

Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

Years ended October 31, 2006 and 2005.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
January 26, 2007

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2006	2005
Assets		
Current assets:		
Cash	\$ 1,626,617	\$ 3,901,250
Short term investments (note 1(l))	11,147,309	15,220,888
Accounts receivable	5,670,997	4,271,829
Prepaid expenses and deposits	649,506	332,990
Notes receivable (note 11)	280,300	588,550
Deferred set-up expense	99,133	97,595
Future income tax asset (note 10)	24,100	56,026
Total current assets	19,497,962	24,469,128
Due from related party (note 9)	167,492	157,997
Property and equipment (note 3)	1,415,590	1,182,194
Intangible assets (note 4)	1,291,093	1,784,060
Goodwill (notes 2, 6(c))	2,749,317	2,749,317
Deferred software development costs (note 5)	3,385,388	1,034,909
Deferred set-up expense	37,693	154,801
Notes receivable (note 11)	662,313	356,649
Future income tax asset (note 10)	229,739	848,189
Deposits	6,444	15,411
	\$ 29,443,031	\$ 32,752,655
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,363,142	\$ 550,300
Income taxes payable (note 10)	70,268	1,989,722
Due to Honeycomb Holdings Limited (note 2)	–	760,475
Current portion of obligations under capital lease	5,711	16,520
Deferred revenue	284,779	219,105
Total current liabilities	1,723,900	3,536,122
Deferred revenue	280,526	254,290
Due to Honeycomb Holdings Limited (note 2)	–	110,750
Obligations under capital lease	–	4,273
Shareholders' equity:		
Share capital (note 6)	27,155,073	28,046,490
Contributed surplus (note 8)	1,698,924	1,139,928
Deficit	(1,415,392)	(339,198)
Total shareholders' equity	27,438,605	28,847,220
Commitments (note 12)		
	\$ 29,443,031	\$ 32,752,655

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

Signed "Darold H. Parken" Director

Signed "Peter Kinash"

Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Operations and Deficit

Years ended October 31
(stated in Canadian dollars)

	2006	2005
Revenue		
Software license fees	\$17,474,441	\$16,392,603
Software set-up fees	295,516	657,037
Interest and other	793,187	798,930
	<u>18,563,144</u>	<u>17,848,570</u>
Expenses		
Software development and support	8,070,939	6,037,265
Sales and marketing	2,309,229	2,194,027
General and administrative	4,540,532	1,624,609
Amortization of deferred software development costs	235,316	235,316
Stock-based compensation	622,717	636,844
Depreciation and amortization	425,692	259,877
Amortization of intangible assets	492,967	105,356
Foreign currency loss	156,934	375,411
	<u>16,854,326</u>	<u>11,468,705</u>
Net income before income taxes	1,708,818	6,379,865
Income taxes (note 10):		
Current tax expense	199,436	1,989,722
Future income tax expense	650,376	392,737
	<u>849,812</u>	<u>2,382,459</u>
Net income	859,006	3,997,406
Deficit, beginning of year	(339,198)	(3,483,171)
Retroactive stock-based compensation expense (note 1(h))	–	(351,646)
Repurchase of common shares under Normal Course Issuer Bid (note 6(d))	(1,935,200)	(501,787)
Deficit, end of year	<u>\$ (1,415,392)</u>	<u>\$ (339,198)</u>
Net income per share:		
Basic	\$ 0.05	\$ 0.22
Diluted	0.05	0.20

