

Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

Years ended October 31, 2007 and 2006.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2007 and 2006 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, 2007 and 2006 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.

Chartered Accountants

Calgary, Canada
January 29, 2008

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2007	2006
Assets		
Current assets:		
Cash	\$ 4,413,871	\$ 1,626,617
Short term investments (note 1(l))	10,665,259	11,147,309
Accounts receivable	4,401,872	5,670,997
Income tax receivable	1,671,998	-
Prepaid expenses and deposits	708,466	649,506
Notes receivable (note 11)	-	280,300
Deferred set-up expense	21,078	99,133
Future income tax asset (note 10)	-	24,100
Total current assets	21,882,544	19,497,962
Due from related party (note 9)	-	167,492
Property and equipment (note 3)	2,254,939	1,415,590
Intangible assets (note 4)	1,138,206	1,291,093
Goodwill	2,749,317	2,749,317
Deferred software development costs (note 5)	2,449,554	3,385,388
Deferred set-up expense	44,195	37,693
Notes receivable (note 11)	-	662,313
Future income tax asset (note 10)	-	229,739
Deposits	27,610	6,444
	\$ 30,546,365	\$ 29,443,031
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,804,188	\$ 1,363,142
Income taxes payable	-	70,268
Current portion of obligations under capital lease	-	5,711
Deferred revenue	110,212	284,779
Total current liabilities	1,914,400	1,723,900
Deferred revenue	186,821	280,526
Future income tax liability (note 10)	642,934	-
Shareholders' equity:		
Share capital (note 6)	27,400,217	27,155,073
Contributed surplus (note 8)	1,900,959	1,698,924
Deficit	(1,498,966)	(1,415,392)
Total shareholders' equity	27,802,210	27,438,605
	\$ 30,546,365	\$ 29,443,031

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

"Signed"
Peter Kinash, Director

"Signed"
Darold H. Parken, Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Operations and Deficit

Years ended October 31
(stated in Canadian dollars)

	2007	2006
Revenue		
Software license fees	\$20,293,427	\$17,474,441
Software set-up fees	235,691	295,516
Service fees	200,209	135,676
Interest and other	492,554	657,511
	<u>21,221,881</u>	<u>18,563,144</u>
Expenses		
Software development and support	9,448,675	8,070,939
Sales and marketing	3,042,354	2,309,229
General and administrative	4,207,481	4,540,532
Amortization of deferred software development costs	941,481	235,316
Impairment of deferred software development costs (note 5)	542,944	-
Stock-based compensation	231,095	622,717
Depreciation and amortization	726,632	425,692
Amortization of intangible assets	744,635	492,967
Impairment of intangible assets (note 4)	871,658	-
Foreign currency loss	700,847	156,934
	<u>21,457,802</u>	<u>16,854,326</u>
Net (loss) income before income taxes	(235,921)	1,708,818
Income taxes (note 10):		
Current tax (recovery) expense	(1,049,120)	199,436
Future income tax expense	896,773	650,376
	<u>(152,347)</u>	<u>849,812</u>
Net (loss) income and other comprehensive (loss) income	(83,574)	859,006
Deficit, beginning of year	(1,415,392)	(339,198)
Repurchase of common shares under Normal Course Issuer Bid	-	(1,935,200)
Deficit, end of year	<u>\$ (1,498,966)</u>	<u>\$(1,415,392)</u>
Net income per share:		
Basic	\$ (0.00)	\$ 0.05
Diluted	(0.00)	0.05

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flows

Years ended October 31
(stated in Canadian dollars)

