

CRYPTOLOGIC INC.  
CONSOLIDATED INTERIM STATEMENT  
OF CHANGES IN FINANCIAL POSITION  
FOR THE SIX MONTHS ENDED JUNE 30, 1998  
(amounts in thousands)  
(UNAUDITED)

	For the three months ended		For the six months ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
<b>Cash provided by (used for)</b>				
<b>Operating Activities:</b>				
Net earnings	\$ 5,455	\$ 2,287	\$ 10,978	\$ 3,443
Non-cash items:				
Loss on disposal of capital assets	—	—	—	3
Amortization	29	11	56	20
	<u>5,484</u>	<u>2,298</u>	<u>11,034</u>	<u>3,466</u>
Sources and uses of cash through working capital	<u>1,133</u>	<u>(1,271)</u>	<u>(1,241)</u>	<u>(1,585)</u>
	<u>6,617</u>	<u>1,027</u>	<u>9,793</u>	<u>1,881</u>
<b>Investing Activities:</b>				
Additions to capital assets	(32)	(39)	(78)	(79)
<b>Financing Activities:</b>				
Capital stock, conversion of preference shares and warrants issued and exercised	82	491	638	1,273
Notes receivable	—	—	—	(32)
	<u>82</u>	<u>491</u>	<u>638</u>	<u>1,241</u>
<b>Increase in Cash Position</b>	<u>6,667</u>	<u>1,479</u>	<u>10,353</u>	<u>3,043</u>
<b>Cash and short-term investments, Beginning of period</b>	<u>13,132</u>	<u>2,305</u>	<u>9,446</u>	<u>741</u>
<b>Cash and short-term investments, End of period</b>	<u>\$ 19,799</u>	<u>\$ 3,784</u>	<u>\$ 19,799</u>	<u>\$ 3,784</u>

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**CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

For the three and six months  
ended June 30, 1998

**CRYPTOLOGIC<sub>INC.</sub>**



## TO OUR SHAREHOLDERS

CryptoLogic Inc. is pleased to present the Company's unaudited financial statements for its second quarter, and for the six months ended June 30th, 1998.

During the second quarter of 1998, revenue totaled \$7.54 million up 111% over the same period last year. Net earnings totaled \$5.45 million up 138.5% as compared with the same period last year. Earnings per share in the second quarter of 1998 were \$0.65 per share (\$0.36 on a fully diluted basis). Currently, there are 8.5 million common shares outstanding.

CryptoLogic generated \$6.6 million in cash flow from operations in the three months ended June 30, 1998 and \$9.8 million in the six months ended June 30, 1998, compared to \$1.1 million and \$1.9 million in the same periods last year. In the six months ended June 30, 1998, cash and short-term investments increased \$10.4 million from \$9.5 million at December 31, 1997 to \$19.8 million at June 30, 1998. CryptoLogic's liquidity position is extremely strong, with net current assets of \$22.5 million at June 30, 1998 compared to \$5.2 million at the same time last year.

For the second quarter, revenues were down 14.5% as compared with the first quarter of 1998. Management expects that revenue growth for the next quarter will be flat or marginally lower.

While revenues this quarter did not reflect the growth we have enjoyed in the past, CryptoLogic, through its licensing subsidiary, entered into an additional new licensing agreement this quarter, bringing the total number of licensees to eleven. Continued growth in the licensee base, along with the unique marketing efforts each licensee brings to the marketplace, positions the Company well for long term growth.

The Company continues to make progress in strengthening its presence in the electronic commerce market. As at June 30th, CryptoLogic has processed \$1.4 billion worth of secure transactions over the Internet.

On Thursday July 23rd, the U.S. Senate passed the Kyl bill as an inclusion with its appropriations bill. The Kyl bill seeks to make Internet gambling illegal in the United States. This passage marks only the first step in what we are advised is a difficult process required to enact such legislation.

We are told by advisors to the Internet Gaming Council, an industry trade association, that it is unlikely that the Kyl bill will become law. The U.S. Justice Department has been critical of this potential legislation and the need to enact what they believe is a largely unenforceable bill. We continue to monitor this process closely.

