

**CHARTWELL TECHNOLOGY INC.**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED OCTOBER 31, 2008**

**January 29, 2009**

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## GLOSSARY OF TERMS

Whenever used in this Annual Information Form, the following terms shall have the meanings set forth below:

“**ABCA**” means the *Business Corporations Act* (Alberta), as amended from time to time together with all regulations promulgated pursuant thereto.

“**Bingo Community**” means the bingo and other product offering to client’s bingo players within an online bingo network, offered collectively by Parlay and Chartwell to their respective clients through a combined Chartwell and Parlay software platform.

“**CGC**” means Chartwell Games Corp., a wholly-owned subsidiary and agent of the Corporation.

“**CGMHL**” means Chartwell Games (Malta) Holding Limited, a wholly-owned indirect subsidiary of the Corporation.

“**Chartwell**” or the “**Corporation**” or “**we**” means Chartwell Technology Inc., an ABCA corporation, and where the context so requires, the Chartwell group of companies.

“**Chartwell Alderney**” means Chartwell Games (Alderney) Limited, a wholly-owned direct subsidiary of the Corporation;

“**Chartwell International**” means Chartwell Games (International) Ltd., a wholly-owned indirect subsidiary of the Corporation.

“**Chartwell Malta**” means Chartwell Games (Malta) Limited, a wholly-owned indirect subsidiary of the Corporation;

“**Chartwell Services**” means Chartwell Games (Services) Ltd., a wholly-owned indirect subsidiary of the Corporation;

“**Common Shares**” means the common shares in the capital of the Corporation.

“**ECM**” means Elite Club Management N.V., a wholly owned indirect subsidiary of the Corporation;

“**Flash**” is a bandwidth friendly and browser independent vector-graphic animation technology. As long as different browsers are equipped with the necessary plug-ins, Flash animations will look the same. With Flash, users can draw their own animations or import other vector-based images.

“**HTML**” means the Hyper Text Markup Language which is the authoring language used to create documents on the World Wide Web. HTML defines the structure and layout of a Web document by using a variety of tags and attributes. There are hundreds of tags used to format and layout the information on a Website and on individual Web pages.

“**iDTV**” means interactive digital television, whereby an interactive function is provided through an Internet link embedded in the television functionality and which facilitates, through two-way communication, entertainment services (including gaming) to the television viewer.

“**ISP**” means internet service provider.

“**Internet**” is a global network connecting millions of computers. Unlike online services, which are centrally controlled, the Internet is decentralized by design. Each Internet computer, called the host, is independent. Its operators can choose which Internet services to use and which local services to make available to the global Internet community. There are a variety of ways to access the Internet including online services such as America Online or through a commercial ISP.

“**Intranet**” is a network based on transmission control and Internet protocols (an Internet) belonging to an organization, accessible only by such organization’s members, employees or others with authorization. An Intranet’s Websites look and act just like any other Websites, but the firewall surrounding an Intranet prevents unauthorized access. Like the Internet itself, Intranets are used to share information. Secure Intranets are a growing segment of the Internet because they are much less expensive to build and manage than private networks based on proprietary protocols.

“**Java**” is a high level programming language developed by Sun Microsystems. Compiled Java code can be run on most computers because Java interpreters and runtime environments, known as Java Virtual Machines (VMs), exist for most operating systems, including UNIX, the Macintosh OS, and Windows. Bytecode can also be converted directly into machine language instructions by a just-in-time compiler (JIT). Java is a general purpose programming language with a number of features that make the language well suited for use on the World Wide Web. Small Java applications are called Java applets and can be downloaded from a Web server and run on a computer by a Java-compatible web browser, such as Netscape Navigator or Microsoft Internet Explorer.

“**MICROPOWER**” means MICROPOWER Corporation Limited, a wholly-owned direct subsidiary and agent of the Corporation.

“**Online Casino**” means traditional table games, slots and video poker games commonly found in land-based casinos which are offered over the Internet by Chartwell licensees using Chartwell’s software.

“**Online Games**” means Online Casino, soft games, and multiplayer poker.

“**Parlay**” means Parlay Entertainment Inc., an Ontario-based online gaming software developer.

“**server**” means a computer or device on a network that manages network resources. For example, a file server is a computer and storage device dedicated to storing files. Any user on the network can store files on the server. A print server is a computer that manages one or more printers, and a network server is a computer that manages network traffic. A database server is a computer system that processes database queries. Servers are often dedicated, meaning that they perform no other tasks besides their server tasks.

“**Shareholder Rights Plan**” means the shareholder rights plan as reflected by the Shareholder Agreement Rights Plan Agreement dated as of January 15, 2008 between the Corporation and Computershare Trust Company of Canada as Rights Agent.

“**soft games**” means (i) fixed odds games that are dependent upon chance as opposed to skill; and (ii) those other games that do not form part of our Online Casino.

“**software**” means computer instructions or data and includes anything that can be stored electronically. The storage devices and display devices are hardware. Software is often divided into two categories: (i) system software which includes the operating system and all the utilities that enable the computer to function; and (ii) applications software which includes programs that assist users such as word processors, spreadsheets and database management systems.

“**TSX**” or the “**Exchange**” means the Toronto Stock Exchange.

“**Website**” is a location on the World Wide Web. Each Website contains a home page, which is the first document users see on entering the site. The Website might also contain additional documents and files.

“**World Wide Web**” or “**Web**” refers to a system of Internet servers that support specially formatted documents. The documents are formatted in a language called HTML that supports links to other documents as well as graphics, audio and video files.

## **CURRENCY**

In this Annual Information Form, unless otherwise noted, all dollar amounts are expressed in Canadian dollars.

## **CAUTION REGARDING THIRD PARTY SOURCE INFORMATION AND FORWARD-LOOKING STATEMENTS**

Certain information contained in this Annual Information Form concerning the industry in which the Corporation operates has been obtained from publicly and/or industry available information from third party sources believed to be generally reliable. The Corporation has not verified the accuracy or completeness of any information contained in such publicly and/or industry available information.

Certain statements contained in this Annual Information Form may also constitute forward-looking statements. These statements relate to future events or the Corporation’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “likely”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In particular, forward-looking statements in this Annual Information Form include, but are not limited to: growth in the Corporation’s offering of infrastructure management, support, administration and hosting services; the introduction of linked progressive

jackpot games; the launch of the Bingo Community; and the offering of new third party licensed games and third party licensed branded content games to customers. Further information on these topics can be found under the main headings “General Development of the Business”, “Business of the Corporation and Corporate Strategy”, “Business Plan”, “Our Products” and “Internet Gaming Software Market” in this Annual Information Form.

With respect to the aforementioned forward-looking statements, the Corporation has made assumptions regarding: the planned schedule for software development, testing and integration; the receipt of appropriate regulatory licenses (where required) in a timely manner; and the receipt of timely cooperation from contractual counterparties where their assistance is required.

The Corporation believes that the expectations reflected in the forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct or will occur, and therefore such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by these forward-looking statements will occur, or if they do, that any benefits may be derived from them.

The Corporation’s actual results could also differ materially from those anticipated in the aforementioned forward-looking statements as a result of the risk factors set forth elsewhere in this Annual Information Form. As a result, the forward-looking statements and information from third party sources included in this Annual Information Form are expressly qualified in their entirety by this cautionary statement.

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

The Corporation was incorporated as “Napier Explorations Inc.” in British Columbia on December 16, 1987 to engage in the business of mineral exploration. The name of the Corporation was changed to “Brockton Resources Inc.” on October 13, 1988. The Corporation’s mineral properties were abandoned in April of 1992. The Corporation changed its name to “Chartwell Ventures Ltd.” on November 19, 1992. On December 18, 1995, the Corporation continued into Alberta under the provisions of the ABCA.

Effective November 1, 1998, the Corporation acquired Gateway Technology Inc. which was then engaged in the business of developing software and integrating computer hardware and software for Internet and Intranet based computer applications. After acquiring Gateway Technology Inc., the Corporation shifted its business strategy from the oil and gas industry to the software technology development and licensing industry. On December 8, 1998, the Corporation changed its name to “Chartwell Technology Inc.” and also at that time, the Corporation changed its business to the development of computer software.

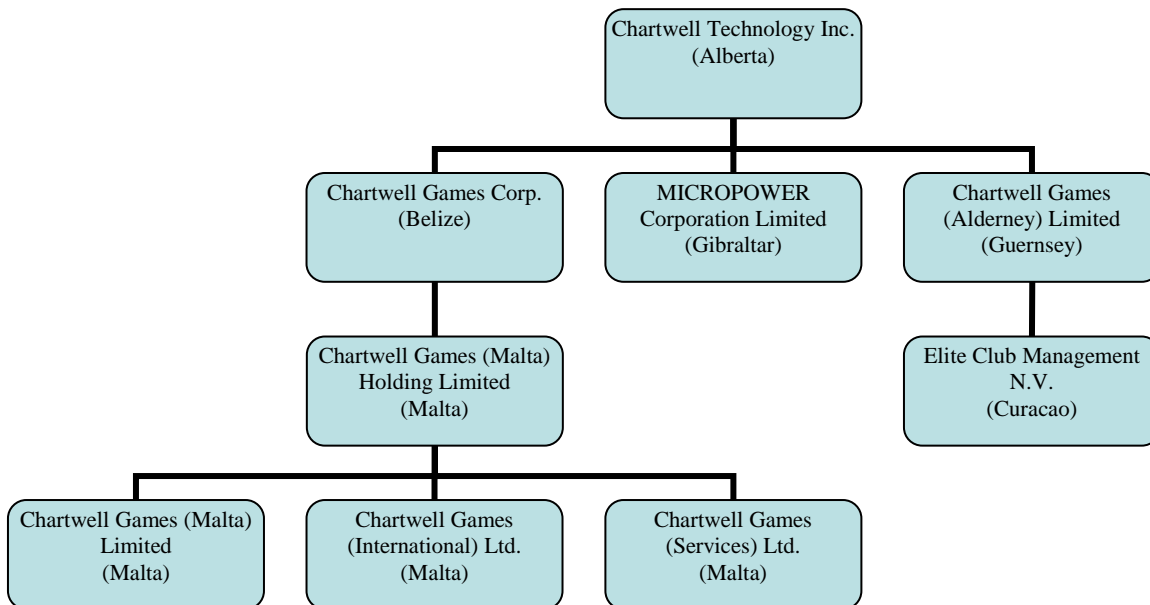
The Corporation’s fiscal year end is October 31. References to fiscal 2008 or 2008 reflect the twelve months ended October 31, 2008. Likewise, references to fiscal 2007 or 2007 refer to the

twelve months ended October 31, 2007. References to fiscal 2006 or 2006 reflect the twelve months ended October 31, 2006.