	2007	2006
Cash provided by (used in):		
Operations:		
Net (loss) income	\$ (83,574)	\$ 859,006
Depreciation and amortization	726,632	425,692
Amortization of deferred software development costs	941,481	235,316
Impairment of deferred software Development costs	542,944	-
Unrealized foreign exchange losses (gains)	174,838	(23,964)
Stock-based compensation	231,095	622,717
Amortization of intangible assets	744,635	492,967
Impairment of intangible assets	871,658	-
Fair value adjustment of notes receivable	97,663	-
Future income tax expense	896,773	650,376
	<u>5,144,145</u>	<u>3,262,111</u>
Change in non-cash working capital:		
Accounts receivable	1,094,283	(1,478,289)
Deferred set-up expense	71,554	115,570
Prepaid expenses and deposits	(80,126)	(307,549)
Notes receivable	254,106	2,586
Due from related party	167,492	(9,495)
Deferred revenue	(268,274)	657,411
Accounts payable and accrued liabilities	441,054	(1,919,454)
Income tax payable	(1,742,266)	91,910
	<u>(62,177)</u>	<u>(2,847,310)</u>
	<u>5,081,968</u>	<u>414,801</u>
Financing:		
Issue of shares for cash	216,084	615,548
Repurchase of shares for cash	-	(3,505,886)
Payment to Honeycomb Holdings Limited	-	(612,710)
Repayment of capital lease obligations	(5,711)	(15,082)
	<u>210,373</u>	<u>(3,518,130)</u>
Investing:		
Redemption of short term investments	482,051	4,073,579
Purchase of property and equipment	(964,709)	(659,088)
Deferred software development costs	(548,591)	(2,585,795)
Business acquisition of Poker Community Management (note 2)	(1,473,838)	-
	<u>(2,505,087)</u>	<u>828,696</u>
Increase (decrease) in cash	2,787,254	(2,274,633)
Cash, beginning of year	1,626,617	3,901,250
Cash, end of year	<u>\$ 4,413,871</u>	<u>\$ 1,626,617</u>
Supplemental cash flow information:		
Interest received	\$ 492,554	\$ 561,955
Interest paid	(1,001)	(1,269)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

Chartwell Technology Inc. ("Chartwell" or the "Company") is incorporated under the Business Corporations Act (Alberta). The Company develops, markets, licenses, implements and supports gaming applications and entertainment content for the internet and remote platforms. 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, 2007 and 2006
(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 collectability 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.

Service fees are made up of the community management services provided to a third party that provides hosting and other related services to poker site operators. Software development fees are also included under Service fees. The company charges for software development services relating to software programming services. These fees are recognized on a percentage-of-completion basis. The company also provides network administration services for fixed monthly rates and these fees are also reported along with service fees. Software development fees which were classified under interest and other income in 2006 were reclassified under service fees to facilitate comparability in the current year.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

1. Significant accounting policies (continued):

Fees for software development services are recognized on an hourly or daily basis as determined by the individual contracts and are recorded in other revenue.

(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:

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, 2007 and 2006
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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 and intangible asset 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.

(l) Cash and short term investments:

Cash consists of bank deposits. Short-term investments consist of \$4,796,067 (2006 – \$8,191,251) maturing within thirty days, another \$5,657,691 (2006 – \$2,956,058) maturing within 90 days and the remaining balance of \$211,500 are equity and equity funds with no fixed date of maturity. All Short-term investments are recorded at 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, 2007 and 2006
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(n) Recent accounting pronouncements:

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

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

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

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

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

The following new accounting standards will be adopted November 1, 2007: Financial Instruments - Disclosures, Financial Instruments - Presentation and Capital Disclosures. These standards will require the Company to provide additional disclosure relating to its financial instruments, including hedging instruments, and about its equity.

It is not anticipated that the adoption of these new accounting standards will impact the amounts in the Company's financial statements as they primarily relate to disclosure.

2. Business acquisition:

Effective February 5, 2007, the company acquired all of the assets of PokerNexus Community Management business from Elite Club Management N.V. (ECM) for US\$1,840,967 consisting of US\$1,255,729 of cash and US\$502,214 in eliminated payable to the company from ECM. The note payable from ECM that was eliminated with the acquisition was valued at the fair market value at the time of the acquisition.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

The acquisition has been accounted for using the purchase method and the results of operation are included in the consolidated statement of income from the date of acquisition. The following table summarizes the estimated fair value of the assets acquired at the date of acquisition.

