



CRYPTOLOGIC

Consolidated interim
financial statements
for the three and six months
ended June 30, 2002



CryptoLogic Inc. is a leading software development company serving the Internet gaming market.

The Company's proprietary technologies enable secure, high-speed financial transactions over the Internet. CryptoLogic continues to innovate and develop state of the art Internet software applications for both the electronic commerce and Internet gaming industries. WagerLogic Limited, a wholly-owned subsidiary of CryptoLogic, is responsible for the licensing of its gaming software and services to customers around the world.

CryptoLogic's common shares trade on the Toronto Stock Exchange under the symbol CRY and on the Nasdaq National Market under the symbol CRYP. For more information, visit www.cryptologic.com and www.wagerlogic.com.

SIGNIFICANT DEVELOPMENTS SINCE THE BEGINNING OF THE SECOND QUARTER INCLUDE:

- **Achievement of regulatory milestone: U.K. customer Littlewoods Leisure received regulatory certification from the Isle of Man;**
- **21% increase in cash and equivalents;**
- **Launch by Dukes Entertainment of dukesgaming.com;**
- **Release of German, Spanish and Japanese language casino software; and,**
- **Launch of CryptoLogic's innovative bingo product offering.**

All dollar amounts in this report are expressed in United States dollars, unless otherwise indicated.

Statements in this report which are not historical are forward-looking statements made pursuant to the safe harbour 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 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.

TO OUR SHAREHOLDERS:

CryptoLogic's strength stems from a solid financial foundation built by a business model based on recurring revenue. While short-term industry issues have had an impact on the Company's financial performance, CryptoLogic will continue to strengthen its leadership position by bringing the old fashioned fundamentals of earnings and cash flow to the online gaming market, which is projected to remain one of the fastest growing sectors on the Internet.

The second quarter of 2002 was a transitional period during which, as expected, the Company generated lower revenue and earnings than in the second quarter one year ago. The year-over-year decrease reflects the challenge being faced by the entire Internet gaming industry as a result of the decision by certain U.S.-based banks to limit the use of their credit cards for Internet gaming transactions. CryptoLogic has long advocated a strictly regulated environment as the best solution, and will continue to promote the highest standards that foster safe, secure and responsible online gaming.

In light of the U.S. credit card situation, the Company's priorities remain adding alternative non-credit-card-based payment methods and continuing to expand its customer base in growing international markets.

CryptoLogic's growth strategy is well developed. Going forward CryptoLogic will continue to:

- Focus on top-tier customers looking to leverage their brand equity on the Internet;
- Remain committed to regulatory compliance and target international markets such as Europe and Asia; and,
- Develop products, such as bingo and poker, which will help licensee customers drive organic growth.

An excellent example of the Company's strategy in action is the recent announcement that U.K. customer Littlewoods Leisure has received regulatory certification from the Isle of Man government to operate an online casino using CryptoLogic's e-gaming technology. With an 80-year history Littlewoods Leisure, a wholly-owned subsidiary of London Stock Exchange listed Sportech plc, is a highly-regarded gaming brand enjoyed by over 1.5 million customers each week.

The combination of Littlewoods' trusted brand and CryptoLogic's proven technology in a highly regulated Tier-One jurisdiction is expected to significantly increase market reach in Europe. The achievement of this milestone confirms that CryptoLogic can execute, and the Company is confident that the investment in becoming fully compliant with the strict Isle of Man requirements will generate substantial returns. The independent software testing and verification process, both for the front-end gaming software and, perhaps more significantly the e-cash back-end, will enhance the Company's competitive position when dealing with top-tier customers looking to extend their brands on the Internet in a fully regulated environment.

FINANCIAL HIGHLIGHTS

Second quarter revenue and net income before non-recurring items were in line with the Company's previously announced expectations of revenue of \$8.8 to \$9.0 million, net income of \$2.0 to \$2.2 million and diluted EPS of \$0.15 to \$0.17.

Revenue totaled \$8.9 million in the second quarter of 2002. This is a 3% increase over the \$8.7 million in the first quarter of the year, and compares with \$10.8 million in the second quarter of 2001.

