

CryptoLogic Inc.
2005 First Quarter Results Conference Call
May 11, 2005

Operator: Good morning ladies and gentlemen. Welcome to the CryptoLogic first quarter 2005 financial results conference call. I would like to turn the meeting over to Mr. Lewis Rose, President and Chief Executive Officer. Please go ahead Mr. Rose.

Lewis Rose: Welcome ladies and gentlemen. Thank you for joining us today for CryptoLogic's 2005 first quarter conference call. I'm Lewis Rose, President and Chief Executive Officer of CryptoLogic. With me today are Jenifer Cua, our interim Chief Financial Officer and Nancy Chan-Palmateer, our Director of Communications.

After a year of achieving strong results and initiating major investments for our future, we continued this momentum into 2005 with excellent returns. We also reaffirmed our position as the blue-chip e-gaming software company.

In the first quarter, CryptoLogic again achieved record revenue, strong earnings growth and healthy cash flow - all by maintaining our disciplined, focused approach in the fast-growing Internet casino and poker markets.

CryptoLogic's first quarter revenue grew 33% to \$20.3 million. We netted a 27% increase in earnings to \$4.8 million and this amounted to \$0.34 per diluted share.

CryptoLogic's market strength was further highlighted this year when we were added to the main S&P/TSX Composite Index - the premier benchmark for Canadian equity markets. And in the UK, we expanded our shareholder base by attracting a number of prominent institutional investors.

Our success comes down to three core imperatives that are working for us:

1. **International diversification** - which means maximizing opportunities in the highest growth markets worldwide;
2. **Market-oriented products** - which means helping our customers profit from the games their players wish to play; and
3. **Regulatory leadership** - which demonstrates our dedication to integrity and transparency, raising the bar in the online gaming industry.

Let me now speak to how staying this course has continued to help us realize our growth in the most recent quarter.

First, we continue to see that the benefits of a **geographically-diversified** business, thanks to our strong presence in key markets worldwide. And that resulted in revenue generated from licensees' international players rising to more than 65% of first quarter revenue, up from over 60% in 2004. In particular this quarter, the UK and European markets each grew to account for more than 30% of total first quarter revenue.

As part of our global strategy, CryptoLogic recently released Version 6 of our casino software to key European markets. Players now can enjoy a larger game variety in their native languages including Spanish, French, Italian and German.

So, what we've done, is focus on a small number of high quality international customers. This is proving to be the right strategy for CryptoLogic. For some time, we have emphasized ROE or what we call "return on effort" philosophy to focus our business decisions on those opportunities that generate the highest return in exchange for our time and efforts. That is why in the first quarter, we reduced our licensee base by another two, who together, represented less than 1% of total revenue. We now have nine core licensees, all of whom continue to grow.

Second, success in the competitive global online gaming industry also means delivering **market-oriented products** to help our licensees develop loyal players. Internet gamers play more often than their land-based counterparts. It's easier and more convenient than a destination stop of land-based casinos. As a result, online gamers demand new games and fresh concepts more frequently, to keep them interested and coming back. This is why we continue to invest in new games and enhancements of both our Internet poker and our Internet casino software.

The buzz continues to build around Internet poker - and for good reason. The experts predict that Internet poker should continue its spectacular momentum and increase more than 100% in 2005. Our licensees' central poker room continues to reach new heights in popularity. The central room now attracts more than 6,000 simultaneous online players. According to PokerPulse.com, the independent website which tracks the online poker industry, from Q1 2004 to the Q1 2005 the industry grew 115%, while our licensees grew more than 200%. In fact, I've just seen some fresh numbers for April. In the top five poker rooms which now

represent about 80% of the market, and of those top five poker rooms, our licensees' room grew the fastest over the past year.

For CryptoLogic, this is very exciting news. That's why we continue to invest in our poker software and network scalability to support our licensees' growth.

A contributing factor was the release of innovative features including our new six-seat poker tournament option. We call this enhancement: SIXPAK™. It's our brand, our trademark, and it gives online poker players exciting final table action throughout an entire tournament event - in every hand. SIXPAK™ also expands our licensees' tournament strategy and provides great marketing draws for players.

Now, if poker is the 'sizzle' of Internet gaming, casino is the 'steak'. Some say that the Internet casino business is more established and maturing. There's no question that this segment is more developed and growing at a more moderate pace after a decade of tremendous growth. Yet, Internet casino still has tremendous room to grow, accounting for less than 5% of the world's land-based casino market.

In the first quarter, Internet casino continued to be a strong cash contributor for CryptoLogic. This segment grew 6% over Q1 2004 revenue. We continue to enjoy solid performance by offering innovative and market targeted games.

For example, we led the way last quarter with the first introduction ever of Fruit Machines on the Internet. This week, we announced an exclusive five-year, licensing agreement to be the first to bring a play-for-real slot version of 'Bejeweled' to the Internet. Bejeweled, as you're probably aware, is one of the most popular online games on sites such as AOL, Yahoo! and MSN. And it will be an exciting addition to our product offering scheduled for release this fall.