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flows

Years ended October 31
(stated in Canadian dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Net income	\$ 859,006	\$ 3,997,406
Depreciation and amortization	425,692	259,877
Amortization of deferred software development costs	235,316	235,316
Unrealized foreign exchange (gains) losses	(23,964)	50,978
Stock-based compensation	622,717	636,844
Amortization of intangible assets	492,967	105,356
Future income tax expense	650,376	392,737
	<u>3,262,111</u>	<u>5,678,514</u>
Change in non-cash working capital:		
Accounts receivable	(1,478,289)	(2,512,096)
Deferred set-up expense	115,570	(125,625)
Prepaid expenses	(307,549)	(117,769)
Notes receivable	2,586	(646,753)
Due from related party	(9,495)	20,964
Accounts payable and accrued liabilities	657,411	(158,600)
Income tax payable	(1,919,454)	1,989,722
Deferred revenue	91,910	(621,305)
	<u>(2,847,310)</u>	<u>(2,171,462)</u>
	414,801	3,507,052
Financing:		
Issue of shares for cash	615,548	12,370,045
Repurchase of shares for cash	(3,505,886)	(786,909)
Share issue costs	-	(749,517)
Payment to Honeycomb Holdings Limited (note 2)	(612,710)	(294,275)
Repayment of capital lease obligations	(15,082)	(15,640)
	<u>(3,518,130)</u>	<u>10,523,704</u>
Investing:		
Redemption (purchase) of short term investments	4,073,579	(11,902,602)
Purchase of property and equipment	(659,088)	(958,583)
Deferred software development costs	(2,585,795)	(662,325)
Business acquisition (note 2)	-	(2,601,859)
	<u>828,696</u>	<u>(16,125,369)</u>
Decrease in cash	(2,274,633)	(2,094,613)
Cash, beginning of year	3,901,250	5,995,863
Cash, end of year	<u>\$ 1,626,617</u>	<u>\$ 3,901,250</u>
Supplemental cash flow information:		
Interest received	\$ 561,955	\$ 432,731
Interest paid	(1,269)	(1,608)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

Chartwell Technology Inc. ("Chartwell" or the "Company") is incorporated under the Business Corporations Act (Alberta). The Company is in the business of 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. The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and the Canadian dollar is the functional currency.

(b) Property and equipment:

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

Capital assets under lease	30%
Computer equipment	30%
Computer software and licenses	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 period to determine whether it continues to meet the criteria for continued deferral and amortization.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(d) Foreign currency translation:

Accounts of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using the temporal method and the rate in effect at the time of the transaction. 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.

(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 per man hour or per man day basis as determined by the individual contracts and are recorded in other revenue.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(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. These 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, these standards require that equity instruments issued to non-employees be recorded at their fair value at the date they are earned.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(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, 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 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 may be impaired.

(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) 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.

(m) Comparative figures:

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

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(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"). In addition, transaction costs of \$115,634 were incurred and allocated to the purchase price.

Subsequent to closing, the Company and Honeycomb negotiated a settlement of all matters related to the Micropower acquisition pursuant to which the Company paid Honeycomb \$613,000 in satisfaction of all amounts payable under the Share Purchase Agreement.

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:

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, 2006 and 2005
(stated in Canadian dollars)

3. Property and equipment:

2006	Cost	Accumulated amortization	Net book value
Property and equipment under lease	\$ 90,152	\$ (71,594)	\$ 18,558
Computer equipment	1,878,320	(1,012,910)	865,410
Computer software and licenses	290,706	(47,967)	242,739
Furniture and equipment	414,737	(192,911)	221,826
Leasehold improvements	82,939	(15,882)	67,057
	<u>\$ 2,756,854</u>	<u>\$(1,341,264)</u>	<u>\$ 1,415,590</u>

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>

4. Intangible assets:

2006	Cost	Accumulated amortization	Net book value
Customer contracts	\$ 281,045	\$ (183,284)	\$ 97,761
Intellectual property	1,608,371	(415,039)	1,193,332
	<u>\$ 1,889,416</u>	<u>\$ (598,323)</u>	<u>\$ 1,291,093</u>

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
	<u>\$ 1,889,416</u>	<u>\$ (105,356)</u>	<u>\$ 1,784,060</u>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

5. Deferred software development costs:

2006	Cost	Accumulated amortization	Net book value
Poker development costs	\$ 3,935,273	\$(1,092,829)	\$ 2,842,444
Mobile development costs	542,944	–	542,944
	<u>\$ 4,478,217</u>	<u>\$(1,092,829)</u>	<u>\$ 3,385,388</u>

