



CHARTWELL TECHNOLOGY INC.

**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the years ended October 31, 2007 and 2006.**

January 29, 2008

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Reference to 2007 or fiscal 2007 means the twelve months ended October 31, 2007. Likewise, reference to 2006 or fiscal 2006 refers to the twelve months ended October 31, 2006. Additional information relating to the Company is available on SEDAR at www.sedar.com under Chartwell Technology Inc. and on the Company's website at www.chartwelltechnology.com.

Special Note Regarding Forward-Looking Statements

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

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

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

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

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

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

BUSINESS

Chartwell develops, markets, licenses, implements and supports gaming applications and entertainment content for the internet and remote platforms. Chartwell's JAVA and Flash based software products and games are designed for deployment in gaming, entertainment and promotional applications.

Chartwell does not presently own or operate a gaming site nor do we operate any of our clients' gaming sites.

Business Plan

The Company's business plan and objectives through fiscal 2008 are to continue to increase our market share in the traditional internet Casino market with a continued emphasis on the European market; endeavour to license our software to the larger European operators; further develop the liquidity of our Poker community; penetrate new markets including Asia; launch our Linked Progressive Jackpot (LPJ) and seek out potential gaming operators who at present have large consumer data bases.

Overall we intend to expand the range of products and services we provide through in-house development and through selected acquisitions and joint ventures. In order to grow and remain a leading software provider in a competitive market, we must continue to offer an expanding variety of new and innovative products and services that enhance the gaming experience in order to help our customers attract, and retain players.

Business Model

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

Expenses are classified into ten categories, namely: software development and support; sales and marketing; general and administrative; amortization of deferred software development costs; stock-based compensation expense; depreciation and amortization; amortization of intangible assets; impairment of intangible assets and impairment of deferred software development costs, and foreign currency gains or losses. Software development and support consists of personnel and related costs associated with the design and development of new products, support of existing products, hosting costs for the Poker community paid to a hosting provider, customer implementation and quality assurance. Sales and marketing expenses consist of personnel and related costs associated with the Company's sales, marketing and business development activities. General and administrative expenses include the costs of all administrative, financial and information technology (IT) support personnel, investor relations and professional fees relating to our public company listing. Stock-based compensation expense consists of the estimated fair value of options granted to employees and consultants. Depreciation and amortization are based on the estimated useful life of our assets and include the amortization of deferred software development costs and intangible assets. Impairment of long term assets such as intangibles and deferred software development results from the periodic review of the recoverability of the value of such assets. The Company operates internationally with 100% of its revenue derived from non-Canadian licensees. Under the Company's licensing agreements, the majority of the

Company's revenue is received in UK Pounds Sterling and Euros. Consequently, the Company is exposed to currency fluctuations, which result in foreign currency gains or losses, which are reported in that expense category.

THE YEAR IN REVIEW

The 2007 fiscal year commenced shortly after the United States government enacted legislation with the objective to prevent Americans from participating in online gaming. Chartwell has always and will continue to focus its business development principally in Europe, but also in other jurisdictions which legally allow gambling. Accordingly, the immediate effect of this legislation on Chartwell was not significant and did not result in the direct loss of revenue. As a result of this legislation though, there is an increased focus on customer acquisition in Europe on both at the Casino and Poker site operator level, as well as at the software provider level. Throughout this year of increasing competition, Chartwell's product lines of Casino and Poker games performed well, leading to an overall increase in revenue of 14% compared to fiscal year 2006.

Casino

Casino revenue accounted for 88% of total revenue for Chartwell. Revenue from new customers acquired in late fiscal 2006 made a significant contribution to growth in 2007. In the year the Company further developed its Casino product, focusing on responsible gaming, improving the underlying architecture, as well as developing new games. The deployment of our latest major release commenced early in fiscal 2008. The Company has also partnered with third party software developers and several new third party developed games have been released in fiscal 2008 together with internally developed games.

Poker

In fiscal 2007 the Company acquired the Poker community management business from Elite Club Management N.V. By directly managing the Poker community, the Company has been able to work directly with individual Poker operators to focus marketing efforts and to enhance the software features. As a result of these efforts, the support for the operators and the overall end user experience has improved. By the end of the fiscal year, forecasts for community rake made at the time of the acquisition have been exceeded. Despite these improvements, the Company's earnings continue to be negatively impacted by the investment required for the development and marketing of the community although this negative impact has been reduced progressively throughout the year.

Linked Progressive Jackpot

Chartwell's Linked Progressive Jackpot (LPJ) system allows multiple operators to participate in a common group of jackpot games. This system allows jackpots to grow more quickly as there is a larger pool of players participating and provides larger jackpot reset values after a jackpot is won. Larger jackpots will increase gaming traffic to customer sites which will translate into more revenue. This product has been developed and will be launched in fiscal 2008.

