

Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

Years ended October 31, 2005 and 2004.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for each of the years in the two-year period ended October 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 Corporation as at October 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two year period ended October 31, 2005 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada
January 28, 2006

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2005	2004
Assets		
Current assets:		
Cash	\$ 3,901,250	\$ 5,995,863
Short term investments (note 1(m))	15,220,888	3,318,286
Accounts receivable	4,271,829	1,916,309
Deferred set-up expense	97,595	58,585
Prepaid expenses and deposits	332,990	230,632
Notes receivable (note 11)	588,550	117,873
Future income tax asset (note 10)	56,026	115,000
Total current assets	24,469,128	11,752,548
Due from related parties (note 9)	157,997	178,961
Property and equipment (note 3)	1,182,194	431,824
Goodwill (notes 2, 6(c))	2,749,317	811,666
Intangible Assets (note 4)	1,784,060	–
Deposits	15,411	–
Deferred software development costs (note 5)	1,034,909	607,900
Deferred set-up expense	154,801	68,186
Notes receivable (note 11)	356,649	180,573
Future income tax asset (note 10)	848,189	929,964
	\$ 32,752,655	\$ 14,961,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 550,300	\$ 708,900
Income taxes payable (note 10)	1,989,722	–
Due to Honeycomb Holdings Limited (note 2)	760,475	–
Current portion of obligations under capital lease	16,520	15,640
Deferred revenue	219,105	478,952
Total Current liabilities	3,536,122	1,203,492
Deferred revenue	254,290	615,748
Due to Honeycomb Holdings Limited (note 2)	110,750	–
Obligations under capital lease	4,273	20,793
Shareholders' equity:		
Share capital (note 6)	28,046,490	16,502,188
Contributed surplus (note 8)	1,139,928	102,572
Deficit	(339,198)	(3,483,171)
Total Shareholders equity	28,847,220	13,121,589
Commitments (note 12)		
	\$ 32,752,655	\$ 14,961,622

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Peter Kinash"

Director

"Darold Parken"

Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Operations and Deficit

Years ended October 31
(stated in Canadian dollars)

	2005	2004
Revenue:		
Software license fees	\$ 16,392,603	\$ 11,268,494
Software set-up fees	657,037	798,343
Interest and other	798,930	134,640
	<u>17,848,570</u>	<u>12,201,477</u>
Expenses		
Software development and support	6,037,265	4,417,981
Sales and marketing	2,194,027	1,319,633
General and administrative	1,624,609	2,178,974
Amortization of deferred software development costs	235,316	98,048
Stock-based compensation	636,844	102,572
Depreciation and amortization	259,877	244,251
Amortization of intangible assets	105,356	–
Foreign currency loss	375,411	233,201
	<u>11,468,705</u>	<u>8,594,660</u>
Net income before income taxes	6,379,865	3,606,817
Income taxes (note 10):		
Current tax expense	1,989,722	–
Future income tax expense (reduction)	392,737	(414,964)
	<u>2,382,459</u>	<u>(414,964)</u>
Net income	3,997,406	4,021,781
Deficit, beginning of year	(3,483,171)	(7,504,952)
Retroactive stock-based compensation expense (note 1(h))	(351,646)	–
Repurchase of common shares under Normal Course Issuer Bid (note 6(d))	(501,787)	–
Deficit, end of year	<u>\$ (339,198)</u>	<u>\$ (3,483,171)</u>
Net income per share:		
Basic	\$ 0.22	\$ 0.28
Diluted	0.20	0.24

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flows

Years ended October 31
(stated in Canadian dollars)