The principal and registered office of Chartwell is located at Chartwell House, 750 – 11th Street S.W., Suite 400, Calgary, Alberta, T2P 3N7.

### Intercorporate Relationships

The material subsidiaries of Chartwell, all of which are 100% beneficially owned (directly or indirectly) by Chartwell, together with their respective jurisdictions of incorporation, are as follows:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

Since November of 1999, our business has been focused primarily on the development, marketing and licensing of our gaming software.

The Corporation continued its development and deployment of poker software in 2006. The poker product is still at a relatively early stage in its market penetration strategy. During fiscal 2007, Chartwell took over the management of its poker community.

The Corporation's traditional casino games product suite continued to be our largest revenue generating product in fiscal 2006. Organic revenue growth in fiscal 2006 was modest.

The Corporation released Version 2.1 of its multiplayer poker product in July, and in December of 2006 released its popular European-style 32 Card Poker product in Flash Technology.

In August 2006, we announced our intention to merge with Parlay, another supplier of online gaming software. However, in October 2006, as a result of legislative changes in the United States (discussed elsewhere in this Annual Information Form) which led to market uncertainty and other factors, Chartwell and Parlay agreed to terminate all merger discussions, but to continue to explore other forms of a potential business relationship. The termination of the contemplated merger involved significant cost.

The 2007 fiscal year represented a challenging year for Chartwell and its industry peers. Overall, the Corporation's traditional product line of internet casino games performed well although external factors contributed to the loss of certain revenue. Following the acquisition of MICROPOWER in mid 2005, the Corporation continued its development of a European style poker product with recent emphasis on the creation of a community of players to achieve game liquidity.

Late in the Corporation's 2006 fiscal year, the United States government enacted legislation to prevent Americans from participating in online gaming. Chartwell's corporate position is not to license its software to any party who accepts wagers from US players, regardless of their licensing jurisdiction or location of operations. The Corporation's business focus has always been on the lawful European markets and, accordingly, Chartwell's customers did not have any material exposure to the US markets. Nevertheless, in fiscal 2007 and fiscal 2008, this legislation continued to have a very negative effect on the whole industry from a capital markets perspective.

Many other online gaming operators were negatively impacted by the United States legislation due to their concentrations of US based business and now focus more on the European market, creating more competition for Chartwell.

In May 2007, Chartwell announced the acquisition of the management of the Chartwell powered poker community, PokerNexus. PokerNexus is a community of independent poker operators. PokerNexus was previously managed by a private company, ECM. The acquisition, made by Chartwell Services, included hardware infrastructure, software and management systems, together with a gross rake share previously owned by ECM.

### **Development of Our Business 2008**

On January 16, 2008, Chartwell announced the adoption of a Shareholder Rights Plan by our Board of Directors, which was accepted by the TSX and approved by our shareholders at our shareholder's meeting in March, 2008. A copy of the Shareholder Rights Plan Agreement was filed on SEDAR on February 20, 2008 and is available under our SEDAR profile at [www.sedar.com](http://www.sedar.com). A summary of the Shareholder Rights Plan can be found in our Management Information Circular and Proxy Statement filed on SEDAR on March 3, 2008; pages 12 – 15 of which are incorporated by reference into and expressly made a part of this Annual Information Form. The aforementioned summary is qualified in its entirety by the actual terms and conditions of the Shareholder Rights Plan Agreement.

On January 16, 2008, we also announced our intention to file with the TSX a notice of intention to make a normal course issuer bid for our Common Shares through the facilities of the TSX. By update news release dated January 25, 2008, we announced the filing of the notice of intention to make a normal course issuer bid with the TSX, which was subsequently accepted by the TSX. The news release dated January 25, 2008 is incorporated by reference into and expressly made a part of this Annual Information Form. As at October 31, 2008, the Corporation had repurchased an aggregate of 420,500 Common Shares at an average price of \$1.59 per Common Share under the normal course issuer bid.

Effective February 1, 2008 our subsidiary, Chartwell Alderney, completed its acquisition of all outstanding shares of ECM, allowing us to provide our clients with fully-managed services capability through “in-house” means. Previously, ECM was an independent third party provider of such services.

On June 3, 2008, we and Parlay jointly announced our intention to launch the Bingo Community, BingoNexus. We now expect the Bingo Community to be launched in 2009.

On June 19, 2008, we announced that we had received both our Remote and Non-Remote Operating Licenses from the UK Gambling Commission, under the terms of which licenses, Chartwell is authorized to manufacture, supply, install or adapt gaming software in accordance with the *The Gambling Act, 2005* (UK). Additionally, senior executives also received Personal Management Licenses from the UK Gambling Commission.

On October 16, 2008, we announced that Extrabet, a wholly owned subsidiary of IG Group Holdings plc, had launched the first UK Gambling Commission licensed online casino powered by Chartwell.

During fiscal 2008, we also worked to license third-party games and branded content which we expect to make available to our customers during fiscal 2009.

Finally, throughout fiscal 2008, we released 17 new casino games, which has been our largest release of new games in a single year.

## **BUSINESS OF THE CORPORATION AND CORPORATE STRATEGY**

Chartwell is a software provider to the online gaming market. We are headquartered in Calgary, Alberta and have software development operations in Calgary and Vancouver, British Columbia as well as sales and marketing operations in Europe. The Common Shares trade on the Toronto Stock Exchange under the symbol: “CWH”.

The Corporation’s business plan and strategy is to focus on the continued development, marketing and licensing of our Online Games. Chartwell does not presently offer electronic funds transfer services or provide credit card processing or banking services. Chartwell does not presently conduct any gaming operations on our Website or servers or provide gaming, marketing or administrative services or services relating to obtaining gaming licenses or government approval for gaming activities. Our business is developing and licensing gaming

software and software that is designed to assist operators with the administration and management of a variety of game playing Websites. At present, and for the most part, our licensees manage, support and administer their own Website servers and the games offered on their Websites and monitor their Website operations without our assistance. During fiscal 2009, Chartwell intends to offer an expanded range of services which may include management, support and administration services, depending upon market demand and our ability to provide these expanded services on a cost effective basis for our customers.

## **BUSINESS PLAN**

Our business plan through fiscal 2009 is 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, launch the Bingo Community, investigate new markets including Asia; and seek out potential gaming operators who at present have large consumer data bases. We intend to expand the range of products and services we provide through in-house development, third-party licensing and through selective acquisitions, if available under reasonable commercial terms.

### **New Products and Services**

In fiscal 2009, we anticipate that we will continue with customer and market driven product strategies that appeal to the European operators and players, develop and launch third party branded content games from a major Hollywood film studio, develop and launch additional third party licensed content games, launch a third party provided live gaming product and launch our Bingo Community, a combined project between Chartwell and Parlay. We also intend to continue to develop and grow our offering of additional value added services, such as infrastructure management, support, administration and hosting services.

## **OUR PRODUCTS**

### **Chartwell Gaming System**

Chartwell provides a range of operational services to its clients, however, does not engage in any gaming activity for its own account. What we do primarily is provide gaming systems to our clients, who then offer the games to players. Players never place bets with Chartwell directly or indirectly. Instead of competing with our clients, we enter into technology arrangements with them through licensing agreements with one of our Chartwell subsidiaries, eliminating any potential for conflict of interest. We offer a customized approach, creating a unique system for each individual client that complements their current online operation and brand image. CyberBoss, Chartwell's administration, marketing and reporting software, and CyberBanx, our proprietary electronic commerce engine, provide our clients with all the tools necessary for the successful operation and promotion of their gaming system. Chartwell's customized approach to providing a gaming solution will in future include additional services provided under a managed services solution.

Our entertainment software products consist of our Online Games. We operate under one reportable segment for accounting purposes; however, this segment includes a variety of products. Our Online Casino comprises a large selection of card games, table games, slots and

video poker. Our Online Casino suite is available in in-browser or download versions and a selection of these games can also be played using Java enabled mobile devices and on networked kiosks. All games can be operated in a wagering mode for real money applications or in a free mode for entertainment applications. The software can be deployed in either a standalone configuration or integrated into an existing gaming Website. In 2009, we anticipate that that we will introduce linked progressive jackpot games that offer players the opportunity to play for large progressive jackpots which are linked across multiple licensees' Websites.

We continually upgrade our support software and technologies to increase their functionality and capabilities. The ability of our licensees to maintain a high-quality gaming environment is critical to the success of our Online Games product and to our licensing revenue. The Online Games software is subject to technological obsolescence and as technology advances, we will endeavour to remain competitive by upgrading the quality of our software with respect to new gaming products, graphics, sound and other features to meet rising user expectations.

We believe that maintaining a comprehensive and flexible gaming environment, which includes security measures to protect the confidentiality of player information, responsible gaming features, variety of games, state of the art graphics, sounds and processing speeds, will contribute to our ability to generate licensing revenues. We have designed our Online Games software to feature the look and feel of wagering games that are played in a physical environment by using our proprietary technology.