Net income before non-recurring items in the quarter was \$2.0 million, or \$0.17 per share (\$0.16 per diluted share). This compares with net income of \$4.8 million, or \$0.35 per share (\$0.33 per diluted share), in the second quarter of 2001. As a result of the special charge, discussed below, the Company reported a net loss for the quarter of \$7.8 million, or \$0.65 per share (\$0.65 per diluted share).

Operating cash flow was \$1.3 million for the second quarter and \$4.1 million in the first half of 2002, and the Company continues to be well funded. Cash and cash equivalents increased by 21% during the quarter due to increases from operating, financing and investing activities, and at June 30, 2002 cash reserves totaled \$38.5 million.

As previously announced, net income for the second quarter reflects a special charge relating to the write-down of an investment in Sports.com, past portfolio investments that have been deemed permanently impaired and reorganization and legal expenses. The write-down totals \$10.5 million, versus the prior estimate of \$9.5 million. The increase results from the inclusion of a retirement allowance and a provision for additional legal costs.

Revenue in the six months ended June 30, 2002 totaled \$17.6 million, versus \$21.7 million in the first six months of 2001. In the first six months of 2002, net income before non-recurring items was \$4.2 million, or \$0.35 per share (\$0.32 per diluted share), compared with net income of \$10.0 million, or \$0.72 per share (\$0.68 per diluted share), in the corresponding period of 2001. Including the special charge, net loss for the first six months of 2002 was \$5.6 million, or \$0.46 per share (\$0.46 per diluted share).

EXPANDING INTERNATIONAL PRESENCE

In addition to the announcement of the award of Isle of Man regulatory certification to Littlewoods Leisure, the Company's international presence was enhanced during the second quarter with the signing by wholly-owned subsidiary WagerLogic Limited of a licensing agreement with Dukes Entertainment N.V. Dukes Entertainment launched its dukesgaming.com casino in early June with an aggressive marketing campaign to support its launch strategy. Early results are promising, and in line with expectations.

BROADER PRODUCT OFFERING

CryptoLogic continues to expand its product offering in line with its goal of capitalizing on the broader and increasingly global Internet gaming market. In May, an innovative bingo product was launched with its first licensee, interbingo.com, and discussions with other licensees are ongoing.

A number of product localization initiatives were also announced in the second quarter. German, Spanish and Japanese language casino versions were made available in May to better serve the needs of international players.

OUTLOOK

With a strong balance sheet and proven business model, CryptoLogic has a solid platform for top and bottom line growth.

Market conditions will continue to impact the Internet gaming industry. However, CryptoLogic's focus on earnings and cash flow driven by a sustainable, recurring revenue stream; sharpened customer commitment; strong international partners; a dedication to regulatory leadership; and leading products that serve a range of markets mean the Company is well positioned to continue to increase its share in the Internet gaming market and return to profitable growth.



Lewis Rose

Interim President & CEO

August 14, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of CryptoLogic Inc. ("the Company" or "CryptoLogic"), including the notes thereto, for the three and six month periods ended June 30, 2002 and June 30, 2001, and the audited consolidated statements and the Management's Discussion and Analysis for the year ended December 31, 2001 as set out in the Company's 2001 Annual Report. All currency amounts are in U.S. dollars unless otherwise indicated.

OVERVIEW

CryptoLogic is an Internet software development and licensing company with leading commerce enabling technology that permits secure, reliable, efficient and rapid financial transactions over the Internet. To date, the Company has focused its activities on developing software technology for the Internet gaming industry. The Company, through its wholly-owned subsidiary WagerLogic Limited ("WagerLogic"), licenses its software products and services to companies ("licensees" or "customers") around the world who hold Internet gaming licenses issued by governments where the licensees are domiciled.

FORWARD LOOKING STATEMENTS

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 and technological changes, risks associated with dependence on licensees and key licensees, risks associated with competition and other risks detailed in the Company's filings with securities regulatory authorities. These risks may cause results to differ materially from those projected in the forward-looking statements.

RESULTS OF OPERATIONS

REVENUE

Revenue in the second quarter of 2002 was \$8.9 million. This represents a 3% increase over revenue in the first quarter of 2002, and a decrease of 18% compared with revenue of \$10.8 million in the second quarter of 2001. On a year-to-date basis, revenue decreased by 19% to \$17.6 million, versus \$21.7 million in the first six months of 2001.