Mobile

Until the mobile gaming market matures, the Company has suspended the development of the mobile product. The Company does not currently support any customers on this product.

Bingo

As of the end of the fiscal year, the Company is reviewing strategic alternatives for the provision of the Bingo product and community. We intend to launch a new Bingo community in fiscal 2008.

Throughout 2007, revenues grew significantly and exceeded the rate of growth in gross cash operating expenses. The continued cost of marketing and promoting the Poker community along with a full year of amortizing deferred software development costs associated with the second major version of Poker along with other non-operating

expenses and impairment charges, resulted in the Company recording a loss for the year. Positive developments include further progress on Poker development and continued success in the Casino games product line.

FINANCIAL REVIEW

Total revenue for the year ended October 31, 2007 increased 14.3 to \$21.2 million from \$18.6 million in 2006. Net loss for 2007 was \$84,000 (\$0.00 per basic and fully diluted share) compared to net income of \$859,000 (\$0.05 per share basic and fully diluted) in the previous year. The Company's pretax net loss of \$236,000 compared to a pretax profit of \$1.7 million in fiscal 2006, largely as a result of higher non-cash expenses and foreign currency losses.

Revenue growth from long term licensees was modest in fiscal 2007 while revenue growth from new business established late in fiscal 2006 more than offset revenue declines from customer losses also from 2006. There were two significant new licensees gained in 2007 – a Casino client and a Casino and Poker client. There were no significant customer losses in 2007.

Total reported expenses for software development and support, sales and marketing, and general and administrative expenses decreased to 79% of total revenue in fiscal 2007 from 80% of revenue in fiscal 2006. As development of the Poker product matures and the mobile product is not pursued, the amount that the Company is deferring in software development has declined from \$2.6 million in fiscal 2006 to \$549,000 in fiscal 2007. On a gross cost basis, before the deferral of software development, total expenses for software development and support, sales and marketing, and general and administrative expense decreased from 94% of total revenue in fiscal 2006 to 81% in of total revenue in fiscal 2007.

Sales and marketing expenses increased as we broadened our account management and customer service capabilities to focus on customer retention and organic growth. In software development and support a reduced staff complement balanced out with natural inflation to produce comparable salary and related expenses. In general and administration, increased salary expenses largely from the first half of the year, was offset by significantly lower professional fees and bad debt expenses.

Chartwell maintained its strong balance sheet in 2007. Cash and short-term investments totaled \$15.1 million, up from \$12.8 million at the fiscal year end 2006. The working capital ratio (defined as total current assets divided by total current liabilities) at the end of 2007 was 11 to 1, the same as it was in 2006. The principal investing activity during 2007 was the purchase of the Poker community management business and there was no major financing activity in 2007.

SELECTED ANNUAL FINANCIAL DATA

Comparison of the years ended October 31, 2007 and 2006:

Consolidated Statement of Operations and Deficit

Year ended October 31, (Amounts in Thousands, Except per Share Data)	<u>2007</u>	<u>% Revenue</u>	<u>2006</u>	<u>% Revenue</u>
Revenue				
Software license fees	\$20,293	96%	\$17,474	94%
Software set-up fees	236	1%	296	2%
Service fees	200	1%	136	0%
Interest and other	493	2%	656	4%
	21,222	100%	18,563	100.00%
Expenses				
Software development and support	9,449	44%	8,071	48%
Sales and marketing	3,042	14%	2,309	14%
General and administrative	4,207	20%	4,541	27%
Amortization of deferred software development costs	941	4%	235	1%
Impairment of deferred software development costs	543	3%	0	0%
Stock-based compensation	231	1%	623	4%
Depreciation and amortization	727	3%	426	3%
Amortization of intangible assets	745	4%	493	3%
Impairment of intangible assets	872	4%	0	0%
Foreign currency loss	701	3%	157	1%
	21,458	100%	16,855	100%
Net (loss) income before taxes	(236)	(1.11%)	1,708	9.20%
Income taxes	(152)	(0.01%)	850	4.58%
Net Income	(84)	0.00%	858	4.62%

October 31, (Amounts in Thousands)	<u>2007</u>	<u>2006</u>
Consolidated Balance Sheet Data		
Cash and short-term investments	\$15,079	\$12,774
Working capital	19,968	17,774
Total assets	30,546	29,443
Deferred revenue	110	565
Total shareholders' equity	27,802	27,439

RESULTS OF OPERATIONS

YEAR ENDED OCTOBER 31, 2007 COMPARED TO YEAR ENDED OCTOBER 31, 2006

REVENUE

Total revenues increased to \$21.2 million for the year ended October 31, 2007 compared to \$18.6 million for the year ended October 31, 2006, an increase of 14.3. License fees remain the single largest contributor to revenue and represented 95.6% of total revenue in fiscal 2007 compared to 94.1% of revenue in fiscal 2006. Looking forward, we expect that license fees as a percentage of revenue will continue to represent the major element of our revenue.