### **Multiplayer Poker**

Chartwell's multiplayer poker provides players with a selection of the most popular poker games, including Texas Hold-'em and more recently, European poker variants such as Telesina, 32 card Flash and Amerikana. Our multiplayer poker is licensed as part of a hosted poker community. Having players from multiple Websites and using multiple currencies all playing together allows for more games, greater game selection, and larger pots and liquidity, which in turn provides higher revenue potential for all participating licensees. Community members can benefit from the critical mass of the network and still be able to hold tables, tournaments or promotions for their respective players. Each member of the community retains full control and confidentiality of their own players and data, allowing them to use existing payment systems and providing a secure environment for their players.

### **Multiplayer Bingo**

We anticipate that we will launch the Bingo Community during fiscal 2009. As part of the bingo game software, clients will have the option of joining the Chartwell hosted Bingo Community, where bingo players from multiple Chartwell clients and Parlay clients can all play and chat together in the same games, increasing game selection and accumulating larger jackpots. Like Chartwell poker, each bingo player will enter the Bingo Community from a client-branded Website and play in a bingo hall branded with their particular site's colours, logos and other design considerations. Alternately, Chartwell bingo will be able to be deployed as a stand-alone product or integrated with a current online operation which is not part of the Bingo Community.

## **Soft Games**

Along with our traditional Online Casino suite, Chartwell also offers a range of different "soft" or fixed odds games. Soft games include scratch cards, pull tabs, lottery-style games and hi/lo games which are more chance-based than games like poker or sports-betting which require higher amounts of skill and strategy.

## **Mobile Games**

Chartwell has created a suite of casino and soft games for Java-enabled mobile devices, such as cellular telephones. Games feature custom branding and animation. Clients offering other Chartwell products on their Website can add mobile games, with players accessing the mobile download using their existing user names, passwords and player accounts. Further development of our mobile product has been put on hold until more attractive commercial market conditions for such products have emerged.

## **Related Applications**

Chartwell has developed related software applications, CyberBoss and CyberBanx, which provide the "back-office" tools required for a completely integrated Internet gaming system.

CyberBoss is a comprehensive administrative utility that provides licensees with a suite of administrative, marketing, customer relations management, affiliate tracking, player loyalty and promotional tools. By using CyberBoss, our licensees are able to securely access and classify server and transaction data from virtually anywhere via a web browser. The CyberBoss system features password encryption features for data transmissions and access by the licensee. We do not administer the CyberBoss system or store licensee operations data.

CyberBanx is a proprietary e-commerce engine that facilitates secure, automated player access to their gaming system deposits and withdrawals. The software features a high-level security system that uses multiple level password encryption software for data transmissions and can be programmed to require a variety of player information. CyberBanx also features technology that permits a licensee to authenticate and verify the identity of the parties sending and receiving data.

We have also designed and developed a Site Development Kit ("SDK"), a Game Development Kit ("GDK") and an External Game Interface ("EGI"). These applications are not licensed separately.

The SDK is a comprehensive integration interface that allows for seamless integration of a customer's existing administration system with their Chartwell gaming system. The GDK and EGI are interfaces that enable rapid development and deployment of Online Games. The GDK is a standard interface to the back-end of the system and supports rapid internal game development as well as providing a method for independent third party game developers to add to the Chartwell gaming suite. The EGI allows for existing third party applications such as sports books to be integrated into the gaming system.

## **Managed Services Solution**

Certain clients are sophisticated gaming entities with a solid IT infrastructure, an established player base, and payment processing facilities. Many of these operators run sports books or land-based casinos, and as such, have the capability and desire to run their gaming systems, registration and deposit taking, themselves. There is another market segment of operators who have an online presence and large database of customers but who are not currently involved in online gaming. They may recognize the benefit of adding gaming options to their Website but are not currently involved in gaming and may not have the industry experience necessary to manage the day-to-day operations of a gaming Website. These operators seek a service provider who can assist them in this regard while allowing them to maintain ownership of their player database and brand. For these operators, Chartwell offers a managed services solution. ECM was previously an independent company acting as Chartwell's provider of managed services. ECM hosts the Online Games on behalf of the licensees, provides player access, manages the operations of the gaming Website, and supplies the hardware, connectivity and third-party software. ECM may also assist in obtaining necessary gaming licenses. The client is responsible for marketing and player acquisitions and retention. Chartwell brought this "managed services" capability in-house during fiscal 2008, through the acquisition of ECM by Chartwell Alderney.

## **Intangible Properties**

### *Online Games Licensing*

Through Chartwell Malta, Chartwell International and ECM, we license Online Games applications to operators of Internet gaming Websites. We modify our Online Games applications to meet our licensees' specifications and marketing theme. Some of the material terms of our standard licensing agreement are as follows:

- the initial term is generally for a period of two to five years;
- the licenses are non-transferable;
- the license agreement may be terminated if the licensee breaches any material term of the license;
- Chartwell maintains and upgrades the software and retains all right, title and interest in the technologies; and
- the licensee pays a monthly licensing fee, which fee may be fixed or may be calculated as a percentage of the gross win of the licensee's online casino.

Neither Chartwell nor any of its affiliated or associated companies intends to own or operate any Internet gaming operations for their own account or for the account of any related party.

We rely on a combination of laws and contractual provisions to protect our rights in our software and proprietary technology. We generally enter into non-disclosure and technology ownership agreements with our employees, licensees and consultants and typically restrict access to the source codes of our software products. Despite the precautions taken by us, unauthorized parties

may have, or could in the future, copy or otherwise reverse engineer portions of our product or otherwise obtain and use information that we regard as proprietary.

In 2006, we increased our intellectual property protection through our application for a Canadian patent on our Selectable Reel Spins technology. As well, we filed applications in Canada for the following trade-marks: CHARTWELL, CYBERBOSS, CYBEREYE and CYBERBANX.

In 2007, we received approval for the aforementioned Canadian trade-marks that we had applied for. Additionally, Chartwell holds a Certificate of Registration of Copyright in Canada for its Gaming Software. In fiscal 2007, we also filed an opposition action against another party's attempted Canadian registration of the trademark, Cash Inferno. That party has since abandoned its trademark application for registration.

As of the date hereof, the application for a Canadian patent on our Selectable Reel Spins technology remains pending and our opposition action to the attempted Canadian registration of Cash Inferno by the third party was recently resolved in favour of Chartwell. See also "Risk Factors – Intellectual Property Protection".

## **Cycles**

Historically, we have experienced lower revenues in the summer months, the later part of our third quarter and the early part of our fourth quarter (as compared to other months) as the use of the Internet is not as strong in the summer months.

## **Key Customers**

During the year ended October 31, 2008, three licensees, each of which provided more than 10% of the Corporation's total sales revenue, accounted for 48.3% of the Corporation's 2008 software license fees revenue. The loss of one or more of these key licensees or a material change in the terms of the license agreements could be detrimental to the Corporation.

## **Foreign Operations**

The majority of our revenue is derived from licensees operating in jurisdictions that include, but are not limited to: Malta, Gibraltar, Netherlands Antilles and the United Kingdom and other members of the European Union. The Corporation and our licensees are subject to local laws and regulations in those jurisdictions in which we or they conduct business. There are burdens associated with operating in these jurisdictions, including compliance with multiple and sometimes conflicting regulatory requirements, jurisdictional hurdles that must be overcome when trying to enforce contracts, foreign currency risks, potential restrictions on gaming activities, potentially adverse tax risks and tax consequences, and changes in the political and economic stability, regulatory and taxation structures and the interpretation thereof in the jurisdictions in which we and our licensees operate, any of which could have a material adverse effect on our business, operating results and financial condition.

Our ability to expand our business in certain jurisdictions may require modification of our products, particularly domestic language and currency support. See also "Risk Factors – Government Regulation".

## COMPETITIVE CONDITIONS

Although industry reports suggest that online gaming continues to be a growing industry, it is becoming increasingly competitive and sophisticated. There are currently several competitors for the licensing of “play for real” Internet gaming software, including, among others, Realtime Gaming, NetEnt, Parlay Entertainment Inc., Playtech Inc., Wagerworks Inc. Microgaming, Cryptologic Inc. and Boss Media AB. In addition, niche competitors who specialize in specific technical or platform segments (such as mobile or iDTV) could compete for certain segments of our target market. We believe that each of these competitors offers Internet gaming technologies that compete directly with our Online Games applications. Some of these competitors have greater financial resources than us and have established relationships with licensees or are operating Internet gaming Websites for their own account and or for others.

Many of our competitors currently offer a full range of products and services, including Internet gaming software, assistance in procuring licenses, electronic funds transfer services, credit card and other payment processing, other banking services, data management services, administrative services, hosting of server software, customer service, marketing consulting services and affiliate tracking software.

We believe that other potential competitors may develop software and technologies that directly compete with our technologies. These potential competitors could include existing large software development companies that develop a broad range of products as well as Internet gaming companies that have developed technologies for their own businesses.

Our competitors may be able to develop technologies more effectively than us and may be able to license their technologies on more favourable terms based on the number of licensees that license their products. Competitors may also adopt more aggressive pricing or licensing policies than us, which may hinder our ability to maintain or expand our share of the market and license our technologies.

In addition, increased competition may result in price reductions, reduced gross margins and an increased number of competitors competing for market share, any of which could seriously harm our ability to generate revenues and our results of operations. We expect competition to intensify in the future as more of our competitors focus on our traditional markets and as the commoditization of our gaming products develops. Additionally, our current competitors may choose to license their software at reduced prices. See also, “Risk Factors – Competition”.

### **Barriers to Entry**

Barriers to entry and maintaining a successful market position in the online gaming and entertainment software industry include: significant capital costs relating to software development, lead time relating to software development and scarcity of qualified software programmers.

Set forth below are the barriers we believe we face and our strategy for addressing these issues.