Third, our **regulatory leadership** has remained steadfast. We've consistently advocated a regulated and transparent online gambling environment for the protection of players and for the credibility of our industry.

We're seeing positive developments. Most recently this past April, the UK - one of the premier markets for CryptoLogic - and one of the world's most developed nations, took an historic step. The British government enacted a law to regulate online gaming for the first time on its soil. And CryptoLogic welcomes this

landmark event to establish world-class standards for responsible online gaming entertainment.

This marks a major milestone, in our view. Although there are many steps ahead before we see the final rules and regulatory framework. Given our regulatory experience, we will seek every opportunity to provide input to foster a commercially-competitive regulatory environment in the UK. The first license applications are expected to be accepted in 2006, with licenses granted and the new regime underway by 2007.

In the US, the picture is still not clear, even though recent developments highlight how some US policymakers have taken a different direction than other parts of the world. For example, the World Trade Organization has pointed out the inconsistency of American efforts to ban online gaming. It's interesting on the other hand, a growing number of states such as North Dakota, Illinois and Georgia - have proposed regulation of certain forms of online gaming. Nonetheless federal legislation seeking prohibition is expected to re-emerge again shortly. This continued uncertainty validates CryptoLogic's European focus.

The reality is that CryptoLogic stands as one of the few providers in the world whose software has already passed the world's highest regulatory tests. This gives us a competitive advantage as more jurisdictions make the sensible choice to regulate Internet gaming.

Before Jenifer speaks to our financials, I want to advise you that we have just completely settled the WebSports' claim to CryptoLogic's satisfaction and with no material affect. This now closes the WebSports matter.

It's now my pleasure to turn the call over to Jenifer Cua who will speak to our first quarter results.

Jenifer Cua: Hello. I am pleased to speak to highlights of our first quarter results for 2005. Please note that all figures are in US dollars.

Revenue for the first quarter of 2005 increased 33% to \$20.3 million versus \$15.2 million for the same period last year, marking a new record for CryptoLogic.

Internet poker continued to be a significant growth driver. Fees from this segment jumped more than 200% over Q1 of 2004. As well, Internet casino revenue continued to perform solidly and grew 6% over the same period last year.

Operating costs were \$12.8 million for the quarter compared to \$9.0 million in Q1 of 2004. Higher expenses arose from several initiatives including the following:

- developing and integrating new casino games;
- enhancing our poker software;
- enhancing the capacity and resiliency of our poker system;
- improving our back office offering; and
- augmenting our e-cash management system.

Given the early returns we are achieving from our major investment program initiated last year, it is clear that this type of strategic investment is important to accommodate our growth. To that end, we're making further enhancements. This extends our investment program to the end of this year, and is now planned to be \$12.5 million. More than 65%, or \$8.4 million of this program, has been invested to date. This included \$3.2 million in operating costs, \$3.2 million for purchases of capital assets and \$2.0 million for capitalized software development related to the program.

Growing transaction volumes arising from the growing business resulted in increased processing.

Even with higher expenditures, we delivered solid EBITDA and net margins of 29% and 24% respectively. This compared to 30% and 25% in Q1 of 2004.

In the quarter, we added to our strong balance sheet. At March 31st, 2005, we had no debt and our cash reserves grew to \$90.2 million or \$6.36 per diluted share. Working capital rose to \$70.3 million or \$4.96 per diluted share.

Operating cash flow for the first quarter of 2005 was \$2.6 million, versus \$5.1 million for the same period last year. The decline was primarily due to the following:

- Increased receivables resulting from two licensees responsible for their own e-cash processing;

- prepayment of royalty licensing fees for new games in development; and
- reduced payables and accruals.

Looking ahead, we estimate capital expenditures for the full year of 2005 to be \$12.0 million, of which 35% relates to our normal course investment. The balance includes a move to new office premises later this year to accommodate our growing organization as well as the remaining portion of our major investment program to be capitalized.

We continue to foresee strong growth in both top and bottom-line performance for the year. For the second quarter, we forecast revenue in the range of \$19.2 to \$19.6 million with earnings of \$4.2 to \$4.4 million or \$0.29 to \$0.30 per diluted share. This guidance assumes 14.5 million weighted fully diluted shares outstanding.

I will now turn the call back to Lewis.

Lewis Rose: Thank you, Jenifer. We'd be pleased to take questions at this time.

Operator: We will now begin the question and answer session. To place yourself into the question queue, please press *1 on your touch tone phone. If you are using a speaker phone please pick up your handset and then press *1. To withdraw your request, press *2. Please go ahead if you have any questions.

Your first question comes from Brian Kinstlinger from Sidoti Capital. Please go ahead.

Brian Kinstlinger: Does the remainder of the \$12.5 million play out in the three quarters. And if revenue continues to ramp as it has, will 2006 bring on an additional investment plan in order to capitalize on the future growth there?

