



CHARTWELL TECHNOLOGY INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and twelve months ended October 31, 2008 and 2007.

January 29, 2009

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Reference to 2008 or fiscal 2008 means the twelve months ended October 31, 2008. Likewise, reference to 2007 or fiscal 2007 refers to the twelve months ended October 31, 2007. Additional information relating to the Company is available on SEDAR at www.sedar.com under Chartwell Technology Inc. and on the Company's website at www.chartwelltechnology.com.

Special Note Regarding Forward-Looking Statements

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

Certain statements contained in this report about the Company's future plans and intentions, results, levels of activity, performance or achievements or other future events, including statements related to the Company's plans to launch new products such as the Linked Progressive Jackpots and Bingo community, plans to expand hosting, network administration and casino management services, competition, evolution of the regulatory framework for on-line gambling, and any statements that contain words such as "anticipate", "estimate", "may", "will", "should", "could", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words constitute forward-looking statements.

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

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

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

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

Non-GAAP Financial Measures

EBITDA is defined as earnings that include the benefit of government assistance, before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. Management believes however that EBITDA is a useful supplementary measure as it provides indication of the results of Chartwell's business operations without regard to how these activities were financed or how these results were taxed. Chartwell's method of calculating EBITDA may differ from that of

other companies, and accordingly, EBITDA may not be directly comparable to measures used by other companies.

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 towards recession 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 Company's revenue, results of operations and financial condition.

OVERVIEW

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

Business Plan

The Company's business plan and objectives through fiscal 2009 are to increase our market share in our traditional internet Casino market with a continued emphasis on the European market; endeavour to license our software to the larger European operators; launch our Linked Progressive Jackpot (LPJ); launch a Bingo community, investigate new markets including Asia and serve more clients in hosting, network administration and casino management.

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

Business Model

The majority of Chartwell's revenue is in the form of software license fees most of which are contingent upon customer usage and are recognized on an accrual basis as earned over the life of the contract. The Company's contractual agreements with licensees provide for the provision of graphics, web design, software implementation services, licensing of the software and provision of software upgrades over the fixed term of the contract. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a two to five year term. The license fee is calculated as a percentage of each licensee's level of activity.

Software set-up fee revenue and the related costs for the initial design, construction and implementation of the gaming software are recognized ratably over the initial term of the contract.

Service revenue is generated from a variety of activities including custom software development, network administration, hosting and fully managed services. Software development fees are fees that the Company charges for custom software development and are recognized on a percentage of completion basis. The Company provides network administration services for fixed monthly rates and these fees are reported along with service fees on an accrual basis during the period of service. Following the acquisition of Elite Club Management N.V. (ECM), the Company includes hosting and fully managed services revenue in its consolidated service revenue. Hosting fees are fixed monthly fees and are recorded in service revenue on an accrual basis. Fully managed services are offered to software licensees whereby the Company provides varying levels of management support services. The fully managed services fees are based on the participants' level of activity and are recognized on an accrual basis. Prior to the ECM acquisition, and following the Poker Community Management Business acquisition in February of 2007, the Company recognized Poker community management service revenue. This revenue was for the management of the Poker community for the benefit of ECM sub-licensees which, following the acquisition of ECM, is no longer recognized on a consolidated basis.

Expenses are classified into eight categories, namely: software development and support; sales and marketing; general and administrative; amortization of deferred software development costs; stock-based compensation expense; depreciation and amortization; amortization of intangible assets; and foreign currency gains or losses. Software development and support consists of personnel and related costs associated with the design and development of new products, first level support for fully managed services customers of the Poker community, second level support for both casino and poker products, hosting costs for the Poker, Bingo and LPJ communities paid to hosting providers, customer implementation and quality assurance. Sales and marketing expenses consist of personnel and related costs associated with the Company's sales, marketing and business development activities. General and administrative expenses include the costs of all administrative, financial and information technology (IT) support personnel, investor relations and professional fees relating to our public company listing. Stock-based compensation expense consists of the estimated fair value of options granted to Directors,

employees and consultants. Depreciation and amortization charges are based on the estimated useful life of the respective assets and include the amortization of deferred software development costs and intangible assets. The Company operates internationally with all of its revenue derived from non-Canadian licensees. Under the Company's licensing agreements, the majority of the Company's revenue is received in UK Pounds Sterling and Euros. Consequently, the Company is exposed to currency fluctuations, which result in foreign currency gains or losses, which are reported in that expense category.

THE YEAR IN REVIEW

2008 marks the 10th anniversary for the Company, and it was celebrated by revolutionizing the Chartwell Gaming System and introducing more gaming content than any time in the Company's history.

Early in the year the Company deployed a major technological release, adding numerous responsible gaming features, improving the underlying architecture and thereby improving the speed and usability for casino managers. Along with these added features, Chartwell introduced more new games than at any time in its ten year history. A total of 17 Casino games were released, along with advancing an additional eight new Casino games through to the final stages of development, late in the year.

The Company failed to introduce its Linked Progressive Jackpots (LPJ) in the year principally due to licensing delays caused by the Malta Lotteries and Gaming Authority. The Company is aggressively pursuing other licensing alternatives and expects to launch the LPJ in 2009.

