

profitable growth @ INTERNET SPEED

CRYPTOLOGIC



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CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2000

## TO OUR SHAREHOLDERS:

During the first quarter of 2000, CryptoLogic Inc. continued to realize solid growth performance in our industry and maintained our position as a highly profitable Internet company. Year 2000 marks a new growth phase for CryptoLogic. As such, we increased investments in development and corporate infrastructure to maintain our lead – technically, financially and globally. These initiatives make it possible for CryptoLogic to sign and attract major brand names, and further expand our global leadership position. Although our 2000 first quarter demonstrated modest revenue growth and lower earnings, CryptoLogic continues to be a strong organization with solid fundamentals and excellent growth prospects.

Year 2000 marks a new growth phase for CryptoLogic. As such, we increased investments in development and corporate infrastructure to maintain our lead – technically, financially and globally.

# letter to shareholders



## FINANCIAL HIGHLIGHTS

Total revenue for the first quarter ending March 31, 2000 was \$8.9 million, an 8% increase compared to \$8.3 million in the 1999 first quarter (all figures stated in US dollars).

Net income was \$4.2 million compared to \$5.4 million in the 1999 first quarter. Earnings per share were \$0.38 in the first quarter of 2000 compared to \$0.64 in the same 1999 quarter. On a fully diluted basis, earnings per share were \$0.27 for the first quarter of 2000 compared to \$0.35 in 1999.

Revenue for the first quarter of 2000 was impacted by the slow down in marketing initiatives in anticipation of the release of version 4.0. As experienced in the first quarter of 1999, the release of version 3.0 and heightened marketing including new software distribution typically generate increased revenue due to rejuvenated user excitement for new games, features and functionality. Version 4.0 is now scheduled for release at the end of the second quarter of 2000. As well, the William Hill casino did not begin to contribute significant revenue until the end of the first quarter.

Net income for the first quarter of 2000 was impacted by increased expenditures, which expenses were important to support and drive the company's growing organization and long-term success. In order to maintain its market leader position, CryptoLogic invested in key areas including:

- version 4.0 development to advance the company's technological lead;
- an expanded customer service facility in Antigua to support a growing licensee and user base;
- a new marketing office in the UK to drive increased focus in international markets for licensees;
- a larger employee base, adding new people in development and customer service;
- Nasdaq-associated costs; and
- heightened business development activities.

At the end of the first quarter of 2000, CryptoLogic had more than \$52 million in cash. We increased our restricted cash position to \$10.5 million compared to \$4.9 million in the same 1999 quarter due to higher processing volumes. CryptoLogic is required by its credit card processors to maintain a percentage of credit card processing levels as reserves with its processors. Restricted cash represents security for letters of credit of equivalent amounts in favour of the processors as an alternative to maintaining required cash reserves.

## EXTENDING GLOBAL REACH

During the first quarter, CryptoLogic continued to make great strides to expand our global reach with the launch of William Hill's virtual casino and the additions of Jupiters and International Thunderbird as our newest licensees. Our growing base of leading licensees is enabling CryptoLogic to increase international penetration and open new horizons, particularly in the major markets of the UK, Europe, Asia, Australia and Latin America. During the first quarter, our licensees' international revenue increased to approximately 38% compared to 35% in 1999.

As the industry's first major brand name to launch an Internet casino, William Hill is demonstrating the value of strong brand recognition, which is translating into high user acquisition and revenue. William Hill, one of the UK's largest sports betting organizations, is fast becoming the Internet gaming industry's largest casino brand.

In February, CryptoLogic's wholly owned subsidiary Intertainet Overseas Licensing Limited (IOLL) licensed our gaming software to Jupiters Limited, one of Australia's most widely recognized and respected hotel casino organizations. With Jupiters, we broaden our reach into Australia, one of the largest, regulated markets for Internet gaming in the world.

During the quarter, IOLL also signed a licensing agreement with International Thunderbird Brazil (BVI) Ltd. Thunderbird will expand CryptoLogic's international revenue base, particularly in Spanish and Portuguese speaking countries by leveraging Thunderbird's land-based casino operations and brand recognition in Central and South America.

In March, CryptoLogic commenced trading on the Nasdaq National Market under the symbol CRYP. We believe listing on this premier stock exchange enhances our profile and credibility with investors and prospective licensees, enables greater US investment and access to a larger capital market. In January, a number of prominent US investment firms purchased 2.1 million common shares of CryptoLogic to hold approximately 19% of the company's outstanding shares. CryptoLogic is encouraged by our growing shareholder base, which has more than tripled to 7,000 from a year ago and the considerable investment activity from major US institutions.

We are proud of what we have achieved to date. CryptoLogic continues to lead the online gaming industry with the best technology, a strong profit model and some of the world's leading gaming organizations among our licensees. As a high-growth Internet company, our ongoing investments at critical junctures in our growth will enable us to maintain this leadership status. Your ongoing support is greatly appreciated and important to our success.