Certain customers gained late in fiscal 2006 contributed significant new business revenue from a full year of operations. The Company in the year switched its focus from integrating these new clients as well as other business opportunities to major technological advancements in the underlying architecture as well as new game development. The result of this development effort meant that a major technological release was complete late in fiscal 2007 and is being deployed in the new fiscal year.

Software set-up fees decreased to \$236,000 in the year ended October 31, 2007 compared to \$296,000 for the same period a year earlier. The decrease is attributable to smaller set-up fees from new clients and the completion of amortization of deferred set-up revenues upon completion of initial contract terms. We expect set-up fees to continue to represent a small percentage of the Company's total revenue as we continue to build our license fee component of revenue.

Service revenue in prior years was considered incidental to software licensing and as such was combined with interest and other revenue. In fiscal 2007 the Company generated additional service revenue from Poker community management and network administration revenue. All of these services combined amount to \$200,000 in fiscal 2007 as compared to \$136,000 in fiscal 2006. Interest and the remaining other revenue was \$493,000 in fiscal 2007 compared to \$658,000 in fiscal 2006. The reduction in outstanding notes receivable was the primary cause for the reduced interest income.

OPERATING EXPENSES

Total operating expenses increased to \$21.5 million in the year ended October 31, 2007 compared to \$16.9 million in the year ended October 31, 2006. The major factors affecting the growth in expenses from 2006 to 2007 were:

- Over \$2.0 million less in deferred software development increased the total operating expenses.
- Overall amortization and impairment charges of intangible assets totaled \$3.8 million compared to \$1.2 million in the prior year.
- An increase in the foreign exchange loss from \$157,000 to \$701,000 in fiscal 2007 as the Canadian dollar appreciated.

As a percentage of total revenue, total operating expenses increased to 101.1% in the current year compared to 90.8% in the prior year. Operating margins (defined as net income before income taxes as a percentage of revenue) were (1.1%) in 2007 versus 9.2% in 2006, reflecting the factors noted above.

SOFTWARE DEVELOPMENT AND SUPPORT

Software development and support costs continue to represent the Company's single largest expenditure. In 2007, software development and support expense, net of software development costs that were deferred, increased by 17.1% to \$9.4 million compared to \$8.1 million in 2006. Costs relating to the development of software are expensed as incurred unless they meet the criteria for deferral and amortization under generally accepted accounting principles. In 2007, the Company deferred costs of \$549,000 compared to \$2.6 million in 2006. The majority of the deferred costs relate to the development of the Poker software.

The Company's product development focus continues to be reflected in its employee mix with the majority of the employee population dedicated to product planning, design, development, deployment and support. Total salary and consulting expense declined from \$8.0 million in 2006 to \$7.8 million in 2007. Staffing complement fluctuations throughout the year were partly responsible for this decrease. Increases in wages reduced the savings from a smaller staff, and generally higher office operating expenses were offset by reduced travel and reduced Poker hosting costs.

As a percentage of revenue, software development and support expenses, net of deferred software development costs, increased to 44.5% in 2007 compared to 43.5% in 2006, reflecting the factors noted above.

SALES AND MARKETING

Sales and marketing expenses increased by 31.7% to \$3.0 million in 2007 versus \$2.3 million in 2006. Salaries and consulting fees increased by a total of \$440,000 as the Company expanded its client management team to better service an increased customer base. There was also an increase in the cost of attending trade shows as well as an increase in specific customer co-marketing related expenses.

As a percentage of revenue, sales and marketing costs have increased to 14.3% in 2007 from 12.4% in 2006, reflecting Chartwell's continued investment in sales, marketing and client management activities.