	2005	2004
Cash provided by (used in):		
Operations:		
Net income	\$ 3,997,406	\$ 4,021,781
Depreciation and amortization	259,877	244,251
Amortization of deferred software development costs	235,316	98,048
Unrealized foreign exchange losses	50,978	110,235
Stock-based compensation	636,844	102,572
Amortization of intangible assets	105,356	-
Interest income capitalized	(8,943)	(11,413)
Future income tax expense (reduction)	392,737	(414,964)
Gain on disposal of property and equipment	-	(9,213)
Contracts acquired on acquisition	-	25,000
	5,669,571	4,166,297
Change in non-cash working capital:		
Accounts receivable	(2,512,096)	(34,819)
Due from related parties	29,907	20,000
Deferred set-up expense	(125,625)	83,071
Prepaid expenses	(102,358)	(100,904)
Notes receivable	(646,753)	-
Accounts payable and accrued liabilities	(158,600)	491,888
Income tax payable	1,989,722	-
Deferred revenue	(621,305)	(593,235)
	(2,147,108)	(133,999)
	3,522,463	4,032,298
Financing:		
Issue of shares for cash	12,370,045	855,799
Repurchase of shares for cash	(786,909)	-
Share issue costs	(749,517)	-
Payment to Honeycomb Holdings Limited (note 2)	(294,275)	-
Repayment of lease obligations	(15,640)	27,446
	10,523,704	883,245
Investing:		
Purchase of short term investments	(11,902,602)	(1,605,396)
Purchase of property and equipment	(958,583)	(604,404)
Deferred software development costs	(662,325)	(175,000)
Business acquisition (note 2)	(2,601,859)	-
Long term deposit paid	(15,411)	-
	(16,140,780)	(2,384,800)
Increase (decrease) in cash	(2,094,613)	2,530,743
Cash, beginning of year	5,995,863	3,465,120
Cash, end of year	\$ 3,901,250	\$ 5,995,863
Supplemental cash flow information:		
Interest received	\$ 432,731	\$ 123,228
Interest paid	(1,608)	(2,048)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

Chartwell Technology Inc. ("Chartwell" or the "Company") is incorporated under the Business Corporations Act (Alberta). The Company specializes in the development of games and entertainment content for Internet and Intranet deployment. The Company's software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. 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"), a United States company, Chartwell Games Corp. ("CGC") (formerly Gaming Tech Corporation), a Belize company, Chartwell Games (Malta) Ltd. ("CGC Malta"), a Malta Company, Chartwell Games (Malta) Holding Ltd. ("CGC Malta Holding"), a Malta company, and Micropower Corporation Limited ("Micropower"), a Gibraltar company. GTI is a US incorporated company, which was acquired on November 1, 1998, CGC was incorporated in Belize and commenced operations November 1, 1999, CGC Malta and CGC Malta Holding were both incorporated in Malta and commenced operations December 2, 2004, and Micropower was acquired by the Company effective May 20, 2005 (see Note 2). The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and Canadian dollars is the functional currency.

(b) Property and equipment:

Property and equipment are recorded at cost and amortization is provided on a declining balance basis using the following rates:

Capital assets under lease	30%
Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	5 years

(c) Deferred software development costs:

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 Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, 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. Software development costs are amortized over an estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development is evaluated in each reporting

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

period to determine whether it continues to meet the criteria for continued deferral and amortization.

(d) Foreign currency translation:

Accounts of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net income.

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in income.

(e) Revenue recognition:

The Company enters into contractual agreements with licensees that provide for the provision of graphics, web design and software implementation services, the licensing of software, and the provision of unspecified software upgrades over the fixed term of the contract. Revenue under such contractual arrangements is not recognized before there exists persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed and determinable, and the collectibility of outstanding amounts is considered probable.

As the Company's contractual arrangements provide for the delivery of multiple elements, the Company evaluates whether vendor-specific objective evidence ("VSOE") exists to allow for the allocation of the arrangement fee between the undelivered elements and the delivered elements for revenue recognition purposes. To date, as the period provided for in contractual arrangements for the provision of unspecified upgrades is consistent with the license period, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements. Accordingly, set-up fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Direct and incremental costs incurred with respect to the set-up contractual arrangements have been deferred as deferred set-up expense and are recognized ratably over the term of the contract consistent with that for the related revenue recognition.

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.

Fees for software development services are recognized on a percentage-of-completion basis over the term of the contract and are recorded in other revenue.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

(f) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(g) Income taxes:

The Company follows the liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded against future income tax assets if it is more likely than not that all or a portion of the assets will not be realized.

(h) Stock-based compensation:

Effective November 1, 2002, the Company adopted the Canadian standards for accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and non-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. In addition, the new standards require that equity instruments issued to non-employees be recorded at their fair value at the date they are earned. Prior to November 1, 2004, the Company elected to follow an alternative method of accounting for stock options awarded to employees and recognized no compensation expense when stock options were granted. On November 1, 2004, the Company elected to adopt this new policy retroactively without restatement of prior periods. As a result, \$351,646, representing the estimated value of stock options issued to employees in 2003 and 2004, was charged to deficit and credited to contributed surplus on November 1, 2004.