We believe that each of these barriers must be overcome to establish and maintain a successful position in the Internet gaming software development market. We cannot assure you that we will

be able to overcome these barriers to entry or that new competitors will not overcome them more quickly than we do. See also, “Risk Factors – Competition”.

### *Technology*

Although software development varies significantly in terms of the programming languages used and operating systems on which such software runs, we view the Internet games and gaming software markets as being divided between applications which are developed in popular programming languages such as C++, which require the user to install software prior to playing, and those applications developed in Flash or Java which require no installation. Our Online Games software was developed in both Flash and Java. The cross-platform nature of Java makes it possible to play Online Games on all major operating systems and Flash client side development means not having to install any part of the software prior to playing. We believe the quality of our browser-based software provides us with a competitive advantage over our competition, many of whose software requires installation.

Our Online Games software (which does not require installation) provides licensees with the ability to present their players with the most current version of our Online Games every time a user logs onto a system with no need to install upgrades.

Our Online Games software is designed to run on all popular web browsers. The Java-based server side software was designed to operate in Windows, Linux and Unix operating systems.

We anticipate that our licensees will provide useful feedback, such as with respect to the popularity of games, requested features, operational suggestions to improve Website administration and customer comments. All of these are expected to assist us in upgrading our technologies and developing the next generation of products and gaming solutions.

We also anticipate we will enter into strategic relationships with potential vendors and licensees of our gaming software solutions. These vendors and licensees may also allow us to offer our Intranet solutions for applications in land based gaming establishments. We also believe that our Intranet solutions may be successfully marketed as an entertainment product in non-gaming environments.

We also anticipate entering into revenue sharing arrangements with certain third party gaming software suppliers with the intention of offering their games to our licensees.

### *Regulatory Environment - Internet Gaming Regulation*

Historically, the gaming industry has been subject to significant government regulation or outright prohibition. Many countries are currently struggling with issues surrounding wagering and gambling over the Internet. More specifically, they are considering the merits, limitations and enforceability of the prohibition, regulation or taxation of wagering and gambling transactions that are transacted over the Internet. There are significant differences of opinion and law between countries such as the United Kingdom and the United States. Many countries accept Internet gambling as being legal and several countries offer licenses for the operation of online casinos. In other jurisdictions, there are partial licensing regimes, for example, where only online sports betting and skill games may be permissible. Recently, some European

countries have taken action aimed at banning foreign online gaming operators which has led to challenges (infringement proceedings) being commenced against certain countries under applicable European Union law. Finally, in some countries, online wagering is expressly prohibited in any form.

To our knowledge, all of our licensees operate their online casinos from jurisdictions where Internet gaming is regulated or not prohibited. All licensees provide a representation in their license agreements to the effect that such licensee will assume responsibility for determining the legality of using our software, including, without limitation, accepting wagers in whichever jurisdictions they choose to market to and receive wagers from. We believe that the legal situation in the United States has been made clear and accordingly, Chartwell's corporate position for some time has been not to license its software to any party who accepts wagers from US resident players, regardless of their licensing jurisdiction or location of operations.

As has been the case for several years, a significant debate exists whether the laws of any country other than the country where the computer gaming servers are physically located have jurisdiction over the operations of a licensee. We license our software only to licensees that maintain an Internet gaming license issued by a jurisdiction in which Internet gaming is legal.

On September 30, 2006, the online gaming industry was immediately and negatively impacted when the United States passed the *Unlawful Internet Gambling Enforcement Act* (the "UIGEA"). However, the final regulation drafted by the United States Treasury and Federal Reserve in connection with the UIGEA has only recently been finalized and "unlawful Internet gambling" was not defined in such regulation. Chartwell has neither U.S. based customers nor, to its knowledge, any significant exposure to the United States through its European based clients. In furtherance of that objective, Chartwell's corporate position is to decline all software licensing opportunities where licensees have not specifically agreed to exclude U.S. players from their operations. However, it is expected that the UIGEA will continue to negatively impact the online gaming industry as a whole, as it has since its inception.

Various other bills have also been introduced in the US House of Representatives (in April 2007 and June of 2007), as well as one bill in the US Senate (September 2008), all of which involved or touched upon forms of internet wagering; however, it is premature at this time to speculate as to whether any of these bills will ever become law in the United States. As at the fiscal year ended October 31, 2008, none of these bills had been passed into law. Moreover, a litigation challenge to the UIGEA by the Interactive Media and Gaming Association (*iMEGA v. Gonzales, et al*) remained ongoing at the appellate level in the United States judicial system as at the fiscal year ended October 31, 2008. See also, "Risk Factors – Government Regulation".

## **INTERNET GAMING SOFTWARE MARKET**

The market for Internet gaming software has shown growth over the past two years, however, the rate of that growth seems to have declined over the past year. Online poker has similarly shown strong growth in the past with signs of a slowdown in the rate of future growth. The U.S. prohibition on settlement of wagers and winnings has focused the competition in Europe, our traditional market. The Corporation believes that the European and Asian markets will continue to grow however that growth will be less than in previous years.

## **Marketing Strategies**

The following summarizes our strategic marketing and product focus:

1. Provide High Quality, Innovative and Superior Products and Services. We intend to continue to position our product in the market based on the quality of our customer support, the quality of our graphics, back office system, security and responsible gaming features and the speed of our software and systems. We intend to continue to remain focused on designing technology that achieves efficiency for licensees and that is proven, practical, easy to use and appealing to players.
2. Provide Market-Oriented and Customer Focused Solutions. The key to our success will be the success of our licensees. We intend to continue to obtain valuable input from our licensees on game content, usability and features and to continue to design and develop a wider variety of gaming products that will meet their needs and the expectations of their customers. We intend to assist licensees by providing customized and localized software solutions featuring unique graphics, themes and features that will allow licensees to differentiate their Websites and games in the marketplace.
3. Provide Community Based Poker and Bingo Products. During fiscal 2008, we furthered the development of the commercial application of our community based poker product. As mentioned elsewhere in this Annual Information Form, in fiscal 2009, we intend on re-launching our community bingo product in fiscal 2009.
4. European Focus. We intend to continue our established strategy of focusing our new business development activities primarily in Europe. We believe that our close geographical proximity to existing and prospective licensees, coupled with our broader and deeper industry experience will continue to be effectively utilized to develop new opportunities and add new licensees. We also intend to pursue a similar strategy with respect to the potential Asian market.

## **Product Development Strategy**

We believe that the most significant factor influencing the licensing of Internet gaming software is player appeal, followed by a mix of elements including: price; service; reliability; technical capability; interface capability; upgradeability; ability to customize and differentiate from other Websites; management and administrative support tools and the financial condition and reputation of the developer. We believe that the factors affecting player appeal are a combination of some play features, game variety, ease of use, appealing graphics, sound and special effects.

To increase the player appeal of our Online Games, we have designed them to be easy to play and to feature appealing graphics, sound and special effects. We intend to continue to make significant investments in research and development in designing our next generation of Online Games. We also intend to develop new technologies and to license the latest available technologies to improve the look, feel and speed of our games. Our goal is to incorporate new games, graphics, sounds and features into our games to differentiate our Online Games from those of our competitors. To appeal to licensees, we intend to develop technologies that allow

operators to market and differentiate their Internet casinos by featuring unique themes and customized visual elements. We also intend to enhance our technologies to provide data support and information systems that allow operators to develop and manage marketing programs targeted at their customers and to manage the administrative and financial aspects of their business efficiently through data retention and analysis and accounting capabilities.

## **Online Games Software**

### *Software Maintenance and Upgrades*

During the fiscal year ended October 31, 2008, we upgraded our Version 2.1 multiplayer poker product. Throughout fiscal 2009, in addition to the release of Online Games version 6.6, we plan to maintain and upgrade software that is being used by present licensees and to integrate new and unique gaming applications into our customer base. In addition, we are continuing to develop localization of the software, which entails developing the screens in various languages to accommodate non-English-speaking players.

We will continue to offer customization to the current version of our Online Games software, which allows licensees to differentiate their Websites using interfaces with unique graphic and sound effects and themes. The gaming engines that run the Online Games are essentially the same for each client who customizes their individual Websites with graphic and sound interfaces that provide the appearance of a unique Website. We also customize or upgrade the back-end systems, which allow licensees to structure the layout of their Internet casino Websites and operations and accounting applications, which permit licensees to administer and structure their accounting systems, in order to provide for different types and structures of reports upon the request of licensees.

### *Graphic Development and Creation*

We have in-house graphics designers who design and create the graphics that are required to customize and distinguish licensees' gaming Websites. Our in-house graphic services work with licensees to develop Website interfaces that feature unique themes designed to appeal to the licensee's target markets.

### *Present and Future Licensing of Software*

Our strategy for marketing and licensing our technology is to continue: executing our sales prospecting activities and process, exhibiting at international trade shows, speaking at international industry conferences, continuing our trade publication advertising with new media campaigns to stimulate interest in our software solutions and products. The establishment and continued expansion of our Malta operations, and obtaining a Class 4 License from the Lotteries and Gaming Authority in Malta has increased our visibility in Europe and we expect that this will continue to generate revenue opportunities for us. In fiscal 2009, we intend to enhance our licensing opportunities by increasing the range of gaming products offered and services provided. We also intend to apply for additional licenses to support our expanded services offering.

## **Employees**

At October 31, 2008, the Chartwell group of entities had 140 full time employees and 5 consultants/contractors. None of the employees of the Corporation or any of its subsidiaries are covered by a collective bargaining agreement.

## **RISK FACTORS**

### **General**

The Corporation and its subsidiaries operate in a rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond our control and which could have a material effect on our business, revenue, operating results and financial condition. The following highlights these risks and uncertainties.