In the year the Company announced its intent to launch a Bingo community using Parlay Entertainment's Bingo games. In 2009, Chartwell plans be amongst the first communities to have Parlay5™ released and in the market. Our proposed Bingo community is generating a lot of interest from our customers and customers of other software suppliers. Being able to provide a seamless, integrated Bingo solution is something that the Company is looking forward to.

Poker is a product that Chartwell and other software suppliers, as well as operators have struggled with. Following the Poker Community Management Business acquisition in 2007 and the ECM acquisition in 2008, Chartwell worked with our existing customers to generate more activity and rake in the Poker community. The Company was successful in increasing software license revenue from Poker by over 50% in the year, but the revenue remains highly concentrated amongst a few operators. In Management's view, the Poker community will need increased liquidity to be competitive in the future. Late in the year, the Company decided to transfer Poker development staff to the Calgary office from Vancouver.

The regulatory framework for the industry continued to evolve in the year, with many European countries moving to legislate and regulate on-line gaming. Chartwell demonstrated its leading position of regulated, responsible gaming by being the first to launch a UK Gambling Commission regulated on-line casino with our client, IG Index.

While the industry continues to grow, competition too is intensifying. Chartwell has maintained a focused strategy of expanding the depth and breadth of its product offering while controlling costs and generating cash flow. As a result, the Company continues to strengthen its balance sheet and is in a strong position to continue to invest and grow. We expect even greater competitive pressure in 2009.

FINANCIAL REVIEW

Total revenue for the year ended October 31, 2008 increased 13.2% to \$24.0 million from \$21.2 million in 2007. Net income for 2008 was \$2.8 million (\$0.15 per basic and fully diluted share) compared to a net loss of \$84,000 (\$0.00 per share basic and fully diluted) in the previous year. The Company improved overall net income by increasing revenue in excess of the combined increase in the software development, support, sales, marketing, general and administrative expenses. The return to a net income from a net loss in the prior year was also the result of the non-recurrence of intangible impairment charges as well as a foreign exchange gain in 2008 over a foreign exchange loss in 2007.

Organic revenue growth, driven by Chartwell's year of significant new casino content, was the key driver for the overall increase in software license revenue. License fees from Poker were also significantly higher as increased liquidity in the Poker community lead to increased rake. Following the acquisition of ECM in the second quarter of 2008, the Company now consolidates the service revenue from Fully Managed Services provided by ECM.

Total software development and support increased by close to 16% as the Company focused on accelerating the breadth and depth of the Company's industry leading casino games suite, invested further in Cyberboss and casino management tools in general, commenced the integration work of Parlay's Bingo software, and expanded the level of support following the acquisition of ECM.

Sales and marketing and general and administrative expenses declined modestly as the Company focused its efforts on producing and deploying increased content and broadening the services it offers while controlling expenses elsewhere.

Late in the year the Company received a preliminary assessment from the Canada Revenue Agency (CRA) that accepted the majority of the Company's claim for Investment Tax Credits (ITCs) for Scientific Research and Experimental Development (SR&ED). The combined Federal and BC Provincial tax credits total \$833,000 before related fees, and have either been applied to taxes payable or are available to reduce future taxes payable in 2009. The benefit from the tax credits have been accounted as a reduction in software development and support expense of \$646,000 and a reduction in deferred software development of \$187,000. These tax credits relate to expenditures in the fiscal years 2006 and 2007.

Chartwell maintained its strong balance sheet in 2008. The Company's focused investment strategy and cost management lead to cash flow from operations of \$9.0 million, bringing cash and short-term investments to \$22.6 million, up from \$15.1 million at the fiscal year end 2007. The principal investing activity during 2008, outside of cash management and transferring excess funds to investments, was the purchase of property and equipment to eventually establish the Bingo and LPJ communities. There was no major financing activity in 2008.

SELECTED ANNUAL FINANCIAL DATA

Comparison of the years ended October 31, 2008 and 2007:

Consolidated Statement of Operations and Deficit

Year ended October 31, (Amounts in Thousands, Except per Share Data)	<u>2008</u>	<u>% Revenue</u>	<u>2007</u>	<u>% Revenue</u>
Revenue				
Software license fees	\$22,395	93%	\$20,293	96%
Software set-up fees	146	1	236	1
Service fees	940	4	200	1
Interest and other	549	2	493	2
	24,030	100%	21,222	100%
Expenses				
Software development and support	10,919	45	9,449	44
Sales and marketing	2,641	11	3,042	14
General and administrative	3,558	15	4,207	20
Amortization of deferred software development costs	1,153	5	941	4
Impairment of deferred software development costs	-	-	543	3
Stock-based compensation	610	3	231	1
Depreciation and amortization	839	3	727	3
Amortization of intangible assets	488	2	745	4
Impairment of intangible assets	-	-	872	4
Foreign currency loss	(246)	(1)	701	3
	19,962	83	21,458	100
Net income before taxes	4,068	17	(236)	(1.11)
Income taxes	1,275	5	(152)	(0.01)
Net Income	\$2,793	12%	(84)	0.00%

October 31, (Amounts in Thousands)	<u>2008</u>	<u>2007</u>
Consolidated Balance Sheet Data		
Cash and short-term investments	\$22,298	\$15,079
Working capital	24,024	19,968
Total assets	34,319	30,546
Deferred revenue	206	297
Total shareholders' equity	30,693	27,802

RESULTS OF OPERATIONS

YEAR ENDED OCTOBER 31, 2008 COMPARED TO YEAR ENDED OCTOBER 31, 2007

REVENUE

Total revenue increased to \$24.0 million for the year ended October 31, 2008 compared to \$21.2 million for the year ended October 31, 2007, an increase of 13.2%. License fees remain the single largest contributor to revenue and represented 93.2% of total revenue in fiscal 2008 compared to 95.6% of revenue in fiscal 2007.

