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CRYPTOLOGIC

> CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2001

*CRYPTOLOGIC IS A WORLD-LEADING PROVIDER OF SOFTWARE  
AND SERVICES FOR INTERNET GAMING.*

*As a pioneer and trendsetter, the company has earned a major share of this burgeoning, multi-billion dollar global market. Since CryptoLogic began commercial operations, more than 750,000 players from 240 countries around the world have registered and played at online casinos that use CryptoLogic's software. The company has processed secure electronic transactions worth US\$5.7 billion – a testimonial to the proven performance of its technologies.*

*Over a year ago, CryptoLogic anticipated the entry of brand name, land-based groups to the online gaming industry. Shifting its strategy to focus on these long-term leaders, CryptoLogic will enhance their brand identities with its state-of-the-art, fun, safe and self-regulated Web entertainment software. Recognized for high-margin results, CryptoLogic has charted a course that will center on serving these top tier, profitable names in online gaming.*

*Statements in this report, which are not historical are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including, without limitation, risks associated with the Company's financial condition and prospects, legal risks associated with Internet gaming and risks of governmental legislation and regulation, risks associated with market acceptance of technological changes, dependence on licensees and key licensees, increased competition and other risks detailed in the Company's filings with securities regulatory authorities. When used herein, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as are intended to identify forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those projected in the forward-looking statements as intended, planned, anticipated, believed, estimated or expected. CryptoLogic does not intend, and does not assume any obligation, to update these forward-looking statements.*

## *POSITIVE MOMENTUM CONTINUES IN 2001 FIRST QUARTER*

2001 is off to a great start for CryptoLogic Inc. and on track with expectations. The first few months were focused on establishing a clear long-term strategy and driving organic growth. CryptoLogic set targets of 20% revenue growth and net margin improvement to 45% for the overall year. We are pleased to have already achieved these results in the first quarter, evidencing positive growth in our existing licensee base.

Looking ahead, we continue to target high-quality licensees, initially in the most promising regions of Europe, then Asia. As well, CryptoLogic is considering synergistic acquisitions that leverage our cash reserves and extend the company into attractive, new gaming areas such as lotteries, bingo and sports betting for broader mass appeal. We expect concrete developments in the next few quarters to reflect the successful execution of our plans.

### *FINANCIAL GROWTH ON TARGET [ALL FIGURES STATED IN US DOLLARS]*

Revenue for the first quarter ended March 31, 2001 increased 32% to \$10.9 million compared to \$8.2 million in the corresponding 2000 quarter. This excludes interest income of \$0.8 million in 2001 compared to \$0.7 million in the prior year quarter. Interest income was historically part of total revenue, but has been reclassified and is shown below income from operations in the consolidated statements of income. These positive revenue results were attributed to the growth performance of existing licensees, increased marketing support and strong player acceptance for CryptoLogic's version 4.0 software release.

Net income for the same quarter grew by 25% to \$5.2 million or \$0.37 per share (\$0.34 per share on a fully diluted basis) compared to \$4.2 million in the prior 2000 quarter or \$0.38 per share (\$0.27 per share on a fully diluted basis). CryptoLogic continues to invest in technology development, people and infrastructure to support its large scale customers, while maintaining high margin levels. Net margin for the 2001 first quarter was 48%, an improvement over fourth quarter 2000 at 42%.

CryptoLogic continued to be a cash strong organization. For the first quarter of 2001, the company generated \$5.7 million in cash flow from operations, increasing its total cash position to \$61.0 million.

*“CryptoLogic continues to exhibit positive momentum. As a result, our share price has appreciated in a declining market, but still offers considerable upside based on strong fundamentals and a promising growth outlook.”*

#### *DEPLOYING STRONG CASH POSITION*

CryptoLogic continued to view its own shares as an exceptional investment opportunity. During the quarter, the company announced a substantial issuer bid to purchase up to 1 million common shares, which expired on April 9, 2001. Subsequent to the quarter, CryptoLogic successfully repurchased approximately 971,000 shares at C\$19.00 per share, an investment of around C\$18.5 million (US\$11.8 million). After giving effect for this repurchase, there will be approximately 13.1 million shares outstanding.

In the company’s normal course issuer bid, expiring May 16, 2001, CryptoLogic has repurchased over 460,000 common shares or more than 80% of the permitted amount. CryptoLogic will continue to make use of this program of which approximately 97,000 shares remain available for buy back.

In March, the company invested US\$0.9 million to acquire 1,055,700 shares or 9.9% of dot com Entertainment Group Inc., a fast-growing provider of Java-based bingo and casino software.

