine months ended July 31, 2007. These foreign exchange losses compared with a foreign exchange gain in the third quarter of 2006 of \$69,000 and a foreign exchange loss of \$108,000 in the first nine months of 2006.

SOFTWARE DEVELOPMENT & SUPPORT

Software development and support expense increased by 13.9% and 28.0% to \$2.4 million and \$7.3 million for the three and nine months ended July 31, 2007 compared to \$2.1 million and \$5.7 million for the same period of 2006. The software development and support expense was net of deferred software development of \$115,000 and \$487,000 in the three months and nine months ended July 31, 2007. This compares with \$736,000 and \$1.8 million in deferred software development in the three and nine month period in 2006. Gross software development and support expense (before deferred software development) in the third quarter of 2007 declined by 11.2% over the same period in 2006. For the nine months ended July 31, 2007, the gross software development and support

expense (before deferred software development) increased by 3.7% as compared to the prior year. The reduced gross costs in the quarter come from generally lower operating expenses while staffing levels remained constant.

As a percentage of revenue, software development and support expenses were 46.3% and 44.5% for the three and nine months ended July 31, 2007 compared to 45.9% and 41.0% for the same periods in 2006, respectively.

SALES AND MARKETING

For the three and nine months ended July 31, 2007, sales and marketing expenses increased by 30.7% and 40.7% to \$740,000 and \$2.4 million from \$566,000 and \$1.7 million in the same periods of 2006. The increase is due to higher expenses related to marketing the poker community as well as from marketing incentives with existing customers.

As a percentage of revenue, sales and marketing expenses decreased to 14.0% and 12.1% from 14.6% and 12.2% for the three and nine months ended July 31, 2007 from the same periods in 2006, respectively.

GENERAL AND ADMINISTRATIVE

General and administrative (G&A) expense for the three months ended July 31, 2007 decreased to \$775,000, from \$841,000 in the same period of 2006. In the nine months ended July 31, 2007, the G&A expenses increased marginally to \$3.1 million from \$3.0 million in the same period in 2006. The decrease in the third quarter is due primarily to reduced professional fees as well as reduced staffing levels in G&A.

As a percentage of revenue, G&A expenses decreased to 14.7% and 18.9% from 18.0% and 21.9% for the three months and nine months ended July 31, 2007 from the same periods of 2006.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for the three and nine months ended July 31, 2007 was \$248,000 and \$704,000 compared to \$59,000 and \$176,000 for the comparable periods in 2006. The increase in amortization reflects the amortization of deferred software development costs of version 2.0 of the Poker product. The majority of the deferred software development cost relates to version 2.0 of the Poker product, which builds on the intellectual property acquired in the acquisition of Micropower Corporation. Management has estimated the appropriate amortization period to be three years.

STOCK-BASED COMPENSATION

The Company recorded a recovery of \$149,000 in the third quarter of 2007 as compared to an expense of \$89,000 in the same period in 2006. This credit is the result of forfeited stock options previously granted to employees. The forfeited shares result from reducing the staff levels in G&A as well as a period of increased staff turnover in the Calgary office. Stock-based compensation in the nine months ended July 31, 2007 was \$123,000 as compared to \$484,000 in the comparable period in 2006. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses increased by 76.0% and 62.9% to \$201,000 and \$503,000 for the three and nine months ended July 31, 2007 as compared to \$114,000 and \$309,000 in the similar periods of 2006. This increased depreciation and amortization is due to the assets acquired in the purchase of the Poker Community Management business. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is related to the customer contracts and intellectual property acquired in the acquisition of Micropower and the Poker Community Management business. The expense for the three and nine months ended July 31, 2007 increased to \$245,000 and \$573,000 from \$123,000 and \$370,000 for the same periods in 2006. The value recorded for customer contracts is being amortized over the contract period for each acquired contract (i.e. as cash flows are being generated for the Company). The value recorded for intellectual property acquired from the Micropower acquisition is being amortized over five years and three years for the Poker Community Management business, which is Management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell.

FOREIGN CURRENCY LOSS

The Company recognized a foreign currency loss of \$237,000 and \$263,000 in the three and nine months ended July 31, 2007 as compared to a foreign currency gain of \$69,000 in the third quarter of 2006, and a loss of \$108,000 for the nine months ended July 31, 2006. The foreign currency losses experienced in the third quarter of 2007 reflect foreign denominated amounts receivable translated into Canadian dollar equivalents at lower foreign exchange rates than in the past, as well as losses in the value of cash balances of foreign currencies as the Canadian dollar strengthened against foreign currencies. The Company does not utilize hedges or forward contracts to mitigate foreign currency risk.

PROVISION FOR INCOME TAXES

There was an income tax expense of \$130,000 and \$425,000 in the three and nine months ended July 31, 2007, as compared to \$322,000 and \$927,000 for the same periods in 2006. The reduction in tax expense is attributable to the lower level of pre-tax income in the three and nine months ended July 31, 2007 compared to the similar periods of 2006.

EBITDA

EBITDA (defined as net income less interest, plus taxes, depreciation and amortization) increased by 17.2% and 19.5% to \$1.1 million and \$2.8 million from \$955,000 and \$2.4 million in the three and nine months ended July 31, 2007 from the comparable periods of 2006. The increase in the EBITDA between the two periods is due to the same factors affecting net income, for reasons which are noted above.

Net Income

Net income decreased by 15.1% to \$403,000 from \$476,000 in the second quarter of 2006. Net income decreased by 6.8% to \$1.0 million for the nine months ended July 31, 2007 as compared to \$1.1 million for the same period in 2006.