The industry continues to mature with major operators having well established brand equity resulting in greater concentration of market share. As a consequence of this maturity, there are relatively fewer new market entrants within Chartwell's traditional markets. However, as European and other governments move to legislate and regulate on-line gaming, opportunities to expand our client base do arise, such was the case in the year with IG Index and their Extrabet site that became the first UK Gambling Commission licensed operator. Apart from expanding into new markets, revenue growth can come from displacing other software suppliers, organic growth from existing licensees and existing products, or from additional products to new or existing clients.

The industry has continued to mature from an environment of single operators typically having single suppliers, to individual operators now often choosing multiple suppliers. This can create new opportunities, whether competing to displace other vendors, competing for market share with a single vendor, or competing for new market opportunities. Operators face ever increasing competition for players, so a key to contending in this environment is a broad product offering with new, entertaining and differentiated games content added at regular intervals.

Increased casino license revenue in the year resulted substantially from organic player growth as 17 new casino games were deployed. An additional eight games progressed through development in the year, nearing completion towards the end of the fiscal year.

Poker license revenue increased by 51.1% over 2007. Management has focused on increasing the liquidity of the Poker community by working with existing licensees, managing the Poker community following the acquisition of that business in 2007, acquiring the FMS service line with the ECM acquisition in 2008, and improving the scalability of the Poker platform. Poker license revenue is 11.1% of total software license fees in 2008 as compared to 8.1% in 2007.

Software set-up fees decreased to \$146,000 in the year ended October 31, 2008 compared to \$236,000 for the same period a year earlier. The decrease is attributable to deferred revenue and expense being completely recognized following the initial term of most licensees and smaller set-up fees from new clients. We expect set-up fees to continue to represent a small percentage of the Company's total revenue as we continue to build our license fee component of revenue.

Service revenue increased mainly as a result of the acquisition of ECM in the second quarter. Since that time, the Company has recorded \$789,000 in revenue mostly from fully managed service clients, but also incidental revenue from hosting and network administration services. As the industry matures in some markets, there will likely be increased demand for additional services such as the outsourcing of network administration or integration services of multiple vendors, especially for our larger clients, who increasingly seek to focus their internal resources on added-value activities such as marketing and player retention.

Interest and the remaining other revenue was \$549,000 in fiscal 2008 compared to \$493,000 in fiscal 2007. The increase is the result of a higher investment balance, despite generally lower yields.

OPERATING EXPENSES

Total operating expenses decreased to \$20.0 million in the year ended October 31, 2008 compared to \$21.5 million in the year ended October 31, 2007. The major factors affecting the decline in expenses from 2007 to 2008 were:

- Certain impairment charges to intangible assets in 2007 totaling \$1.4 million that did not recur in 2008.
- Foreign exchange gain in 2008 of \$246,000 compared to a foreign exchange loss of \$701,000.
- Offsetting the above noted decreases in expenses, there was a net increase in software development, support, sales, marketing, general and administrative. Particularly, there was a \$1.5 million increase in software development and support.

As a percentage of total revenue, total operating expenses decreased to 83.1% in the current year compared to 101.1% in the prior year. Operating margins (defined as net income before income taxes as a percentage of revenue) were 16.9% in 2008 versus (1.1%) in 2007, reflecting the factors noted above.

SOFTWARE DEVELOPMENT AND SUPPORT

Software development and support costs continue to represent the Company's single largest expenditure. In 2008, total software development and support expense increased by 15.6% to \$10.9 million from \$9.4 million in 2007. In 2007, \$549,000 was deferred and this reduced software development and support expense in that year. When comparing the two years before the deferral of software development expenses, the increased cost was 9.2%.

Following the acquisition of ECM in the second quarter of 2008, the Company includes the cost of providing the fully managed services support group from ECM. The total increase in support expenses from the fully managed services was \$500,000 in the year.

The Company experienced a slightly more favourable market to attract and retain staff in the year than in prior years, and Management has focused efforts in improving overall human resources management which has helped the Company more effectively attract and retain staff. This, combined with the demand to broaden our product base and also improve the service we provide to customers, resulted in closing the year with 22 more staff in software development and support. In particular, we added five people in quality assurance, six people in deployment, and eight people between Casino games and Cyberboss development.

During the year the Company prepared a claim for ITCs for SR&ED. Late in the year the Company received a preliminary assessment from the Canada Revenue Agency that accepted the majority of the Company's claim. The combined Federal and BC Provincial tax credits total \$833,000 before related fees, and have either been applied to taxes previously payable or are available to reduce future taxes payable. \$646,000 reduces total software development and support expense while \$187,000 reduces deferred software development. These tax credits relate to the fiscal years 2006 and 2007. In addition, the Company will claim SR&ED activities that Management believes is eligible for its 2008 taxation year.

As a percentage of revenue, software development and support expenses, net of deferred software development costs, increased to 44.6% in 2008 compared to 44.5% in 2007, reflecting the factors noted above.

