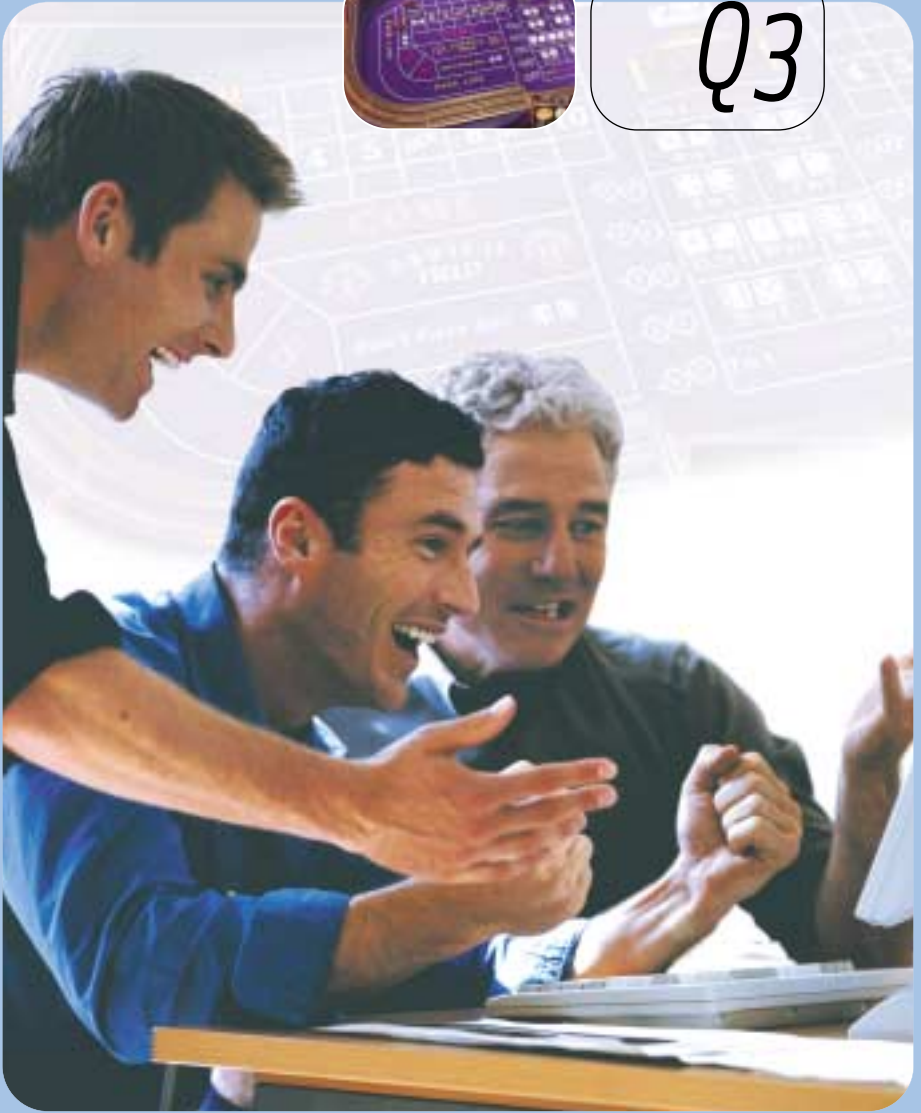




Q3



CRYPTOLOGIC

> CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 global market. More than 920,000 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\$7.0 billion – a testimonial to the proven performance of its technologies.*

*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.

## *STRONG REVENUE GROWTH, HIGH PROFITABILITY AND CASH GENERATION REMAIN PRIORITY*

CryptoLogic continues to be in the top percentile of public companies today meeting its 2001 financial targets for profitability and growth. Strong revenue growth, high profitability and cash generation remain the priority at CryptoLogic. We projected third quarter revenue of \$9.7–\$10.2 million and net income between \$4.2–\$4.6 million, well ahead of last year. Our third quarter results met our financial forecasts. Importantly, business developments are also progressing well against our 2001 objectives and will position us strongly for the future.

We said the second half of this year would see new licensee development and the initial results of CryptoLogic's acquisition plans. This is exactly what CryptoLogic delivered in the third quarter. While the legislative landscape continues to evolve around the world, CryptoLogic is increasing its global presence in strictly regulated geographies – most notably the UK, which is one of the most advanced.