Lewis Rose: Hi Brian. Of the major capital program of \$12.5 million, we've spent approximately \$8.4 million or about two thirds. So the balance will be over the next 3 quarters.

Brian Kinstlinger: Evenly in the three quarters?

Jenifer Cua: Pretty much so Brian.

Brian Kinstlinger: If revenue continues to ramp as it has do you expect to initiate a new plan in 2006 that will further pressure margins. Do you think the investments will cease at some point?

Lewis Rose: There's no question that staying competitive in the business will require continued investment. If we continue to experience and benefit from the significant growth we've achieved to date, we will continue to invest to accommodate further growth. We've seen the industry continue to expand dramatically, and we have to ensure that we can maintain the pace of growth of the industry for CryptoLogic and our shareholders. We will be prudent. It's premature at this point for us to predict what the investment program is going to be through the end of next year. What we can say is that we expect that we will continue to invest prudently and appropriately to ensure that we maintain the growth opportunities that we have in front of us.

Brian Kinstlinger: If I look at your second quarter guidance, and if I look historically at your business, there's obviously been seasonality in the second quarter which has had some weakness and you document that. I'm wondering if that could turn a little bit going forward given the seasonal nature of your tournament and poker software, some of which you didn't have last year, now we're headed into the World Series of Poker. The offerings on your sites, there's a ton of tournaments, maybe casino would be seasonally weak but would poker necessarily be seasonally weak in the second quarter here?

Lewis Rose: Our view is that poker is expected to continue to grow. Remember that our experience with casino has been ten years, so we have significant casino experience. Casino still is a significant contributor to our revenues, so we do expect seasonal impact from the casino business. From poker, we do hope that business will continue to grow.

Brian Kinstlinger: You ceased your relationship with two clients. How much revenue did those account for and do you see any more chances of paring clients? What is your plan going forward with respect to some new client opportunities – the 'whales' that you talked about.

Lewis Rose: The impact on revenue of the termination of the two licensees that occurred in the first quarter is less than 1% of revenue, so

clearly not material. The second question is are we expecting further reductions in the number of licensees? The answer is no. At this point we have nine licensees. All have growth potential, so certainly in the short term we don't anticipate any reduction in the number of licensees. The third question was about new customer opportunities. We have made it quite clear that we are going to focus on a limited number of high quality profitable growth oriented customers who have:

- The brand name that works on the Internet;
- A database of customers that are fertile for our type of business; and
- the third element is that they have both the marketing funds and the commitment to marketing to grow.

We've also said publicly that we would focus on and be happy with signing one or two new large international brand-name licensees each year. Our growth plans for this year are not contingent on signing new licensees. But you're also correct in saying that we are effectively looking for 'whales'. The new licensees will only be signed if they meet our stringent criteria.

We've had numerous approaches from all sorts of shapes and sizes of organizations who would be interested in licensing our software. But as we said many times, our development resources are scarce resources and we want to focus very much on high quality international brand name licensees.

Brian Kinstlinger: Can I characterize that as the pipeline for what you call 'whales', is picking up compared to maybe where you were six months ago? Or is that not accurate?

Lewis Rose: We always have a pipeline of 'whales'. It's a question of the sales lead cycle. We'd like it to be quicker but generally if you're speaking with 'whales', it's a competitive process and decisions like that take time. So yes, we're obviously optimistic that at some point we will be signing new licensees. It's something that we focus on. We've said publicly that we'd be happy with one or two per annum.

Brian Kinstlinger: Do you expect more of your licensees to take on their e-cash system and if that's the case where do you see DSO ending up? With your cash, you've talked about acquisitions in the past, where is that in the pipeline?

Lewis Rose: On the DSO's I assume you're referring to days sales outstanding which is the terminology for the accounts receivable. We've said that accounts receivable has increased because of the fact that two of our licensees have taken on responsibility for their own e-cash. And with a growing business you'd expect that to occur.

We don't have any plans today for any of our licensees to take on e-cash themselves. There is discussion in the industry that an integrated account is the way to go and we are speaking to existing and prospective licensees about that.

Brian Kinstlinger: So does that mean you don't expect right now that your other licensees will take on their own e-cash systems?

Lewis Rose: No, at this point not.

Brian Kinstlinger: So the two that you do have, are those DSO's more like in the 30 days than the ones that you have alone are below ten? Is that accurate?

Lewis Rose: Yes.

Brian Kinstlinger: And the final question I had was about the acquisition potential and what's going on out there in the market?

Lewis Rose: We've said that from industry data a year ago, there were probably 1,800 online gaming sites. Today, they're down to about 1,200. So either the smaller sites are disappearing or there's certainly consolidation in the industry. If you look at the poker landscape or the poker environment, the top ten rooms represent about 90% of the business, and the top five rooms represent about 80% of the business. We certainly see the consolidation occurring over the next three or four years, and maybe sooner.