The year-over-year decline in revenue resulted from the challenges being faced by the entire Internet gaming industry as it adjusts to a policy decision by certain U.S. banks limiting the use of their credit cards for Internet gaming.

In light of ongoing legislative uncertainty in the United States, some U.S. banks have chosen to take a conservative stand and stopped accepting charges to their credit cards for Internet gaming transactions. The Company has taken into consideration this impact on revenue when establishing financial targets for 2002. As such, on August 14, 2002, the Company revised its revenue estimate of June 19, 2002 downward to \$34.5 million for fiscal 2002 from the prior estimate of \$38 million-\$39.7 million.

To mitigate the impact of this situation, the Company has enabled licensees to add non-credit card-based payment options for players at their sites. The Company is committed to providing the broadest possible range of payment alternatives to licensees, and has established a task force, headed



by the Chief Financial Officer, to evaluate and oversee the implementation of these alternatives. Implementation of a number of options is anticipated over the balance of the year. More importantly, the Company will continue to focus on accelerating business expansion in international markets where online gaming is a regulated and accepted form of entertainment. The contribution to revenue from the Company's European customers grew during the quarter.

NET INCOME

Net income before non-recurring items in the second quarter of 2002 was \$2.0 million, or \$0.17 per share (\$0.16 per diluted share), compared with \$4.8 million, or \$0.35 per share (\$0.33 per diluted share) in the second quarter of 2001.

On an operating basis, net income was primarily impacted by the revenue challenges associated with the U.S. credit card situation. In response, the Company maintained cost control and reduction measures implemented in the first quarter, which included a headcount freeze and general expense control measures. During the quarter, the Company reduced its staffing level by 12%.

The Company is continually evaluating cost savings opportunities. During the balance of the year, efforts to reduce costs will be somewhat offset by additional costs incurred as a result of the introduction of additional payment alternatives for licensee sites, as noted above.

In the quarter, the Company took a one-time special charge of \$10.5 million. Of this total, \$8.0 million was of a non-cash nature, representing the amount that has previously been disbursed. On a tax-effected basis, the total charge is \$9.9 million.

Of the one-time special charge, a total of \$7.6 million relates to the write-down of investments that have been deemed permanently impaired. Included in this is a \$6.6 million investment made by WagerLogic Limited, CryptoLogic's licensing subsidiary, in SCG Enterprises Ltd. (SCG), a wholly-owned subsidiary of Sports.com Limited. Sports.com was placed into administration in the U.K. in late May, and ceased operations subsequent to the end of the quarter.

As security for its investment, the Company obtained the rights to various assets of SCG, including the online casino, player database and an option to acquire a sports betting operation. The Company has since exercised its rights under its security interest and acquired, in trust, the casino, which remains operational, and the player database that will be used to market the casino. The Company is in the process of securing a new licensee to assume the operation of the casino. The sports betting operation was sold during the administration process to ukbetting plc. As part of this sale, the Company recovered approximately \$250,000. The Company is exploring legal alternatives, and counsel in the U.K. has been retained to that effect.

Also included in the special charge is a reorganization provision of \$1.5 million relating to the consolidation of the Company's customer support organization in the U.K., the retirement of the former Chief Executive Officer and various cost reduction initiatives undertaken during the quarter. The Company has also established a reserve of \$1.4 million for additional legal costs associated with defending various lawsuits in which the Company is named.

On June 19, 2002, the Company estimated that a special charge of \$9.5 million would be taken in the second quarter. The increase to \$10.5 million relates to the inclusion of the aforementioned retirement allowance and provision for additional legal costs.

As a result of the special charge, the Company reported a net loss for the quarter of \$7.8 million, or \$0.65 per share (\$0.65 per diluted share).

In light of market conditions, the Company revised its earnings guidance downward on August 14

from that provided on June 19, 2002. In 2002, the Company now expects net earnings of \$7.7 million, or \$0.52 per diluted share, excluding the special charge, and a net loss of \$2.2 million, or \$0.18 per diluted share, including the special charge. June 19, 2002 guidance, excluding the special charge, was net income of \$10.2-\$11.4 million, or \$0.77-\$0.86 per diluted share.