CryptoLogic has helped shape the I-gaming industry from its inception. We continue to lead the way – migrating to Tier 1, land-based standards for regulated Web entertainment, broadening the gaming spectrum to attract the mainstream market and accelerating the 'brick and click' strategies of major gaming organizations worldwide.

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

Revenue for the third quarter of 2001 increased 32% to \$10.7 million compared to \$8.1 million in the prior 2000 quarter. This excludes interest income of \$0.5 million in 2001 compared to \$0.9 million in the corresponding year quarter. Interest income was historically part of total revenue, but effective the first quarter of 2001 has been reclassified and is shown below income from operations in the consolidated statements of income.

Net income for the quarter rose significantly by 69% to \$4.4 million or \$0.33 per share (\$0.30 per share on a fully diluted basis) compared to \$2.6 million in the 2000 quarter or \$0.18 per share (\$0.17 per share on a fully diluted basis). Third quarter expense levels remain relatively consistent for 2001 and reflect the company's continued investment in compliance, infrastructure and development to support a globally diverse organization and client base. CryptoLogic maintained high net margins at 41% for the quarter.

As previously announced, CryptoLogic promptly detected and resolved a system intrusion that caused higher win rates in certain games in the third quarter. There was no compromise of player information, no disruption of service and players were paid out in the normal course. The company has enhanced its already strict security measures and remains committed to regulatory compliance, which further subjects CryptoLogic to rigorous, external monitoring and ongoing audits by government regulators.

Consequently, the company's third quarter results reflect a net impact of \$0.6 million, after a \$1.3 million insurance claim. This insurance claim has been reflected in prepaid expenses and other on the balance sheet. Without this financial impact, CryptoLogic would have posted exceptional third quarter performance with net income of \$5.0 million on \$11.3 million in revenue – easily exceeding expectations.

*"We will continue to stay the course, which has delivered excellent results to date. On the horizon, we are working to add more licensees, strategic acquisitions, expand into new gaming areas and release version 5.0 with new progressive games, tournaments and global currency support."*

For the nine months ended September 30, 2001, the company's revenue rose 31% to \$32.4 million compared to \$24.7 million in the prior year period. Net income for the nine-month period was up 26% to \$14.4 million versus \$11.4 million in the same 2000 period. As a result, earnings per share for the nine months ended September 30, 2001 were \$1.05 compared to \$0.89 in 2000. On a fully diluted basis, earnings per share were \$0.95 compared to \$0.75 in 2000.

CryptoLogic remains well capitalized with a total cash position at \$59.0 million. During the third quarter, the company continued to see exceptional investment value in its shares and repurchased 45,000 shares through its normal buy back program. Up to October 18, 2001, CryptoLogic has repurchased a total of 225,000 shares at a cost of \$3.2 million or about 35% of the 650,000 shares authorized under its current buy back until May 17, 2002.

## *GLOBAL MARKET EXPANSION*

CryptoLogic expanded its European presence with one of the best known gaming organizations in the UK, Littlewoods Leisure – operator of the world's most popular football pool as well as being the UK's largest charity lottery. Littlewoods licensed CryptoLogic's proven e-gaming technology to extend exciting new online casino action to the 1.6 million households that bet with Littlewoods each week.

Equally exciting is that Littlewoods is amongst the first three online gaming licenses awarded in the highly regulated jurisdiction of the Isle of Man. The other successful applicants are MGM Mirage and Sun International. Due to its significant compliance efforts in Australia, CryptoLogic expects to accelerate time to market for Littlewoods in full compliance with Isle of Man requirements. As a result, Littlewoods is on track to be the first to launch its online casino this fall in this strictly regulated UK market.

Consistent with its strategy to offer licensees value-added marketing services, CryptoLogic made its first acquisition this year of the leading gaming content provider, WINNERonline, subsequent to quarter end. With over 1,400 gaming sites on the Internet today, marketing is becoming a key differentiator—the ability to attract a growing and loyal user franchise is critical for CryptoLogic's licensees. The addition of WINNERonline's player-focused content and more than 350,000 unique visitors each month will give licensees a superb marketing channel to a targeted user community and help drive greater player traffic and revenue potential.

