



Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

As at October 31, 2000 and 1999 and for
each of the years in the three year period
ended October 31, 2000

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended October 31, 2000. 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 year ended October 31, 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for each of the years in the two-year period ended October 31, 1999, we conducted our audits 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, 2000 in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three year period ended October 31, 2000 and shareholders' equity as at October 31, 2000 and 1999 to the extent summarized in note 16 to the consolidated financial statements.

Signed "KPMG LLP"

Chartered Accountants

Calgary, Canada
February 1, 2001

COMMENTS FOR U.S. READERS

In the United States, reporting standards for auditors require the addition of an explanatory paragraph following the opinion paragraph when there are substantial uncertainties about the Company's ability to continue as a going concern, as referred to in note 1 to these consolidated financial statements. Our report to the shareholders dated February 1, 2000 is expressed in accordance with Canadian reporting standards which do not permit a reference to such matters in the auditors' report when the facts are adequately disclosed in the financial statements.

Signed "KPMG LLP"

Chartered Accountants

Calgary, Canada
February 1, 2001

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2000	1999
Assets		
Current assets:		
Cash	\$ 8,793,474	\$ 609,909
Accounts receivable	186,635	336,785
Prepaid expenses	71,968	66,473
	<u>9,052,077</u>	<u>1,013,167</u>
Capital assets (note 5)	327,745	134,080
Deferred software development costs (note 6)	330,220	440,294
	<u>\$ 9,710,042</u>	<u>\$ 1,587,541</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 785,542	\$ 347,805
Current portion of obligations under capital lease (note 8)	12,486	88,570
Current portion of deferred revenue	299,789	299,137
	<u>1,097,817</u>	<u>735,512</u>
Long-term debt (note 7)	–	42,625
Deferred revenue	–	123,666
Obligations under capital lease (note 8)	17,363	171,654
Shareholders' equity:		
Share capital (note 9)	14,418,635	3,712,551
Deficit	(5,823,773)	(3,198,467)
	<u>8,594,862</u>	<u>514,084</u>
Continuing operations (note 1)		
Commitments (note 14)		
Subsequent event (note 9(b))		
	<u>\$ 9,710,042</u>	<u>\$ 1,587,541</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed "Darold Parken" _____ Director

Signed "Barry Foster" _____ Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Loss and Deficit

Years ended October 31
(stated in Canadian dollars)

	2000	1999	1998
Revenue:			
Software set-up fees	\$ 881,316	\$ 194,208	\$ –
Software license fees	172,463	–	–
Consulting fees	28,586	41,320	–
Interest and other	338,924	26,814	30,115
	<u>1,421,289</u>	<u>262,342</u>	<u>30,115</u>
Expenses:			
Software development	1,291,899	1,208,096	–
General and administrative	2,516,688	622,476	121,173
Write-off of acquired inventory and equipment	–	158,745	–
Amortization of deferred software development costs	110,074	108,824	–
Interest	6,884	64,425	264
Equipment sales and consulting	–	46,993	–
Depreciation and amortization	121,050	51,675	855
	<u>4,046,595</u>	<u>2,261,234</u>	<u>122,292</u>
Loss from continuing operations	(2,625,306)	(1,998,892)	(92,177)
Loss from discontinued oil and gas operations (note 4)	–	(124,192)	(103,721)
Net loss	(2,625,306)	(2,123,084)	(195,898)
Deficit, beginning of year	(3,198,467)	(1,075,383)	(879,485)
Deficit, end of year	<u>\$(5,823,773)</u>	<u>\$ (3,198,467)</u>	<u>\$(1,075,383)</u>
Net loss per share:			
from continuing operations	\$ (0.20)	\$ (0.18)	\$ (0.01)
for the year	\$ (0.20)	\$ (0.19)	\$ (0.02)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flow

Years ended October 31
(stated in Canadian dollars)