SALES AND MARKETING

Sales and marketing expenses decreased modestly by 13.2% to \$2.6 million in 2008 versus \$3.0 million in 2007. The decrease is due to a general change in focus for the Company to increased gaming content and greater services, while focusing the sales and marketing strategy. There was reduced office expenses as well as a reduction in salary expense from the timing difference of staff turnover and their replacement.

As a percentage of revenue, sales and marketing costs have decreased to 11.0% in 2008 from 14.3% in 2007.

GENERAL AND ADMINISTRATIVE

General and administrative expense was \$3.6 million for the year ended October 31, 2008 compared to \$4.2 million a year earlier. As a percentage of revenue, general and administrative expenses decreased to 15.4% in 2008 from 19.8% in 2007. Salary expense decreased by \$527,000 due to a reduced staff complement in the Calgary head office in finance and administration, the transfer of some in-house legal counsel functions to a consultant, and one time charges in the prior year including severance to certain former employees and a bonus paid to an officer who is also a director of the Company. Professional fees increased by \$380,000 with the increase in legal fees as a result of a number of corporate initiatives including the acquisition of ECM,

implementing the shareholder rights plan and Normal Course Issuer Bid (NCIB), contract negotiations and support for various third party content licensing, using a consultant in place of in-house counsel as well as an increase in regulatory compliance as the Company worked to obtain gaming licenses in two jurisdictions in the year.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for 2008 was \$1.2 million as compared to \$941,000 from 2007. There were no additions to deferred software development in the year, and amortization expense resulted from the second version of the Poker product. In 2007, the Company deferred \$550,000 relating to the development of the second version of the Poker product and completed the amortization of the first version of the Poker product. In 2008, the Company recognized ITCs relating to development initially deferred in fiscal years 2006 and 2007. The ITCs that related to this development and reduced the balance of deferred software development amounted to \$187,000. Management has estimated the appropriate amortization period to be three years for the Poker product. The Company amortizes costs related to the Poker product on a straight line basis.

IMPAIRMENT OF DEFERRED SOFTWARE DEVELOPMENT

Throughout fiscal 2006 the Company deferred \$542,000 of software development cost of the mobile product. As at the end of the fiscal year 2007, Management was not actively marketing the mobile product and therefore chose to eliminate the carrying value of the mobile product deferred software development. There was no impairment of deferred software development in 2008.

STOCK-BASED COMPENSATION

The Company recorded \$610,000 of stock-based compensation expense for 2008 versus \$231,000 for 2007. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of one to five years for employees. The value of stock options granted to employees are expensed at the grant date for contractors initially, and revalued and either expensed or a reversal of expense is recorded at each period end during the vesting period of the options. The year over year increase in the expense is due to the expensing of options granted late in 2007.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to \$839,000 in 2008 from \$727,000 in 2007. The increase in depreciation is due to higher net book values of property and equipment at October 31, 2008 versus a year earlier. One of the major areas of investment was the purchase of hardware in the Calgary development office to improve development productivity.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets in 2007 and 2008 relates to amortization on the customer contracts and intellectual property acquired as part of the acquisition of the Poker Community Management Business. Amortization for 2008 was \$488,000 compared to \$745,000 in 2007. The amount recorded for customer contracts is amortized over the contract period for each contract that was acquired. The amount recorded for intellectual property from the acquisition of the Poker Community Management Business is being amortized over three years. The amortization period is Management's best estimate of the period that the acquired intellectual property will provide future value to Chartwell.

IMPAIRMENT OF INTANGIBLE ASSETS

Late in 2007, Management reviewed the carrying amount of the intellectual property acquired along with the original acquisition of Micropower in 2005 and made the assessment that the revenue that is currently being generated from the Poker product is the result of the considerable amount the Company has invested in re-writing the Poker software. At that time Management decided to record an impairment charge for the remaining balance from the intangible assets related to the Micropower acquisition.

FOREIGN CURRENCY GAIN

The Company recorded a foreign currency gain of \$246,000 in 2008 compared to a foreign exchange loss of \$701,000 for 2007. The foreign exchange gain experienced in 2008 was due primarily to the progressively weakening Canadian dollar against the Euro. This was offset in part by foreign exchange losses late in the year as the Canadian dollar strengthened against the British Pound Sterling. The Company began actively hedging some of the foreign currency risk at the start of fiscal 2008.

PROVISION FOR INCOME TAXES

The current income tax receivable of \$1.7 million from the prior year end was reduced to receivable of \$251,000 in the year as net income generated taxes payable and the Company received a refund on the reassessment of several years worth of tax returns as well as recorded a total ITC relating to SR&ED of \$833,000 from fiscal years 2006 and 2007.

The future tax liability of \$512,000 at the year end compares to a future tax liability of \$643,000 from the prior year. The reduction in future tax liability is largely due to the decrease of the timing differences between the accounting and tax treatment of the deferred software development.

A total income tax expense of \$1.3 million in 2008 compares to an income tax recovery of \$152,000 from 2007, the difference which is largely due to increased income before tax.

EBITDA

EBITDA (defined as earnings that include the benefit of government assistance, less interest, plus taxes, depreciation and amortization) almost doubled year over year with an increase of 93.9% to \$6.0 million for the year ended October 31, 2008 from \$3.1 million for the comparable period of 2007. The increase in the EBITDA is due to the same factors affecting net income, for reasons which are noted above.

