



Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

Years ended October 31, 2008 and 2007

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements and all the information contained in this Annual Report are the responsibility of management and the consolidated financial statements are approved by the Board of Directors of the Company. The consolidated financial statements have been prepared by management and are presented fairly in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments based on currently available information. The Company maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. The financial information presented throughout this Annual Report is consistent with the consolidated financial statements. KPMG LLP, an independent firm of Chartered Accountants, has been appointed by the Shareholders as external auditors of the Company. The Auditors' Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented on the following page.

The Audit Committee of the Board of Directors, whose members are unrelated and independent of Management, meets at least four times a year with Management and the external auditors to oversee the discharge of the responsibilities of the respective parties. The Audit Committee reviews the independence of the external auditors, pre-approves audit and permitted non-audit services and reviews the consolidated financial statements and other financial disclosure documents before they are presented to the Board of Directors for approval.



Darold H. Parken
President and CEO



Alan Richter
CFO

Calgary, Canada
January 29, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2008 and 2007 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Calgary, Canada

January 29, 2009

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets

As at October 31
(stated in Canadian dollars)

	2008	2007
Assets		
Current assets:		
Cash	\$ 1,728,161	\$ 4,413,871
Short term investments (note 1(l))	20,570,221	10,665,259
Accounts receivable	3,023,196	4,401,872
Income tax receivable	250,990	1,671,998
Prepaid expenses and deposits	1,078,565	708,466
Deferred set-up expense	3,421	21,078
Foreign exchange contracts	26,991	-
Total current assets	26,681,545	21,882,544
Restricted cash (note 2)	344,491	-
Property and equipment (note 4)	2,363,245	2,254,939
Intangible assets (note 5)	650,404	1,138,206
Goodwill	3,106,177	2,749,317
Deferred software development costs (note 6)	1,109,850	2,449,554
Deferred set-up expense	63,621	44,195
Deposits	-	27,610
	\$ 34,319,333	\$ 30,546,365
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,908,617	\$ 1,804,188
Deferred revenue	93,606	110,212
Total current liabilities	3,002,223	1,914,400
Deferred revenue	112,252	186,821
Future income tax liability (note 13)	511,579	642,934
Shareholders' equity:		
Share capital (note 7)	26,988,340	27,400,217
Shares repurchased, pending cancellation (note 7)	(27,630)	-
Contributed surplus (note 9)	2,495,347	1,900,959
Retained earnings (deficit)	1,237,222	(1,498,966)
Total shareholders' equity	30,693,279	27,802,210
	\$ 34,319,333	\$ 30,546,365

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:



Peter Kinash

Director



Darold H. Parken

Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Operations and Retained Earnings

Years ended October 31
(stated in Canadian dollars)

	2008	2007
Revenue		
Software license fees	\$ 22,394,986	\$ 20,293,427
Software set-up fees	145,570	235,691
Service fees	940,096	200,209
Interest and other	549,177	492,554
	<u>24,029,829</u>	<u>21,221,881</u>
Expenses		
Software development and support	10,918,878	9,448,675
Sales and marketing	2,640,707	3,042,354
General and administrative	3,558,867	4,207,481
Amortization of deferred software development costs	1,152,732	941,481
Impairment of deferred software development costs (note 6)	-	542,944
Stock-based compensation	610,209	231,095
Depreciation and amortization	838,901	726,632
Amortization of intangible assets	487,802	744,635
Impairment of intangible assets (note 5)	-	871,658
Foreign currency (gain) loss	(246,418)	700,847
	<u>19,961,678</u>	<u>21,457,802</u>
Net income (loss) before income taxes	4,068,151	(235,921)
Income tax expense (recovery) (note 13):		
Current tax	1,406,355	(1,049,120)
Future income tax	(131,355)	896,773
	<u>1,275,000</u>	<u>(152,347)</u>
Net income (loss) and other comprehensive income (loss)	2,793,151	(83,574)
Deficit, beginning of year	(1,498,966)	(1,415,392)
Repurchase of common shares under Normal Course Issuer Bid (note 7c)	(56,963)	-
Retained earnings (deficit), end of year	<u>\$1,237,222</u>	<u>\$(1,498,966)</u>
Net income per share:		
Basic	\$ 0.15	\$ (0.00)
Diluted	0.15	(0.00)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flows