SOFTWARE DEVELOPMENT AND SUPPORT COSTS

Software development and support costs, which include all personnel, licensee support, customer service costs and compliance related expenditures, decreased in the second quarter by 2% to \$4.9 million, versus \$5.0 million in the second quarter of 2001. On a year to date basis, the decrease was 3% to \$9.7 million, compared with \$10.0 million in the first half of the prior year.

Included in the year-to-date costs are the development of software to enter the new gaming markets of bingo and poker, the development of a range of the Company's most popular casino games using Java technology, an investment in customer relationship management (CRM) software to optimize profit potential for licensees, regulatory compliance efforts in the Tier-One regulated jurisdictions of the Isle of Man and Alderney and ongoing enhancement of the Company's core technology.

The Company expenses all software development costs as incurred. Given the fact that the bingo product was released during the quarter and available only through one licensee, and the poker product has yet to be launched, the Company has expensed all the development costs with minimal associated revenue benefit in the quarter or first half of the year.

GENERAL AND ADMINISTRATIVE COSTS

General and administrative (G&A) expenses were \$1.7 million for the quarter, a 72% increase from the corresponding quarter in the previous year. For the six-month period, G&A expenses were \$3.0 million, versus \$1.8 million in the first half of 2001.

The increase relates primarily to higher infrastructure costs associated with growth in the Company's workforce on a year-over-year basis, heightened international business development activities as the Company pursues international business opportunities and regulatory compliance of its software in the Isle of Man and Alderney, increased legal costs related to the defense of various legal disputes and an increase in bad debt expense.

FINANCE COSTS

Finance costs include bank charges and fees for bank drafts and letters of credit. All letters of credit are secured by cash deposits, which are included in the restricted cash balance on the Company's balance sheet. These costs were \$0.1 million in the second quarter of 2002 versus \$0.07 million in the second quarter of 2001, and \$0.3 million year-to-date in 2002 versus \$0.1 million the first six months of 2001, due to increased use of the Company's bank draft facility.

AMORTIZATION

Amortization charged during the period increased to \$0.2 million from \$0.07 million in the second quarter of 2001, and from \$0.1 million in the first half of 2001 to \$0.4 million in the first half of 2002. The change relates to increased investment in computer equipment and software to support an increased number of employees, the Company's regulatory compliance initiatives in the jurisdictions of the Isle of Man and Alderney and the acquisition of ALI Online Inc. in October 2001.

INTEREST INCOME

Interest income decreased in the quarter to \$0.2 million from \$0.6 million in the corresponding quarter of the previous year. In the first six months, interest income decreased to \$0.3 million from \$1.4 million in the first half of 2001. Two factors principally contributed to the decrease: first, a prevailing lower interest rate environment; and second, lower cash reserves as a result of the Company using \$19.8 million to repurchase common shares, and making the investment in SCG.

PROVISION FOR INCOME TAXES

In the second quarter, the Company recorded a tax credit of \$0.6 million as a result of the special charge. This compares to a tax expense of \$0.4 million in the second quarter of 2001. For the six-month period, a credit of \$0.3 million has been recorded, versus an expense of \$1.0 million in the first half of 2001.

LIQUIDITY AND CAPITAL RESOURCES

A strong financial position was maintained during the quarter, with a total cash position at the end of the quarter of \$38.5 million. At June 30, 2002, the Company had \$23.9 million in cash and cash equivalents, a 21% increase from the \$19.8 million at March 31, 2002. In addition, the Company had \$14.5 million of cash held on reserve with its bankers to secure letters of credit granted to banks that process monetary transactions on behalf of the Company, for a total cash position of \$38.5 million.

The change in cash and cash equivalents in the second quarter reflects operating cash flow of \$1.3 million, cash provided by financing activities of \$2.2 million and cash from investing activities of \$0.6 million.

In the first six months of 2002, the Company's cash and cash equivalents have decreased by \$18.9 million. The change breaks out as follows: operating cash flow of \$4.1 million netted against cash used in financing activities of \$17.4 million (common shares repurchased netted against stock options exercised) and cash used in investing activities of \$5.6 million (capital asset additions and the investment in SCG netted against the sale of a portfolio investment).