2005	Cost	Accumulated amortization	Net book value
Poker development costs	\$ 1,892,422	\$ (857,513)	\$ 1,034,909
	<u>\$ 1,892,422</u>	<u>\$ (857,513)</u>	<u>\$ 1,034,909</u>

6. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of Shares	Amount
Balance, October 31, 2004	16,022,966	\$ 16,502,188
Issued for cash under 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	<u>19,247,437</u>	<u>\$ 28,046,490</u>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

	Number of Shares	Amount
Balance, October 31, 2005	19,247,437	\$ 28,046,490
Issued for cash on exercise of stock options	515,818	615,548
Cancelled on Normal Course Issuer Bid (d)	(1,080,400)	(1,570,686)
Transfer from contributed surplus on options exercised	–	63,721
Balance, October 31, 2006	18,682,855	\$ 27,155,073

(c) Release of escrowed shares and goodwill:

On June 2, 2006, the British Columbia Securities Commission consented to the release of 112,500 shares held in escrow for a Company Officer. As at October 31, 2006, an application made to the British Columbia Securities Commission by a former director of the Company for the release of 262,500 shares held in escrow remains outstanding. Subsequent to October 31, 2006, consent was received from the British Columbia Securities Commission for release of these escrowed shares was granted.

(d) A Normal Course Issuer Bid was filed with the Toronto Stock Exchange on September 26, 2005 and amended on May 18, 2006, whereby the Company is permitted to purchase and cancel up to 1,761,854 of its common shares prior to September 25, 2006. During 2005, 192,500 shares were repurchased, resulting in \$279,348 being recorded as a reduction to share capital and \$501,787 as a reduction to retained earnings. In 2006, 1,080,400 shares were repurchased, resulting in \$1,570,686 being recorded as a reduction to share capital and \$1,935,200 as a reduction to retained earnings.

(e) Per share amounts:

The weighted average number of common shares outstanding for the year was 18,556,096 (2005 - 18,186,010). Weighted average diluted number of common shares outstanding of 19,034,960 (2005 - 19,645,771) 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.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

6. Share capital (continued):

(f) Stock option plan:

The Company has a stock option plan (the "Plan") for its directors, officers, employees and key consultants whereby the number of options issuable pursuant to the Plan at any time shall be a rolling maximum of twenty percent of the Company's issued and outstanding common shares, such that any increase in the issued and outstanding common shares will result in an increase in the available number of common shares issuable under the Plan, and any exercise of options will make new grants available under the Plan, subject to certain terms and conditions. The number of options reserved for issuance to any one optionee shall not exceed 5% of the outstanding common shares. 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, 2006 and 2005 and the changes during the years is presented below:

	October 31, 2006		October 31, 2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,743,390	\$ 3.48	2,355,834	\$ 1.49
Granted	943,500	2.60	538,936	7.97
Exercised	(515,818)	1.19	(1,051,379)	1.30
Forfeited	(449,004)	7.73	(100,001)	3.75
Outstanding, end of year	1,722,068	\$ 2.58	1,743,390	\$ 3.48

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2006.

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	212,234	1.4	\$ 1.07	203,901	\$ 1.05	
1.51-2.00	106,334	0.4	1.62	106,334	1.62	
2.01-2.50	388,500	5.3	2.12	36,667	2.26	
2.51-3.00	880,000	3.9	2.63	283,666	2.63	
3.01-8.00	85,000	5.0	4.49	—	—	
8.01-10.50	50,000	4.5	10.40	10,000	10.40	
\$ 1.00-10.50	1,722,068	2.3	\$ 2.58	640,568	\$ 2.06	

In 2005, 141,936 options were issued in connection with a 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 \$622,717 (2005 - \$636,844) 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:

	2006	2005
Risk-free interest rate	4.0%	4.0%
Expected hold period to exercise (years)	4.50	4.61
Volatility in the price of the Company's shares	40%	45%
Dividend yield	—	—
Weighted average fair value of options	\$ 1.12	\$ 3.44

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(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)
<hr/> Balance, October 31, 2005	<hr/> \$ 1,139,928