Fair value of net assets acquired:	
Property and equipment	\$ 601,271
Customer contracts	1,347,186
Intellectual property	116,220
	<u>\$ 2,064,677</u>
Consideration:	
Cash	\$ 1,473,838
Elimination of notes receivable from ECM	590,839
	<u>\$ 2,064,677</u>

3. Property and equipment:

2007	Cost	Accumulated amortization	Net book value
Property and equipment under lease	\$ 90,152	\$ (77,162)	\$ 12,990
Computer equipment	2,877,786	(1,436,252)	1,441,534
Computer software and licenses	835,269	(276,550)	558,719
Furniture and equipment	426,043	(238,125)	187,918
Leasehold improvements	93,585	(39,807)	53,778
	<u>\$ 4,322,835</u>	<u>\$(2,067,896)</u>	<u>\$ 2,254,939</u>
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>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

4. Intangible assets:

2007	Cost	Accumulated amortization	Impairment charge	Net book value
Customer contracts	\$ 1,628,231	\$ (580,418)	\$ -	\$ 1,047,813
Intellectual property	1,724,591	(762,540)	(871,658)	90,393
	<u>\$ 3,352,822</u>	<u>\$(1,342,958)</u>	<u>\$ (871,658)</u>	<u>\$ 1,138,206</u>

2006	Cost	Accumulated amortization	Impairment charge	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>-</u>	<u>\$ 1,291,093</u>

During fiscal year 2007, the Company determined that intellectual property incurred in the acquisition of Micropower in 2005 is no longer recoverable. As a result the Company incurred an impairment charge amounting to \$871,658.

5. Deferred software development costs:

2007	Cost	Accumulated amortization	Impairment charge	Net book value
Poker development costs	\$ 4,483,864	\$ (2,034,310)	\$ -	\$ 2,449,554
Mobile development costs	542,944	-	(542,944)	-
	<u>\$ 5,026,808</u>	<u>\$ (2,034,310)</u>	<u>\$ (542,944)</u>	<u>\$ 2,449,554</u>

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

2006	Cost	Accumulated amortization	Impairment charge	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>–</u>	<u>\$ 3,385,388</u>

The Company has not continued to invest to commercialize the mobile product and is currently not actively marketing it. As at October 31, 2007, the mobile deferred software development costs failed to meet the capitalization criteria and an impairment charge for the total amount of deferred software development of \$542,944 was taken.

6. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued:

	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	(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
Issued for cash on exercise of stock options	157,834	216,084
Transfer from contributed surplus on options exercised	–	29,059
Balance, October 31, 2007	18,840,689	\$ 27,400,217

(c) Per share amounts:

The weighted average number of common shares outstanding for the year was 18,632,471 (2006 - 18,556,096). Weighted average diluted number of common shares outstanding of 19,927,250

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
(stated in Canadian dollars)

(2006 - 19,034,960) 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.

(d) Stock option plan:

The Company has a stock option plan (the "Plan") for its directors, officers, employees and key consultants. 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 or decrease 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 range between one and five years and 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, 2007 and 2006 and the changes during the years is presented below:

	October 31, 2007		October 31, 2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,722,068	\$ 2.58	1,743,390	\$ 3.48
Granted	1,717,000	1.82	943,500	2.60
Exercised	(157,834)	1.37	(515,818)	1.19
Forfeited	(1,040,500)	2.85	(449,004)	7.73
Outstanding, end of year	2,240,734	\$ 1.97	1,722,068	\$ 2.58

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
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6. Share capital (continued):

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2007.

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	149,234	0.6	\$ 1.00	149,234	\$ 1.00
1.51-2.00	1,037,000	3.3	1.77	755,400	1.74
2.01-2.50	629,500	1.1	2.10	131,667	2.12
2.51-3.00	425,000	1.2	2.60	119,000	2.59
	2,240,734	2.1	\$ 1.97	1,155,301	\$ 1.76

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 \$231,095 (2006 - \$622,717) 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:

	2007	2006
Risk-free interest rate	4.0%	4.0%
Expected hold period to exercise (years)	5.65	4.50
Volatility in the price of the Company's shares	58%	40%
Dividend yield	—	—
Weighted average fair value of options	\$ 1.17	\$ 1.12

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2007 and 2006
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8. Contributed surplus:

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	\$ 1,698,924
Stock-based compensation expense	231,095
Transferred to share capital on exercise of options	(29,060)
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Balance, October 31, 2007	\$ 1,900,959

9. Related party transactions:

For the year ended October 31, 2007, the Company incurred legal fees of \$47,139 (2006 - \$346,619), sales and marketing consulting fees of \$123,750 (2006 - \$165,000), and general and administrative consulting fees of \$71,250 (2006 - \$12,077) 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. As at October 31, 2007, \$2,839 is reflected in accounts payable and accrued liabilities, while all other amounts have been paid.

