



Chartwell Technology Inc.

Consolidated Interim Financial Statements

For the three months and six months ended April 30, 2004

CHARTWELL TECHNOLOGY INC.

Consolidated Balance Sheets
(unaudited)

	As at April 30, 2004 (unaudited)	As at October 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,189,378	\$ 3,465,120
Short term investments	3,262,808	1,712,890
Accounts receivable	2,172,037	1,991,725
Prepaid expenses & deposits	204,829	148,699
	8,829,052	7,318,434
Due from related parties	174,599	190,512
Capital assets	563,690	338,969
Goodwill (note 2)	811,666	-
Deferred software development costs	705,948	530,948
Future Income tax asset	508,490	520,000
	\$ 11,593,445	\$ 8,898,863
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 331,805	\$ 217,012
Current portion of obligations under capital lease	16,109	5,956
Deferred revenue	111,681	343,311
	459,595	566,279
Obligations under capital lease	28,851	3,031
Shareholders' equity:		
Share capital	16,233,993	14,809,723
Deficit	(5,128,994)	(6,480,170)
	11,104,999	8,329,553
	\$ 11,593,445	\$ 8,898,863

See accompanying notes to consolidated interim financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Income and Deficit

(unaudited)

	Three months ended April 30		Six months ended April 30	
	2004	2003	2004	2003
Revenue:				
Software development fees	\$ -	\$ 342,500	\$ 357,438	\$ 823,000
Software license fees	2,699,462	1,576,740	4,638,661	2,760,048
Interest and other	25,658	27,257	69,366	54,925
	<u>2,725,120</u>	<u>1,946,497</u>	<u>5,065,465</u>	<u>3,637,973</u>
Expenses:				
Software development and support	986,485	971,181	1,958,725	1,843,034
General and administrative	979,179	388,245	1,750,284	811,446
Depreciation and amortization	53,431	22,276	87,964	43,568
Amortization of deferred software development costs	-	27,517	-	55,034
	<u>2,019,095</u>	<u>1,409,219</u>	<u>3,796,973</u>	<u>2,753,082</u>
Income from operations	706,025	537,278	1,268,492	884,891
Foreign currency losses (gains)	(77,764)	384,415	(119,194)	384,415
Contracts acquired on acquisition (note 2)	25,000	-	25,000	-
Net income before taxes	<u>758,789</u>	<u>152,863</u>	<u>1,362,686</u>	<u>500,476</u>
Income taxes:				
Income tax expense	256,940	-	476,940	-
Future income tax recovery	(290,430)	-	(465,430)	-
	<u>(33,490)</u>	<u>-</u>	<u>11,510</u>	<u>-</u>
Net income	792,279	152,863	1,351,176	500,476
Deficit, beginning of period	(5,921,273)	(7,743,409)	(6,480,170)	(8,091,022)
Deficit, end of period	<u>\$ (5,128,994)</u>	<u>\$ (7,590,546)</u>	<u>\$ (5,128,994)</u>	<u>\$ (7,590,546)</u>
Net earnings per share basic	\$ 0.06	\$ 0.01	\$ 0.10	\$ 0.04
Net earnings per share diluted	\$ 0.05	\$ 0.01	\$ 0.09	\$ 0.04

See accompanying notes to consolidated interim financial statements.

Weighted-average number of shares - basic	13,920,417	13,503,593	13,793,753	13,495,312
Weighted-average number of shares - diluted	15,607,694	13,503,593	15,481,030	13,495,312

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flow
(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2004	2003	2004	2003
Cash provided by (used in):				
Operations:				
Funds from operations:				
Net income	\$ 792,279	\$ 152,863	\$ 1,351,176	\$ 500,476
Depreciation and amortization	53,431	22,276	87,964	43,568
Unrealized foreign exchange losses	(77,764)	253,481	(119,194)	253,481
Interest income capitalized	(2,035)	(1,902)	(4,087)	(3,843)
Amortization of deferred software development costs	-	27,517	-	55,034
Future income tax recovery	(33,490)	-	11,510	-
Contracts acquired on acquisition	25,000	-	25,000	-
Deferred set-up costs	-	-	-	91,629
	757,421	454,235	1,352,369	940,345
Change in non-cash working capital:				
Accounts receivable	(532,916)	(115,591)	(180,312)	(656,404)
Due from related parties	-	-	20,000	-
Prepaid expenses	(52,728)	(8,798)	(56,130)	(44,173)
Deferred revenue	3,339	(40,254)	(231,630)	31,000
Accounts payable and accrued liabilities	23,188	(46,123)	114,793	(62,218)
	(559,117)	(210,766)	(333,279)	(731,795)
	198,304	243,469	1,019,090	208,550
Financing:				
Issue of shares	472,244	25,000	587,604	25,000
Repayment of lease obligations	37,875	(1,672)	35,973	(3,273)
	510,119	23,328	623,577	21,727
Investments:				
Purchase of short term investments	(19,605)	791,004	(1,549,918)	1,498,679
Purchase of capital assets	(127,250)	(6,999)	(312,685)	(37,923)
Deferred software development costs	(175,000)	-	(175,000)	-
	(321,855)	784,005	(2,037,603)	1,460,756
Effect of foreign exchange rate changes on cash and cash equivalents				
	77,764	(253,481)	119,194	(253,481)
	77,764	(253,481)	119,194	(253,481)
Increase (decrease) in cash	464,332	797,321	(275,742)	1,437,552
Cash, beginning of period	2,725,046	2,344,498	3,465,120	1,704,267
Cash, end of period	\$ 3,189,378	\$ 3,141,819	\$ 3,189,378	\$ 3,141,819
Supplemental cash flow information:				
Cash interest received	\$ 23,623	\$ 25,355	\$ 65,279	\$ 51,082
Cash interest paid	826	527	1,123	1,124

See accompanying notes to consolidated interim financial statements.