	2000	1999	1998
Cash provided by (used in):			
Operations:			
Net loss from continuing operations	\$ (2,625,306)	\$ (1,998,892)	\$ (92,177)
Write-off of acquired inventory and equipment	–	158,745	–
Depreciation and amortization	121,050	56,167	855
Amortization of deferred software development costs	110,074	108,824	–
Deferred revenue	(123,014)	422,803	–
Cash used by operations	(2,517,196)	(1,252,353)	(91,322)
Change in non-cash working capital:			
Accounts receivable	150,150	(227,746)	107,511
Prepaid expenses	(5,495)	(52,501)	–
Accounts payable and accrued liabilities	437,737	(20,853)	7,828
	(1,934,804)	(1,553,453)	24,017
Financing:			
Issue of debenture for cash	–	500,000	–
Issue of shares	1,447,500	18,750	–
Issue of special warrants	10,075,000	932,800	–
Share and special warrant issue costs	(816,416)	–	–
Repayment of lease obligations	(230,375)	(73,711)	–
Long-term debt	(42,625)	(5,223)	–
	10,433,084	1,372,616	–
Investments:			
Cash acquired on acquisition of Gateway Technology Inc. (note 3)	–	68,285	–
Software development costs	–	(157,490)	–
Purchase of capital assets	(314,715)	(75,410)	–
	(314,715)	(164,615)	–
Discontinued operations:			
Operating loss	–	(10,795)	(103,721)
Proceeds on sale of petroleum and natural gas properties	–	127,750	–
	–	116,955	(103,721)
Increase (decrease) in cash	8,183,565	(228,497)	(79,704)
Cash, beginning of year	609,909	838,406	918,110
Cash, end of year	\$ 8,793,474	\$ 609,909	\$ 838,406

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

Chartwell Technology Inc. (the "Company") was incorporated pursuant to the Company Act of British Columbia on December 16, 1987. The Company was extra provincially registered in the Province of Alberta on June 21, 1994 and continued from British Columbia under the Business Corporations Act (Alberta) on December 18, 1995. On December 8, 1998 it changed its name from Chartwell Ventures Ltd.

The Company specializes in the development of leading edge games and entertainment content for Internet and Intranet deployment. The Company's Java based software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. Continuing operations:

The Company has no history of generating cash flow from operations. Although the Company has begun to earn license and royalty revenue from its software, that revenue is not yet at a level at which profitability can be sustained. The Company currently has sufficient cash to fund near term continuing operations.

2. 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") and Gaming Tech Corporation ("Gamingtech"). 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 are denominated in Canadian dollars. Except for the information disclosed in note 16 there are no material differences between Canadian and United States generally accepted accounting principles in these consolidated financial statements.

(b) Cash:

Cash consists of cash on hand with banking institutions and term deposits with original maturities of less than three months.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 2

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

2. Significant accounting policies (continued):

(c) Capital assets:

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

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

The Company followed the full cost method of accounting for its petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves were capitalized into a single Canadian cost centre. Such costs included land acquisition costs, geological and geophysical expenses, cost of drilling both productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities.

The Company applied a "ceiling test" to capitalized costs to ensure that such costs did not exceed the estimated value of future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year-end. Future net revenues were calculated after deducting general and administrative costs, financing costs, income taxes and future site restoration and abandonment costs.

Capitalized costs were depleted using the unit-of-production method based on estimated proven reserves, before royalties, as determined by an independent engineer. For purposes of the depletion calculation, natural gas reserves and production were converted to equivalent volumes of crude petroleum based on the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude petroleum.

(d) 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, 2000, 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 3

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

2. Significant accounting policies (continued):

(e) Foreign currency translation:

The Company uses the temporal method of foreign currency translation to translate the accounts of its foreign subsidiary. 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.

(f) Revenue recognition:

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

(g) Per share amounts:

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, which was 12,807,211 (1999 - 10,906,801, 1998 - 9,630,501). Fully diluted per share amounts are calculated using the treasury stock method, these amounts have not been shown as the results would be anti-dilutive.

(h) 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.

(i) Income taxes:

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on "temporary differences" and are measured using the current, or substantially enacted, tax rates and laws expected to apply when these differences reverse. 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 4

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

2. Significant accounting policies (continued):

(j) Stock option plan:

The Company has a stock option plan which is described in note 9(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.

3. Acquisition of wholly-owned subsidiary:

On November 1, 1998, the Company acquired all of the issued and outstanding shares of GTI, a Delaware corporation, by issuing 1,000,000 common shares in escrow and 50,000 common shares, at \$1.00 per share, to a third party as a finder's fee. Under the terms of the Escrow Agreement, the 1,000,000 shares are held and released on the basis of one share for each \$1.00 of cash flow from operations generated by GTI. Shares remaining in Escrow at October 31, 2003 are to be returned to the Company and cancelled. Since the likelihood of positive future cash flows in GTI cannot be determined beyond a reasonable doubt, these shares are contingent consideration and their issue, although recognized in these financial statements have been valued at \$nil consideration. As shares are released from escrow, they will be recorded as an additional cost of the acquisition at that time. GTI is a development stage corporation and is a computer hardware and software integrator that specializes in Internet and Intranet based computing. The acquisition has been accounted for as a purchase and accordingly the results of operations of this business have been consolidated since the date of acquisition. The following is a summary of the purchase consideration and net assets acquired:

Cash	\$ 68,285
Software	391,628
Capitalized assets	229,839
Net working capital deficiency	(341,947)
Long-term debt	(297,805)
Net assets acquired	\$ 50,000

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 5

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

4. Discontinued operations:

On February 1, 1999, the Company sold its petroleum and natural gas properties business segment for proceeds of \$127,750 cash. The Company recognized a loss of \$113,397 on the sale. The operating results of this business segment for all years presented are reflected as "discontinued operations".

