

CRYPTOLOGIC INC.
(the “Company”)

AUDIT COMMITTEE

TERMS OF REFERENCE

1 PURPOSE

The overall purpose of the Audit Committee (the “Committee”) of the Company is to monitor the Company’s system of internal financial controls and procedures, to evaluate and report on the integrity of the financial statements of the Company, to enhance the independence of the Company’s external auditors and to oversee the financial reporting process of the Company.

2. COMPOSITION, PROCEDURES AND ORGANIZATION

2.1 The Committee shall consist of at least three members of the board of directors of the Company (the “Board”), each of whom shall be, in the determination of the Board, “unrelated” as that term is defined by the Toronto Stock Exchange Corporate Governance Guidelines, as amended from time to time, and Multilateral Instrument 52-110 where applicable, and the majority of whom shall be resident Canadians.

2.2 At least one member of the Committee shall be, in the determination of the Board, based on industry standards, “financially literate”, and at least one member of the Committee must have, in the determination of the Board, “accounting or related financial expertise”.

2.3 For the purposes of these terms of reference, a person is “financially literate” who, in the determination of the Board, based on industry standards, has the ability to understand financial statements of a breadth and level appropriate for complexity appropriate for the Company, and to evaluate the appropriateness and quality of financial reports to unit holders, with reference to balancing management’s objectives, investor pressures for earnings and revenues, balance with generally accepted accounting principles and auditing standards, and underlying business performance.

2.4 For the purposes of these terms of reference, a person who has “accounting or related financial expertise” has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller or principal accounting officer of an issuer, or from a position involving the performance of similar functions: (i) an understanding of Canadian generally accepted accounting principles, auditing standards, and financial statements; (ii) experience in the preparation or auditing of financial statements of generally comparable issuers, and (b) the application of Canadian generally accepted accounting principles and standards in connection with the accounting for estimates, accruals and reserves; (iii) experience with internal accounting controls and procedures and the verification of same; and (iv) an understanding of audit committee functions.

2.5 The Board, at its organizational meeting held in conjunction with each annual meeting of shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a director shall cease to be a member of the Committee.

2.6 Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from amongst their number. The chair shall be an “unrelated” director and shall not have a second, or casting, vote.

2.7 The Committee shall have access to such officers and employees of the Company and to the Company’s external auditors and its legal counsel, and to such information respecting the Company as it considers to be necessary or advisable in order to perform its duties.

2.8 Notice of every meeting shall be given to the external auditors, who shall, at the expense of the Company, be entitled to attend and to be heard thereat.

2.9 Meetings of the Committee shall be conducted as follows:

- (a) the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
 - (b) the external auditors or any member of the Committee may call a meeting of the Committee;
 - (c) any director of the Company may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such director, and may participate in such meeting to the extent permitted by the chair of the Committee;
 - (d) the external auditors and management employees shall, when required by the Committee, attend any meeting of the Committee; and
 - (e) the Committee may require any attendee at a meeting who is not an “unrelated” director to excuse himself from any meeting.
- 2.10 The external auditors may communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee in the Company as it deems necessary, and any employee may bring before the Committee through the chair any matter involving questionable, illegal or improper practices or transactions, with open access to the Committee through appropriate channels that ensure the employee’s confidentiality and job security, as appropriate.
- 2.11 Compensation to members of the Committee shall be limited to director’s fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the Company (other than as members of the Board and Board committee members).
- 2.12 The Committee as a whole or any individual member of the Committee is authorized, at the Company’s expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties.