## LEGISLATIVE DEVELOPMENTS

While there remain anti-online gaming efforts at the federal level in the US, State initiatives to legalize Internet gaming show promise – most notably in Nevada, as well as California’s new law to allow online horseracing. As well, top US casinos seeking to expand onto the Internet lend support to accelerate the move to a regulated American market.

The legislative landscape will continue to develop, and there is positive momentum for regulation, particularly overseas. The British government recently opened major new markets – Isle of Man and Alderney – for regulated Internet gaming that have attracted some of the most recognized names in the gaming industry including MGM Mirage.

CryptoLogic is in the final stages of compliance to the Australian model targeted for year-end 2001 – widely seen as the world’s strictest regulatory model. The company is near completion of its Isle of Man certification and has commenced application in Alderney. Given its Australian efforts, CryptoLogic is well positioned to meet the requirements in these two UK jurisdictions in a shorter timeframe.

Consistent with these regulatory initiatives, the company has adopted Tier 1 probity standards consistent with strict regulations for land-based gaming in Nevada, Australia and Europe. Current licensees are being subjected to this higher probity check. The company’s regulatory commitment and compliance in multi-jurisdictions will be a competitive advantage as CryptoLogic continues discussion with top gaming names in the US, Europe and Asia.

We are pleased with the company’s performance on track with our 2001 targets. While the industry is young and still in its formative years, CryptoLogic’s fundamentals remain solid. We will continue to stay the course, which has delivered excellent results to date. On the horizon, we are working to add more licensees, strategic acquisitions, expand into new gaming areas and release version 5.0 in the fourth quarter with new progressive games, tournaments and global currency support.

The prospect for industry growth remains superb and CryptoLogic will be a solid performer. We are confident that our company will continue to meet our financial and business goals and will emerge as a clear leader in the exciting and maturing world of Internet gaming. Thank you for your ongoing support.



**JEAN NOELTING**  
PRESIDENT & CEO

OCTOBER 18, 2001

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 nine months ended September 30, 2001 and should also be read in conjunction with the audited consolidated statements and the Management's Discussion and Analysis for the year ended December 31, 2000 as set out in the Company's 2000 Annual Report. All currency amounts are in US dollars unless otherwise indicated.

### *OVERVIEW*

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

### *FORWARD LOOKING STATEMENT*

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*

For 2001 year-to-date, the Company continued to exceed its financial targets of 20% revenue growth and maintain high net margins. For the third quarter of 2001, revenue rose 32% to \$10.7 million compared to \$8.1 million in the same 2000 quarter. In August 2001, the Company experienced a system intrusion that had a net impact of \$0.6 million on the Company's 2001 third quarter results, after a \$1.3 million insurance claim. Without this financial impact, CryptoLogic would have had a record third quarter with \$11.3 million in revenue and \$5.0 million in net income. Nevertheless positive momentum saw the Company still deliver a strong quarter, which included offsetting the Internet seasonality usually experienced during the summer months.

For the nine months ended September 30, 2001, the Company's revenue increased 31% to \$32.4 million versus \$24.7 million last year. The Company's focus on helping licensees develop targeted marketing initiatives and the ongoing success of William Hill's pound sterling site continue to be an important factor in driving traffic and ultimately revenue growth as evidenced by the third quarter and year-to-date results in 2001.

## NET INCOME

Net income for the 2001 third quarter grew significantly by 69% to \$4.4 million or \$0.33 per share (\$0.30 per share on a fully diluted basis) compared to \$2.6 million or \$0.18 per share (\$0.17 per share on a fully diluted basis) in the corresponding 2000 quarter. The Company continued to maintain solid net margins at 41% for the quarter.

For the nine months ended September 30, 2001, net income was up 26% to \$14.4 million compared to \$11.4 million in the same 2000 period. This translated into earnings per share of \$1.05 or \$0.95 on a fully diluted basis, compared to \$0.89 or \$0.75 on a fully diluted basis in 2000. During the 2001 nine-month period, net margins continued on target at 45%.

Third quarter and the nine-month period expenses remained consistent at 2001 levels but higher compared to 2000 due to the Company's continued investment in key areas – compliance, infrastructure and product development – to support its larger-size clients, increasing regulatory compliance and building a globally diverse company.