The statement of net income (loss) for the petroleum and natural gas properties business segment was as follows:

	Period ended February 1, 1999	Year ended October 31, 1998
Revenue	\$ 27,911	\$ 137,411
Royalties	(8,316)	(32,267)
	19,595	105,144
Expenses:		
Operating	25,898	78,118
Depletion	4,492	130,747
	30,390	208,865
Loss on disposition	(113,397)	—
Net income (loss) from discontinued operations	\$ (124,192)	\$ (103,721)

Included in depletion expense for the year ended October 31, 1998 is \$80,000 related to a write-down of petroleum and natural gas properties.

5. Capital assets:

2000	Cost	Accumulated amortization	Net book value
Capital assets under lease	\$ 46,322	\$ 20,381	\$ 25,941
Computer equipment	375,076	134,334	240,742
Furniture and equipment	80,429	19,367	61,062
	\$ 501,827	\$ 174,082	\$ 327,745

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 6

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

5. Capital assets (continued):

1999	Cost	Accumulated amortization	Net book value
Capital assets under lease	\$ 46,322	\$ 9,264	\$ 37,058
Computer equipment	89,806	27,892	61,914
Furniture and equipment	50,984	15,876	35,108
	\$ 187,112	\$ 53,032	\$ 134,080

6. Deferred software development costs:

	2000	1999
Software development costs	\$ 549,118	\$ 549,118
Less: accumulated amortization	(218,898)	(108,824)
Net book value	\$ 330,220	\$ 440,294

7. Long-term debt:

	2000	1999
Demand loan in the amount of U.S. \$23,582 with no set terms of repayment or interest charged; unsecured	\$ —	\$ 33,326
Demand loan in the amount of U.S.\$6,580 with no set terms of repayment or interest charged; unsecured	—	9,299
	\$ —	\$ 42,625

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 7

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

8. Capital leases:

The capital lease obligations were incurred to purchase computer and office equipment, the following is a summary of the capital lease obligations at October 31, 2000:

Capital lease obligation	\$ 29,849
Less current portion	(12,486)
	<hr/> \$ 17,363 <hr/>

The following is a schedule by years of future minimum lease payments together with the net present value as at October 31, 2000:

Fiscal year ending:	
2001	\$ 16,038
2002	12,685
2003	4,962
2004	2,895
Total minimum lease payments	<hr/> 36,580
Less interest amount	(6,731)
	<hr/> \$ 29,849 <hr/>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 8

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

9. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, October 31, 1998	9,630,501	\$ 2,211,001
Issued on acquisition of GTI (note 3)	1,000,000	–
Issued for finder's fee on acquisition of GTI (note 3)	50,000	50,000
Issued for cash on exercise of stock options	125,000	18,750
Issued on conversion of debentures payable	500,000	500,000
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 Warrant (ii)	3,100,000	9,258,584
Balance, October 31, 2000	15,550,501	\$ 14,418,635
Special Warrants:		
Issued for cash (iii)	500,000	\$ 1,000,000
Issue costs	–	(67,200)
Balance, October 31, 1999	500,000	932,800
Issued on penalty (iii)	50,000	–
Issued for cash (ii)	3,100,000	10,075,000
Issue costs	–	(816,416)
Converted to Common shares and warrants	(550,000)	(932,800)
Converted to Common shares (ii) and warrants	(3,100,000)	(9,258,584)
Balance, October 31, 2000	–	\$ –

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 9

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

9. Share capital (continued):

(b) Issued (continued):

- (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.

252,700 shares are held in escrow on behalf of the principals of the Company and subject to the direction and determination of the regulatory authorities in the Province of Alberta. Release is expected on the fifth anniversary of its February 9, 1996, prospectus.

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.

- (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 entitles the holder to acquire an option to purchase one common share at a price of \$3.25 per share, exercisable until March 10, 2001.

On July 14, 2000 the 3,100,000 Special Warrants were converted to 3,100,000 common shares and 1,550,000 purchase warrants.