From CryptoLogic's point of view, we're in the fortunate position of having a very strong balance sheet both to invest in our existing business and to be aware of and be primed for acquisition opportunities should they arise. Our business plan does not depend on acquisitions, but nonetheless we are actively looking at a number of opportunities. We would only make an acquisition if the price is right, and then we'll act accordingly. We have criteria that we've established for acquisition potential that include:

1. It has to strengthen our core business;
2. It has to either accelerate growth into new technologies, new channels, emerging game areas and/or geographic expansion;
3. It has to be complementary to our strategy; and
4. then, finally, it has to be synergistic in value and accretive.

Brian Kinstlinger: Okay, thanks guys.

Operator: Your next question comes from David Shore from Desjardins Securities. Please go ahead.

David Shore: Thanks, good morning guys. Just a couple of questions. Taxes for the quarter came in a little bit lower than I was expecting. Where do you see that going for the rest of the year?

Lewis Rose: The tax rate will be around 15% to 17%.

David Shore: And that's where your guidance for Q2 is dependant on?

Lewis Rose: Yes

David Shore: Where does the headcount stand?

Lewis Rose: The current headcount is 325.

David Shore: How much of that would be in development?

Lewis Rose: Over 66%.

David Shore: Anything happening with bingo?

Lewis Rose: Yes, bingo as you know has been a business that we launched in 2002. In our view it has shown substantial resilience but it's not shown the growth that we've benefited from poker. It's important to us in terms of complementing our casino and poker offering, and it enables us to have a well-rounded complete offering for customers. 2005 bingo revenue is between 1% and 2% of our total revenue. So it's not material in that respect. But it's important for

us as a premier online gaming company to have the product offering available to customers should they wish to take it up.

David Shore: Any progress on the CFO search?

Lewis Rose: We continue to look for the CFO as you all know. If there's anybody on the phone who has recommendations, please let us know. We've been working with Egon Zehnder who is a highly respected international executive search firm to identify the best person for the role. It's a very important role and it requires some specific credentials and we've been very thorough in our evaluation. We've narrowed the focus down to several candidates and we've not concluded with any individual person. In the meantime, we continue to achieve excellent financial results. We have a strong cash position, and I can confirm to you that we are in very good hands with Jenifer Cua acting as our interim CFO. She's done a superb job in the interim.

David Shore: What about the new game development, specifically on the mobile side?

Lewis Rose: We look at that question in two parts. In terms of new games, we continue to innovate and develop new games. As we mentioned, we were the first to bring Fruit Machines to market. Beyond that we're the first to bring Bejeweled to the Internet. So from our point of view, we've been very proactive in terms of new games. We will be delivering a new series of games towards the end of the second quarter and all being well, one new package of games by the fall.

As far as the mobile business is concerned, we've said for a long time now that while we're of the view that mobile and interactive TV are very romantic and sound like they have universal application, we're very skeptical. We have developed four games for wireless ourselves. But we are not convinced that the economic model justifies the capital expenditure. We understand online gaming, we understand the revenue model, we understand the potential. We've been doing this now for ten years, we've got \$25 billion in transactions that we've processed, for two million players around the world in 240 countries.

As far as wireless is concerned, there are a number of intermediaries who would want their slice of the pie. Our view is at this point given the take-up, given the technology challenges, given the user or the player experience, and given the

revenue model, we're not convinced that right now is the time for us based on our philosophy of 'return on effort' to concentrate on wireless. We still have tremendous growth potential in our two core businesses of online casino and online poker and that is where we will spend our focus over the next while.

David Shore: Anything new to report as far as Asia goes?

Lewis Rose: Asia offers tremendous growth potential and we're looking at payment providers to lead the way. It's much easier to look at the geographic size of Asia on the map or the number of people, the number of cell phone users or the number of Internet connections. But frankly the challenges of both one, fragmented legislation, and secondly the payment alternatives have dissuaded us from a huge push into Asia. You have to look at each country on an individual basis. While we've seen some encouraging traction in our Japanese language version, China is much slower to develop given the absence of international credit cards for players to make deposits. So yes, Asia is a tremendous opportunity. It's one that we believe will happen in the future. But not in the immediate future.

Operator: Your next question comes from Traci Mangini from ThinkEquity Partners. Please go ahead.

Traci Mangini: Thank you, good morning. I had a question regarding the regulatory environment in the US. You mentioned that a bill was upcoming. Could you comment on your level of concern regarding the Kyl bill and particular work-arounds that might be in place in the event that it would pass? Also have you stated any goals for US revenue contribution for example in 2006?

Lewis Rose: The first question is about the current state of play in the US. It appears to us, Traci, that Senator Kyl is preparing to launch and introduce a prohibition bill shortly. Unlike the other Kyl bills, this one seeks to ban US financial institutions from processing payment for unlawful Internet wagers, but doesn't seek to clarify what is or what is not legal. So as a result, it doesn't contain any carve-outs including any exemptions for the online horse racing industry. As you know, the horse racing industry today is a legal online activity in California and it's generating hundreds of millions of dollars for states in which it is currently legal. So it's reasonable to assume that the horse racing industry would have a problem with this bill if it were introduced. And they wouldn't be able to get their payments processed for Internet wagers.