EBITDA is reconciled to net income as follows:

in thousands of Canadian dollars

	2008	2007
Net income	\$2,793	\$(84)
Interest	(538)	(493)
Amortization of deferred software development	1,153	1,484
Depreciation and amortization	839	727
Amortization of intangible assets	488	1,616
Income tax expense (recovery)	1,275	(152)
EBITDA	\$6,010	\$3,098

NET INCOME

Net income was \$2.8 million for the year ended October 31, 2008 as compared to a net loss of \$84,000 for the year ended October 31, 2007. Overall the Company focused on software development; improving software quality, increasing the number of new Casino games produced internally as well as licensing content from other suppliers, and introducing new products such as Bingo. This focus on software development lead to increased software development expense, while expense management allowed the Company to reduce other expenses in sales and marketing and general and administrative expenses. Net income was also positively affected by a foreign exchange gain in the year as compared to a significant foreign exchange loss in the prior year.

Diluted earnings per share was \$0.15 for the year ended October 31, 2008 compared to loss per share of \$0.00 in the same period of 2007. The increase in the diluted earnings per share in the current year reflects, principally, the increase in net income from the previous year.

CASH FLOW STATEMENT

OPERATING ACTIVITIES

Cash flow provided by operating activities for the year ended October 31, 2008 was \$9.0 million compared to \$5.1 million for the year ended October 31, 2007. The increase demonstrates improved earning power once adjusted for the prevalence of the non-cash charges.

FINANCING ACTIVITIES

Cash used in financing activities was \$512,000 in 2008 versus cash provided by financing activities of \$210,000 in 2007. The cash used by financing activities was from repurchasing of 420,500 of the Company's common shares at an average price of \$1.59 per share through the NCIB less proceeds from common shares issued on exercise of stock options. The NCIB started early in the second quarter of 2008, and there were no shares repurchased in 2007. For the year ended October 31, 2007, the Company realized net proceeds of \$216,000 from the exercise of stock options.

INVESTING ACTIVITIES

The Company's investing activities in fiscal 2008 was mainly cash management that resulted from the strong cash flow from operations. Management focused on keeping cash on hand balances as low as possible and therefore increased the balance in the Company's investment account to \$20.6 million. In addition, the Company acquired ECM to expand the breadth of services we offer to licensees and continued to invest in capital assets to further enhance our software development capabilities. In fiscal 2007, the cash used in investing activities was mainly the purchase of the Poker Community Management Business for proceeds of \$2.1 million which is reflected on the cash flow statement as a \$1.5 million investment in the Poker Community Management Business plus an investment of \$1.0 million in capital assets.

SELECTED QUARTERLY FINANCIAL DATA

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

	Fiscal 2008 Quarters				
	(In Thousands except per share data)				
	(Certain numbers have been re-classified to conform with current period presentation)				
	Q1	Q2	Q3	Q4	Annual
Revenue					
Software license fees	\$ 5,582	\$ 6,459	\$ 5,695	\$ 4,659	\$ 22,395
Software set-up	25	43	19	59	146
Service revenue	29	340	276	295	940
Interest and other	139	142	151	117	549
	<hr/> 5,775	<hr/> 6,984	<hr/> 6,141	<hr/> 5,129	<hr/> 24,029
Expenses					
Software development and support	2,305	2,833	3,084	2,697	10,919
Sales and marketing	745	603	573	720	2,641
General and administrative	788	989	874	908	3,559
Amortization of deferred software development costs	288	288	288	289	1,153
Stock-based compensation	139	371	144	(44)	610
Depreciation and amortization	173	211	215	240	839
Amortization of intangible assets	122	122	122	122	488
Foreign currency loss (gain)	(67)	(104)	(5)	(70)	(246)
	<hr/> 4,492	<hr/> 5,313	<hr/> 5,295	<hr/> 4,862	<hr/> 19,962
Net income before taxes	1,283	1,671	846	268	4,068
Income taxes	353	621	265	36	1,275
	<hr/> \$ 930	<hr/> \$ 1,050	<hr/> \$ 581	<hr/> \$ 232	<hr/> \$ 2,793
Net income					
Basic earnings per share	\$ 0.05	\$ 0.05	\$ 0.04	\$ 0.01	\$ 0.15
Diluted earnings per share	\$ 0.05	\$ 0.05	\$ 0.03	\$ 0.02	\$ 0.15

Fiscal 2007 Quarters

(In Thousands except per share data)

(Certain numbers have been re-classified to conform with current period presentation)

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

QUARTERLY RESULTS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2008 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2007.

REVENUE

In the three months ended October 31, 2008, total revenue increased to \$5.1 million from \$4.9 million in the same period in 2007. The increase in revenue is largely due to an increase in service revenue while software license revenue was comparable between periods.

Software license fees increased in total by 0.2% in the fourth quarter of 2008. Casino license revenue increased by 1.8% while Poker license revenue declined by 14.5%. August, the first month of the fourth quarter, is typically the slowest month of the year. This year, August revenue was lower than normal. We believe some of this decline is as a result of the Summer Olympics.

The increase in service revenue over the comparable period in 2007 resulted from the acquisition of ECM in the second quarter of 2008.