Operating cash flow decreased to \$1.3 million in the second quarter of 2002 from \$5.8 million in the second quarter of the prior year, and to \$4.1 million in the first six months of 2002 from \$11.5 million in the first half of 2001. The decrease was primarily due to lower net income, increased accrued liabilities and increased accounts payable resulting from the non-cash component of the special charge.

The Company has no debt, and expects foreseeable cash flow needs to be funded through existing cash resources and operating cash flows.

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect the Company and its business, financial condition and results of operations are substantially unchanged from those discussed in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2001 contained in the Company's 2001 Annual Report. All such risks and uncertainties are incorporated herein by reference.

GOVERNMENT REGULATION

There continues to be ongoing debate whether to prohibit or regulate the Internet gaming industry in the United States. Prohibition efforts persist, particularly at the federal level in the U.S., and remain an ongoing industry risk.

During the first half of 2002, the sponsors of bills designed to limit or make illegal Internet gambling had made little progress in the U.S. Congress. Given that this is an election year and that only a limited amount of time remains in this session of Congress, the risk of such legislation passing in 2002 is considered moderate, but the final outcome cannot be predicted. However, the Company anticipates that if legislation is not passed in the current session of Congress, further attempts to pass the same or similar legislation will continue until such time as legislation to regulate and license Internet gambling at the federal level is in place.

At the same time, positive efforts to regulate the industry continue in other jurisdictions.

During the first quarter, the U.K. government's Department of Culture, Media and Sport made recommendations to overhaul that country's gambling laws in response to the previously issued Gambling Review Report ("the Budd Report"). The recommendations, entitled A Safe Bet for Success - Modernising Britain's Gambling Laws, proposes putting in place a framework for a fully regulated and licensed environment in the U.K. for all forms of Internet gaming.

The Company sees the Budd Report and the recent recommendations as positive developments, particularly in light of its stated focus on growth in regulated non-U.S. markets.

OUTLOOK

While the Internet gaming market is experiencing short-term volatility, overall market growth is expected to continue at double-digit levels in the future.

CryptoLogic remained profitable on an operating basis in the second quarter, with financial results, prior to the one-time special charge, within management's revised expectations. However the effect of the U.S. credit card situation has had a significant impact on the entire Internet gaming industry thus far in 2002. It is expected that this issue will continue to affect the Company's financial results over the next several quarters.

The Company has responded tactically by offering additional non-credit card-based payment options at customer sites and instituting cost control measures, and strategically by seeking new customers with a focus on international markets where online gaming is accepted and regulated.

Going forward, the Company will continue to capitalize on this growing market by:

- targeting, through WagerLogic, brand-name licensee customers with large international user bases and the marketing and financial resources necessary to be successful as competition in the online gaming industry continues to increase;
- focusing on driving organic growth by existing customers through the addition of market-driven products that expand opportunities to enhance player relationships and broaden the player base with new gaming, language and currency options;
- providing industry-leading data mining, marketing and customer care support to help licensees sustain and grow customer relationships; and,
- maintaining its commitment to self-regulation and remaining a leader in regulatory compliance.

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	(Unaudited)	(Audited)
	As at June 30, 2002	As at December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,922	\$ 42,822
Restricted cash	14,540	16,800
Reserves with processors	1,520	144
Accounts receivable	1,682	697
Income taxes recoverable	640	408
Prepaid expenses and other	1,244	768
	43,548	61,639
Investments (note 4)	680	2,480
Capital assets	3,061	2,949
Intangible assets	281	337
Goodwill	1,040	1,040
	\$ 48,610	\$ 68,445
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,228	\$ 2,704
Accrued liabilities	2,772	1,389
Funds held on deposit	3,537	3,263
	10,537	7,356
Shareholders' Equity:		
Capital stock	10,755	8,720
Retained earnings	27,318	52,369
	38,073	61,089
	\$ 48,610	\$ 68,445