CHARTWELL TECHNOLOGY INC.

Notes to Consolidated Interim Financial Statements
For the six months ended April 30, 2004
(unaudited)

These consolidated interim financial statements of Chartwell Technology Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. As the interim financial statements do not contain all of the disclosures required in annual financial statements, they should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2003. The interim financial statements follow the same accounting policies as the October 31, 2003 audited financial statements, except for the policy on goodwill as explained in note 2.

1. Share capital:

As at April 30, 2004 and October 31, 2003 the Company had 16,477,901 and 15,987,701 common shares outstanding and 2,600,900 and 2,616,100 options to acquire common shares respectively. The weighted average number of shares outstanding for the quarter were 13,920,417. Diluted shares of 15,607,694 reflect the dilutive effect of the exercise of the options outstanding.

2. Release of Escrowed Shares

On November 1, 1998, the Company acquired all of the issued and outstanding shares of Gateway Technology Inc. ("GTI") for consideration of 1,000,000 common shares. Under the terms of the purchase Agreement, the shares were placed in escrow and were releasable from time to time as one escrowed share for each \$1.00 of cash flow generated by GTI subsequent to its acquisition by the Company. Shares remaining in escrow at October 31, 2003 were to be returned to the Company and cancelled. The escrowed shares were considered contingent consideration and valued at \$nil in the financial statements at November 1, 1998.

At October 31, 2003 application was made to the TSX Venture Exchange for release of 333,333 shares in accordance with the terms of the escrow agreement. On February 12, 2004, the Exchange provided approval for the release of the shares and on April 27, 2004 the shares were released from escrow. The release of the additional shares have been accounted for as an additional cost of the purchase of GTI, equal to the fair value of the shares on February 12, 2004 of \$836,667.

The following is a summary of the initial purchase consideration and the allocation to the assets and liabilities acquired based on their fair values at the date of acquisition.

Cash	\$68,285
Software	\$391,628
Capital Assets	\$229,839
Net working capital deficiency	(\$341,947)
Long Term Debt	(\$297,805)
Net assets acquired	\$50,000

The additional consideration of \$836,667 has been assigned to license contracts acquired, in the amount of \$25,000 and the remaining \$811,667 to goodwill. The contracts expired in 2001 and have been written off as a current period expense.

In conjunction with the release of shares and the allocation of their fair value, in part, to goodwill, the Company has adopted the following policy of accounting for 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 synergies of 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 might 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. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit 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. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

3. Segmented information:

The Company has aggregated its Canadian and Belize operating segments into one reporting segment as management has determined that the nature of the operations in each segment meets the aggregation criteria specified by the Canadian Institute of Chartered Accountants. The Company's software set-up and license fees are from domestic and foreign entities and originate from the following countries of operations:

2004	Three months ended April 30			Six months ended April 30		
	Canada	Belize	Total	Canada	Belize	Total
Software set-up fees	\$ -	\$ -	\$ -	\$ -	\$ 357,438	\$ 357,438
Software license fees	\$ 53,363	\$ 2,646,099	\$ 2,699,462	\$ 110,154	\$ 4,528,507	\$ 4,638,661

2003	Three months ended April 30			Six months ended April 30		
	Canada	Belize	Total	Canada	Belize	Total
Software set-up fees	\$ -	-\$ 342,500	-\$ 342,500	\$ -	\$ 823,000	\$ 823,000
Software license fees	\$ 63,440	\$ 1,513,300	\$ 1,576,740	\$ 118,078	\$ 2,641,970	\$ 2,760,048

4. Stock-based compensation

The Company has elected to follow an alternative method of accounting for stock options awarded to employees and recognize no compensation expense when stock options are granted. The Company has calculated the fair value of stock options granted to employees, directors, and officers using the Black Scholes option pricing model with a dividend yield of 0% and with the following weighted-average assumptions: Risk free interest rate-4%, Volatility-71%, Expected option life-5 years. Had compensation expense been determined based on the fair value of the employee stock option awards at the grant dates in accordance with the new recommendations, the Company's net income and earnings per share would have been changed to the following pro forma amounts:

	Three months ended April 30, 2004		Six months ended April 30, 2004	
	As reported	Pro forma	As reported	Pro forma
Net income	\$ 792,279	\$ 675,030	\$ 1,351,176	\$ 1,180,385
Earnings per share basic	\$ 0.06	\$ 0.05	\$ 0.10	\$ 0.09
Earnings per share diluted	\$ 0.05	\$ 0.04	\$ 0.09	\$ 0.08