### **Government Regulation**

The Corporation and our software licensees are subject to applicable laws in the jurisdictions in which they operate, such as Malta, Gibraltar, Alderney, the Netherlands Antilles and others. Some jurisdictions have introduced legislation and rules attempting to restrict or prohibit online gaming, while other jurisdictions have taken the position that online gaming is legal and have adopted (or are in the process of considering) legislation to regulate online gaming. A significant debate exists whether the laws of any country other than the country where the computer gaming servers are physically located have jurisdiction over the operations of our licensees.

The UK has passed legislation (*The Gambling Act, 2005*) which is the foundation of a regulated market for online gaming. Chartwell holds both a Remote and Non-Remote Operating License in accordance with that legislation. See “Development of our business – 2008”. The Isle of Man and Alderney, from whom we hold a Certificate of Prior Approval, both situated within in the British Isles, are already regulated environments for Internet gaming, based on standards consistent with land-based gaming. Compliance with such legislation may result in increased costs that could have a material adverse effect on the Corporation’s revenue, results of operations and financial condition. Chartwell Malta has obtained a Class 4 license from the Lotteries and Gaming Authority in Malta which enables Malta licensed operators to utilize our software. Existing legislation in some jurisdictions, including the U.S. through its adoption of the UIGEA, has essentially prohibited on-line gaming in the U.S. by restricting funding and settlement of online gaming accounts. Despite Chartwell’s efforts in observing regulatory compliance, there is a risk that legal proceedings by a governmental authority could be initiated against us, and/or our licensees, ISPs, credit card processors, advertisers and others involved in the Internet gaming industry. This could potentially result in our incurring substantial litigation and legal expenses, penalties, fines, injunctions or other remedies or restrictions being imposed upon us or our licensees while diverting the attention of management. Such proceedings could have a material adverse effect on the Corporation’s revenue, results of operations and financial condition.

As companies and consumers involved in online gaming, including our licensees and their players, are located in different jurisdictions around the world, there is uncertainty regarding the future regulatory framework for online gaming. There is a risk that proposed legislation supporting online gaming may not be passed and that existing legislation supporting online

gaming may be changed. Recent and future changes to the regulatory framework in various countries such as Italy, France and Germany could have an adverse effect on the Corporation's revenue, results of operations and financial condition. In prior periods, each of Germany, Italy and France, among others, have adopted laws which purport to restrict all unlicensed forms of online gaming. The legal status of the legislation has been challenged by the European Union, however, the outcome is uncertain and accordingly, the effect of these actions upon Chartwell is uncertain. Generally speaking, any legislation to limit or restrict online gaming in any manner can be negative to Chartwell.

### **Financial Market Uncertainty**

In recent months, the global securities and credit markets have experienced a high level of volatility as the worldwide economy has trended downwards very rapidly. A worldwide, large scale recession may impact our business in many ways, including but not limited to: stock price and volume volatility, a potential lack of availability for future funding of the Corporation if required, a lack of available credit for our customers' players to continue to gamble online, increased payment risk, an increased likelihood of our customers defaulting on their contractual obligations, and less potential players willing to gamble online or to gamble at past levels of activity, during times of economic uncertainty. It is impossible to state all of the various possible ways that current economic uncertainty might negatively impact our business or attempt to quantify that impact, however, it should be noted that the current economic uncertainty could have a material adverse effect on the Corporation's revenue, results of operations and financial condition.

### **Payment Processing**

The UIGEA restricts the funding of online gaming accounts of U.S. residents by preventing banks and credit card companies from making payments to online gaming sites. If other countries, particularly those in Europe, implement similar or additional restrictions, this could have a material adverse effect on the Corporation's revenue, results of operations and financial condition.

### **Competition**

Some of our competitors have significantly greater financial, technical, marketing and sales resources and may be able to respond more quickly to changes in customer needs. Additionally, these competitors may be able to devote a greater number of resources to the enhancement, promotion and sale of their games and gaming systems. Our future success is dependent upon our ability to win our share of sales (in the form of new licensees) against these larger competitors. Failure to do so could result in a material adverse effect on the Corporation's revenue, results of operations and financial condition. In addition, with the recent U.S. legislation Chartwell is anticipating more competition in the European markets as competitors migrate out of the US to gaming friendly jurisdictions, such as Europe.

### **Renewal of Software License Agreements**

Substantially all of the Corporation's revenue is in the form of software license fees, 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 Corporation's software under a software licensing agreement, which typically has a two to five year term. The license fee, or royalty, is calculated as a percentage of each licensee's level of activity. There is no assurance that Chartwell will be able to renew agreements with existing clients or that the Corporation will be able to renew agreements under similar commercial and other terms. Recently, competitive pressure has arisen from competitors whose pricing model may be unsustainable in the long run and average percentage rates for software providers in our industry have decreased considerably versus past years as a result of competition. Price competition may continue to increase and become even more significant in the future, resulting in reduced profit margins. In fiscal 2009, eight of our significant software licensing agreements will be up for renewal. The failure to renew agreements or the failure to renew agreements under similar financial and other terms would have an adverse effect on the Corporation's revenue, results of operations and financial condition.

### **Indemnification**

The standard form agreement between the Corporation and its licensees limits the amount of liability on the Corporation's part. Indemnification claims from a licensee could arise as a result of intellectual property infringement claims brought by third parties against licensees; or claims made a licensee for financial loss as a result of the operation of the Corporation's software.

### **Licensees May Withhold Payment or Become Insolvent Without Legal Recourse**

Our licensees are often constituted in jurisdictions where it may not be possible for Chartwell to collect royalty or other income or enforce our license agreements effectively or without incurring great expense. Because licensees do not provide a performance bond, it is possible that some of the licensees will become insolvent or judgment proof or withhold payment without justification. The uncertainty surrounding the timely or ultimate collection of payments or other amounts owed by licensees could have a material adverse effect on the Corporation's revenue, results of operations and financial condition.

### **E-Commerce Law**

In addition to laws pertaining specifically to online gaming and taxation, Chartwell may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce. As well, current laws, which predate or are incompatible with Internet commerce, may be enforced in a manner that restricts the electronic commerce market. The application of such pre-existing Canadian, U.S. and international laws regulating communications or commerce in the context of the Internet and electronic commerce is uncertain.

Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet.

New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted.

The adoption of new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for our products and services, increase our cost of doing business or could otherwise have a material adverse affect on the Corporation's revenue, results of operations and financial condition.

### **Dependence on Market Growth**

The online gaming market has experienced and is expected to continue to experience growth. There can be no assurance that the market for the Corporation's gaming solutions will continue to grow, that consumers will continue to adopt Chartwell's solutions or that Chartwell will be successful in selling into new and existing markets. If the markets in which our products compete fail to grow, or if the business of the licensees who use our products fails to grow, or grows more slowly than Chartwell currently anticipates, the Corporation's business, results of operations and financial condition may be materially adversely affected.

### **The Gaming Industry is Volatile**

The online gaming market industry has been and continues to be a volatile industry, which is sensitive to economic conditions and regulatory developments. When economic conditions are prosperous, gaming industry revenues tend to increase. Conversely, when economic conditions are unfavourable, gaming industry revenues tend to decline. Any significant decline in general corporate conditions or the economy that affect consumer spending could have a material adverse effect on the Corporation's revenue, results of operations and financial condition.

### **Internet Viability and System Infrastructure and Reliability**

The growth of Internet usage has caused interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Corporation's own network systems will continue to be able to support the demands placed on us by the continued growth of the Internet, the overall online gaming industry or that of our customers.

The Internet's viability could be affected by delays in the development or adoption of new standards and protocols to handle increased levels of Internet activity or due to increased government regulation. If critical issues concerning the commercial use of the Internet are not favourably resolved (including security, reliability, cost, ease of use, accessibility and quality of service), if the necessary infrastructure is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel, this may negatively affect Internet usage, and our business, revenues, financial condition and operating results will be materially adversely affected.

End-users of our software depend on ISPs, online service providers, gaming site operators and our system infrastructure for access to the sites operated by our licensees. Many of these services have experienced service outages in the past and could experience service outages, delays and other difficulties due to system failures, instability and interruption. Our licensees may lose customers as a result of delays or interruption in service, including delays or interruptions relating to high volumes of traffic or technological problems. As a result, we may not be able to

meet the level of service that we have contracted for, and we may be in breach of our contractual commitments, which could have a material adverse effect on the Corporation's business, revenues, results of operations and financial condition.

Also, the increasing presence of viruses and cyber attacks may affect the viability and infrastructure of the Internet and could materially adversely affect our business.

### **Security**

The Corporation's Internet gaming software is reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation. As users become increasingly sophisticated and devise new ways to commit fraud, our security and network systems may be tested and subject to attack. Two of the more common security issues affecting the online gaming industry are Denial of Service and Trojan Horse attacks. There is no assurance that such intrusions or attacks will or can be prevented in the future and any system intrusion or attack may cause a delay, interruption or financial loss, which could have a material adverse effect on our business, results of operations and financial condition.

### **Reliance on Other Parties**

The Corporation's products rely on ISPs to allow our licensees' customers and servers to communicate with each other. If ISPs experience service interruptions, it would prevent communication over the Internet and would impair our ability to carry on our business.

The ability of our customers to process e-commerce transactions depends on banking processing and credit card systems. Any system failure, including network, software or hardware failure that causes a delay or interruption in e-commerce services could have a material adverse effect on the business of our licensees and accordingly, this could have a material adverse effect on the Corporation's business, results of operations and financial condition.

### **Failure to Manage Growth Successfully**

The Corporation's business has grown over the last five years. The growth places a strain on managerial and financial resources. This growth, our expansion and the acquisition of ECM have resulted in growth to the scope of our infrastructure and the geographic area of our operations, resulting in increased responsibilities for existing and new management personnel. Our ability to successfully manage this growth depends, in large part, upon our ability to: retain and attract qualified management; retain and attract skilled technical personnel to continue to develop reliable solutions that respond to the evolving needs of our customers; and retain and attract sales and marketing personnel to create an expanding presence the rapidly growing marketplace for our products.