Andrew Rivkin  
*President and CEO*

April 27, 2000



Mark Rivkin  
*Executive Vice President & COO*

CRYPTOLOGIC INC.  
**CONSOLIDATED STATEMENTS OF INCOME**

For the three months ended March 31, 2000 and 1999

(Unaudited)

In thousands of U.S. dollars, except per share information	Three Months Ended March 31	
	2000	1999
<b>Revenue</b>	<b>\$ 8,251</b>	<b>\$ 7,966</b>
<b>Interest income</b>	<b>675</b>	<b>290</b>
	<b>8,926</b>	<b>8,256</b>
<b>Expenses:</b>		
Software development and support	3,601	2,006
General and administrative	652	212
Finance	25	17
Amortization	37	26
	<b>4,315</b>	<b>2,261</b>
<b>Income before income taxes</b>	<b>4,611</b>	<b>5,995</b>
Income taxes	460	524
<b>Net income from continuing operations</b>	<b>4,151</b>	<b>5,471</b>
Discontinued operations	—	(79)
<b>Net income</b>	<b>\$ 4,151</b>	<b>\$ 5,392</b>
Basic earnings per share from continuing operations	\$ 0.38	\$ 0.65
Basic earnings per share	\$ 0.38	\$ 0.64
Fully diluted earnings per share from continuing operations	\$ 0.27	\$ 0.36
Fully diluted earnings per share	\$ 0.27	\$ 0.35
<i>Basic weighted average common shares</i>	<b>10,867,686</b>	8,477,533
<i>Fully diluted weighted average common shares</i>	<b>15,684,532</b>	15,394,865

CRYPTOLOGIC INC.  
**CONSOLIDATED BALANCE SHEETS**

As at March 31, 2000 and 1999

(Unaudited)

In thousands of U.S. dollars	March 31	
	2000	1999
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 42,343	\$ 25,810
Restricted cash	10,500	4,890
Reserves and deposits with credit card processors	985	941
Accounts receivable	472	387
Prepaid expenses and other	550	277
	54,850	32,305
<b>Investments</b>	1,080	400
<b>Capital assets</b>	624	644
	\$ 56,554	\$ 33,349
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,912	\$ 1,259
Accrued liabilities	808	213
Income taxes payable	1,186	607
Funds held on deposit	1,185	852
	5,091	2,931
<b>Shareholders' equity</b>		
Capital stock	5,137	2,856
Retained earnings	46,326	27,562
	51,463	30,418
	\$ 56,554	\$ 33,349

CRYPTOLOGIC INC.  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three months ended March 31, 2000 and 1999

(Unaudited)

In thousands of U.S. dollars	Three Months Ended March 31	
	2000	1999
<b>Cash flows from operating activities:</b>		
Income from continuing operations	\$ 4,151	\$ 5,471
Amortization adjustment to reconcile income to cash flows	37	26
Changes in operating assets and liabilities:		
Restricted cash	(5,460)	(500)
Reserves and deposits with credit card processors	(354)	1,061
Accounts receivable	(174)	(14)
Prepaid expenses and other	470	264
Accounts payable	350	2
Accrued liabilities	518	(104)
Income taxes payable	408	525
Funds held on deposit	93	84
	<b>39</b>	<b>6,815</b>
Cash flows used in discontinued operations	—	(41)
	<b>39</b>	<b>6,774</b>
<b>Cash flows from financing activities:</b>		
Issue of capital stock	1,472	14
<b>Cash flows from investing activities:</b>		
Additions to capital assets	(145)	(108)
Acquisition of assets of Gamesmania	—	(270)
	<b>(145)</b>	<b>(378)</b>
Increase in cash and cash equivalents	1,366	6,410
Cash and cash equivalents, beginning of period	40,977	19,400
Cash and cash equivalents, end of period	<b>\$ 42,343</b>	<b>\$ 25,810</b>

## CORPORATE DIRECTORY

### DIRECTORS & OFFICERS

Austin Page, *Chairman, Director*

Andrew Rivkin, *President & CEO, Director*

Mark Rivkin, *Executive Vice President  
& COO, Director*

Harvey Solorsh, *Chief Financial Officer*

Anatoly Plotkin, *Chief Technology Officer*

Jenny Solorsh, *Senior Vice President*

Edwin Cohen, *Director*

David Cynamon, *Director*

Dennis Wing, *Director*

Robert Stikeman, *Secretary*

### MANAGEMENT TEAM

Andrew Rivkin, *President & CEO*

Mark Rivkin, *Executive Vice President & COO*

Harvey Solorsh, *Chief Financial Officer*

Anatoly Plotkin, *Chief Technology Officer*

Jenny Solorsh, *Senior Vice President*

Robert Thompson, *Vice President of Marketing*

David Outhwaite, *Vice President of Compliance*

Nelson Lee, *Director, Finance*

Nancy Chan-Palmateer, *Director, Communications*

Christopher Smith, *Director, Licensee Services*

### LEGAL COUNSEL

Stikeman, Graham & Keeley  
*Toronto, Canada*

### AUDITORS

KPMG LLP Chartered Accountants  
*Toronto, Canada*

### BANK

Bank of Montreal  
*Toronto, Canada*

### TRANSFER AGENTS

Equity Transfer Services Inc.  
*Toronto, Canada*

Continental Stock Transfer & Trust Company  
*New York, USA*

### COMMON SHARES LISTED

TSE symbol: CRY

Nasdaq symbol: CRYP

### INVESTOR RELATIONS

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