Years ended October 31
(stated in Canadian dollars)

	2008	2007
Cash provided by (used in):		
Operations:		
Net income (loss) and other comprehensive income (loss)	\$ 2,793,151	\$ (83,574)
Depreciation and amortization	838,901	726,632
Amortization of deferred software development costs	1,152,732	941,481
Impairment of deferred software development costs	-	542,944
Unrealized foreign exchange (gains) losses	(87,236)	174,838
Stock-based compensation	610,209	231,095
Amortization of intangible assets	487,802	744,635
Impairment of intangible assets	-	871,658
Fair value adjustment of notes receivable	-	97,663
Future income tax expense	(131,355)	896,773
Restricted cash (note 2)	(344,491)	-
	5,319,713	5,144,145
Change in non-cash working capital:		
Accounts receivable	1,414,019	1,094,283
Deferred set-up expense	(1,769)	71,554
Prepaid expenses and deposits	(342,488)	(80,126)
Notes receivable	-	254,106
Due from related party	-	167,492
Deferred revenue	(91,175)	(268,274)
Accounts payable and accrued liabilities	1,104,429	441,054
Income tax receivable	1,607,980	(1,742,266)
	3,690,996	(62,177)
	9,010,709	5,081,968
Financing:		
Issue of shares for cash	156,164	216,084
Repurchase of shares for cash	(668,455)	-
Repayment of capital lease obligations	-	(5,711)
	(512,291)	210,373
Investing:		
(Purchase) redemption of short term investments	(9,904,962)	482,051
Purchase of property and equipment	(791,674)	(964,709)
Software development costs deferred	-	(548,591)
Business acquisition of Poker Community Management (note 3)	(548,691)	(1,473,838)
	(11,245,327)	(2,505,087)
Effect of foreign exchange rate changes on cash		
	61,199	-
Change in cash	(2,746,909)	2,787,254
Cash, beginning of year	4,413,871	1,626,617
Cash, end of year	\$ 1,728,161	\$ 4,413,871
Supplemental cash flow information:		
Interest received	\$ 534,670	\$ 491,553
Taxes paid	237,441	693,146

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

Chartwell Technology Inc. (“Chartwell” or the “Company”) is incorporated under the Business Corporations Act (Alberta). The Company develops, markets, licenses, implements and supports gaming applications and entertainment content for the internet and remote platforms. The Company’s software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and the Canadian dollar is the functional currency.

(b) Property and equipment:

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

Computer equipment	30%
Computer software and licenses	30%
Furniture and equipment	20%
Capital assets under lease	30%
Leasehold improvements	5 years

(c) Deferred software development costs:

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company’s intent to market the software, and the existence of adequate resources to complete the project. Software development costs are amortized over an estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(d) Foreign currency translation:

Transactions of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using the temporal method and the rate in effect at the time of the transaction. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net income.

Foreign exchange contracts are used by the company to reduce financial risk related to future net cash flows in foreign currencies. These contracts are recorded at fair value with changes in fair value recognized through earnings and are included in "foreign currency gain/loss" in the Consolidated Statement of Operations and Retained Earnings (Deficit). The fair value of the foreign exchange contracts at year end have been determined by an independent financial institution.

(e) Revenue recognition:

The Company enters into contractual agreements with licensees that provide for the provision of graphics, web design and software implementation services, the licensing of software, and the provision of unspecified software upgrades over the fixed term of the contract. The licensing agreements typically have a two to five year term. Revenue under such contractual arrangements is not recognized before there exists persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed and determinable, and the collectability of outstanding amounts is considered probable.