In the past, the Corporation has licensed its applications to online casino operators where the majority of games are "played against the house". The addition of poker to the Corporation's product line involves players playing against players, thus requiring a community of players in order to achieve appropriate numbers of players and liquidity. As part of this product offering, the Corporation licenses its software to operators in much the same way as casino games; and

receives revenue in much the same way, but must bear the financial cost and risk of managing the community, particularly during its infancy when some degree of marketing and promotion costs must be incurred in order to grow the community. As such, it is possible the Corporation could incur substantial fixed costs associated with the community without corresponding near term revenue; although these expenditures are discretionary and do not constitute a material financial risk to the Corporation

The inability to achieve any of these objectives could harm the Corporation's business, results of operations and financial condition.

### **Dependence on Key Personnel**

The Corporation's success is largely dependent upon the performance of its key management, technical and sales personnel. Competition for highly skilled management, technical and sales personnel is intense. The inability to retain employees and to attract and retain additional key employees who have the necessary skills may have a material adverse effect upon the Corporation's growth and profitability.

### **Risks Associated with Currency Fluctuations**

Chartwell's clients accept player deposits in more than a dozen foreign currencies. Each client settles its account with Chartwell in one of, Great Britain Pound Sterling, Euro or U.S. dollars. As such the majority of Chartwell's revenue is realized in currency other than the Canadian dollar, while the majority of the Corporation's expenses are incurred in Canadian dollars. Chartwell has recently adopted a foreign exchange management policy, but there are no assurances that the implementation of such policy will lead to the desired results. Fluctuations in the cross exchange rates between the Canadian dollar and other currencies, particularly the Pound Sterling, the Euro and the of U.S. Dollar, could have a material adverse effect on the Corporation's results of operations and financial condition.

### **Chargebacks**

As a result of increased player deposit levels, our customers are subject to higher exposure to credit card chargebacks, which may also result in possible penalties. A chargebacks is a credit card originated deposit transaction to a player account with an operator that is later reversed or repudiated. Credit card chargebacks are deducted from the operator's calculation of license fees payable to Chartwell. Even though security measures are in place by operators and credit card companies, this factor could have a material adverse effect on the business of our licensees and accordingly, a material adverse effect on the Corporation's business, results of operations and financial condition.

### **Lengthy Sales Cycle**

The Corporation's sales cycle (beginning with an interested customer and culminating in the entering into of a commercial agreement with a customer) typically ranges from six to twelve months and may be longer. This lengthy sales cycle limits Chartwell's ability to forecast the timing of new sales in a specific financial quarter. Any extension in the length of our sales cycle may have a material adverse effect on the Corporation's revenues and financial condition.

### **Intellectual Property Protection**

The Corporation relies on a combination of laws and contractual provisions to establish and protect our rights in our software and proprietary technology. Our ability to protect our proprietary information is crucial to the success of our business. We currently possess one patent application, four trade-mark applications, as well as the copyright registration for our Gaming Software in Canada. Our strategy is to continue to selectively file intellectual property applications in Europe, the United States and other applicable jurisdictions. There can be no assurance that the steps we have taken to protect our proprietary rights will be adequate to deter misappropriation of our technology. Any such misappropriation or resultant litigation to enforce our proprietary rights could have a material adverse effect on the Corporation's business, revenues, results of operations and financial condition.

Similarly, given the nature of the business environment in which we operate, other parties have threatened to issue legal proceedings against the Corporation based on alleged infringement of intellectual property rights. None of these threats has yet resulted in formal legal proceedings, however, there can be no assurance that such threats would never materialize into actual litigation or that the Corporation would prevail in such litigation. An adverse determination in legal proceedings, a costly litigation process or a costly settlement could have a material adverse effect on the Corporation's business, revenues, results of operation and financial condition.

### **Potential Website Content and Product Liability Claims**

As a distributor of Internet enabling software, the Corporation faces potential liability for negligence, copyright, patent and trademark infringement, defamation, disparagement and other such claims based on the nature and content of the materials that it transmits. Such claims have been brought, and sometimes successfully passed against Internet content distributors. Additionally, the Corporation faces risk of exposure to product liability claims in the event that our products contain errors, "bugs" or other defects. The Corporation does not possess product liability insurance and there can be no assurance that such coverage will be available in the future on commercially reasonable terms, or at all. Any imposition of liability that is not covered by insurance, or is in excess of insurance coverage, if available, or not covered by an indemnification in favour of the Corporation could have a material adverse effect on the Corporation's business, revenues, results of operations and financial condition.

### **Industry Consolidation and Supplier Diversification**

In recent years, there has been a significant amount of consolidation in the industry in which we operate. Such consolidation has reduced the list of prospective customers for our services through a rationalization of preferred software vendor suppliers. Additionally, as part of their own risk management strategy, some licensees may limit their dependency on one supplier of software. The use of more than one software supplier by licensees has led to reduced growth opportunities for the Corporation. Either of the aforementioned factors could have a material adverse effect on the Corporation's business, revenues, results of operations and financial condition.

## **DIVIDENDS**

Since incorporation, Chartwell has not paid any dividends on the Common Shares. Dividends on the Common Shares will be paid solely at the discretion of the Board of Directors after taking into account the financial condition of the Corporation and the economic environment in which it operates. No dividends are expected to be paid in the foreseeable future.

## **DESCRIPTION OF SHARE CAPITAL**

### **General Description of Share Capital**

Chartwell is authorized to issue 100,000,000 Common Shares without nominal or par value, of which, as at October 31, 2008, 18,580,923 Common Shares were issued and outstanding as fully paid and non assessable. Additionally, a rolling 20% of these issued Common Shares issued are reserved for options to be granted to directors, officers, employees and consultants of Chartwell, of which as at the same date there were options to purchase an aggregate of 2,196,000 Common Shares outstanding.

### **Characteristics of Common Shares**

The holders of Common Shares are entitled to dividends as and when declared by the Board of Directors; to one vote per share at meetings of shareholders; and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares and also to the rights, privileges and restrictions normally attached to common shares.

## **MARKET FOR SECURITIES**

### **Price Range and Volume of Trading of Common Shares**

The following table sets forth the reported high, low and close sales prices and the trading volumes for the Common Shares on the Toronto Stock Exchange as reported by sources Chartwell believes to be reliable for the fiscal year ended October 31, 2008.

|             |           | Price Range (\$) |      |       |                |
|-------------|-----------|------------------|------|-------|----------------|
|             |           | High             | Low  | Close | Trading Volume |
| <b>2007</b> | November  | 1.70             | 1.45 | 1.55  | 348,530        |
|             | December  | 1.67             | 1.30 | 1.55  | 796,401        |
| <b>2008</b> | January   | 1.60             | 1.25 | 1.33  | 856,476        |
|             | February  | 1.93             | 1.25 | 1.86  | 1,696,025      |
|             | March     | 2.30             | 1.80 | 2.06  | 626,442        |
|             | April     | 2.45             | 2.07 | 2.45  | 327,436        |
|             | May       | 2.85             | 2.15 | 2.50  | 344,538        |
|             | June      | 2.80             | 2.35 | 2.65  | 535,075        |
|             | July      | 2.68             | 2.36 | 2.48  | 588,662        |
|             | August    | 3.25             | 2.40 | 2.85  | 678,129        |
|             | September | 2.85             | 2.41 | 2.50  | 282,500        |
|             | October   | 2.50             | 1.60 | 1.65  | 594,903        |

### DIRECTORS AND OFFICERS

The following table sets out the names and municipalities of residence of the directors and officers of the Corporation, as of the date hereof, their position and offices with the Corporation, the periods during which they have served as directors or officers of the Corporation, their principal occupations for the preceding five years and the number of Common Shares owned beneficially or subject to each of their control or direction. The term of office of each director will expire at the end of the next annual meeting of the shareholders of Chartwell.

| Name, Municipality of Residence and Position Held   | Principal Occupation During the Last 5 Years   | Periods Served as Director or Officer | Number of Common Shares Held <sup>(1)</sup> |
|---|--|---------------------------------------|---|
| Darold H. Parken <sup>(4)</sup><br>President, Chief Executive Officer and Director<br>Calgary, AB   | President and Chief Executive Officer of the Corporation. Prior thereto, Barrister & Solicitor, Parken & Corporation since February 1989. Prior thereto, partner with Burnet, Duckworth & Palmer, Barristers & Solicitors. | Since October 1994                    | 1,000,000                                   |
| Darcy E. Krogh <sup>(4)</sup><br>Vice President, Business Development and Director<br>Vancouver, BC | Vice President, Business Development of the Corporation. Prior thereto, registered representative with various Canadian investment dealers for 18 years.   | Since June 1999                       | 135,000                                     |