- (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.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 10

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

9. Share capital (continued):

(b) Issued (continued):

(iv) 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, 2000, these shares have not been issued.

(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.

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

	October 31, 2000		October 31, 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	897,532	\$ 1.88	503,400	\$ 0.52
Granted	1,025,000	3.16	708,332	2.21
Exercised	(45,000)	1.61	(125,000)	0.15
Forfeited	(100,000)	3.00	(189,200)	0.64
Outstanding, end of year	1,777,532	\$ 2.77	897,532	\$ 1.88

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 11

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

9. Share capital (continued):

(c) Stock options and warrants (continued):

The following table summarizes information about the stock options outstanding at October 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 0.64 - \$ 2.00	566,532	2.4	\$ 1.10	502,532	\$ 0.99
2.01 - 3.00	395,000	4.8	2.33	385,000	2.33
3.01 - 4.20	816,000	4.2	3.68	450,000	3.64
\$ 0.64 - \$ 4.20	1,777,532	3.8	\$ 2.77	1,337,532	\$ 2.27

At October 31, 2000 the Company has the following warrants outstanding:

	Number outstanding	Exercise price	Expiry
2000 purchase warrants	1,550,000	\$ 3.80	March 10, 2001
2000 agent/broker warrants	810,000	3.25	March 10, 2001
1998 warrants	250,000	1.25	November 30, 2000

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

10. Related party transactions:

For the year ended October 31, 2000, the Company paid legal fees of \$62,000 (1999 - \$103,091) and consulting fees of \$135,000 (1999 - \$51,000) 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.

Included in accounts receivable is \$14,487 (October 31, 1999 - \$80,440) due from Company officers, directors and employees.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 12

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

10. Related party transactions (continued):

Effective November 1, 1999, the Company sold its Internet gaming software application, Casino Casino, to its wholly-owned subsidiary, Gamingtech. The sale includes the source code for the Casino Casino software and exclusive rights to all gaming or wagering applications of the Software. The Company and its wholly-owned subsidiary, GTI, have also assigned to Gamingtech all existing licensing agreements relating to the Casino Casino software. Included in the purchase was \$192,977 of accounts receivable from sub-licensees. Gamingtech operates independently of the Company. There are no common employees, officers or directors.

11. Income taxes:

The Company has adopted the liability method effective November 1, 1999 to account for income taxes. This method was adopted retroactively without restatement of prior periods. Prior to November 1, 1999 income taxes were accounted for using the deferral method.

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:

	2000	1999	1998
Net loss	\$(2,625,306)	\$ (1,998,892)	\$ (195,898)
Combined Canadian federal and provincial statutory rate	43.6%	44.6%	44.6%
Computed recovery	(1,144,633)	(891,506)	(87,371)
Non-tax-based amortization	47,992	31,939	—
Difference in foreign tax rates	5,338	60,000	—
Benefit of loss carryforwards tax deduction not recognized	802,625	799,567	87,371
Non deductible expenses	288,678	—	—
Actual recovery	\$ —	\$ —	\$ —

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 13

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

11. Income taxes (continued):

The components of the Company's net future income tax asset at October 31, 2000, 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	\$ 596,198	\$ 102,460	\$ 698,658
Capital assets	53,107	–	53,107
Benefit of share issue costs	302,481	–	302,481
Resource deductions	121,390	–	121,390
Deferred development costs	424,087	–	424,087
	<hr/>	<hr/>	<hr/>
	\$ 1,497,263	\$ 102,460	\$ 1,599,723

As at October 31, 2000, the Company has Canadian unrecognized loss carry-forwards for income tax purposes of approximately \$1,366,790 (1999 - \$1,521,352) available for deduction against future years' taxable income. These losses expire as follows:

2002	\$ 48,233
2003	85,773
2004	136,870
2005	140,519
2006	955,395
	<hr/>
	\$ 1,366,790

In addition, for income tax purposes GTI has net operating losses carry-forward of \$301,353 (1999 - \$820,284) available for deduction against future year's taxable income in the United States. These losses expire between 2018 and 2019.

12. Change in accounting policy:

Effective November 1, 1999 the Company has adopted the treasury stock method to calculate fully diluted per share amounts. This method has been adopted retroactively, and had no effect on previously recorded fully diluted per share amounts.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 14

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

13. Financial instruments:

The Company's financial instruments consist of cash, accounts receivable, 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. A substantial portion of the Company's revenue is exposed to currency fluctuations.