As the Company's contractual arrangements provide for the delivery of multiple elements, the Company evaluates whether vendor-specific objective evidence ("VSOE") exists to allow for the allocation of the arrangement fee between the undelivered elements and the delivered elements for revenue recognition purposes. To date, as the period provided for in contractual arrangements for the provision of unspecified upgrades is consistent with the license period, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements. Accordingly, set-up fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Direct and incremental costs incurred with respect to the set-up contractual arrangements have been deferred as deferred set-up expense and are recognized ratably over the term of the contract consistent with that for the related revenue recognition.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

1. Significant accounting policies (continued):

License fees, including fees from master license agreements, most of which are contingent upon licensee's customer usage, and are calculated as a percentage of each licensee's level of activity. The license fees are recognized on an accrual basis as earned over the life of the contract.

Service fees are made up of network administration, hosting and fully managed service fees. Fully managed services are offered to software licensees whereby the Company provides varying levels of management support services to its licensees. The Company provides all these services for a fixed monthly rate and fees are reported on an accrual basis during the period of service. Service fees also include software development fees. The Company charges for custom software development and these are recognized on a percentage of completion basis.

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

(f) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(g) Income taxes:

The Company follows the liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded against future income tax assets if it is more likely than not that all or a portion of the assets will not be realized.

(h) Stock-based compensation:

Equity instruments awarded to employees and non-employees and the cost of the service received as consideration measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. In addition,

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

1. Significant accounting policies (continued):

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

(i) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Areas of significant estimate include the recoverability of deferred software development costs, goodwill and intangible asset impairment assumptions, amortization periods for property and equipment, provision for doubtful accounts, the realization of future tax assets, deferred set-up fee expenses, and stock-based compensation. Actual results could differ from management's best estimates and underlying assumptions as additional information becomes available in the future.

(j) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. The fair value is determined by calculating the discounted cash flows for the reporting unit. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. Management has analyzed how its operations are integrated and determined that the Company has one reporting unit. Management has evaluated the goodwill for recoverability and determined that no impairment exists.

(k) Intangible assets:

Acquired customer contracts associated with business acquisitions are initially recorded at fair value and amortized on a straight-line basis over the terms of the underlying contracts. Acquired intellectual property is recorded at fair value and amortized on a straight-line basis over its estimated useful life of three years.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

1. Significant accounting policies (continued):

(l) Cash and short term investments:

Cash consists of bank deposits. Short-term investments consist of \$10,932,094 which are immediately available (2007 – nil). There are no investments maturing within 30 days (2007 – \$4,796,068), \$559,428 mature within 60 days (2007 – nil), and another \$9,078,699 (2007 – \$5,657,691) mature within 90 days. In 2008 there were no amounts held in equity and equity funds (2007 - \$211,500). All short-term investments are recorded at fair value. The fair value of the short term investments is determined by independent financial institutions.

The Company has designated its cash and short term investments as held-for-trading, which are measured at fair value. As of October 31, 2008, the carrying amount of the financial instruments equals their fair market value.

(m) Comparative figures:

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

(n) Recent accounting pronouncements:

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

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides 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

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

1. Significant accounting policies (continued):

provide additional disclosure relating to its financial instruments, including hedging instruments, and about its equity.

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 International Financial Reporting Standards (“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.

With the Canadian Accounting Standards Board’s recent announcement of January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises, the Company has been carefully evaluating its own implementation plan and assessing the impact the numerous accounting changes will have on the organization. As the final implementation date approaches, the Company will continue to monitor developments.

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

2. Restricted cash:

The restricted cash balance in Canadian dollars is equivalent to the cash held by the Courts of Malta. After the courts decreased the amount on the first garnishee order, on October 1, 2008, the Company filed a recourse with the Courts of Malta for the funds that were still withheld but are not covered by the garnishee order to be returned to the company. See note 17, Contingent liability and note 18, Subsequent events for further information.