## SOFTWARE DEVELOPMENT AND SUPPORT COSTS

Software development and support costs were up slightly to \$5.3 million in the third quarter of 2001 versus \$4.9 million in 2000. For the nine-month period of 2001, these costs rose to \$15.3 million compared to \$11.7 million in 2000. The increase was attributed to continued development of the Company's annual software release, version 5.0, as well as development of new bingo and poker software for expansion into new gaming verticals. Consistent with its proactive expansion into new regulated markets, the Company increased its compliance expenditures for its certification to the Australian regulatory model as well as embark on regulatory compliance in Isle of Man and Alderney – major new markets recently opened by the British Government.

## GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs were relatively constant at \$0.9 million for both the third quarters of 2001 and 2000. For the nine-month period of 2001, general and administrative costs were up slightly to \$2.7 million compared to \$2.2 million in the same 2000 period. The slight rise in costs was associated with continued business development efforts for new licensees and potential acquisitions.

## FINANCE COSTS

In the third quarter of 2001, finance costs rose modestly to \$0.08 million from \$0.06 million in 2000. For the nine-month period in 2001, these costs increased to \$0.2 million compared to \$0.1 million in 2000. This rise was due to increases in letters of credit to support higher processing volumes and expanded international banking relationship requirements.

## AMORTIZATION

Amortization expense was \$0.08 million in the third quarter of 2001, up from \$0.06 million in the same 2000 quarter. For the nine-month period of 2001, these expenses were \$0.2 million, up from \$0.1 million. This increase was due to the Company's investment in equipment and leasehold improvements related to a growing workforce and operations.

## *INTEREST INCOME*

Interest income was historically part of total revenue, but effective the first quarter of 2001 has been reclassified and is shown below income from operations in the consolidated statements of income. Interest income declined considerably to \$0.5 million in the third quarter of 2001 compared to \$0.9 million in 2000. Similarly, interest income was \$1.9 million for the nine-month period of 2001 compared to \$2.4 million in 2000. Interest income in 2001 has declined significantly primarily due to a continuing decline in interest rates as well as the \$12.2 million spent on the Company's substantial issuer bid in the second quarter of 2001.

## *INCOME TAXES*

Income taxes for the third quarter of 2001 were \$0.4 million down from \$0.5 million in 2000, translating into an effective tax of 8% compared to 16% in the 2000 quarter. For the nine-month period in 2001, income taxes declined to \$1.3 million compared \$1.5 million in 2000. This translates into an effective tax of 9% and 12% respectively. The decline reflects a taxable income mix that was lower in Canada, particularly relating to lower interest income, compared to income derived from foreign subsidiaries, which is subject to lower tax rates.

## *LIQUIDITY AND CAPITAL RESOURCES*

The Company continues to be well capitalized. At September 30, 2001, the Company had a total cash position of \$59.0 million, which comprises of cash, cash equivalents and restricted cash. This compares to total cash of \$56.7 million at year ended December 31, 2000.

Cash flow generated from operations was down slightly to \$2.1 million in the third quarter of 2001 compared to \$2.9 million in the corresponding 2000 quarter. Cash flow in the quarter was impacted by an increase in restricted cash due to higher processing volumes compared to the 2000 quarter as well as a \$1.3 million insurance claim reflected in prepaid expenses and other. For the nine-month period in 2001, operating cash flow was up significantly to \$13.6 million versus \$2.7 million in 2000. Cash flow in the nine-month period in 2000 was impacted mainly by a rise in restricted cash due to increased transaction volumes as well as expanded international banking relationships.

Management continued to view the Company's shares as a value investment and made active use of its buy back program. During the third quarter of 2001, the Company repurchased and cancelled 45,000 shares through its normal buy back, at a cost of \$0.8 million, compared to 39,100 common shares, at a cost of \$0.7 million, repurchased in the same 2000 period. For nine-month period of 2001, the Company bought back more than 1.1 million shares, at a cost of \$14.1 million, through its substantial and normal course issuer bids compared to 221,600, at a cost of \$4.2 million, bought back during the same 2000 period. After accounting for shares bought back for the nine-month period in 2001, there are about 13.3 million shares outstanding.

## *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 latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2000 contained in the Company's 2000 Annual Report. All such risks and uncertainties, with the exception of the below updates, are incorporated herein by reference.

## GOVERNMENT REGULATION

In these formative years of Internet gaming, there continues to be ongoing debate whether to prohibit or regulate the industry. Prohibition efforts continue to persist particularly at the federal level in the US and remain an ongoing industry risk, but in 2001 there have been milestone steps made towards regulation. Land-based gaming organizations and major governments worldwide are showing growing favor to allow the online gaming industry to flourish in a regulated environment.