| Name, Municipality of Residence and Position Held                                    | Principal Occupation During the Last 5 Years  | Periods Served as Director or Officer  | Number of Common Shares Held <sup>(1)</sup> |
|--|---|--|---|
| Roderick A. Ferguson <sup>(2)(3)(4)</sup><br>Director<br>Calgary, AB                 | Partner, Fasken Martineau DuMoulin LLP, Barristers and Solicitors since 2004. Prior thereto, Partner, Heenan Blaikie LLP, Barristers and Solicitors since 2001. Prior thereto Partner, Burnet Duckworth & Palmer, Barristers and Solicitors.  | Since July 2001  | 50,000                                      |
| Peter H. Kinash <sup>(2)(3)</sup><br>Director<br>Calgary, AB                         | From September 2001 to present, consultant and advisor on financial matters to emerging and established technology companies, including serving as part-time Chief Financial Officer ("CFO"), most notably of Replicon Inc., a Calgary-based private software company since 2002. During this time, Mr. Kinash was also CFO of public companies, CCR Technologies Ltd. November 2005 to September 2006, and Guest-Tek Interactive Entertainment Ltd. July to August 2004. From January 2000 to August 2001, CFO of Wi-LAN Inc., a Calgary-based public technology company. Prior to 2000, partner at KPMG LLP (Calgary), a chartered accountant firm. | Since March 2004   | 5,000                                       |
| Terence Shaunessy <sup>(2)(3)</sup><br>Director<br>Calgary, AB                       | President, Shaunessy Investment Counsel Inc. since 2001. Prior thereto, Vice President, Institutions, HSBC Asset Management since 1999, prior thereto, President and Managing Director, Gordon Capital Corp.  | Since March 2005   | 5,000                                       |
| Alan Richter <sup>(4)</sup><br>Chief Financial Officer<br>Calgary, AB                | Chief Financial Officer of the Corporation. Prior thereto, Corporate Controller of the Corporation since January 2007. Prior thereto, VP Finance, Magmic Inc. from October 2005 to December 2006. Prior thereto, Accounting Manager, Clowork Corp. from June 2003 to October 2005. Prior thereto, Corporate Controller of Tarian Software Inc.  | Since May 2007   | Nil   |
| Lee Richardson<br>Chief Executive, Chartwell International<br>London, United Kingdom | Chief Executive of Chartwell International. Prior thereto, Global Head of Gaming for Central Call Service Limited from January, 2008 to November, 2008. Prior thereto, Chief Executive of CGC from March 2004 until July, 2007. Prior thereto, Chief Operating Officer of Coral Eurobet plc.  | Since January 2009<br>(when Mr. Richardson re-joined the Corporation as an officer of Chartwell International) | Nil   |

| Name, Municipality of Residence and Position Held                     | Principal Occupation During the Last 5 Years  | Periods Served as Director or Officer | Number of Common Shares Held <sup>(1)</sup> |
|---|---|---------------------------------------|---|
| David Acorn<br>Chief Operating Officer<br>Calgary, AB                 | Chief Operating Officer. Prior thereto, Vice President Software Development and Client and Product Management of the Corporation. Prior thereto, Principal of eZ Solutions from 1995 to 1999.   | Since June 1999                       | 100,000                                     |
| Aideen Shortt<br>Vice President, Sales and Marketing<br>London, UK    | Vice President, Sales and Marketing of the Corporation and prior thereto, Commercial Director of Chartwell International since March 2004. Prior thereto, Marketing Director of Skybet, part of the British Sky Broadcasting Group from January 2003 to December 2003. Prior thereto, various senior marketing positions at Eurobet, now part of the Gala Coral Group, from January 2001 to December 2002.  | Since June 2007                       | Nil   |
| Clinton Begin<br>Vice President, Software Development<br>Cochrane, AB | Vice President, Software Development of the Corporation and prior thereto, Lead Developer under contract to Wellgood LLC from June to October 2008. Prior thereto, Sr. Consultant to Arvato Systems North America Inc. from April to June, 2008 Prior thereto Lead Developer under contract to Wellgood LLC from March 2007 to April, 2008. Prior thereto, Sr. Developer/Agile Mentor at ThoughtWorks Canada Corporation from October 2003 to March 2007. | Since November 2008                   | Nil   |

Notes:

- (1) Messrs. Ferguson, Kinash, Shaunessy, Parken and Krogh hold options to purchase 50,000, 100,000, 100,000, 350,000 and 350,000 Common Shares, respectively. Messrs. / Mme. Richardson, Richter, Acorn, Begin and Shortt hold options to purchase 200,000, 130,000, 200,000, 100,000 and 175,000 Common Shares, respectively.
- (2) Member of the Audit Committee.
- (3) Member of the Corporate Governance, Compensation and Compliance Committee.
- (4) Member of the Disclosure Committee.
- (5) Mr. James Godsell, previously the Chief Executive of Chartwell International was an executive officer as at the fiscal year ended October 31, 2008 but left Chartwell International in January, 2009. Mr Lee Richardson became Chief Executive of Chartwell International in January, 2009.

As of the date hereof, the directors and officers of the Corporation, as a group, owned directly or indirectly 1,295,000 Common Shares or approximately 6.97% of the issued and outstanding Common Shares. The information as to Common Shares has been obtained from public filings on SEDI at [www.sedi.ca](http://www.sedi.ca).

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities to materially affect the control of the Corporation

- (a) is, as of the date hereof or has been, within the ten years before the date of this Annual Information Form, a director or executive officer of any company, that while that person was acting in that capacity,
  - (i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
  - (ii) was subject to an event that resulted after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty consecutive days; or
  - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
  - (iv) has, within ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the creditor, officer or shareholder.

## **LEGAL PROCEEDINGS**

Given the nature of the business environment in which we operate, other parties have from time to time threatened to issue legal proceedings against the Corporation based on alleged infringement of intellectual property rights. None of these alleged intellectual property infringement threats has yet resulted in formal legal proceedings, however, there can be no assurance that such threats would never materialize into actual litigation or that the Corporation would prevail in such litigation. An adverse determination in litigation proceedings could subject the Corporation to significant liabilities to third parties. Although intellectual property disputes are often settled through licensing or similar arrangements, the costs associated with such arrangements could be of a significant nature.

The Corporation is not involved in any legal proceeding which involves a claim for damages where the amount of such claim (exclusive of interest and costs) exceeds ten percent of the Corporations current assets.

## **AUDIT COMMITTEE**

Under Multilateral Instrument 52-110 *Audit Committee*, the Corporation is required to include in its Annual Information Form the disclosure required under Form 52-110F1 with respect to its Audit Committee, including the text of its Audit Committee Charter, the composition of the Audit Committee and the fees paid to the external auditor. This information is provided in Appendix A attached hereto.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The management of the Corporation is not aware of any material interest, direct or indirect, or of any informed person of the Corporation, any proposed director of the Corporation or any associate or affiliate of an informed person or proposed director, in any transaction since the commencement of the last fiscal year, or in any proposed transaction since the beginning of the Corporation's most recently completed financial year end being the year ended October 31, 2008 or in any proposed transaction which has materially affected or would materially affect the Corporation.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares of Chartwell is Computershare Trust Company of Canada at its principal offices in Calgary and Toronto.

## **CONFLICTS OF INTEREST**

Rod Ferguson, a member of the Board of Directors is a partner in a law firm that provides legal advice to the Corporation. While the Corporation does not believe that there is any material conflict of interest, as in any situation, there is a potential conflict when one of the Corporation's outside counsel is also a member of its Board of Directors.

Additionally, from time to time there may be potential conflicts of interest that arise for some of the directors and officers of the Corporation. Such conflicts, if they arise, will be subject to the policies and remedies provided for in the ABCA.

## **NAME OF EXPERTS AND INTERESTS OF EXPERTS**

The Corporation used KPMG LLP for external audit and tax services during the 2008 fiscal year. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. As of October 31, 2008, the partners of KPMG LLP do not hold any registered or beneficial ownership directly or indirectly in the securities of the Corporation.

## **MATERIAL CONTRACTS**

The following are the material contracts of the Corporation entered into during the fiscal year ended October 31, 2008 or entered into during a prior year, but having obligations of a continuing nature:

1. Shareholder Rights Plan – See “Development of our Business 2008”.
2. Agency Agreement dated for reference April 25, 2008, with effect as and from March 31, 2001 between the Corporation and CGC, confirming that CGC was appointed to act, has acted and continues to act as agent, for and on behalf of the Corporation.
3. Agency Agreement dated for reference April 25, 2008, with effect as and from December 2, 2004 until January 15, 2006 between the Corporation and CGMHL, confirming that during the period within which such agreement was in effect, CGMHL was appointed to act and did act as agent, for and on behalf of the Corporation.
4. Agency Agreement dated for reference April 25, 2008, with effect as and from December 2, 2004 until January 15, 2006 between the Corporation and Chartwell Malta, confirming that during the period within which such agreement was in effect, Chartwell Malta was appointed to act and did act as agent, for and on behalf of the Corporation.
5. Agency Agreement dated for reference April 25, 2008, with effect as and from May 26, 2005 between the Corporation and MICROPOWER, confirming that MICROPOWER was appointed to act, has acted and continues to act as agent, for and on behalf of the Corporation.

All of the summaries of the four Agency Agreements mentioned above are hereby qualified in their entirety by the actual terms and conditions of such Agency Agreements, all of which were filed on April 29, 2008 on SEDAR as “Material Documents” and may be viewed at [www.sedar.com](http://www.sedar.com) under the Corporation’s profile.

#### **ADDITIONAL INFORMATION**

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of the Corporation’s securities, options to purchase securities and options authorized for issuance under equity compensation plans, if applicable, is contained in the Corporation’s Information Circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is also provided in the Corporation’s audited financial statements and Management’s Discussion and Analysis for its most recently completed financial year. Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A – FORM 52 – 110F1

### The Audit Committee’s Charter

The following is the text of the Audit Committee’s Charter.

**CHARTWELL TECHNOLOGY INC.**  
**(the “Corporation”)**  
**Audit Committee**  
**of the Board of Directors (the “Committee”)**

### CHARTER

#### 1. Purpose

The primary function of the Committee is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by reviewing:

- (a) the financial information that will be provided to the shareholders and others;
- (b) the systems of internal controls and accounting policies that management and the Board have established; and

all audit processes.

Primary responsibility for the financial reporting, information systems, risk management and internal controls of the Corporation is vested in management and is overseen by the Board.

Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels.

The Committee’s primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Corporation’s financial reporting process and the system of internal controls.
- Monitor the independence and performance of the Corporation’s external auditors.
- Provide an open avenue of communication among the auditors, management and the Board.