Although the majority of the Company's licensees currently rely on the US market for a large portion of their revenues, by its very nature, the Internet is a worldwide computer network that enables access to global markets. Six of the Company's eleven licensees actively market to non US based customers, as a core strategy.

CryptoLogic looks forward to the fall of 1998 and the release of version 3.0 of our gaming software. In addition, later this year, our new E-Cash application will also go to market. These two significant events along with the expansion of our licensees over the first six months of the year, recent additions to our management team, and the Company's substantial financial resources positions the Company well for the future.

Andrew Rivkin  
President & CEO

Mark Rivkin  
Executive Vice President

## CRYPTOLOGIC INC. CONSOLIDATED INTERIM BALANCE SHEET AS AT JUNE 30, 1998 (amounts in thousands) (UNAUDITED)

	June 30, 1998	June 30, 1997
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and short-term investments	\$ 19,799	\$ 3,784
Accounts receivable	865	1,605
Reserves with credit card processors	654	170
Deposits with credit card processors	3,535	518
Sundry receivables and prepaid expenses	173	91
	<u>25,026</u>	<u>6,168</u>
<b>CAPITAL ASSETS</b>	384	176
<b>NOTES RECEIVABLE</b>	32	52
	<u>\$ 25,442</u>	<u>\$ 6,396</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued charges	\$ 1,145	\$ 251
Accrued payroll and source deductions	106	59
Provision for income taxes	501	231
Deposit from marketing representative	—	138
Funds held on deposit	754	312
	<u>2,506</u>	<u>991</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b>	4,159	2,904
<b>RETAINED EARNINGS</b>	18,777	2,501
	<u>22,936</u>	<u>5,405</u>
	<u>\$ 25,442</u>	<u>\$ 6,396</u>

Toronto, Canada  
July 22, 1998

## CRYPTOLOGIC INC. CONSOLIDATED INTERIM STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE SIX MONTHS ENDED JUNE 30, 1998 (amounts in thousands except per share information) (UNAUDITED)

	For the three months ended		For the six months ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
<b>REVENUE</b>	\$ 7,333	\$ 3,558	\$ 16,036	\$ 5,290
<b>INTEREST EARNED</b>	211	19	328	24
	<u>7,544</u>	<u>3,577</u>	<u>16,364</u>	<u>5,314</u>
<b>EXPENSES</b>				
Software development and support costs	2,480	857	4,897	1,193
General and administrative	341	180	793	302
Loss/(Gain) on foreign exchange	(749)	32	(587)	38
Financial costs	13	4	21	5
Amortization	29	11	56	20
	<u>2,114</u>	<u>1,084</u>	<u>5,180</u>	<u>1,558</u>
<b>EARNINGS BEFORE THE UNDERNOTED</b>	5,430	2,493	11,184	3,756
Recovery of write-down of receivables	(343)	—	(427)	—
Defence of legal action	—	81	—	82
	<u>(343)</u>	<u>81</u>	<u>(427)</u>	<u>82</u>
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES</b>	5,773	2,412	11,611	3,674
<b>PROVISION FOR INCOME TAXES</b>	318	125	633	231
<b>NET EARNINGS</b>	5,455	2,287	10,978	3,443
<b>RETAINED EARNINGS/ (DEFICIT) BEGINNING OF PERIOD</b>	13,322	214	7,799	(942)
<b>RETAINED EARNINGS END OF PERIOD</b>	<u>\$ 18,777</u>	<u>\$ 2,501</u>	<u>\$ 18,777</u>	<u>\$ 2,501</u>
<b>EARNINGS PER COMMON SHARE</b>	\$ 0.65	\$ 0.35	\$ 1.32	\$ 0.55
<b>WEIGHTED AVERAGE NUMBER OF SHARES (,000)</b>	8,452	6,541	8,323	6,215
<b>FULLY DILUTED EARNINGS PER COMMON SHARE</b>	\$ 0.36	\$ 0.16	\$ 0.73	\$ 0.24
<b>WEIGHTED AVERAGE NUMBER OF SHARES FULLY DILUTED (,000)</b>	15,307	14,456	15,243	14,130