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of U.S. dollars, except per share information)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenue	\$ 8,890	\$ 10,798	\$ 17,554	\$ 21,663
Expenses				
Software development and support	4,911	5,035	9,702	9,998
General and administrative	1,743	1,012	2,967	1,795
Finance	116	73	253	148
Amortization	218	71	415	134
	6,988	6,191	13,337	12,075
Income from operations	1,902	4,607	4,217	9,588
Interest income	151	586	326	1,376
Income before undernoted	2,053	5,193	4,543	10,964
Special charges				
Writedown of investments (note 4)	7,646	-	7,646	-
Reorganization costs (note 5)	1,480	-	1,480	-
Other costs (note 6)	1,380	-	1,380	-
	10,506	-	10,506	-
Income/(loss) before taxes	(8,453)	5,193	(5,963)	10,964
Provision for income taxes	(627)	370	(341)	959
Net income/(loss)	\$ (7,826)	\$ 4,823	\$ (5,622)	\$ 10,005
Earnings/(loss) per share				
Basic				
Before tax effected special charges	\$ 0.17	\$ 0.35	\$ 0.35	\$ 0.72
Net income/(loss)	\$ (0.65)	\$ 0.35	\$ (0.46)	\$ 0.72
Diluted				
Before tax effected special charges	\$ 0.16	\$ 0.33	\$ 0.32	\$ 0.68
Net income/(loss)	\$ (0.65)	\$ 0.33	\$ (0.46)	\$ 0.68
Weighted average number of shares ('000s)				
Basic	12,092	13,770	12,253	13,903
Diluted	13,100	14,792	13,413	14,692

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Cash provided by (used in):				
Operating activities:				
Net income/(loss)	\$ (7,826)	\$ 4,823	\$ (5,622)	\$ 10,005
Adjustments to reconcile income to cash provided by (used in) operating activities:				
Amortization	218	71	415	134
Writedown of investments	6,903	-	6,903	-
Changes in operating assets and liabilities:				
Restricted cash	-	(300)	2,260	(800)
Reserves with processors	(539)	(65)	(1,376)	(271)
Accounts receivable	(24)	(125)	(985)	854
Prepaid expenses and other	(32)	412	(476)	32
Income taxes	(738)	424	(232)	1,049
Accounts payable	2,190	524	1,524	(92)
Accrued liabilities	1,653	(92)	1,383	115
Funds held on deposit	(506)	108	274	503
	1,299	5,780	4,068	11,529
Financing activities:				
Issue of capital stock for cash	2,165	958	2,402	1,378
Repurchase of common shares	-	(12,174)	(19,796)	(13,389)
	2,165	(11,216)	(17,394)	(12,011)
Investing activities:				
Additions to capital assets	(413)	(198)	(697)	(263)
Investments	-	(129)	(5,933)	(1,050)
Sale of investment	1,056	-	1,056	-
	643	(327)	(5,574)	(1,313)
Increase (decrease) in cash and cash equivalents	4,107	(5,763)	(18,900)	(1,795)
Cash and cash equivalents, beginning of period	19,815	46,664	42,822	42,696
Cash and cash equivalents, end of period	\$ 23,922	\$ 40,901	\$ 23,922	\$ 40,901

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except as indicated)

(Unaudited)

	For the three months ended June 30,				For the six months ended June 30,			
	<u>2002</u>		<u>2001</u>		<u>2002</u>		<u>2001</u>	
	No. of Shares ('000s)	Stated Value	No. of Shares ('000s)	Stated Value	No. of Shares ('000s)	Stated Value	No. of Shares ('000s)	Stated Value
Common shares:								
Balance, beginning of period	11,992	\$ 8,318	14,047	\$ 6,835	13,137	\$ 8,448	14,079	\$ 6,455
Repurchase of shares	-	-	(984)	(316)	(1,170)	(367)	(1,103)	(356)
Exercise of stock options	324	2,165	119	958	349	2,402	206	1,378
	12,316	10,483	13,182	7,477	12,316	10,483	13,182	7,477
Series C warrants:								
Balance, beginning of period	-	-	160	22	-	-	160	22
Balance, end of period	-	-	160	22	-	-	160	22
Series F warrants:								
Balance, beginning of period	30	272	-	-	30	272	-	-
Balance, end of period	30	272	-	-	30	272	-	-
Total capital stock		\$ 10,755		\$ 7,499		\$ 10,755		\$ 7,499
Retained earnings, beginning of period		\$ 35,144		\$ 55,140		\$ 52,369		\$ 51,133
Net income/(loss)		(7,826)		4,823		(5,622)		10,005
Excess of purchase price of treasury shares over stated value		-		(11,858)		(19,429)		(13,033)
Retained earnings, end of period		27,318		48,105		27,318		48,105
Total shareholders' equity		\$ 38,073		\$ 55,604		\$ 38,073		\$ 55,604