Balance, October 31, 2005	\$ 1,139,928
Stock-based compensation expense	622,717
Transferred to share capital on exercise of options	(63,721)
<hr/> Balance, October 31, 2006	<hr/> \$ 1,698,924

9. Related party transactions:

For the year ended October 31, 2006, the Company incurred legal fees of \$346,619 (2005 - \$185,340), sales and marketing consulting fees of \$165,000 (2005 - \$165,000), software development consulting fees of \$168,838 (2005 - \$126,338), and general and administrative consulting fees of \$12,077 (2005 - nil) to companies related to certain officers and directors of the Company in the normal course of business. These transactions were measured at the exchange amount and recorded in general and administrative, sales and marketing, and software development expenses, respectively. As at October 31, 2006, \$231,693 is recorded to accounts payable and accrued liabilities, while all other amounts have been paid.

Amount due from related party of \$167,492 (2005 - \$157,997) is an amount due from a Company officer. The balance bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

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:

	2006	2005
Net income before income taxes	\$ 1,708,818	\$ 6,379,865
Combined Canadian federal and provincial statutory rate	32.75%	33.62%
Computed provision	\$ 559,638	\$ 2,144,911
Difference in foreign tax rates	(60,639)	–
Stock-based compensation	203,909	214,107
Non deductible expenses	89,125	20,898
Other	57,779	2,543
Income tax expense	\$ 849,812	\$ 2,382,459

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.

The components of the Company's net future income tax asset at October 31, 2006 and 2005 are as follows:

2006	Canada	United States	Total
Net operating losses	\$ –	\$ 19,393	\$ 19,393
Property and equipment	(67,112)	–	(67,112)
Intangible assets	(390,757)	–	(390,757)
Share issue costs	147,258	–	147,258
Resource deductions	48,428	–	48,428
Deferred development costs	490,640	–	490,640
Deferred revenue	29,356	–	29,356
Deferred set-up expense	(3,974)	–	(3,974)
	253,839	19,393	273,232
Less: valuation allowance	–	(19,393)	(19,393)
	\$ 253,839	\$ –	\$ 253,839

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

10. Income taxes (continued):

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

The Company has net operating losses carry-forward for United States income tax purposes of approximately \$57,038 (2005 – \$57,038) available for deduction against future year's taxable income. These losses expire between 2018 and 2019.

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 values of these financial instruments approximate their carrying values. It is management's opinion that the Company is not exposed to significant interest risk. The Company's credit risk lies in its accounts receivable and notes receivable where the balances due reflect a concentration among a 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

The Company's notes receivable consists of a two promissory notes. The first is a US \$250,000 non interest bearing note due on demand from a customer under a Master License Agreement, which is measured at the note value converted to Canadian dollars at the year-end exchange rate which approximates its fair value. In addition, a promissory note in the amount of \$577,511 bearing interest at 12% is due from another arm's length party. The terms of the promissory note require monthly 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

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)

interest, to be made on August 31, 2007. At October 31, 2006, 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:

2007	\$	671,359
2008		637,078
2009		532,760
2010		69,616
2011		29,094
Thereafter		39,773

13. Segmented information:

The Company operates under one operating and reporting segment as management has determined that the nature of its operations and the way management runs the business 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.

2006	Canada	Europe	Total
Software set-up fees	\$ –	\$ 295,516	\$ 295,516
Software license fees	67,841	17,406,600	17,474,441
Goodwill	2,749,317	–	2,749,317
Total assets	22,378,204	7,064,827	29,443,031

2005	Canada	Europe	Total
Software set-up fees	\$ –	\$ 657,037	\$ 657,037
Software license fees	91,135	16,301,468	16,392,603
Goodwill	2,749,317	–	2,749,317
Total assets	20,380,585	12,372,070	32,752,655

During the year ended October 31, 2006, three licensees (2005 – four), each of which provided more than 10% of the Company's total sales revenue, accounted for 37.6% (2005 – 59.8%) of the Company's 2006 software license fees revenue.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2006 and 2005
(stated in Canadian dollars)