Amount due from a related party of \$177,187 (2006 - \$167,492) was settled in full on October 31, 2007. This amount was due from a Company officer who is also a director. The balance had carried interest at 6%, was secured by 189,200 common shares of the company and had no fixed term of repayment. A bonus was paid to the Company Officer to pay this amount due.

On May 8, 2007, the British Columbia Securities Commission released the full amount of shares held in escrow for a Company officer who is also director.

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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:

	2007	2006
Net (loss) income before income taxes	\$ (235,921)	\$ 1,708,818
Combined Canadian federal and provincial statutory rate	32.12%	33.62%
Computed provision (recovery)	\$ (75,778)	\$ 559,638
Difference in foreign tax rates	(185,833)	(60,639)
Stock-based compensation	74,228	203,909
Non deductible expenses	53,369	89,125
2007 Future tax rate reduction	(48,199)	-
Other	29,866	57,779
Income tax (recovery) expense	\$ (152,347)	\$ 849,812

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 (liability) at October 31, 2007 and 2006 are as follows:

2007	Canada	United States	Total
Net operating losses	\$ -	\$ 19,393	\$ 19,393
Property and equipment	(137,485)	-	(137,485)
Intangible assets	(649,967)	-	(649,967)
Share issue costs	89,582	-	89,582
Resource deductions	39,772	-	39,772
Deferred revenue	17,321	-	17,321
Deferred set-up expense	(2,157)	-	(2,157)
	(642,934)	19,393	(623,541)
Less: valuation allowance	-	(19,393)	(19,393)
	\$ (642,934)	\$ -	\$ (642,934)

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10. Income taxes (continued):

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

The Company has net operating losses carry-forward for United States income tax purposes of approximately \$57,038 (2006 – \$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 rate 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 and equity and equity related funds. 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 in the year ended October 31, 2006, consisted of two promissory notes which were both paid during the current financial year. The first was a US \$250,000 non interest bearing note which was due on demand from a customer under a Master License Agreement. This was paid in full on April 30, 2007. In addition, a promissory note in the amount of \$590,839 bearing interest at 12% was also settled during the year. This amount due was set off

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against the purchase consideration of the Poker Community Management business acquired from Elite Club Management N.V.

12. Commitments:

Future minimum annual payments under operating leases are as follows:

2008	\$	638,641
2009		609,971
2010		94,392
2011		50,802
2012		52,495
Thereafter		86,873

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.

2007	North America	Europe	Total
Software set-up fees	\$ –	\$ 235,691	\$ 235,691
Software license fees	289,079	20,004,348	20,293,427
Goodwill	2,749,317	–	2,749,317
Total assets	18,942,092	11,604,273	30,546,365

2006	North America	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

During the year ended October 31, 2007, three licensees (2006 – three), each of which provided more than 10% of the Company's total sales revenue, accounted for 41.64% (2006 – 37.6%) of the Company's 2007 software license fees revenue.

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14. Subsequent events:

On January 16, 2008, the Company announced that its Board of Directors has approved the adoption of a Shareholder Rights Plan (the "Plan"), subject to acceptance by the Toronto Stock Exchange (the "TSX"). The Plan is designed to ensure the fair treatment of shareholders in the event of any take-over bid or any other attempt to acquire a controlling interest in the Company and to give the Company adequate time to identify alternative value enhancing transactions. The Company is not adopting this Plan in response to, or in anticipation of, any specific take-over bid for the outstanding shares of the Company. The Plan is subject to acceptance by the TSX, and is subject to ratification by the Company's shareholders at the Corporation's annual meeting of shareholders scheduled for March, 2008.

In addition, the Company has filed with the TSX a notice of its intention to make a normal course issuer bid (the "NCIB") for its Common Shares through the facilities of the TSX (the "Notice"). Subject to TSX approval, the Notice provides that the Company may, during the twelve-month period commencing after TSX acceptance of the Notice, purchase on the TSX up to 1,725,000 Common Shares, being approximately 10% of the "public float" (as defined in the policies of the TSX) as at January 15, 2008. The price that Chartwell will pay for any such Common Shares will be the market price at the time of acquisition and any Common Shares purchased under the NCIB will be cancelled.

In the first quarter of fiscal year 2008, the Audit Committee approved the Company's Foreign Exchange Risk Management Policy. In the same quarter, the Company entered into a EUR 400,000 collar.