3. Business acquisition:

Effective February 1, 2008, the Company acquired all of the shares of Elite Club Management N.V. (ECM) for US\$500,000 cash consideration on closing plus a holdback of US\$50,000. The holdback was paid in full in the third quarter of the current year.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

3. Business acquisition (continued):

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of income from the date of acquisition. The following table summarizes the preliminary estimated fair value of the assets acquired at the date of acquisition and is subject to change:

Fair value of net assets acquired	
Working capital	\$ 35,344
Capital assets	156,487
Goodwill	356,860
Total purchase price consideration	\$ 548,691

4. Property and equipment:

2008	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 3,589,809	\$ (1,991,242)	\$ 1,598,567
Computer software and licenses	944,640	(485,306)	459,334
Furniture and equipment	487,486	(285,243)	202,243
Property and equipment under lease	90,152	(81,059)	9,093
Leasehold improvements	157,955	(63,947)	94,008
	\$ 5,270,042	\$ (2,906,797)	\$ 2,363,245

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

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

5. Intangible assets:

2008	Cost	Accumulated amortization	Impairment charge	Net book value
Customer contracts	\$ 1,628,231	\$ (1,029,482)	\$ -	\$ 598,749
Intellectual property	852,933	(801,278)	-	51,655
	\$ 2,481,164	\$ (1,830,760)	-	\$ 650,404

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

6. Deferred software development costs:

2008	Cost	Accumulated amortization	Impairment charge	Net book value
Poker development costs	\$ 4,483,864	\$ (3,187,042)	\$ -	\$ 1,296,822
Investment tax credits	(186,972)	-	-	(186,972)
	\$ 4,296,892	\$ (3,187,042)	\$ -	\$ 1,109,850

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

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
(stated in Canadian dollars)

7. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued:

	Number of Shares	Amount
Balance, October 31, 2006	18,682,855	\$ 27,155,074
Issued for cash on exercise of stock options	157,834	216,084
Transfer from contributed surplus on options exercised	–	29,060
Balance, October 31, 2007	18,840,689	\$ 27,400,217
Issued for cash on exercise of stock options	141,734	156,164
Shares repurchased	(420,500)	(611,492)
Shares repurchased, pending cancellation	19,000	27,630
Transfer from contributed surplus on options exercised	–	15,821
Balance, October 31, 2008	18,580,923	\$ 26,988,340

Of the 420,500 shares re-purchased through the Normal Course Issuer Bid, 19,000 shares were pending cancellation as at October 31, 2008.

(c) Normal Course Issuer Bid:

In 2006 and 2008 under Normal Course Issuer Bids, the Board of Directors approved the repurchase and cancellation of up to the following number of shares, representing 10% of the outstanding common shares at that time:

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
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7. Share capital (continued):

A Normal Course Issuer Bid was filed with the Toronto Stock Exchange on January 25, 2008, whereby the Company is permitted to purchase and cancel up to 1,725,000 of its common shares prior to February 1, 2009. During the current year, 420,500 shares were repurchased. All of these shares were cancelled in the year with the exception of 19,000 shares that were cancelled early in fiscal 2009. The repurchase resulted in \$611,492 being recorded as a reduction to share capital and \$56,963 as a reduction to retained earnings.

(d) Per share amounts:

The weighted average number of common shares outstanding for the year was 18,646,629 (2007 - 18,632,471). Weighted average diluted number of common shares outstanding of 19,001,490 (2007 - 19,927,250) reflect the dilutive effect of the exercise of the options outstanding. Contingently returnable and issuable shares held in escrow have been excluded from the calculations.