#### *LEGISLATIVE DEVELOPMENTS*

CryptoLogic has always maintained that regulated, responsible Internet gaming is the best solution for consumers, licensees and governments. In the first few months of 2001, CryptoLogic has seen dramatic steps in the UK and the US moving towards a

regulated marketplace. The British government introduced tax-friendly legislation to encourage major UK sports books to bring home their Internet operations. Nevada and New Jersey tabled legislation that would permit online gaming within their states. The Nevada bill has garnered considerable support from regulators, casino operators and the majority of the state's assemblymen and could become the first such law in the US.

#### *MARKET-DRIVEN FOCUS*

2001 will also see CryptoLogic raise barriers to entry by emphasizing marketing, customer care and regulatory compliance to ensure that both our company and licensees are in the top tier of profitability in today's evolving and competitive market. The company is moving to become a market-driven organization, giving attention to consumer-oriented features and services that will heighten customer loyalty and increase global penetration. For example, CryptoLogic introduced new pound sterling functionality for the William Hill Casino, which is gaining fast appeal with this licensee's strong UK player base.

CryptoLogic continues to exhibit positive momentum. As a result, our share price has appreciated in a declining market, but still offers considerable upside based on strong fundamentals and a promising growth outlook. The company's strategy will become more evident in subsequent quarters and take CryptoLogic into its next growth phase, fortifying our place as the supplier of choice for regulated Web gaming entertainment. We look forward to a rewarding year and appreciate the continued support of all our stakeholders.



**JEAN NOELTING**  
**PRESIDENT & CEO**  
*APRIL 16, 2001*

*CONSOLIDATED STATEMENTS OF INCOME*  
 FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
 (UNAUDITED)

IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE INFORMATION

THREE MONTHS ENDED MARCH 31

	2001	2000
Revenue	\$10,865	\$8,251
Expenses:		
Software development and support	4,963	3,601
General and administrative	783	652
Finance	75	25
Amortization	63	37
	5,884	4,315
Income from operations	4,981	3,936
Interest income	790	675
Income before income taxes	5,771	4,611
Income taxes	589	460
Net income	5,182	4,151
Basic earnings per share	\$ 0.37	\$0.38
Fully diluted earnings per share	\$ 0.34	\$0.27
<i>Basic weighted average common shares (000's)</i>	<i>14,038</i>	<i>10,868</i>
<i>Fully diluted weighted average common shares (000's)</i>	<i>15,252</i>	<i>15,321</i>

*CONSOLIDATED BALANCE SHEETS*

*AS AT MARCH 31, 2001 AND 2000  
(UNAUDITED)*

*IN THOUSANDS OF U.S. DOLLARS*

*MARCH 31*

	2001	2000
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$46,664	\$42,343
Restricted cash	14,500	10,500
Reserves with credit card processor	1,423	985
Accounts receivable	456	472
Prepaid expenses and other	1,219	550
	64,262	54,850
Investments	2,351	1,080
Capital assets	841	624
	\$67,454	\$56,554
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$1,538	\$1,912
Accrued liabilities	1,083	808
Income taxes payable	627	1,186
Funds held on deposit	2,209	1,185
	5,457	5,091
Shareholders' equity		
Capital stock	6,857	5,137
Retained earnings	55,140	46,326
	61,997	51,463
	\$67,454	\$56,554

*CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY*  
*FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000*  
*(UNAUDITED)*

IN THOUSANDS OF U.S. DOLLARS

FOR THE THREE MONTHS ENDED MARCH 31

	2001		2000	
	Number of shares (000's)	Stated value	Number of shares (000's)	Stated value
Common shares:				
Balance, beginning of period	14,079	\$ 6,455	8,974	\$ 3,643
Repurchase of shares	(119)	(40)	–	–
Exercise of stock options	87	420	126	745
Exercise of Class A purchase warrant	–	–	2,100	727
	14,047	6,835	11,200	5,115
Series C warrants:				
Balance, beginning and end of period	160	22	160	22
Total capital stock	14,207	6,857	11,360	5,137
Retained earnings, beginning of period		51,133		42,175
Net income		5,182		4,151
Excess of repurchase price of common shares over stated value		(1,175)		–
		55,140		46,326
Total shareholders' equity		\$61,997		\$51,463

*CONSOLIDATED STATEMENTS OF CASH FLOWS*  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
(UNAUDITED)