GENERAL AND ADMINISTRATIVE

General and administrative expense was \$4.2 million for the year ended October 31, 2007 compared to \$4.5 million a year earlier. As a percentage of revenue, general and administrative expenses decreased to 19.8% in 2007 from 24.5% in 2006. Salaries and consulting expenses increased by a combined \$1.1 million. Of this amount, \$515,000 related to accounting services required on a temporary basis, either due to employee turnover or the transition of the accounting for the Poker community. There were several one time charges included in salary expense including severance to certain former employees and a bonus paid to an officer who is also a director of the Company. Professional fees were reduced by \$596,000 over the prior year when there was due diligence and legal work for a planned acquisition that was not completed. There was also a \$1.0 million expense related to an allowance for a doubtful account recorded in the second quarter of 2006 versus a bad debt expense \$36,000 in 2007.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for 2007 was \$941,000 as compared to \$235,000 from 2006. In fiscal 2007 the Company completed the amortization of the first version of its Poker product and early in the year started amortizing the second version of Poker. Management has estimated the appropriate amortization period to be three years for both versions of its Poker product. The Company began amortizing the costs related to the first version of the Poker product on a straight line basis in the third quarter of fiscal 2004. In fiscal 2006 and fiscal 2007, the Company deferred a combined additional \$3.1 million of software development costs related to the development of the second version of the Company's Poker product, which builds Flash technology and new Poker variants on the intellectual property acquired in the purchase of Micropower as well as deferred costs related to the development of the Company's mobile product.

IMPAIRMENT OF DEFERRED SOFTWARE DEVELOPMENT

Throughout fiscal 2006 the Company deferred \$542,000 of the software development cost of the mobile product. The Company successfully resolved the technological challenges of operating Casino games and the related data integrity challenges inherent with mobile devices. Through the end of fiscal 2006 the Company had a demonstration product developed and was ready to make the additional investment to commercialize the product if there was sufficient market demand. Management assessed that although demand existed for this product, the Company's development priorities for fiscal 2007 should be on the Casino and Poker product as well as integrating and ensuring the success of new clients. As at the end of the fiscal year 2007, management is not actively marketing the mobile product and therefore believes it is appropriate to eliminate the carrying value of the mobile product deferred software development.

STOCK-BASED COMPENSATION

The Company recorded \$231,000 of stock-based compensation expense for 2007 versus \$623,000 for 2006. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of one to five years for employees or at grant date for contractors. The year over year decrease in the expense is due primarily the granting of options at lower prices as well as an increased amount of forfeitures.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to \$727,000 in 2007 from \$426,000 in 2006. The increase in depreciation is due to higher net book values of property and equipment at October 31, 2007 versus a year earlier. Hardware was acquired along with the purchase of the Poker community management business. Further investment was made in server hardware and networking management software in the third quarter for the operation of a linked progressive jackpot community.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets in 2006 and 2007 is related to amortization on the customer contracts and intellectual property acquired as part of the acquisition of Micropower and the 2007 acquisition of the Poker community management business. Amortization for 2007 was \$745,000 compared to \$493,000 in 2006. The amount recorded for customer contracts is amortized over the contract period for each contract that was acquired. The amount recorded for intellectual property from the Micropower acquisition is amortized straight-line over five years, and over three years on assets from the acquisition of the Poker community management business. Both of these amortization periods are Management's best estimate of the period that the acquired intellectual property will provide future value to Chartwell.

IMPAIRMENT OF INTANGIBLE ASSETS

Management has reviewed the carrying amount of the intellectual property acquired along with the original acquisition of Micropower in 2005. Management believes that the revenue that is currently being generated from the Poker product is the result of the considerable amount the Company has invested in completely re-writing the Poker software. The original version of the software as it was written would be impaired by today's standards in terms of scalability and the limits of functionality. Management believes therefore that the carrying value of \$872,000 as at year end 2007 is not recoverable and has decided to record an impairment of this amount.

FOREIGN CURRENCY LOSS

The Company incurred a foreign currency loss of \$701,000 for 2007 compared to a foreign currency loss of \$157,000 for 2006. Higher foreign currency losses experienced in 2007 were due primarily to the strengthening in the Canadian dollar, particularly late in the Company's fiscal year. Throughout fiscal 2006 and 2007 the Company did not utilize hedges or forward contracts.

PROVISION FOR INCOME TAXES

The current income tax asset of \$1.7 million relates to current period installments that exceed the current tax expense as well as losses carried back to prior periods. This compares to a current period taxes payable balance of \$70,000 in the prior year.

The future tax liability of \$643,000 at the year end compares to a total future tax asset of \$254,000 as at the end of the prior year. The reversal from a future tax asset to a future tax liability is largely due to the Company's ability to deduct deferred software development costs for tax purposes.

A total income tax recovery of \$152,000 compared to an income tax expense for 2006 of \$850,000 is largely due to reduced income before tax.