(e) Stock option plan:

The Company has a stock option plan (the "Plan") for its directors, officers, employees and key consultants. The number of options issuable pursuant to the Plan at any time shall be a rolling maximum of twenty percent of the Company's issued and outstanding common shares, such that any increase or decrease in the issued and outstanding common shares will result in an increase in the available number of common shares issuable under the Plan, and any exercise of options will make new grants available under the Plan, subject to certain terms and conditions. The number of options reserved for issuance to any one optionee shall not exceed 5% of the outstanding common shares. Stock option vesting privileges range between one and five years and are at the discretion of the Board. The exercise price for stock options granted is no less than the quoted market price on grant date.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

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7. Share capital (continued):

A summary of the status of the plan as of October 31, 2008 and 2007 and the changes during the years is presented below:

	October 31, 2008		October 31, 2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,240,734	\$ 1.97	1,722,068	\$ 2.58
Granted	162,500	1.78	1,717,000	1.82
Exercised	(141,734)	1.10	(157,834)	1.37
Forfeited	(65,500)	2.06	(1,040,500)	2.85
Outstanding, end of year	2,196,000	\$ 1.97	2,240,734	\$ 1.97

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2008.

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price	
\$ 1.00-1.50	63,000	0.1	\$ 1.40	23,000	\$ 1.50	
1.51-2.00	1,367,000	4.5	1.75	338,149	1.72	
2.01-2.50	356,000	3.6	2.13	140,733	2.12	
2.51-3.00	410,000	1.4	2.68	318,999	2.68	
	2,196,000	3.0	\$ 1.97	820,881	\$ 2.16	

As the Company is following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees and consultants was \$610,209 (2007 - \$231,095) with an offsetting credit to contributed surplus.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Financial Statements

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8. Stock-based compensation:

The estimated fair value of stock options issued during the year was determined using the Black-Scholes option-pricing model using the following weighted average assumptions and fair value of options:

	2008	2007
Risk-free interest rate	2.0%	4.0%
Expected hold period to exercise (years)	5.65	5.65
Volatility in the price of the Company's shares	64%	58%
Dividend yield	—	—
Weighted average fair value of options	\$ 1.14	\$ 1.17

9. Contributed surplus:

Balance, October 31, 2006	\$ 1,698,924
Stock-based compensation expense	231,095
Transferred to share capital on exercise of options	(29,060)
Balance, October 31, 2007	\$ 1,900,959
Stock-based compensation expense	610,209
Transferred to share capital on exercise of options	(15,821)
Balance, October 31, 2008	\$ 2,495,347

10. Related party transactions:

For the year ended October 31, 2008, the Company incurred legal fees 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 to a certain director and officer of \$134,000 (2007 - \$123,750). In addition, general and administrative consulting fees of \$58,000 (2007 - \$71,250) were paid to a certain director and officer as well as a former officer in 2007 were incurred and paid during the year. 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.

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11. Financial risk factors:

The Company's risk exposure and the impact on the company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to software license fees receivable. The Company has a concentration of credit risk with five customers accounting for 64% of its accounts receivable.

(a) Accounts receivable

The Company manages its credit risk associated with accounts receivable by maintaining reserves for potential credit losses. Prior to recognizing revenue, management assesses collectability of the related receivables and if it is not certain, does not recognize the revenue. The Company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the Company believes that its accounts receivable represent a low credit risk.

(b) Liquidity risk

The Company has sufficient funds (October 31, 2008 - \$1,728,161 and October 31, 2007 - \$4,413,871) to settle current liabilities. The Company has no long term debt.

Market risk

(a) Interest rate risk

The Company has significant cash balances and short term investments and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates, guaranteed investment certificates and bankers' acceptances. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is exposed to foreign currency fluctuations as the majority of the Company's revenues are received in UK Pounds Sterling and Euros while the majority of the Company's expenses are incurred in Canadian dollars. The Company has mitigated some of this exchange risk by entering into foreign exchange collars.