Now, if that happens then what you will see is a position of various carve-outs for various industry segments. Online gaming is here to stay, it's not going anywhere. The stakes for online gaming, which is now expected to reach \$12 billion this year, is high. So you have a significant number of various industry groups who are allocating tremendous amounts of time and energy to growing their business. If there was to be legislation with any carve-outs, you can be assured that each of the various specific industry lobby groups will be fighting to ensure their survival.

Senator Kyl has for almost ten years been working to introduce prohibition efforts and thus far without success. The last exemption free prohibition bill was from a Republican, Jim Leach, and that was in the House of Representatives in 2000. And that was ultimately defeated by special interest groups seeking exemptions.

Your second question is what proportion of our licensees' revenue comes from international sources. We've said that we're comfortable at around 60%. In Q1 of 2005, CryptoLogic's licensees achieved over 65% of their revenue from overseas markets. And this was a result of a conscious effort we made a couple of years ago, because that more than 65% level is up from 40% in 2002, 55% in 2003 and then 60% in 2004.

Traci Mangini: Great, thank you. There's a couple of high profile Internet poker IPO's expected to be coming shortly and likely to demand some pretty attractive multiples of valuations, at least that's what's speculated. Are you finding in your acquisition search that the multiples are looking a bit high at the moment?

Lewis Rose: Traci, from our point of view that's fantastic, because what it does, it really shines the light on the industry. It makes London the centre of the universe for online gaming. We've said it is going to be, we said it has been and it will continue to be. Financing online gaming is going to be an exciting opportunity. There are public companies in the UK that are in this business, but there are some reports that some of the large scale poker companies that you are referring have plans to go public. From our point of view, that's a positive thing. In terms of acquisition opportunities we've said several times that acquisitions are an avenue for growth for us. Our model does not depend on acquisitions for growth. We will be prudent and not over pay for acquisitions. On the other hand, the attention and the valuations that these new initiatives have brought to the industry is good for CryptoLogic.

Remember that public companies develop reputations over time. We've earned our reputation over the last six years as one of the very first and few publicly traded companies in this industry. Today, we trade on three of the world's senior and largest exchanges, the TSX in Toronto, the NASDAQ in the US and on the Main Board of the London Stock Exchange. From our point of view, we've demonstrated a record of public transparency and compliance that is unparalleled in the industry in terms of corporate governance and disclosure. And in our view that will separate us from the newbies.

Traci Mangini: Great. Thank you.

Operator: Your next question comes from Greg Harris from Canaccord Capital. Please go ahead.

Greg Harris: How are things looking on the advertising subsidiary and e-cash and what you're seeing by way of revenue on those streams, how it differs from previous and what you're looking at going forward?

Lewis Rose: Hi Greg. I think you're probably referring to the information portal, WinnerOnline which provides gaming and gambling information, helpful tips and advice. And it continues to grow. It's not a substantial part of our business, but again it completes the offering. In terms of the other revenue, we expect single digit growth. It's a fellow contributor and we expect that that performance and growth will continue.

Greg Harris: If I could get a viewpoint from you on where development is being focused now. We've obviously seen some big work out of you guys last year on upgrading slots and recently seeing some work out of poker enhancements. What is development really going to be focused on now and where do you see the holes or areas of significant enhancement?

Lewis Rose: We identified the fact that we were under represented in slots last year and so with a concerted effort, we launched 30 new games, the majority of which were slots last year. The Fruit Machines are an example of an innovative way to acquire new customers. As you know, acquisition costs and avenues for new player acquisition are becoming much more competitive and increasing. We focus on player retention and lapsed player reactivation which has meant that our development resources are not just on the

front-end, not just new games, while that's important, and you've witnessed that with the recent Bejeweled announcement. We're also focusing on the back-end in terms of improved data mining, providing tools for our customers to better mine their databases and to improve their revenue per player.

Greg Harris: Is that something that you anticipate being able to roll out a more robust back-end product in this year's release?

Lewis Rose: It's an ongoing development, Greg. We're doing it all the time.

Greg Harris: Okay, great. Thanks guys.

Operator: Your next question comes from Carl Franklin from Bridgewell Securities. Please go ahead.

Carl Franklin: Can you tell me whether you think that skill gaming is a field that you should be looking at in the future?

Lewis Rose: Carl, we've looked at skill games in considerable depth. It's a different business from online gaming in that the player himself is more of a gamer than a gambler. And it's more attuned to a subscription based economic revenue model. For example, to give you some perspective, the average cost per acquisition for an online gambler might be between \$150 and \$400, but the lifetime value might be between \$1,000 and \$1,200. For skill-based gaming, it's probably a tenth of that. So it's easier and cheaper to acquire a skill-based gamer, but the lifetime value is also much lower. So in terms of our economic model, we've continued to focus on online gaming in terms of casino and poker, because of the economic model. Having said that, some of our customers are using skill-based games as a constructive way to acquire new players with the intention of converting some of those skill-based gamers into online gamers.