(i) 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. Areas of significant estimate include the recoverability of deferred software development costs, goodwill impairment assumptions, amortization periods for property and equipment, provision for doubtful accounts, the realization of future tax assets,

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

deferred set-up fee expenses, and stock-based compensation. Actual results could differ from management's best estimates and underlying assumptions as additional information becomes available in the future.

(j) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

An annual review of impairment was prepared on October 31, 2005. Management concluded that there were no circumstances that indicated that impairment had occurred at that time.

(k) Intangible assets:

Acquired customer contracts associated with business acquisitions are initially recorded at fair value and amortized on a straight-line basis over the terms of the underlying contracts. Acquired intellectual property is recorded at fair value and amortized on a straight-line basis over its estimated useful life of five years, using half-year rule in the year of the addition.

(l) Comparative figures:

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.

(m) Cash and short term investments:

Cash consists of bank deposits. Short-term investments consist of maturities of three months or less and are recorded at cost which does not differ materially from fair value.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

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 paid on closing and US\$1,000,000 due to Honeycomb Holdings Limited ("Honeycomb"), the parent company of Micropower pursuant to a Share Purchase Agreement (the "Share Purchase Agreement"). The unpaid amount is payable based on certain future milestones and events which are expected to occur by the end of fiscal 2006, of which US\$250,000 was paid prior to year-end. In addition, transaction costs of Cdn\$115,634 were incurred and allocated to the purchase price.

Included in the Share Purchase Agreement 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
	<hr/>
	\$ 3,861,959
Consideration:	
Cash	\$ 2,486,225
Due to Honeycomb Holdings Limited	1,260,100
Transaction costs	115,634
	<hr/>
	\$ 3,861,959

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

3. Property and equipment:

2005	Cost	Accumulated amortization	Net book value
Property and equipment under lease	\$ 90,152	\$ (63,640)	\$ 26,512
Computer equipment	1,562,029	(709,796)	852,233
Furniture and equipment	407,643	(138,341)	269,302
Leasehold improvements	37,941	(3,794)	34,147
	<u>\$ 2,097,765</u>	<u>\$ (915,571)</u>	<u>\$ 1,182,194</u>
2004			
Property and equipment under lease	\$ 90,152	\$ (52,279)	\$ 37,873
Computer equipment	732,740	(514,523)	218,217
Furniture and equipment	264,627	(88,893)	175,734
	<u>\$ 1,087,519</u>	<u>\$ (655,695)</u>	<u>\$ 431,824</u>

4. Intangible assets:

	2005		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts	\$ 281,045	\$ (11,991)	\$ 269,054
Intellectual property	1,608,371	(93,365)	1,515,006
Net book value	<u>\$ 1,889,416</u>	<u>\$ (105,356)</u>	<u>\$ 1,784,060</u>

5. Deferred software development costs:

	2005	2004
Software development costs	\$ 1,892,422	\$ 1,230,097
Accumulated amortization	(857,513)	(622,197)
Net book value	<u>\$ 1,034,909</u>	<u>\$ 607,900</u>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

6. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of Shares	Amount
Balance, October 31, 2003	15,987,701	14,809,723
Issued for cash on exercise of stock options	701,932	855,799
Release of shares from escrow (c)	–	836,666
Shares cancelled from escrow and returned to treasury (c)	(666,667)	–
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	–	(749,517)
Income Tax effect of issue costs	–	251,988
Compensation options issued to underwriters	–	(184,928)
Issued for cash on exercise of stock options	1,051,379	1,370,043
Cancelled on Normal Course Issuer Bid (d)	(192,500)	(279,348)
Transfer from contributed surplus on options exercised	–	136,062
Balance, October 31, 2005	19,247,437	\$28,046,490

(c) Release of escrowed shares and goodwill:

On November 1, 1998, the Company acquired all of the issued and outstanding shares of Gateway Technology Inc. ("GTI") for consideration of 1,000,000 common shares. Under the terms of the Purchase Agreement, those shares were placed in escrow and were releasable from time to time as one escrowed share for each \$1.00 of cash flow generated by GTI subsequent to its acquisition by the Company. On February 12, 2004 the TSX Venture Exchange provided approval for the release of 333,333 shares and on April 27, 2004 the shares were released from escrow. The release of the shares was accounted for as an additional cost of the purchase of GTI, equal to the fair value of the shares on February 12, 2004 of \$836,666. The remaining 666,667 shares were cancelled and returned to treasury.