#### 2. Composition and Process

- (a) The Committee shall be composed of a minimum of three directors, all of whom shall be “independent” as that term is defined in *National Instrument 52-110, Audit Committees* (“NI 52-110”).
- (b) Members shall be appointed by the Board on an annual basis, shall serve one-year terms and may serve consecutive terms, which are encouraged to ensure continuity of experience.

- (c) The Chair of the Committee shall be appointed by the Board for a one-year term, and may serve any number of consecutive terms.
- (d) All members of the Committee shall be financially literate and at least one member of the Committee shall be a “financial expert”. Financial literacy is the ability to read and understand a balance sheet, income statement and cash flow statement that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.
- (e) The Chair shall, in consultation with management and the external auditor and internal auditor (if any), establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to the members with sufficient time for study prior to the meeting. The external auditor will also receive notice of all meetings of the Committee. The Committee may employ a list of prepared questions and considerations as a portion of its review and assessment process.
- (f) The Committee shall meet at least four times per year and may call additional meetings as required. A quorum at meetings of the Committee shall be a majority of its members. The Committee may hold its meetings, and members of the Committee may attend meetings, by telephone conference if this is deemed appropriate or make written resolutions which must be signed by all members of the Committee.
- (g) The Chair shall appoint a secretary to keep all minutes of Committee meetings, which secretary does not have to be a member of the Committee or a director.
- (h) The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to Committee members with copies to the Board, the Chief Executive Officer, the Chief Financial Officer and the external auditor.
- (i) The Committee reviews, prior to their presentation to the Board and their release, all material financial information required by securities regulations.
- (j) The Committee enquires about potential claims, assessments and other contingent liabilities.
- (k) The Committee periodically reviews with management, depreciation and amortization policies, loss provisions and other accounting policies for appropriateness and consistency.

### 3. Authority

- (a) The Committee is appointed by the Board pursuant to provisions of the *Business Corporations Act* (Alberta) and the bylaws of the Corporation.
- (b) Primary responsibility for the Corporation’s financial reporting, accounting systems and internal controls is vested in senior management and is overseen by

the Board. The Committee is a standing committee of the Board established to assist it in fulfilling its responsibilities in this regard. The Committee shall have responsibility for overseeing management reporting on internal controls. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Committee to ensure that management has done so.

- (c) The Committee shall have unrestricted access to the Corporation's personnel and documents and will be provided with the resources necessary to carry out its responsibilities.
- (d) The Committee shall have direct communication channels with the internal auditors (if any) and the external auditors to discuss and review specific issues as appropriate.
- (e) The Committee shall have the sole authority to retain (or terminate) independent counsel, advisors or consultants as it determines necessary to assist the Committee in discharging its functions hereunder. The Committee shall be provided with the necessary funding to compensate the independent counsel, advisors or consultants retained by the Committee.

#### 4. Relationship with External Auditors

- (a) An external auditor must report directly to the Committee.
- (b) The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (c) The Committee shall implement structures and procedures to ensure that it meets with the external auditor at least once annually in the absence of management.

#### 5. Accounting Systems, Internal Controls and Procedures

- (a) The Committee shall obtain reasonable assurance from discussions with and/or reports from management, and reports from external auditors that accounting systems are reliable and that the prescribed internal controls are operating effectively for the Corporation and its subsidiaries and affiliates.
- (b) The Committee shall review to ensure to its satisfaction that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements and will periodically assess the adequacy of those procedures.

- (c) The Committee shall review with the external auditor the quality and not just the acceptability of the Corporation's accounting principles and direct the external auditor's examinations to particular areas.
- (d) The Committee will review control weaknesses identified by the external auditors, together with management's response and review with external auditors their view of the qualifications and performance of the key financial and accounting executives.
- (e) In order to preserve the independence of the external auditor, the Committee will:
  - (i) recommend to the Board the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;
  - (ii) recommend to the Board the compensation of the external auditor's engagement; and
  - (iii) review and pre-approve any engagements for non-audit services to be provided by the external auditors or its affiliates, together with estimated fees, and consider the impact, if any, on the independence of the external auditor, all in accordance with Schedule "B" attached hereto.
- (f) The Committee will review with management and with the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting.
- (g) The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- (h) The Committee shall establish a periodic review procedure to ensure that the external auditor complies with the Canadian Public Accountability Regime under *Multilateral Instrument 52-108, Auditor Oversight*.
- (i) The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

## 6. Statutory and Regulatory Responsibilities

- (a) Annual Financial Information - review the annual audited financial statements, annual management's discussion and analysis ("MD&A") and related press releases and recommend their approval to the Board, after discussing matters such

as the selection of accounting policies (and changes thereto), major accounting judgments, accruals and estimates with management and the external auditor.

- (b) Interim Financial Statements - review the quarterly interim financial statements, interim MD&A and recommend their approval to the Board.
- (c) Earnings Guidance/Forecasts - review any forecasted financial information and forward looking statements regarding forecasted financial information, if any.
- (d) In addition, the Committee must review the Corporation's press releases pertaining to the financial statements, MD&A and earnings updates, if any, before the Corporation publicly discloses this information.

#### 7. Reporting

- (a) The Committee will report, through the Chair of the Committee, to the Board following each meeting on the major discussions and decisions made by the Committee, and report annually to the Board on the Committee's responsibilities and how it has discharged them.
- (b) In addition, the Committee will review and reassess this Charter annually and recommended any proposed changes to the Board.

#### 8. Other Responsibilities

- (a) Investigating fraud, illegal acts or conflicts of interest.
- (b) Discussing selected issues with corporate counsel or the outside auditor or management.

### Composition of the Audit Committee

During the year ended October 31, 2008 the Audit Committee of the Corporation was composed of the following individuals:

|                   |                                |                                     |
|-------------------|--------------------------------|-------------------------------------|
| Peter Kinash      | Independent <sup>(1)</sup>     | Financially literate <sup>(2)</sup> |
| Terence Shaunessy | Independent <sup>(1)</sup>     | Financially literate <sup>(2)</sup> |
| Rod Ferguson      | Not Independent <sup>(1)</sup> | Financially literate <sup>(2)</sup> |

#### Notes:

- (1) A member of an audit committee is independent if the member has no direct or indirect material relationship with the Corporation which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment, and is not otherwise deemed to be not independent by NI 52-110.
- (2) An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

### **Relevant Education and Experience**

Mr. Ferguson holds a B.A. (Hons.) in Economics granted by the University of Alberta in 1976 and an LL.B. from the University of Toronto in 1980. He is currently a partner in the Calgary office of Fasken Martineau DuMoulin LLP, a national law firm. Mr. Ferguson has practised corporate and securities law for over twenty-five years.

Mr. Kinash, the Chairman of the Audit Committee, holds a B. Comm. (With Distinction) granted in 1977 by the University of Saskatchewan and obtained his Chartered Accountancy designation in 1980. He is currently the CFO of a medium sized private software company and has experience acting as CFO for three public technology companies listed in Canada and as a director of a public company listed in the United States. Mr Kinash is the designated “financial expert” of the Audit Committee.

Mr. Shaunessy holds a B.A. (Hons.) in Economics granted in 1975 by York University and has taken additional post-graduate courses in Accounting and Finance at the University of Toronto. He is registered as a Portfolio Manager with the Alberta, British Columbia and Ontario Securities Commissions.

### **Reliance on Certain Exemptions**

At no time since the commencement of the Corporation’s most recently completed financial year has the Corporation relied on any exemption from NI 52-110 contained in section 2.4, section 3.2, section 3.4, section 3.5 or any exemption granted in whole or in part, granted under Part 8 of NI 52-110. However, while the Board does not believe that Mr. Ferguson’s position with his law firm and its services to the Corporation interferes with the exercise of his independent judgement, the provisions of NI 52-110 deem him not to be independent. Accordingly, the Corporation is presently looking to add another independent board member who would also sit on the Audit Committee.

### **Reliance on the Exemption in Subsection 3.3(2) or Section 3.6**

At no time since the commencement of the Corporation’s most recently completed financial year has the Corporation relied on the exemptions in Sections 3.3(2) or 3.6 of NI 52-110.

### **Reliance on Section 3.8**

At no time since the commencement of the Corporation’s most recently completed financial year has the Corporation relied on Section 3.8 of NI 52-110.

### **Audit Committee Oversight**

At no time since the commencement of the Corporation’s most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

## Pre-Approval Policies and Procedures

The Audit Committee of the Corporation has adopted specific policies and procedures for the engagement of non-audit services entitled “Pre-Approval Policy” (the “**Procedure**”). Under the Procedure, the auditors may not act in any capacity where they are prohibited from acting, which comprises a list of ten prohibited services. Various audit related services provided by the auditors have been pre-approved. Management is required, however, to obtain pre-approval of the Audit Committee for services where engagement fees are expected to exceed \$10,000. Where fees for a particular engagement are expected to be less than or equal to \$10,000 the Chairman of the Audit Committee is to be notified expeditiously of the commencement of such services. If an engagement with the auditors for a particular service is contemplated that is neither expressly forbidden under the Procedure nor covered under the range of services provided for therein, such an engagement must be pre-approved.

## External Auditor Service Fees (By Category)

The aggregate fees billed by the Corporation’s external auditors in each of the last two fiscal years are as follows.

| <b>Financial Period<br/>Ending October 31</b> | <b>Audit Fees<sup>(1)</sup></b> | <b>Audit Related Fees</b> | <b>Tax Fees<sup>(2)</sup></b> | <b>All Other Fees<sup>(3)</sup></b> |
|---|---------------------------------|---------------------------|-------------------------------|-------------------------------------|
| 2008  | \$144,814                       | \$44,992                  | \$51,950                      | \$6,500                             |
| 2007  | \$184,960                       | nil                       | \$45,200                      | \$2,915                             |

### Notes:

- (1) The aggregate audit fees billed.
- (2) The aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning.
- (3) Transfer pricing fees.