Carl Franklin: Can you outline plans for sponsoring tournaments this year? Do you feel that the one you sponsored last year proved to be a big success?

Lewis Rose: There are two main areas of sponsorship. The one is the World Series of Poker. Let me just describe to you what the WagerLogic poker room manager has just put out on our room-wide World Series of Poker

main event package. He said it was ‘top of the league’ and in our view he’s right. The WSOP package consists of \$2,000 in cash, a \$10,000 seat to the World Series of Poker main event and that’s not paid from the prize pool, and there is a nine night stay at one of the hotels in Vegas where the event is held. The stay is valued at more than \$2,100. So it’s a significant package for players. There are 145 seats available that the licensees or that the WagerLogic poker room is offering. That’s one event package.

The second is the Caribbean Poker Classic™, and last year was the inaugural event held in St. Maarten. There were 157 entrants, there were three World Series of Poker champions that attended. This year we expect the CPC to be a greater success. We are currently finalizing negotiations and the location will be fantastic for poker players to enjoy.

One of the other items that is worth mentioning in terms of poker, is the recent introduction of a new series of low limit, no limit and pot limit tables that we’ve introduced to the room at the request of our customers. These tables were created to meet the needs of the smaller limit player as well as the no limit and pot limit players down to the 15 cents to 25 cents level. Now CryptoLogic software meets the ‘heart of the online players’ at all levels including play for fun.

Carl Franklin: Thanks Lewis.

Operator: Your next question comes from Harry Barker from Moneysmarts. Please go ahead.

Harry Barker: Hello, thank you. One of the topics you addressed was the whole area of acquisition. Do you foresee, in terms of acquisition, looking at a company that’s going to round out your product offering? Or would you be interested in looking at a company that might help in terms of payment processing such as a Neteller?

Lewis Rose: We’ve established criteria for acquisitions that would mean either growth in our existing core business or the opportunity to get into new technologies that we’ve perhaps missed. For example, if we were not in the poker business, we would have made an acquisition of poker. So new technologies, core business expansion, new channels or emerging game areas with geographic expansion. Those are the buckets of opportunities we see.

As far as payment processors are concerned, we've seen tremendous growth in some of the more successful payment processors that have gone public. The issue with payment processors in our view, is that if we were to acquire a payment processor, the concern is always that our competitors who are also existing customers of the payment processor, would leave because they would be concerned about conflict of interest. So you might end up buying a fantastic cash generative payment processing business only to find that the customers that you acquired move on.

Harry Barker: In view of the WTO decision, do you foresee major companies such as MasterCard and Visa getting back into payment processing eventually?

Lewis Rose: My hope is all of the credit cards embrace online gaming. The reality is that's not the case today. There are many credit card and credit issuing institutions in the US that process online gaming transactions as long as they're properly coded. As a public company, we obviously abide by all of the regulations that are imposed by credit card and other payment processing institutions.

It would be pure speculation on my part as to the inner workings of the major credit card companies and their approach to the outcome of WTO. What I can do is say to you that if you look at a major jurisdiction like the UK, that has clearly embraced online gaming, by implementing and instituting regulation through the UK government for the first time. So that's clearly good news.

Harry Barker: Thank you.

Operator: Your next question comes from Gabriel Leung from Paradigm Capital. Please go ahead.

Gabriel Leung: Good morning, congratulations on the results. Looking at your pipeline of opportunities for new licensees, can you comment on whether or not some of these licensees you are looking at have an incumbent software provider already or are they not in the online gambling opportunity at all which would obviously change the selling cycle?

Lewis Rose: The short answer is both. The reality is that there are some what we call 'whales' who are not particularly happy with the

incumbent. There are others that are considering entering the online gaming business for the first time. It's very difficult not to notice the substantial growth of this business and for some of the brand name companies around the world to want to enter. Those are the companies that are going to take longer to actually make the corporate decision to enter the process. But the short answer is we're looking at both the potential new entrants and potential existing online gaming offerings that would consider the CryptoLogic, WagerLogic product offering.

Gabriel Leung: Looking at your product roadmap, it looks like some of your competitors are gaining some good traction on the Flash based casino offerings even within your existing licensee base. What are your views on that? Do you see an opportunity to maybe develop your existing Flash software portfolio to take advantage of the opportunity there?

Lewis Rose: Gabriel, we do as a company offer download and non-download versions of our software. The non-download versions include both Java and Flash. While those offerings aren't as extensive as the download version which includes over 100 table and slot games, we believe our focus is still on the philosophy of ROE or "return on effort". The download versions are much stickier. The revenue per player is much higher. The loyalty of a download player is much greater. So we've focused on new product development in those areas. It's a much richer experience and a much broader appeal to online gamers. Having said that, we've not neglected Flash and Java. Flash, obviously has its attractions. And so we do offer a product portfolio of Flash games, but it's not as extensive as download.