The additional consideration of \$836,666 was assigned to license contracts acquired, in the amount of \$25,000 and the remaining \$811,666 to goodwill.

On August 18, 2004, application was made to the Alberta Securities Commission for the release of 955,400 shares held in escrow on behalf of the principals of the Company and others, subject to the direction and determination of the regulatory authorities in the Province

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

of Alberta. On October 5, 2004 consent was given by the Alberta Securities Commission to the release of all shares held pursuant to that agreement.

375,000 shares remain in escrow and are subject to the direction and determination of the securities regulatory authorities in the Province of British Columbia. On August 9, 2005 application was made to the Alberta Securities Commission for the release of 112,500 shares held in escrow subject to the direction and determination of the regulatory authorities in the Province of Alberta. This application remains outstanding at year-end.

(d) A Normal Course Issuer Bid was filed with the Toronto Stock Exchange on September 26, 2005 whereby the Company is permitted to purchase and cancel up to 970,000 of its common shares prior to September 25, 2006. During 2005, 192,500 shares were repurchased at an average per share value of \$1.45, resulting in \$279,348 being recorded as a reduction to share capital and \$501,787 as a reduction in retained earnings.

(e) Per share amounts:

The weighted average number of common shares outstanding for the year was 18,186,010 (2004 – 14,249,151). Diluted shares of 19,645,771 for 2005 reflect the dilutive effect of the exercise of the options outstanding. Contingently returnable and issuable shares held in escrow have been excluded from the calculations.

(f) Stock option plan:

The Company has a stock option plan for its directors, officers, employees and key consultants whereby an amount of options to acquire a maximum of 3,264,000 common 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.

A summary of the status of the plan as of October 31, 2005 and 2004 and the changes during the years is presented below:

	October 31, 2005		October 31, 2004	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,355,834	\$ 1.49	2,616,100	\$ 1.19
Granted	538,936	7.97	600,000	2.45
Exercised	(1,051,379)	1.30	(701,932)	1.22
Forfeited	(100,001)	3.75	(158,334)	1.31
Outstanding, end of year	1,743,390	\$ 3.48	2,355,834	\$ 1.49

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2005.

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
\$ 1.00-1.50	635,453	1.8	\$ 1.06	500,678	\$ 1.07
1.51-2.00	199,001	1.2	1.73	199,001	1.73
2.01-2.50	25,000	3.3	2.45	8,333	2.45
2.51-3.00	400,000	3.3	2.63	166,665	2.62
3.01-8.00	121,936	1.0	5.02	111,936	5.10
8.01-10.00	312,000	5.1	9.00	6,250	9.00
10.01-10.50	50,000	5.5	10.40	—	—
\$ 1.00-10.50	1,743,390	2.3	\$ 3.48	992,863	\$ 1.98

In 2005, 141,936 options were issued in connection with the Private Placement. The estimated fair value of those options of \$184,928 has been charged to share issue costs.

As the Company is following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees and consultants was \$636,844 (2004 - \$102,572) with an offsetting credit to contributed surplus.

7. Stock-based Compensation:

The estimated fair value of stock options issued during the year was determined using the Black-Scholes option-pricing model using the following weighted average assumptions and fair value of options:

	2005
Risk-free interest rate	4.00%
Expected hold period to exercise (years)	4.61
Volatility in the price of the Company's shares	45.31%
Dividend yield	—
Weighted average fair value of options	\$3.44

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

8. Contributed Surplus:

Balance, October 31, 2004	\$ 102,572
Retroactive application of stock-based compensation expense	351,646
Stock-based compensation expense	636,844
Stock-based compensation expense of options issued to Underwriters	184,928
Transferred to share capital on exercise of options	(136,062)
Balance, October 31, 2005	\$ 1,139,928

9. Related party transactions:

For the year ended October 31, 2005, the Company incurred legal fees of \$60,000 (2004 - \$60,000) and consulting fees of \$165,000 (2004 - \$165,000) to certain 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.

Amounts due from related parties of \$157,997 (2004 - \$178,961) consist of amounts due from certain Company officers, directors and employees. The balance bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.