3. DUTIES

- 3.1 The overall duties of the Committee shall be to:
- (a) assist the Board in the discharge of its duties relating to the Company’s accounting policies and practices, reporting practices and internal controls;
 - (b) establish and maintain a direct line of communication with the Company’s external auditors and assess their performance;
 - (c) oversee the co-ordination of the activities of the external auditors;
 - (d) ensure that the management of the Company has designed, implemented and is maintaining an effective system of internal controls;
 - (e) monitor the credibility and objectivity of the Company’s financial reports and satisfy itself that adequate procedures are in place for the review of Company information extracted from the financial statements;
 - (f) report regularly to the Board on the fulfillment of the Committee’s duties;
 - (g) establish procedures for the receipt and retention of complaints received by the Company regarding accounting, audit, and control matters;
 - (h) assist the Board in the discharge of its duties relating to risk assessment and risk management; and
 - (i) review and approve the hiring policies regarding employees or former employees of the external auditor.
- 3.2 The duties of the Committee as they relate to the external auditors shall be to:

- (a) review management's recommendations for the appointment of external auditors, and in particular their qualifications and independence, and to recommend to the Board a firm of external auditors to be engaged to provide audit services;
- (b) review, where there is to be a change of external auditors, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Policy 31 or any successor legislation, and the planned steps for an orderly transition;
- (c) review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Policy 31 or any successor legislation, on a routine basis, whether or not there is to be a change of external auditor;
- (d) review the engagement letters of the external auditors, both for audit and non-audit services and recommend to the Board their compensation;
- (e) review the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditors;
- (f) review the nature of and fees for any non-audit services performed for the Company by the external auditors and with outside legal advice confirm that the nature and extent of such services does not contravene the requirements of applicable legislation that require the firm's independence be maintained in carrying out the audit function; and
- (g) pre-approve all non-audit services to be provided to the Company or its affiliates by the external auditor.

3.3 The duties of the Committee as they relate to audits and financial reporting shall be to:

- (a) review the audit plan with the external auditor and management;
- (b) review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
- (c) review the contents of the audit report;
- (d) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (e) review the scope and quality of the audit work performed;
- (f) review the adequacy of the Company's financial and auditing personnel;
- (g) review the co-operation received by the external auditor from the Company's personnel during the audit, any problems encountered by the external auditors and any restrictions on the external auditor's work and resolve disagreements between management and the external auditor regarding financial reporting;
- (h) review the internal resources used;
- (i) review the evaluation of internal controls by the internal auditor (or persons performing the internal audit function) and the external auditors, together with management's response to the recommendations, including subsequent follow-up of any identified weaknesses;
- (j) review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
- (k) review and recommend to the Board, the Company's annual audited financial statements and those of its subsidiaries in conjunction with the report of the external auditors thereon, and obtain an

explanation from management of all significant variances between comparative reporting periods before release to the public;

- (l) review and recommend to the Board, the Company's interim unaudited financial statements, MD&A and press release, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
- (m) establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and employees' confidential anonymous submission of concerns regarding accounting and auditing matters; and
- (n) review the terms of reference for an internal auditor or internal audit function.

3.4 The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:

- (a) review changes to accounting principles of the Canadian Institute of Chartered Accountants and their US and UK counterparts which would have a significant impact on the Company's financial reporting as reported to the Committee by management and the external auditors;
- (b) review the appropriateness of the accounting policies used in the preparation of the Company's financial statements and consider recommendations for any material change to such policies;
- (c) review the status of material contingent liabilities or accruals as reported to the Committee by management;
- (d) review the status of income tax returns and potentially significant tax problems as reported to the Committee by management;
- (e) review any errors or omissions in the current or prior year's financial statements and establish guidelines for re-statement;
- (f) review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all press releases, prospectuses, annual reports to shareholders, annual information forms and management's discussion and analysis; and
- (g) oversee and review all financial information and earnings guidance provided to analysts and rating agencies.

3.5 The other duties of the Committee shall include:

- (a) reviewing any inquiries, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
- (b) formulating clear hiring policies for employees or former employees of the Company's external auditors;
- (c) reviewing annual operating and capital budgets;
- (d) reviewing the funding and administration of the Company's compensation and pension plans;
- (e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
- (f) inquiring of management and the external auditors as to any activities that may be or may appear to be illegal or unethical; and
- (g) any other questions or matters referred to it by the Board.