As of October 31, 2008, the Company had contracts with collars that have a strike price range of Euros to Canadian dollars between 1.5700 to 1.5900 and Sterling to Canadian dollars between 1.9930 to 2.0240. The estimated fair value of the foreign exchange collars has been determined

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11. Financial risk factors (continued):

based on the amount the Company would receive or pay to terminate the contracts as at October 31, 2008. The amount the Company would receive to terminate the foreign exchange collar as at October 31, 2008 would be approximately \$26,991.

The net unrealized gain on the foreign currency collar has been recorded in the statement of operations and retained earnings.

At October 31, 2008, the Company's gross balance sheet exposure to foreign currency risk was substantially as follows:

<i>In Canadian dollar equivalent</i>	GBP	Euro	USD	SGD	Total
Cash and cash equivalents	\$ 662,238	\$ 784,967	\$ 65,529	\$ 53,924	\$ 1,566,658
Accounts receivable	1,142,780	2,466,063	206,144	-	3,814,987
Accounts payable and accrued liabilities	(237,494)	(605,168)	(408,163)	-	(1,250,825)
Balance, October 31, 2008	\$ 1,567,524	\$ 2,645,862	\$ (136,490)	\$ 53,924	\$ 4,130,820

Quantification of risk exposure: foreign currency risk

The Company's revenue denominated in foreign currencies was as follows

<i>In Canadian dollar equivalent</i>	GBP	Euro	USD	Total
<i>Revenue:</i>				
October 31, 2008	\$ 9,342,528	\$ 12,986,815	\$ 326,017	\$ 22,655,360
October 31, 2007	8,214,672	11,563,084	492,351	20,270,107

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company

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11. Financial risk factors (continued):

believes the following movements are "reasonably possible" over a twelve month period:

Software license fee revenue would be impacted by changes in the exchange rates between the Canadian dollar and either the Euro or the UK Pound Sterling. A 1% change in the Euro to the Canadian dollar exchange rate would change software license fee revenue by \$130,000 and a 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change software license revenue by \$93,000.

Similarly, the working capital exposure, before taking into consideration the effect of foreign exchange collar, would be impacted by changes in the exchange rates between the Canadian dollar and either the Euro or UK Pound Sterling. A 1% change in the Euro to the Canadian dollar exchange rate would impact net income by \$24,000 and a 1% change in the UK Pound Sterling to the Canadian dollar exchange rate would change net income by \$6,000.

12. Government assistance:

During the year ended October 31, 2008, the Company re-filed Canadian federal and provincial income tax returns for the years 2006 and 2007 in order to apply for Scientific Research and Experimental Development (SR&ED) Investment Tax Credits (ITCs). ITCs reduce taxes payable and are accounted for as a reduction of software development and support expense, a reduction of capital expenditures, or a reduction of the cost of deferred software development, depending on the nature of the expenses that qualify for the credit. As these were the initial claims by the Company for such incentives, it was determined that the benefit would not be recorded until the Company had reasonable assurance that the claims would be accepted. The benefit recorded resulted in a reduction of the cost of deferred software development of \$187,000, and a reduction in the cost of software development and support expense of \$646,000. In the normal course of SR&ED expense claims, the Company is subject to reviews by federal and provincial government authorities. Reviews of the Company's claims are incomplete at October 31, 2008, and as such, amounts disclosed may be subject to change, pending the outcome of such reviews. In addition, the Company is reviewing SR&ED activities that Management believes may be eligible for its 2008 taxation year.

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13. Income taxes:

Income tax expense (reduction) differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net income for the year. The reasons for the differences are as follows:

	2008	2007
Net income (loss) before income taxes	\$ 4,068,151	\$ (235,921)
Combined Canadian federal and provincial statutory rate	29.94%	32.12%
Computed provision (recovery)	\$ 1,218,004	\$ (75,778)
Difference in foreign tax rates	(186,355)	(185,833)
Stock-based compensation	182,697	74,228
Non deductible expenses	13,955	53,369
2007 Future tax rate reduction	-	(48,199)
Other	46,699	29,866
Income tax expense (recovery)	\$ 1,275,000	\$ (152,347)

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income in the various jurisdictions in which the Company operates.