10. Income taxes:

Income tax expense (reduction) differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net income for the year. The reasons for the differences are as follows:

	2005	2004
Net income before income taxes	\$ 6,379,865	\$ 3,606,817
Combined Canadian federal and provincial statutory rate	33.62%	34.4%
Computed provision	\$ 2,144,911	\$ 1,240,746
Difference in foreign tax rates, net of foreign property accrual income	—	(218,301)
Realization of future tax asset not previously recognized	—	(444,602)
Stock-based compensation	214,107	35,284
Non deductible expenses	20,898	16,873
Reduction of valuation allowance	—	(1,044,964)
Other	2,543	—
Income tax expense (reduction)	\$ 2,382,459	\$ (414,964)

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income in the various jurisdictions in which the Company operates.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

The components of the Company's net future income tax asset at October 31, 2005 and 2004 are as follows:

2005	Canada	United States	Total
Net operating losses	\$ –	\$ 19,393	\$ 19,393
Property and equipment	7,780	–	7,780
Intangible assets	(86,059)	–	(86,059)
Share issue costs	201,590	–	201,590
Resource deductions	61,386	–	61,386
Deferred development costs	681,351	–	681,351
Deferred revenue	63,973	–	63,973
Deferred set-up expense	(25,806)	–	(25,806)
	\$ 904,215	19,393	\$ 923,608
Less: valuation allowance	–	(19,393)	(19,393)
	904,215	–	904,215

2004	Canada	United States	Total
Net operating losses	\$ –	\$ 19,393	\$ 19,393
Property and equipment	114,097	–	114,097
Share issue costs	297	–	297
Resource deductions	75,785	–	75,785
Deferred development costs	658,860	–	658,860
Deferred revenue	238,545	–	238,545
Deferred set-up expense	(42,620)	–	(42,620)
	1,044,964	19,393	1,064,357
Less: valuation allowance	–	(19,393)	(19,393)
	\$ 1,044,964	\$ –	\$ 1,044,964

The Company has net operating losses carry-forward for United States income tax purposes of approximately \$57,038 (2004 – \$57,038) available for deduction against future year's taxable income. These losses expire between 2018 and 2019.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

11. Financial instruments:

The Company's financial instruments consist of cash, short term investments, accounts receivable, notes receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair value 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 and or credit risk. The Company's credit risk lies in its accounts receivable where the balance is due from a small number of customers. The Company's short term investments consist of investments in low risk, fixed interest, corporate and government bonds. A substantial portion of the Company's revenue is exposed to currency fluctuations.

Notes Receivable

The Company's notes receivable consists of a two promissory notes. The first is a US \$500,000 non interest bearing note due on demand from a customer under a Master License Agreement expected to be repaid within one year. The fair value, based on market interest rates, is CDN \$553,411 versus the carrying value recorded of CDN \$588,550. In addition, a promissory note in the amount of CDN \$335,957 bearing interest at 12% is due from another arm's length party. The terms of the promissory note require payments of CDN \$20,000 to be made for the period from November 30, 2006 to July 31, 2007 and a lump sum payment of the remaining outstanding balance, including accrued interest, to be made on August 31, 2007. At October 31, 2005, the fair value of the promissory note approximates its carrying value.

12. Commitments:

Future minimum annual payments under operating and capital leases are as follows:

2006	\$	605,837
2007		562,099
2008		512,989
2009		85,498
Thereafter		—

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2005 and 2004
(stated in Canadian dollars)

13. 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 accounting standards.

The Company's software set-up and license fees are from domestic and foreign entities and originate from the following geographical areas of operation:

2005	Canada	Europe	Total
Software set-up fees	\$ –	\$ 657,037	\$ 657,037
Software license fees	91,135	16,301,468	16,392,603
Goodwill	1,182,194	–	1,182,194
Total assets	20,380,585	12,372,070	32,752,655

2004	Canada	Europe	Total
Software set-up fees	\$ –	\$ 798,343	\$ 798,343
Software license fees	204,154	11,064,340	11,268,494
Goodwill	431,824	–	431,824
Total assets	7,186,451	7,775,171	14,961,622

During the year ended October 31, 2005, four licensees (2004 – four), each of which provided more than 10% of the Company's total sales revenue, accounted for 59.8% (2004 – 83.4%) of the Company's 2005 software license fees revenue.