Interest income increased to \$148,000 from \$122,000 for the three months ended October 31, 2008 and 2007, respectively. The increase comes from a substantially higher investment account balance, offset by yields that are considerably lower than they were a year ago.

OPERATING EXPENSES

Total operating expenses decreased by 25.9% to \$4.9 million for the three months ended October 31, 2008 compared to \$6.6 million for the same period of 2007. Without the effect of the impairment charge to both intangible assets and deferred software development in 2007, operating expenses decreased by 5.5%.

During the three months ended October 31, 2008, significantly higher total software development and support expense were offset by a recovery of stock based compensation expense and a foreign exchange gain.

SOFTWARE DEVELOPMENT AND SUPPORT

Software development and support expense increased significantly when comparing the fourth quarter of 2008 with the same period in 2007. Throughout the year Management worked to reduce turnover, and fill open positions in a cost effective manner. The Company was successful in these efforts and as a result, there were 22 more people in software development and support group between the Calgary and Vancouver development offices than there were a year earlier. In the fourth quarter of 2008, the Company decided to transition the Vancouver development team to Calgary. Transferring this development is intended to increase the integration of these two development teams, and allow more flexibility in allocating resources. The total cost that has been accrued for relocation and retention incentives is \$114,000. By the end of the quarter, not all staff have accepted the offer to relocate to Calgary.

During the year the Company prepared a claim for ITCs for SR&ED. Late in the year the Company received a preliminary assessment from the Canada Revenue Agency that accepted the majority of the Company's claim. The combined Federal and BC Provincial tax credits total \$833,000 before related fees, and have either been applied to taxes previously payable or are available to reduce future taxes payable. \$646,000 reduces total software development and support expense while \$187,000 reduces deferred software development. The full \$833,000 was recognized in the fourth quarter.

The cost of the ECM support group for FMS is included in software development and support expense in the fourth quarter of 2008 and not in 2007 which has increased salary expense as well as related operating expenses for the ECM office.

As a percentage of revenue, software development and support increased to 52.6% from 44.5% for the three months ended October 31, 2008 and 2007, respectively.

SALES AND MARKETING

Sales and marketing expenses increased to \$720,000 from \$663,000 for the three months ended October 31, 2008 compared the same period of 2007. The increase is due to an additional sales person in Asia and generally higher travel expense, offset by reduced trade show related expenses.

As a percentage of revenue, sales and marketing expenses increased to 14.0% from 13.6% for the three months ended October 31, 2008 and 2007.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for the three months ended October 31, 2008 decreased to \$908,000 from \$1.1 million in the same period of 2007. The Company had higher salary expenses as we added staff to IT management and general administration in Calgary along with the added administration staff in the ECM office as well as higher professional fees. Offsetting these increases in expenses and leading to an overall decline in general and administrative expense was the non-recurrence of a bonus that was paid to an officer who was a director late in 2007, reduced consulting expense and the fact that there was no bad debt expense in the last quarter of 2008.

As a percentage of revenue, general and administrative expenses decreased to 17.7% from 22.9% for the three months ended October 31, 2008 and 2007.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for the three months ended October 31, 2008 was \$288,000 as compared to the \$238,000 that was recorded for the same period of 2007. The Company began amortizing the cost of the second major release of the Poker product early in the first quarter of 2006 and continued to defer costs through to the end of 2007. No costs for Poker or any other product was deferred in 2008. In the fourth quarter of 2008, the Company recognized ITCs relating to development initially deferred in fiscal years 2006 and 2007. The ITCs that related to this development and reduced the balance of deferred software development in the fourth quarter of 2008 was \$187,000.

IMPAIRMENT OF DEFERRED SOFTWARE DEVELOPMENT

Throughout fiscal 2006 the Company deferred \$542,000 of the software development cost of the mobile product. As at the end of the fiscal year 2007, Management was not actively marketing the mobile product and therefore chose to eliminate the carrying value of the mobile product deferred software development. There was no impairment of deferred software development in 2008.

STOCK-BASED COMPENSATION

The Company recorded a stock-based compensation recovery of \$44,000 in the fourth quarter of 2008 as compared to an expense of \$108,000 for the same period in 2007. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of one to five years for employees. The value of stock options granted to employees are expensed at the grant date for contractors initially, and revalued and either expensed or a reversal of the expense is recorded at each period end during the vesting period of the options. The recovery was substantially the result of revaluation of unvested stock options previously granted to consultants.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 7.1% to \$240,000 for the three months ended October 31, 2008 versus \$224,000 for the similar period of 2007. The increased depreciation expense is due to higher net book values of property and equipment through the third quarter of 2008 versus the comparable quarter of 2007. It is expected that continued investment in computer hardware and software will be required as the Company focuses on overall development productivity.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets in the fourth quarter of 2008 relates to customer contracts and intellectual property acquired as part of the acquisition of the Poker community management. In the fourth quarter of 2007, there was amortization of these assets as well as from intellectual property that was acquired along with the acquisition of the Micropower acquisition. Amortization for the three months ended October 31, 2008 was \$122,000 compared to \$172,000 for 2007. The amount recorded for customer contracts is being amortized over the contract term for each acquired contract. The amount recorded for intellectual property from the acquisition of the Poker Community Management Business is three years, which is Management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell in both cases.