Gabriel Leung: Does any of your investment program include enhancing the Flash portfolio products?

Lewis Rose: Yes.

Gabriel Leung: Just to clarify on something that was in the press release, you talked about the capital expenditures for the current year running up to actually \$12.0 million, 35% of that being just normal capital expenditures. Of the remaining \$8.0 million can you comment on how much of that is related to your move to your new building and how much of it is related to the investment program?

Lewis Rose: A big proportion of the increased capital expenditure this year is the move to the new building. It's to accommodate the increased employee strength. We've grown tremendously as a company. We've grown from revenue in 2002 of \$34 million, 2003 \$44 million, 2004 \$64 million. So we've effectively doubled the business over the last two years or so. With the doubling of the business comes the increase in employee strength. And we've grown in terms of employees from 290 at the end of 2004 to over 325 today worldwide. The majority of whom are in Toronto and over 60% of whom are in the development area. So a significant proportion of the capital expenditures will be from the new premises.

Gabriel Leung: What is your assumption for head count by the end of '05?

Lewis Rose: Within the order of 385.

Gabriel Leung: Okay.

Lewis Rose: That's the expectation at this point.

Gabriel Leung: What is your fully diluted assumption for the year?

Lewis Rose: 14.5 million shares.

Gabriel Leung: You talked about settling the WebSports lawsuit. Are there any other outstanding lawsuits that we should know about?

Lewis Rose: There are no material lawsuits that we're aware of.

Gabriel Leung: Okay, fair enough. Thank you very much.

Operator: Your next question comes from Robert Winslow from Wellington West. Please go ahead.

Robert Wellington: E-casino revenues grew 6% year-over-year. Could you tell us please the number of licensees that was on versus the year ago period?

Lewis Rose: We had eleven licensees at the beginning of the quarter. We had nine licensees at the end of the quarter. In 2003 we began with twenty-one licensees.

Robert Wellington: Earlier in the call you talked about the competitive process for ‘whales’ in signing new licensees. I wonder if you could tell us please who are the top one or two other firms you consistently come up against in these competitive bids?

Lewis Rose: Well the distinguishing features of CryptoLogic is that we’re a publicly traded company, we have a strong balance sheet, we have a track record of proven performance. We have over 100 table games, slot games, etcetera. So we’re most often compared to publicly traded companies like Boss Media. Having said that, there are other private companies that we do compete against including Microgaming, PlayTech and others. So to a range of competitors.

Obviously our competitive advantage though is the fact that we have such an enviable roster of blue-chip customers. They are international brand-named gaming organizations. We have an offering that includes casino, poker and bingo - both download and non-downloadable in seven different languages, three different currencies. We have an integrated e-cash solution, our own proprietary solution. We have a multi-lingual 24/7 customer support centre. We have a strong balance sheet, we have over \$90 million cash. We have no debt. We are regulated in two strictly regulated jurisdictions, publicly traded on three exchanges which ensure the transparency and the credibility that we’ve spoken about so many times. And then the bottom line is that we’re only focused on top-tier customers. We’re only focused on the high quality blue-chip customers.

Robert Wellington: Okay, thanks. I’d like to just focus here a little bit on your licensing agreements briefly for casino and poker. Can you tell me please what a typical duration would be on a casino license agreement?

Lewis Rose: The typical duration is three to five years. That’s been the norm in the past. It appears more recently that the term has been focused more on the three year term. They generally are exclusive, they generally are for casino and/or poker depending on the individual licensee. They contain provisions for incentives as the customer increases their volume. It also takes into account the

three core offerings that we have which is the gaming software, the e-cash solution and the customer service.

Robert Wellington: It sounds like the poker licensee duration is similar to that three to five year range. The reason I asked as I've heard more like one to three years is typical right now given the very high growth rate in the sector.

Lewis Rose: The norm in the past has been three to five, but more recently it's been three. Clearly, some contracts can be in the one to three year range. Our expectation is that we aim for a three-year type relationship.

Robert Wellington: Okay, great. And that takes me to my last question. Do you have any renewals on these licensees coming up over the next say two to three quarters? Thank you.

Lewis Rose: We don't have any more renewals in 2005, the next set of renewals are in 2006.

Operator: Your next question comes from Bob McWhirter from Selective Asset. Please go ahead.

Bob McWhirter: On the ones that are coming up in 2006 can you give us a range as to whether they're in the first quarter or first half of the year, last half of the year, when do you expect them to be up for renewal?

Lewis Rose: There are two and one is in the end of the first quarter and the other is in the fourth quarter.

Bob McWhirter: Thank you. You talked about the kind of integrated e-cash solution that you have. You've had two clients that have basically taken on the responsibility themselves. What is the profitability impact if the customer goes with their own e-cash solution?