As at June 30, 2002
(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, 2001, except as described below in Note 1, Change in Accounting Policy. These consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2001, as set out in the 2001 Annual Report.

1. Change in Accounting Policy

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for stock-based compensation and other stock-based payments. The new recommendations are applied prospectively to all stock-based payments to non-employees; and to employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002. Outstanding grants as at January 1, 2002 that call for settlement in cash or other assets or stock appreciation rights that call for settlement in equity instruments are applied retroactively, without restatement. The Company does not have any such grants as at January 1, 2002, and as such will apply the new recommendations prospectively.

In accordance with the new standard, the Company will continue its existing policy that no compensation cost is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. However, under the new standard the Company is required to provide additional pro forma disclosures for options granted to employees as if the fair value based accounting method had been used to account for employee stock options.

The fair value of the options granted was determined using the Black-Scholes option pricing model using a dividend yield of 0% and the following weighted assumptions.

Risk-free rate	2.0%
Expected volatility	100.0%
Expected life of options in years	5.0

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:

(In thousands of U.S. dollars, except per share information)	Three months ending June 30, 2002		Six months ending June 30, 2002	
	As reported	Pro forma	As reported	Pro forma
Net loss	\$ (7,826)	\$ (7,865)	\$ (5,622)	\$ (5,697)
Loss per share				
Basic	\$ (0.65)	\$ (0.65)	\$ (0.46)	\$ (0.46)
Diluted	\$ (0.65)	\$ (0.65)	\$ (0.46)	\$ (0.46)

2. Substantial Issuer Bid

On January 11, 2002, the Company purchased 1,004,934 common shares at CDN\$28.00 per share for a total cost, including transaction charges, of CDN\$28,353,000 (US\$17,763,000).

3. Normal Course Issuer Bid

In May 2001, the Board of Directors approved the repurchase and cancellation of up to 656,000 of the Company's outstanding common shares for the period commencing May 18, 2001 and ending May 17, 2002. Under this plan the Company has repurchased and cancelled 440,500 common shares, of which 165,500 common shares were repurchased and canceled during the period January 1, 2002 to May 17, 2002 for a total cost, including transaction charges, of \$2,033,000.

In May 2002, the Board of Directors approved the repurchase and cancellation of up to 603,421 of the Company's outstanding common shares for the period commencing May 20, 2002 and ending May 19, 2003. As of the date of this report, the Company has not repurchased any shares under this plan.

4. Writedown of Investments

Management has reviewed the Company's investments and other assets, and has decided to write down the value of investments held due to a decline in value that is other than temporary. The charge includes a 100% write-down of the Company's investment in SCG Enterprises Ltd., a wholly-owned subsidiary of Sports.com.

Also included in the write down of investments is a net gain of \$135,000 recognized on the sale of 100% of the Company's investment in Dot Com Entertainment Group Inc. (DCEG-OTCBB), representing 1,055,700 common shares for total proceeds of \$1,056,000.

5. Reorganization Costs

Reorganization costs are mainly associated with the consolidation in the United Kingdom of the players' support operations and costs associated with executive management reorganization.

6. Other Costs

Other costs consist of estimated settlement and legal costs to defend current litigation relating to various disputes, and costs associated with the investment in SCG Enterprises Ltd.

CORPORATE DIRECTORY

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Robert Stikeman
Vice-Chairman

David Cynamon

Harvey Solursh

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CORPORATE GOVERNANCE

A comprehensive discussion of CryptoLogic's corporate governance information is provided in the Company's Management Information Circular, available on the SEDAR website at www.sedar.com, or by request.

CRYPTOLOGIC

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