NET INCOME

Net loss was \$84,000 for the year ended October 31, 2007 versus net income of \$859,000 for the year ended October 31, 2006. The principal reason for the decline in net income is the increase in non-cash expenses such as the amortization of intellectual property, the amortization of deferred software development and the impairment charges of same, as well as the foreign exchange loss. Along with the increase in revenue over fiscal 2006, the Company has increased EBITDA significantly over fiscal 2006. By removing the impact that deferred software development has on total software development and support expense, particularly in 2006, the EBITDA increased from \$(358,000) to \$2.6 million in fiscal 2007.

Diluted loss per share was \$0.00 for the year ended October 31, 2007 compared to diluted earnings per share of \$0.05 in the same period of 2006. The decrease in the diluted earnings per share in the current year reflects, principally, the decrease in net income from the previous year.

CASH FLOW STATEMENT

OPERATING ACTIVITIES

Cash flow provided by operating activities for the year ended October 31, 2007 was \$5.1 million compared to \$415,000 for the year ended October 31, 2006. The increase demonstrates improved earning power once adjusted for the prevalence of the non-cash charges.

FINANCING ACTIVITIES

Cash provided by financing activities was \$210,000 in 2007 versus cash used by financing activities of \$3.5 million in 2006. The cash provided by financing activities was the result of the issuance of shares for cash from the exercise of stock options. During 2006, the Company's financing activities consisted primarily of the issuance of shares for cash from the exercise of stock options, offset by cash used to repurchase the Company's shares through the Normal Course Issuer Bid, as well as cash used to repay the remainder of the amount due to Honeycomb Holdings Limited recorded on the acquisition of Micropower. For the year ended October 31, 2007, the Company realized net proceeds of \$216,000 from the exercise of 157,834 stock options at an average exercise price of \$1.37, compared to net proceeds of \$616,000 from the exercise of stock options in 2006.

Cash applied to financing activities decreased by \$3.5 million in 2006 due to the repurchase of 1.1 million shares under the Normal Course Issuer Bid dated September 26, 2005. An additional decrease in cash from financing activities was due to a payment made to Honeycomb Holdings Limited under the purchase agreement for Micropower Corporation, which required Chartwell to make a payment of approximately \$613,000 in U.S. dollar equivalent.

INVESTING ACTIVITIES

The Company's investing activities in fiscal 2007 were mainly the purchase of the Poker community management business for proceeds of \$2.1 million which is reflected on the cash flow statement as a \$1.5 million investment in the Poker community management business plus an investment of \$601,000 in capital assets. In addition to the above acquisition of capital assets, there was a further investment of \$364,000 in property and equipment which is mainly networking infrastructure in Malta as well as routine upgrades in the Calgary and Vancouver development offices. This investment in property and equipment compares to \$659,000 invested in 2006. In 2007 the Company redeemed \$482,000 in short term investments compared to \$4.1 million in 2006. Finally, the deferred software development costs in 2007 were \$549,000 versus \$2.6 million in 2006, representing continued investment in development of our Flash Poker and Poker community products.

SELECTED QUARTERLY FINANCIAL DATA

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

	Fiscal 2007 Quarters				
	(In Thousands except per share data)				
	(Certain numbers have been re-classified to conform with current period presentation)				
	Q1	Q2	Q3	Q4	Annual
Revenue					
Software license fees	\$5,289	\$5,334	\$5,019	\$4,651	\$20,293
Software set-up	55	55	81	45	236
Service fees	6	58	61	74	200
Interest and other	147	115	109	122	493
	<u>5,498</u>	<u>5,562</u>	<u>5,270</u>	<u>4,892</u>	<u>21,222</u>
Expenses					
Software development and support	2,470	2,357	2,439	2,182	9,449
Sales and marketing	924	716	740	663	3,043
General and administrative	1,021	1,292	775	1,124	4,207
Amortization of deferred software development costs	172	284	248	238	942
Impairment of deferred software development costs	-	-	-	543	543
Stock-based compensation	133	139	(149)	108	231
Depreciation and amortization	115	187	201	224	727
Amortization of intangible assets	123	205	245	171	744
Impairment of intangible assets	-	-	-	872	872
Foreign currency loss (gain)	(273)	298	237	438	701
	<u>4,685</u>	<u>5,478</u>	<u>4,736</u>	<u>6,564</u>	<u>21,458</u>
Net Income (Loss) before taxes	<u>813</u>	<u>84</u>	<u>534</u>	<u>(1,672)</u>	<u>(236)</u>
Income taxes (reduction)	318	(23)	130	(578)	(152)
Net Income (Loss)	<u>495</u>	<u>107</u>	<u>404</u>	<u>(1,094)</u>	<u>(84)</u>
Basic earnings (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.07)	\$ (0.00)
Diluted earnings (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.07)	\$ (0.00)

Fiscal 2006 Quarters
(In Thousands except per share data)
(Certain numbers have been re-classified to conform with current period presentation)