Lewis Rose: Let me explain to you first why customers do that, because that's important, Bob. We are not involved in sports betting. So many of our customers have chosen to offer a wide range of gaming options to their players which would include sports betting. So in order for them to attract a player who has the flexibility of gambling online in casino, poker, bingo, for example, or

alternatively in sports book, they would like to have one account. So when you register you have one account.

The margin is not materially different because what happens is there is a cost associated with processing that transaction. Whether it's a credit card transaction or a payment processor. So if the customer takes on that responsibility then they're also taking on the obligation to make that financial charge payment to the payment processor or the credit card company.

Bob McWhirter: The description of we're not involved in sports betting, meaning this is an area where we decide as a corporate strategy we don't want to become involved, or it's something you're considering in the future?

Lewis Rose: At this point in time, we've no plans to get involved in sports betting. We have no sports betting involvement at CryptoLogic at all.

Bob McWhirter: You talked about the 6,000 simultaneous players that you've got online at one time and one of the targets that you have for things to do in the future is to increase your network scalability. You talk about currently whether the network is a bottleneck, whether the bottleneck is software related, what kind of capital expenditure and/or time would be required to address network scalability challenge?

Lewis Rose: Currently, we've achieved simultaneous player numbers in excess of 6,000. Our capacity today would be in excess of 10,000. The recent release of the new series of no limit, low limit, and pot limit tables will attract, in our view, a significant number of new players because we are offering limits down to the 15 cent, 25 cent limit. So that means that we will probably see an influx of new players at the lower limit levels, which should increase the numbers again.

In terms of capital expenditure, the major program includes one of the initiatives to ensure that we have the stability and scalability to accommodate increase in number of new players. While we're very happy with the growth we've achieved thus far in poker and casino, we're not satisfied that's where it's going to stop. We do believe that there is still substantial growth that is still available in the online poker industry, and we want to ensure that we participate in that growth. In order to participate in that growth, we need to have the systems to accommodate that

growth. Therefore, we've been investing and planning and developing our systems to accommodate that growth, and that's included in the expectations and the numbers that we've given you today of the major investment programs.

Bob McWhirter: What is the time line required and do you expect that perhaps by the end of June or is it something that's closer to the end of the calendar year where you might be able to do 25,000 people?

Lewis Rose: That's expected by the end of the year.

Bob McWhirter: Thank you very much.

Operator: Your next question comes from Milan Radia from Bridgewell Securities. Please go ahead.

Milan Radia: A question on the relative concentrations of contribution. If you look at casino and then at poker, what is the contribution of maybe the two or three top licensees and their percentages of the total of the growth for example?

Lewis Rose: Milan, we've focused on nine core licensees. The top seven represent well over 90%, in fact it's over 95% now. And that's consistent with our focus on quality as opposed to quantity of customers and the higher 'return on effort'. We don't provide individual revenue by customer for confidential reasons that maintain the professional nature of our relationship with our customers. But I think that should give you a very good indication.

Milan Radia: Is it relatively similar in poker as it is to casino or is it perhaps some in the early stages of poker relative to casino, is there more concentration?

Lewis Rose: It's not similar and the reason is not all of the customers take both poker and casino. Some are poker only customers and some take poker and casino.

Milan Radia: We've seen some of your larger licensees try to bring in a second supplier to diversify their own supplier risk. An example, being William Hill. What has the experience been from your perspective in terms of the evolution of market shares and relative performance there?

Lewis Rose: William Hill did introduce a second supplier. For William Hill online gaming has grown dramatically. And so they wanted to ensure a dual supplier and to mitigate any risk. In May of last year, they introduced a second supplier for casino. I'm thrilled, delighted and actually very proud of the CryptoLogic and WagerLogic teams to be able to say to you that William Hill has actually decided to reverse that decision in terms of their primary casino for both UK Sterling and US dollars. And they've decided to go with one supplier for UK Sterling and US dollars and that's CryptoLogic. So my response to the question is every customer has the right to ensure that they protect their business. From William Hill's point of view, they decided to offer two casinos on their web site. They've now decided that based on the quality and breadth of our games, the size of our jackpots and the player experience, that our software is superior and have therefore decided to proceed on the basis of a single casino offering on their website.

Milan Radia: Very good, thanks very much.

Operator: This concludes our question and answer period. I would now like to turn the call back over to Mr. Rose. Please go ahead.

Lewis Rose: Thank you for taking the time to join us on the call today. CryptoLogic's strong first quarter results show that our disciplined execution and investment in our future are working in this dynamic and ever-changing industry.

We will continue to grow our market strength by creating innovative products that drive profitability for our customers - and provide shareholders with the blue-chip results that they expect from CryptoLogic.

Tomorrow, as you all know, is our annual shareholders' meeting. It will take place at 4:30 p.m. eastern time at the Design Exchange in Toronto. I certainly hope to see you all there, and if you're not there, the only reason that I will accept for your inability to attend is if you are playing online poker. I look forward to sharing our continuing progress with you on our next quarterly call. Thank you all.

Operator: This concludes today's conference call. Please disconnect your lines and have a nice day.