The components of the Company's net future income tax asset (liability) at October 31, 2008 and 2007 are as follows:

2008	Canada	United States	Total
Net operating losses	\$ -	\$ 19,393	\$ 19,393
Property and equipment	(170,895)	-	(170,895)
Share issue costs	43,472	-	43,472
Resource deductions	38,600	-	38,600
Deferred development costs	(321,856)	-	(321,856)
Investment tax credit	(100,900)	-	(100,900)
	(511,579)	19,393	(492,186)
Less: valuation allowance	-	(19,393)	(19,393)
	\$ (511,579)	\$ -	\$ (511,579)

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Notes to Consolidated Financial Statements

Years ended October 31, 2008 and 2007
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13. Income taxes (continued):

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

The Company has net operating losses carry-forward for United States income tax purposes of approximately \$57,038 (2006 – \$57,038) available for deduction against future year's taxable income. These losses expire between 2018 and 2019.

14. Capital management:

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining sufficient level of funds, in order to support and further expand upon the Company's current product base. Management defines capital as the Company's cash, short term investments and shareholders' equity.

The Company manages its capital structure and makes adjustments to it, based on the level of funds required to manage its operations. In order to achieve these objectives, the Company invests its excess capital in highly liquid financial instruments. The Board does not establish quantitative return on capital criteria for management, but rather promotes sustainable operation goals. The Company is not subject to any externally imposed capital requirements.

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15. Commitments:

Future minimum annual payments under operating leases are as follows:

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

16. Segmented information:

The Company operates under one operating and reporting segment as management has determined that the nature of its operations and the way management runs the business meets the aggregation criteria specified by Canadian accounting standards.

The Company's software set-up and license fees are from domestic and foreign entities and originate from the following geographical areas of operation.

2008	Asia	North America	Europe	Total
Software set-up fees	\$ –	\$ –	\$ 145,570	\$ 145,570
Software license fees	76,152	123,105	22,195,729	22,394,986
Service Revenue	–	13,498	926,598	940,096
Goodwill	–	2,749,317	356,860	3,106,177
Total assets	1,094,694	26,524,869	6,699,770	34,319,333

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

During the year ended October 31, 2008, three licensees (2007 – three), each of which provided more than 10% of the Company's total sales revenue, accounted for 48.3% (2007 – 41.6%) of the Company's 2008 software license fees revenue.

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17. Contingent liability:

On June 17, 2008, the Company received notice of two warrants of seizure totaling €605,000 and two corresponding garnishee orders for equivalent amounts filed by one of the Company's former clients in the Courts of Malta. The Company is challenging these claims and has filed two applications with the Courts of Malta requesting that the warrants of seizure be cancelled. The Company has a total of €210,000 and \$13,000 in cash held by the Courts of Malta. As permitted under Malta law, the orders were obtained without any determination of the merits and without notice to Chartwell.

On August 27, 2008, the Courts of Malta issued a decree on one of the warrants of seizure and on the corresponding garnishee order filed for the claimed amount of €560,000. The Courts decreased the amount covered by that warrant of seizure and the corresponding garnishee order to €40,000.

On the September 5, 2008, the Courts of Malta issued a decree on the second warrant of seizure and on the corresponding garnishee order filed for the claimed amount of €45,000. The Courts' upheld the warrant of seizure and the corresponding garnishee order.

The first hearing of the court case on the warrant of seizure and the corresponding garnishee order amounting to €45,000 was held on October 14, 2008.

Management is of the opinion that these claims are unfounded and that the possibility of a material liability is unlikely.

18. Subsequent events:

On January 13th, 2009 the Courts of Malta have allowed the release of €130,500 that were withheld but not covered by a garnishee order. As at January 29th, 2009, the Company has not received the funds from the Courts of Malta.