	Q1	Q2	Q3	Q4	Annual
Revenue					
Software license fees	\$ 4,275	\$ 4,449	\$ 4,383	\$ 4,367	\$17,474
Software set-up	51	65	69	111	296
Interest and other	115	243	211	224	793
	<u>4,441</u>	<u>4,757</u>	<u>4,663</u>	<u>4,702</u>	<u>18,563</u>
Expenses					
Software development and support	1,856	1,799	2,201	2,215	8,071
Sales and marketing	541	478	512	778	2,309
General and administrative	526	1,658	835	1,521	4,541
Amortization of deferred software development costs	59	59	59	58	235
Stock-based compensation	224	171	89	139	623
Depreciation and amortization	95	100	114	117	426
Amortization of intangible assets	123	123	123	124	493
Foreign currency loss (gain)	132	45	(68)	48	157
	<u>3,556</u>	<u>4,433</u>	<u>3,865</u>	<u>5,000</u>	<u>16,854</u>
Net Income (Loss) before taxes	885	324	798	(298)	1,709
Income taxes (reduction)	382	223	322	(77)	850
Net Income (Loss)	<u>\$ 503</u>	<u>\$ 101</u>	<u>\$ 476</u>	<u>\$ (221)</u>	<u>\$ 859</u>
Basic earnings (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.01)	\$ 0.05
Diluted earnings (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.01)	\$ 0.05

QUARTERLY RESULTS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2006.

REVENUE

In the three months ended October 31, 2007, total revenue was fairly consistent at \$4.9 million compared to \$4.7 million in the same period of 2006. License fees from new customers and service revenue from Poker community management and network administration in 2007 was offset by reduced interest revenue and reduced software set-up fees from 2006.

Software license fees increased by 6.5% to \$4.7 million in the fourth quarter of 2007 compared to \$4.4 million in the fourth quarter of 2006. The net increase in license fees reflects the impact and growth of clients that began contributing to revenue in late fiscal 2006 and increased volume in the Poker community. Software set-up fees decreased to \$45,000 from \$111,000 compared to a year earlier. The decrease is due to generally less set-up fees being charged with new and larger clients as well as a general trend to reduced set-up fees as seen in the industry.

Service revenue decreased to \$42,000 in the fourth quarter of 2007 from \$68,000 in the comparable period in 2006. The service revenue in 2007 was from Poker community management services to a third party and network administration services whereas the service revenue in the fourth quarter of 2006 was from custom software development. Interest and other income decreased to \$122,000 from \$156,000 for the three months ended October 31, 2007 and 2006, respectively. The decrease was due to less notes receivable outstanding in the fourth quarter of 2007 compared to the same period in 2006.

OPERATING EXPENSES

Total operating expenses increased by 31.2% to \$6.6 million for the three months ended October 31, 2007 compared to \$5.0 million for the same period of 2006. Without the effect of the impairment charges, operating expenses increased 3.1%.

During the three months ended October 31, 2007, higher levels of non-cash amortization and impairment charges and a foreign exchange loss offset overall lower cash expenses.

SOFTWARE DEVELOPMENT AND SUPPORT

Software development and support costs, net of deferred software development expenses of \$61,000 (2006: \$786,000), was comparable at \$2.2 million in both the fourth quarters of 2007 and 2006. As deferred software development is netted off software development and support expenses, the significant reduction in deferred software development of \$724,000 results in increasing the total software development and support expenses. This increase is offset by \$490,000 less in salary and consulting expense and \$283,000 less in customer credits for promotional and business related issues as well less other general expenses. Salary and consulting expenses decreased due to reduced staffing from prior year highs.

As a percentage of revenue, software development and support decreased to 44.6% from 46.8% for the three months ended October 31, 2007 and 2006, respectively.

SALES AND MARKETING

Sales and marketing expenses decreased to \$663,000 from \$778,000 for the three months ended October 31, 2007 compared the same period of 2006. The decrease is due to reduced expenses related to marketing events and client specific activity while there was also increased salary expense related to additional staffing in client account management in the fourth quarter of 2007 over the comparable period in 2006.

As a percentage of revenue, sales and marketing expenses decreased to 13.6% from 16.5% for the three months ended October 31, 2007 and 2006, respectively.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for the three months ended October 31, 2007 decreased to \$1.1 million from \$1.5 million in the same period of 2006. The decrease in general and administrative expenses is due to \$304,000 less in bad debt expense (\$20,000 was charged to the fourth quarter of 2007) and \$382,000 less in professional fees than the prior year when the Company had incurred these expenses for corporate structure advice and tax planning. These reductions in expense were offset against a bonus paid to an officer who is also a director.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for the three months ended October 31, 2007 was \$238,000 as compared to the \$59,000 that was recorded for the same period of 2006. The Company began amortizing the cost of the second major release of the Poker product early in the first quarter of 2006. In the third quarter of 2006, the Company completed the amortization of the first major release of the Poker product.