IN THOUSANDS OF U.S. DOLLARS

	2001	2000
Cash flows from (used in) operating activities:		
Income	\$ 5,182	\$ 4,151
Amortization adjustment to reconcile income to cash flows	63	37
Changes in operating assets and liabilities:		
Restricted cash	(500)	(5,460)
Reserves with credit card processor	(206)	(354)
Accounts receivable	979	(174)
Prepaid expenses and other	(380)	470
Accounts payable	(616)	350
Accrued liabilities	207	518
Income taxes payable	625	408
Funds held on deposit	395	93
	5,749	39
Cash flows from financing activities		
Issue of capital stock	420	1,472
Repurchase of common shares	(1,215)	-
	(795)	1,472
Cash flows from investing activities		
Additions to capital assets	(65)	(145)
Investment in dot com Entertainment	(921)	-
	(986)	(145)
Increase in cash and cash equivalents	3,968	1,366
Cash and cash equivalents, beginning of period	42,696	40,977
Cash and cash equivalents, end of period	\$46,664	\$42,343

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT MARCH 31, 2001  
(UNAUDITED)

These consolidated interim financial statements of CryptoLogic Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the consolidated financial statements for the year ended December 31, 2000, except as described below in a change in accounting policy (note 1). These consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2000, as set out in the 2000 Annual Report. All figures are in U.S. dollars.

### 1. CHANGE IN ACCOUNTING POLICY

On January 1, 2001, the Company adopted the new recommendations issued by the Canadian Institute of Chartered Accountants with respect to earnings per share. The new recommendations require the use of the treasury stock method in computing fully diluted earnings per share replacing the imputed interest method. The treasury stock method is a method of recognizing the use of proceeds that could be obtained upon the exercise of options and warrants in computing fully diluted earnings per share. It assumes that any proceeds would be used to purchase its common shares at the average market price during the period being reported on. In accordance with these new recommendations all prior period comparative earnings per share information have been restated as follows:

	For the three months ended March 31, 2000	
	Restated under new recommendations	As previously reported
Basic earnings per share	\$0.38	\$0.38
Fully diluted earnings per share	\$0.27	\$0.27
Denominator in calculating fully diluted earnings per share (in thousands)	15,321	15,685

### 2. INVESTMENTS

In March, 2001, the Company acquired 1,055,700 common shares for \$921,000 representing a 9.9% interest in publicly listed dot com Entertainment Group Inc. (DCEG - OTCBB), a provider of Java-based bingo and casino software.

### 3. SUBSTANTIAL ISSUER BID

In March, 2001, the Company offered to purchase for cash up to 1,000,000 of its outstanding common shares. The offer expired on April 9, 2001. Subsequent to the first quarter on April 9, 2001, the Company purchased approximately 971,100 shares at C\$19.00 per share for a total of C\$18.5 million (US\$11.8 million).

### 4. COMPARATIVE FIGURES

Interest income has been reclassified to reflect the Company's new basis of presentation.

## CORPORATE DIRECTORY

### DIRECTORS & OFFICERS

<b>AUSTIN PAGE</b>	CHAIRMAN, DIRECTOR
<b>ANDREW RIVKIN</b>	DIRECTOR
<b>MARK RIVKIN</b>	DIRECTOR
<b>DAVID CYNAMON</b>	DIRECTOR
<b>DENNIS WING</b>	DIRECTOR
<b>JEAN NOELTING</b>	PRESIDENT AND CEO
<b>HARVEY SOLURSH</b>	CHIEF FINANCIAL OFFICER
<b>DAVID OUTHWAITE</b>	CHIEF OPERATING OFFICER
<b>ANATOLY PLOTKIN</b>	CHIEF TECHNOLOGY OFFICER
<b>JENNY SOLURSH</b>	SENIOR VICE PRESIDENT
<b>PAUL GRAGTMANS</b>	VICE PRESIDENT, BUSINESS DEVELOPMENT
<b>ROBERT STIKEMAN</b>	SECRETARY

### MANAGEMENT TEAM

<b>JEAN NOELTING</b>	PRESIDENT AND CEO
<b>HARVEY SOLURSH</b>	CHIEF FINANCIAL OFFICER
<b>DAVID OUTHWAITE</b>	CHIEF OPERATING OFFICER
<b>ANATOLY PLOTKIN</b>	CHIEF TECHNOLOGY OFFICER
<b>JENNY SOLURSH</b>	SENIOR VICE PRESIDENT
<b>PAUL GRAGTMANS</b>	VICE PRESIDENT, BUSINESS DEVELOPMENT
<b>NELSON LEE</b>	DIRECTOR, FINANCE
<b>NANCY CHAN-PALMATEER</b>	DIRECTOR, COMMUNICATIONS
<b>CHRISTOPHER SMITH</b>	DIRECTOR, LICENSEE SERVICES
<b>SERGEI BOURENKOV</b>	DIRECTOR, PRODUCT DEVELOPMENT

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### 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

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### COMMON SHARES LISTED

**TSE SYMBOL: CRY**

**NASDAQ SYMBOL: CRYP**

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