IMPAIRMENT OF INTANGIBLE ASSETS

Late in 2007, Management reviewed the carrying amount of the intellectual property acquired along with the original acquisition of Micropower in 2005 and made the assessment that the revenue that is currently being generated from the Poker product is the result of the considerable amount the Company has invested in completely re-writing the Poker software. At that time Management decided to record an impairment charge for the remaining balance from the intangible assets related to the Micropower acquisition.

FOREIGN CURRENCY GAIN OR LOSS

The Company incurred a foreign currency gain of \$70,000 for the three months ended October 31, 2008 as compared to a loss of \$438,000 for the comparable period of 2007. The gain compared to a loss in the comparable period in the prior year was largely the result of the Canadian dollar weakening versus the Euro, despite the Canadian dollar strengthening against the British Pound. The Company began actively hedging some of the foreign currency risk at the start of fiscal 2008 and had a limited amount of foreign currency collars as at year end.

PROVISION FOR INCOME TAXES

Income taxes for the three months ended October 31, 2008 resulted in a tax expense of \$36,000 compared to a tax recovery of \$578,000 for the three months ended October 31, 2007.

EBITDA

EBITDA (defined as earnings that include the benefit of government assistance, less interest, plus taxes, depreciation and amortization) more than doubled to \$771,000 for the fourth quarter of 2008 over the same period in 2007. The increase in the EBITDA is due to the same factors affecting net income, for reasons which are noted above.

EBITDA is reconciled to net income as follows:

in thousands of Canadian dollars

	Three months ending October 31,	
	2008	2007
Net income (loss)	\$232	\$(1,090)
Interest	(148)	(122)
Amortization of deferred software development	288	238
Impairment of deferred software development	-	543
Depreciation and amortization	240	224
Amortization of intangible assets	122	171
Impairment of intangible assets	-	872
Income tax expense (recovery)	37	(578)
EBITDA	\$771	\$258

NET INCOME

Net income was \$232,000 for the three months ended October 31, 2008 versus a net loss of \$1.1 million for the three months ended October 31, 2007. Revenue in this seasonally weak quarter was lower than normal due to

other entertainment options that players had in August, and expenses were relatively higher due to the Company's strategic focus on increasing software production.

Earnings per share was \$0.01 and diluted earnings per share was \$0.02 for the three month period ended October 31, 2008 compared to a loss per share of \$0.07 in the same period of 2007. The decrease in the diluted earnings per share in the fourth quarter of 2008 primarily reflects the impact of lower net income.

CASH FLOW STATEMENT

OPERATING ACTIVITIES

Cash provided by operations for the three months ended October 31, 2008 was \$757,000 compared to \$1.3 million for the three months ended October 31, 2007. Net income before the impairment charges in the fourth quarter of 2007 was higher than the fourth quarter of 2008.

FINANCING ACTIVITIES

Cash used in financing activities was \$70,101 for the three months ended October 31, 2008 versus cash provided by financing activities for the three months ended October 31, 2007 of \$11,000. The Company's financing activity in the fourth quarter of 2008 was the repurchase of common shares under the NCIB. In the fourth quarter of 2007 the Company issued common shares for cash from the exercise of stock options. There were no repurchases of the Company's shares in the fourth quarter of 2007.

INVESTING ACTIVITIES

Cash used by investing activities was \$1.3 million for the three months ended October 31, 2008 versus cash used in investing activities for the three months ended October 31, 2007 of \$394,000. The Company's investing activities in the fourth quarter of 2008 was primarily cash management and moving funds into an investment account while the activities in the fourth quarter of 2007 was the purchase of property and equipment.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to maintain a strong balance sheet. At October 31, 2008 the Company had no debt, \$22.3 million in cash and short term investments and working capital (defined as current assets less current liabilities) of \$23.2 million. The Company has cash and short term investments, as well as cash collected from ongoing license fees, to meet the Company's planned growth and development activities. The Company does not foresee any material fluctuation in its liquidity or working capital position and based on the present level of revenue and expense does not foresee any significant change to its working capital requirements. Contractual commitments are summarized in "Contractual Obligations" section.

The Company does not have commitments for capital expenditures as of October 31, 2008. The Company's capital resources consist of common share issuances.

CONTRACTUAL OBLIGATIONS

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

2009	949,979
2010	185,067
2011	62,551
2012	56,412
2013	58,960
Thereafter	34,393

RELATED PARTY TRANSACTIONS

For the year ended October 31, 2008, the Company incurred legal fees for general corporate legal advice to a firm which a certain director of the Company is a partner in the normal course of business of \$101,000 (2007 - \$47,139). The Company incurred sales and marketing consultancy fees for business development services to a certain director and officer of \$134,000 (2007 - \$123,750). In addition, general and administrative consulting fees for investor relations services of \$58,000 (2007 - \$71,250) were paid to a certain director and officer as well as a former officer in 2007. These transactions were measured at the exchange amount which approximate fair value and are recorded in software development, sales and marketing, and general administrative expenses. As at October 31, 2008, \$29,000 (2007 - \$3,000) was recorded to accounts payable, while all other amounts have been paid.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements required Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from the estimates. The following accounting policies reflect the more significant estimates and assumptions used in the preparation of the Company's financial statements.