IMPAIRMENT OF DEFERRED SOFTWARE DEVELOPMENT

Throughout fiscal 2006 the Company deferred \$542,000 of the software development cost of the mobile product. The Company successfully resolved the technological challenges of operating Casino games and the related data integrity challenges inherent with mobile devices. Through the end of fiscal 2006 the Company had a demonstration product developed and was ready to make the additional investment to commercialize the product if there was sufficient market demand. Management assessed that although demand existed for this product, the Company's development priorities for fiscal 2007 should be on the Casino and Poker product as well as integrating and ensuring the success of new clients. As at the end of the fiscal year 2007, management does not intend to actively market the mobile product and therefore believes it is appropriate to write off the value of the mobile product deferred software development.

STOCK-BASED COMPENSATION

The Company recorded \$108,000 of stock-based compensation expense for the three months ended October 31, 2007 versus \$139,000 for the three months ended October 31, 2006. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years for employees and at grant date for contractors. The year over year decrease in the expense is due primarily to lower option values and fewer options being granted until late in the year.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 91.3% to \$224,000 for the three months ended October 31, 2007 versus \$117,000 for the similar period of 2006. The increased depreciation expense is due to higher net book values of property and equipment through the third quarter of 2007 versus the comparable quarter of 2006. It is expected that continued investment in computer hardware and software will be required as the Company continues to expand its operations in Malta as well as its product lines.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is related to customer contracts and intellectual property acquired as part of the acquisition of Micropower as well as the acquisition of the Poker community management business in the second quarter of 2007. Amortization for the three months ended October 31, 2007 was \$172,000 compared to \$123,000 for 2006. The amount recorded for customer contracts is being amortized over the contract term for each acquired contract. The amount recorded for intellectual property from the Micropower acquisition is being amortized over five years and three years for the acquisition of the Poker community management business, which is Management's

best estimate of the time period that the acquired intellectual property will provide future value to Chartwell in both cases.

IMPAIRMENT OF INTANGIBLE ASSETS

Management has reviewed the carrying amount of the intellectual property acquired along with the original acquisition of Micropower in 2005. Management believes that the revenue that is currently being generated from the Poker product is the result of the considerable amount the Company has invested in completely re-writing the Poker software. The original version of the software as it was written would be impaired by today's standards in terms of scalability and the limits of functionality. Management believes therefore that the carrying value of \$872,000 as at year end 2007 is not recoverable and has decided to record an impairment of this amount.

FOREIGN CURRENCY LOSS

The Company incurred a foreign currency loss of \$438,000 for the three months ended October 31, 2007 compared to a foreign currency loss of \$48,000 for the comparable period of 2006. The increase in foreign currency losses during the fourth quarter of 2007 was due to the effect of converting foreign denominated cash and accounts receivable balances to a fairly rapidly appreciating Canadian dollar that culminated within days of the Company's year end. Through the quarter the Company did not utilize hedges or forward contracts to mitigate foreign currency risk.

PROVISION FOR INCOME TAXES

Income taxes for the three months ended October 31, 2007 resulted in a tax recovery of \$578,000 compared to a tax recovery of \$78,000 for the three months ended October 31, 2006. The increase in the Company's tax recovery reflects decreased income from various amortization and impairment charges incurred in the quarter.

NET INCOME

Net loss was \$1.1 million for the three months ended October 31, 2007 versus a net loss of \$221,000 for the three months ended October 31, 2006. Revenues showed strong growth relative to the industry in 2007 over 2006 and cash operating expenses were lower, however there was an adverse impact to net income from various non-cash charges relating to intangibles..

Diluted loss per share was \$0.00 for the three month period ended October 31, 2006 compared to diluted loss per share of \$0.01 in the same period of 2006. The decrease in the diluted earnings per share in the fourth quarter of 2006 primarily reflects the impact of lower net income.

CASH FLOW STATEMENT

OPERATING ACTIVITIES

Cash provided by operations for the three months ended October 31, 2007 was \$1.3 million compared to cash used by operations of \$1.5 million for the three months ended October 31, 2006. The increase is mainly attributable to higher EBITDA in the fourth quarter of 2007 then the same period in 2006.