14. Commitments:

(a) Royalty:

Pursuant to a software acquisition agreement, the Company is required to pay a royalty of 5% net receipts received in connection with the operation and management of an online or Intranet/Internet entertainment and game playing website by clients of the Company or other licensing of the software by the Company. The Company has granted a first fixed charge on the software to the Royalty holder.

(b) Operating leases:

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

2001		\$	159,000
2002			159,000
2003			159,000
2004			79,500

15. 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:

	Canada	Belize	Total
2000			
Software set-up fees	\$ 44,375	\$ 836,941	\$ 881,316
Software license fees	\$ —	\$ 172,463	\$ 172,463
1999			
Software set-up fees	\$ 194,208	\$ —	\$ 194,208
Software license fees	\$ —	\$ —	\$ —

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 15

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

16. 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, 2000 of the differences between Canadian GAAP and US GAAP is summarized as follows:

	Years ended October 31,		
	2000	1999	1998
Net loss from continuing operations for the period as reported in accordance with Canadian GAAP	\$ (2,625,306)	\$ (1,998,892)	\$ (92,177)
Beneficial conversion feature interest expense	–	(125,000)	–
Stock based compensation expense:			
APB 25	118,785	30,272	–
FAS 123	–	(58,000)	–
Net loss from continuing operations under U.S. GAAP	(2,744,091)	(2,151,620)	(92,177)
Income (loss) from discontinued oil and gas operations	–	(124,192)	(103,721)
Difference arising from application of US GAAP ceiling test	–	96,116	1,984
	–	(28,076)	(101,737)
Net loss under U.S. GAAP	(2,744,091)	(2,179,696)	(193,914)
Deficit, beginning of year, under U.S. GAAP	(3,411,739)	(1,232,043)	(1,038,129)
Deficit, end of year, under U.S. GAAP	\$ (6,155,830)	\$ (3,411,739)	\$ (1,232,043)
Net loss per share, basic:			
From continuing operations	\$ (0.21)	\$ (0.23)	\$ (0.01)
Discontinued operations	–	(0.00)	(0.01)
Net loss	(0.21)	(0.23)	(0.02)
Weighted average shares for basic EPS	13,126,530	9,430,141	9,153,841

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 16

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

16. 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):

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

(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 100%, risk free interest rate of 6% and expected option lives of 5 years.

With the exception of 50,000 options granted to a consultant in the year ended October 31, 1999, all options granted to date have been fixed and granted to employees, directors and officers of the Company. \$58,000 has been charged against income for those options in 1999.

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:

	2000	1999	1998
Risk free interest rate	6%	6%	6%
Volatility	100%	100%	100%
Expected option life (in years)	5	5	5
Dividend yield	0%	0%	0%

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 17

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

16. 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,		
	2000	1999	1998
Net loss under U.S. GAAP			
As reported	\$ (2,744,091)	\$ (2,179,696)	\$ (193,914)
Pro forma	(3,656,095)	(3,270,775)	(193,914)
Basic loss per common share:			
As reported	\$ (0.21)	\$ (0.23)	\$ (0.02)
Pro forma	(0.28)	(0.35)	(0.02)

(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, 2000 there are no items classified as other comprehensive income.
- (ii) The 1,627,700 common shares held in escrow for the year ended October 31, 2000 (1999 - 1,476,660) and the 476,660 common shares held in escrow for the years ended October 31, 1998 and 1997, have not been included in the calculation of basic or diluted earnings per share as doing so would be anti-dilutive.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements, Page 18

Years ended October 31, 2000, 1999 and 1998
(stated in Canadian dollars)

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

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

Under US GAAP, the carrying value of petroleum and natural gas properties and related facilities, net of future income taxes, is limited to the present value of after tax future net revenue from proven reserves, discounted at 10 percent (based on prices and costs at the balance sheet date) plus the lower of cost and fair value of unproven properties. Under Canadian GAAP, this "ceiling test" is calculated without application of a discount factor. At October 31, 1997 the application of the full cost ceiling test under US GAAP resulted in a write-down of capitalized costs of \$98,100. At October 31, 1998 the application of the full cost ceiling test under US GAAP resulted in a write-down of capitalized costs of \$95,700.

Where the amount of a ceiling test write-down under Canadian GAAP differs from the amount of write-down under US GAAP, the charge for depletion will differ in subsequent years.

Under Canadian GAAP, all costs in new cost centres, including costs of exploratory dry holes, may be capitalized unless such amounts are not considered recoverable in the future. Under US GAAP such costs, including those in new cost centres, are subject to the full cost ceiling test and write-downs, if any, are included as additional depletion.