Revenue Recognition

Revenue recognition is critical because it is a key indicator of the Company's financial performance. Management follows specific guidelines in recognizing revenue and makes estimates and assumptions that affect the reported amounts of revenue. A delay in recognizing revenue could cause operating results to vary significantly. The majority of the Company's revenue, whether its license revenue or FMS service revenue, is contingent upon customer usage and recognized on an accrual basis provided that collection of the related receivable is deemed probable by Management.

Contingent Liabilities

The Company may receive, from time to time, claims and enter into litigation arising out of the ordinary course and conduct of business including intellectual property matters. Management assesses such claims, and if considered likely to result in material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. Management does not take provisions for claims that are considered unlikely to result in significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably determinable.

Impairment of Goodwill, Deferred Software Development or Intangible Assets

Whenever events or changes in circumstances indicate that the carrying value of goodwill, deferred software development, or intangible assets may not be recoverable, the Company assesses the impairment of these assets. Factors the Company considers important include a change in the Company's business strategy or significant negative industry or economic trends. When the Company believes the carrying value of goodwill, deferred software development, or intangible assets may not be recoverable based on the existence of one or more of the above indicators of potential impairment, the Company determines what impairment, if any, exists and provides for impairment in the period known.

Income Taxes

Management believes that it has adequately provided for income taxes based on all of the information that is currently available. Tax filings are subject to audits, which could materially change the amount of current and future income tax assets and liabilities.

In assessing the realizability of future assets, management considers whether it is more likely than not that some or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has not effected any changes to its significant accounting policies during the two years ended October 31, 2008, except as follows:

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

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

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

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

On November 1, 2007, the Company adopted the new CICA Handbook Section 3862 Financial Instruments – Disclosures, Handbook Section 3863 Financial Instruments – Presentation, and Handbook Section 1535 – Capital Disclosures. These standards require the Company to provide additional disclosure relating to its financial instruments, including hedging instruments, and about its equity.

The adoption of these new accounting standards did not impact the amounts in the Company's financial statements as they primarily relate to disclosure.

The CICA implemented revisions to standards dealing with Intangible Assets effective for fiscal years beginning on or after October 1, 2008. The revisions are intended to reduce differences with IFRS and result in a close alignment with US GAAP.

Section 1000 - Financial Statement Concepts was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the IASB's Framework for the Preparation and Presentation of Financial Statements that will help distinguish assets from expenses.

Section 3064 - Goodwill and Intangible Assets, which replaced Section 3062 - Goodwill and Other Intangible Assets, gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. Management is reviewing the impact of these new standards.

Convergence with International Financial Reporting Standards (IFRS) as Issued by the International Accounting Standards Board

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be complete by 2011. Chartwell will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011. Chartwell has selected November 1, 2010 as the date the Company will adopt IFRS.

There are several phases that the Company will have to complete on the path to changing to IFRS:

Initial impact assessment and scoping phase

This phase includes the identification of significant differences between existing Canadian GAAP and IFRS, as relevant to the Company.

Based upon the current state of IFRS, this phase identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to change to IFRS. The Company will continue to assess changes to IFRS and their impact to the Company.

Focused analysis and review phase

This phase includes identification, evaluation and selection of accounting policies necessary for the Company to change over to IFRS. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training.

Currently underway are the identification, evaluation and selection of accounting policies necessary for the Company to changeover to IFRS; consideration of impacts on operational elements, such as information technology and internal control over financial reporting, are integral to this process. Targeted training activities, which leveraged principally external resources, occurred during the current reporting period.

Further analysis and research is required before the Company can elaborate on the pre- and post-IFRS conversion accounting policy differences.

Integration phase

During this phase the Company will integrate the solutions into the Company's underlying financial system and processes that are necessary for the changeover to IFRS.

The Company will present its results for fiscal 2010 using contemporary Canadian GAAP. In 2011, the Company will present its comparative results for fiscal 2010 using contemporary IFRS. To accomplish this, in fiscal 2010 the Company will effectively maintain two parallel sets of financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

Allowance for Doubtful Accounts

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

Deferred Software Development Costs

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

Goodwill and Intangible Assets

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

RISKS AND UNCERTAINTIES

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

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

For further information on the Company's risks and uncertainties, see the Company's 2008 Annual Information Form available at www.sedar.com.

PROPOSED TRANSACTIONS

There is no proposed asset or business acquisition or disposition transactions pending as at October 31, 2008.

OFF BALANCE SHEET ARRANGEMENTS

As at October 31, 2008, the Company has not entered into any off balance sheet arrangements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, short term investments, accounts receivable, notes receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair values of these financial instruments approximate their carrying values. It is management's opinion that the Company is not exposed to significant interest risk. The Company's credit risk lies in its accounts receivable where the balances due reflect a concentration among a relatively small number of accounts. The Company's short term investments consist of investments in low risk bankers acceptances. A substantial portion of the Company's revenue is earned in foreign currencies and is exposed to currency fluctuations.

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

OTHER MD&A REQUIREMENTS

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended October 31, 2008, and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Company's financial reporting procedures and practices have enabled the certification of the Company's annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

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

Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of

segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

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

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

The Company has 18,451,123 common shares outstanding at January 29, 2009. If all of the Company's stock options were exercised, the Company would have 20,862,123 common shares outstanding.

The Company's 2008 Annual Information Form is available on www.sedar.com.