FINANCING ACTIVITIES

Cash provided by financing activities was \$11,000 for the three months ended October 31, 2007 versus cash used in financing activities for the three months ended October 31, 2006 of \$141,000. The Company's financing activities in the fourth quarter of 2007 was limited to the issuance of shares for cash resulting from the exercise of stock options. In the fourth quarter of 2006 the company issued shares for cash resulting from the exercise of stock options and also repurchased shares for cash.

INVESTING ACTIVITIES

Cash used by investing activities was \$394,000 for the three months ended October 31, 2007 versus cash used in investing activities for the three months ended October 31, 2006 of \$1.9 million. The Company's investing activities in the fourth quarter consisted of the purchase of property and equipment which includes computers and software for expanding the network in Malta.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to maintain a strong balance sheet. At October 31, 2007 the Company had no debt, \$15.1 million in cash and short term investments and working capital (defined as current assets less current liabilities) of \$19.9 million. The Company has cash and short term investments, as well as cash collected from ongoing license fees, to meet the Company's planned growth and development activities. The Company does not foresee any material fluctuation in its liquidity or working capital position and based on the present level of revenue and expense does not foresee any significant change to its working capital requirements. Contractual commitments are summarized in "Contractual Obligations" section.

The Company does not have commitments for capital expenditures as of October 31, 2007. The Company's capital resources consist of common share issuances.

CONTRACTUAL OBLIGATIONS

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

2007	\$638,641
2008	609,971
2009	94,392
2010	50,802
2011	52,495
Thereafter	86,873

RELATED PARTY TRANSACTIONS

For the year ended October 31, 2007, the Company incurred legal fees of \$47,000 (2006 - \$347,000), sales and marketing consulting fees of \$124,000 (2006 - \$165,000), and general and administrative consulting fees of \$71,000 (2006 - \$12,000) 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, \$3,000 is recorded to accounts payable and accrued liabilities, while all other amounts have been paid.

Amount due from a related party of \$177,000 (2006 - \$167,000) was settled in full in October 31, 2007. This amount was due from a Company officer who is also a director. The balance 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 consented to the release of the full amount of shares held in Escrow for a Company officer

CRITICAL ACCOUNTING POLICIES

Critical accounting policies and methods used in the preparation of the Company's financial statements are described in note 1 to the consolidated financial statements of the Company for the year ended October 31, 2007. The Company has not effected any changes to its significant accounting policies during the two years ended October 31, 2007, except as follows:

Financial Instruments, Comprehensive Income and Hedges

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.

CRITICAL ACCOUNTING ESTIMATES

There are a number of critical estimates underlying the accounting policies the Company applies in preparing its financial statements. The following are those which management has determined to be material.

Allowance for Doubtful Accounts

The Company charges license fees to licensees based on their level of activity. Chartwell's licensees operate in a number of jurisdictions and currencies and are at various stages of maturity and liquidity in their business. As a result of these factors, collections cycles will vary between licensees. The Company's management exercises judgment in making collectibility assumptions on a customer-by-customer basis in determining whether receivables are collectible and in determining the appropriate allowance for doubtful accounts based on knowledge of the customer's payment history and expectation of collectibility.

Deferred Development Costs

The Company exercises judgment in the determination of the costs which meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. These costs are estimated based on employee salaries applicable to development activities believed to meet the criteria and have future value to the Company. The amortization period is estimated based on the period of expected benefit to the Company.

Goodwill and Intangible Assets

The Company estimates future cash flows attributable to recorded goodwill and intangible assets for purposes of the evaluation of potential impairment based on its expectations of future market conditions. These estimates require the use of forward-looking assumptions based on past experience as well as future expectations arising from the Company's strategic and financial planning activities. Changes to these assumptions and future market conditions could result in changes to the impairment and recoverability assumption for these assets.

RISKS AND UNCERTAINTIES

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

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

For further information on the Company's risks and uncertainties, see the Company's 2007 Annual Information Form available at www.sedar.com.

PROPOSED TRANSACTIONS

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

OFF BALANCE SHEET ARRANGEMENTS

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, short term investments, accounts receivable, 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, except as noted below. 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 relatively small number of accounts. The Company's short term investments consist of investments in low risk corporate and government bonds and equity and equity 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 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 against the purchase consideration of the Poker community management business acquired from Elite Club Management N.V.

The Company does not use financial derivatives or "other financial instruments".

OTHER MD&A REQUIREMENTS

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

The Company's financial reporting procedures and practices have enabled the certification of the Company's annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and

Interim Filings”. Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

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

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

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

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

The Company has 18,845,089 common shares outstanding at January 29, 2008. If all of the Company’s options were exercised, the Company would have 21,081,423 common shares outstanding.

The Company’s 2007 Annual Information Form is available on www.sedar.com.