Basic and diluted earnings per share were \$0.02 and \$0.05 for the three and nine month periods ended July 31, 2007 compared to \$0.03 and \$0.06 in the same periods of 2006.

Liquidity and Capital Resources

Operating Activities

Operating cash flow for the three and nine months ended July 31, 2007 was \$590,000 and \$3.8 million compared to \$1.8 million and \$1.9 million for the same period in 2006. The decrease in the third quarter is due to increased accounts receivable balances at the end of the quarter. Operating cash flow in the nine months ended July 31, 2007 increased by \$1.9 million due in part to reduced taxes paid in the current year.

Financing Activities

Cash flows from financing activities were \$34,000 and \$200,000 for the three and nine months ended July 31, 2007 compared to cash flows used in financing activities for the three and nine months periods of \$1.3 million and \$3.4 million in 2006. In the prior year, the Company repaid indebtedness of \$613,000 in the nine months ended July 31, 2006 and repurchased its common shares under a Normal Course Issuer Bid for \$1.3 million in the three months ended July 31, 2006 as well as \$3.2 million in the nine months ended July 31, 2006. The Company did not issue any shares or repurchase any shares in the first nine months of 2007.

Investing Activities

Cash flows used in investing activities were \$940,000 and \$2.1 million for the three and nine months ended July 31, 2007 versus cash flows provided by investing activities for the three and nine months ended July 31, 2006 of \$254,000 and \$2.7 million. The Company's investing activities in 2007 consisted mainly of the purchase of the Poker Community Management business as well as either redemption or purchases of short term investments and the deferral of software development costs.

Contractual Obligations

The Company's future minimum annual payments under operating and capital leases are the following:

2007	\$203,494
2008	705,727
2009	585,744
2010	75,757
2011	31,063
Thereafter	42,065

Related Party Transactions

For the three and nine months ended July 31, 2007, the Company incurred and paid consulting fees to certain directors and officers of the Company in the normal course of business of \$41,000 and \$154,000 as compared to \$41,000 and \$123,000 in the comparable period in 2006. In the three and nine months ended July 31, 2007, legal fees of \$312,000 were paid to certain directors and officers of the Company in the normal course of business as compared to \$69,000 and \$215,000 in the same comparable periods in 2006. These transactions were paid in Canadian dollars and recorded in G&A and sales and marketing expenses.

Amounts due from a related party of \$175,000 as of July 31, 2007 as compared to \$167,000 consist of amounts due from a certain Company officer who is also a director. The balance bears interest at 6%, is secured by 189,200 common shares of the Company and has no set terms of repayment.

Critical Accounting Policies

Critical accounting policies and methods used in the preparation of the Company's financial statements are described in note 1 to the consolidated financial statements of the Company for the year ended October 31, 2006.

On November 1, 2006, the Company adopted the new CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", section 1530, "Comprehensive Income", and Section 3865, "Hedges" on a prospective basis.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics based definition of a derivative financial instrument, provides criteria to be used when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished.

Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements.

Section 3865 provides an alternative to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13, "Hedging Relationships", and on the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosure it requires.

The Company determined that it had no embedded derivatives that were required to be separated from the host contract, and that it had no "other comprehensive income or loss" transactions during the three and nine months ended July 31, 2007. The adoption of these new sections had no impact on net income.

Risks and Uncertainties

Important risk factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

- Uncertainty as to the degree of new and continuing market acceptance of our products
- Our products could contain defects that lead to costs, damage of reputation or litigation
- Our dependence on customer performance
- Uncertainty regarding future profitability including future profitability of individual product lines as well as future profitability of the recently acquired Poker Community Management Business
- Uncertainty regarding the pricing, reporting and collection of accounts
- Risk associated with sales in foreign countries and government policy and regulation therein
- Our ability to diligently ensure that our customers operate in accordance with the terms of our license agreements that require observation of the laws of Canada and foreign countries
- Our ability to attract and retain key personnel

Proposed Transactions

There are no proposed asset or business acquisition or disposition transactions pending as at July 31, 2007.

Off Balance Sheet Arrangements

As at July 31, 2007, the Company has not entered into any off balance sheet arrangements

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, short term investments, accounts receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair values of these financial instruments approximate their carrying values, except as noted below. It is management's opinion that the Company is not exposed to significant interest rate risk. The Company's credit risk lies in its accounts receivable where the balances due reflect a concentration among a relatively small number of accounts. The Company's short term investments consist of investments in low risk corporate and government bonds. A substantial portion of the Company's revenue is earned in foreign currencies and is exposed to currency fluctuations.

Notes Receivable

In the prior year the Company's notes receivable consisted of two promissory notes. The first was a US \$250,000 short term non interest bearing note due on demand from a customer under a Master License Agreement, which was measured at the note value converted to Canadian dollars at the year-end exchange rate which approximates its fair value. The Company received payment on this note subsequent to the first quarter of 2007.

In addition, a promissory note in the amount of \$679,781 bearing interest at 12% was due from Elite Club Management N.V.. The note receivable to the Company was eliminated as part of the consideration for the acquisition of the Poker Community Management business.

Other MD&A Requirements

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended July 31, 2007, and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of Chartwell Technology Inc.'s annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

Given the size of the Company, the evaluation of the design of internal controls over financial reporting for the Company resulted in the identification of the following weaknesses:

Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company requires outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company has 18,840,169 common shares outstanding at September 12, 2007. If all of the Company's options were exercised, the Company would have 20,353,423 common shares outstanding.

The Company's 2006 Annual Information Form is available on www.sedar.com.