## OUTLOOK

2001 has been a solid year for CryptoLogic so far. The Company remains among a small percentage of public companies today that continues to deliver on its growth plans and to achieve its financial targets. The outlook for the fourth quarter and 2002 is very positive. The Company reaffirms its fourth quarter forecasts of revenue between \$10.8–\$11.3 million and net income between \$5.4–\$5.9 million. Although, net profits may come in at the lower end of this range, given higher investments in security, regulatory and the continuing erosion of investment income due to lower interest rates, CryptoLogic is still on track with its guidance of 45% net margins for 2001.

For 2002, CryptoLogic has increased its projections to 30% revenue growth. Profit is expected to climb in the 20% range given the higher infrastructure costs and continuing lower interest rates. Management felt it prudent to take a more conservative stance on margins, but expects to continue to deliver margins exceeding 40%.

Given the early state of the industry, laws governing Internet gaming around the world continue to develop. In this environment, CryptoLogic initially advocated self-regulation and remains at the forefront of compliance as the I-gaming industry adopts tougher regulations around the world. The Company is expected to be one of the first software providers to get compliance in multi-jurisdictions – Australia, the Isle of Man, Alderney and next, the US, where there is an emergence of similar Tier 1 standards consistent with land-based gaming requirements.

CryptoLogic will continue to invest in compliance, infrastructure and security to strengthen its regulatory framework globally and support its growing list of larger, land-based customers. This has paid back in strong revenue growth, and excellent opportunities with major new gaming organizations in Europe, Asia and the US are in discussion.

CryptoLogic has raised its compliance requirements to Tier 1 land-based standards and is currently conducting a second round of probity on its existing licensees. The Company expects to comply with the Australian model by year-end, is finalizing its Isle of Man certification and as a result, Littlewoods is expected to launch its online casino in the fourth quarter of 2001 in that market. As well, CryptoLogic has submitted its application in Alderney.

The Company intends to expand its global infrastructure including customer care operations in different geographies to deal with time zone and multi-language support and increase local presence closer to its licensees and their players. CryptoLogic continues to extend its financial network to offer a broader range of payment options, supporting the Company's goal to be globally diversified to capitalize on opportunities in the best, regulated jurisdictions for Internet gaming.

The Company continues to actively consider acquisition candidates that will accelerate its entry into new gaming verticals such as poker, bingo, sports betting and lottery. Self-development of new poker and bingo software remains a parallel strategy, with a new product release targeted by end of 2001.

Following a closed group test, CryptoLogic is finalizing its Version 5.0 casino software to incorporate additional licensee and player feedback. This new software is due for release in the 2001 fourth quarter with exciting new progressive games, tournament feature and global currency support.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000  
(UNAUDITED)

IN THOUSANDS OF US DOLLARS,  
EXCEPT PER SHARE INFORMATION

FOR THE THREE MONTHS  
ENDED SEPTEMBER 30

FOR THE NINE MONTHS  
ENDED SEPTEMBER 30

	2001	2000	2001	2000
Revenue	\$10,702	\$ 8,120	\$32,365	\$24,689
Expenses:				
Software development and support	5,310	4,905	15,308	11,652
General and administrative	937	858	2,732	2,187
Finance	78	64	226	127
Amortization	83	58	217	136
	6,408	5,885	18,483	14,102
Income from operations	4,294	2,235	13,882	10,587
Interest income	497	882	1,873	2,359
Income before income taxes	4,791	3,117	15,755	12,946
Income taxes	382	513	1,341	1,538
Net income	4,409	2,604	14,414	11,408
Basic earnings per share	\$ 0.33	\$ 0.18	\$ 1.05	\$ 0.89
Fully diluted earnings per share	\$ 0.30	\$ 0.17	\$ 0.95	\$ 0.75
Basic weighted average common shares (000's)	13,211	14,341	13,670	12,765
Fully diluted weighted average common shares (000's)	14,751	15,250	15,196	15,245

*CONSOLIDATED BALANCE SHEETS*

*AS AT SEPTEMBER 30, 2001 AND DECEMBER 31, 2000  
(UNAUDITED)*

*IN THOUSANDS OF US DOLLARS*

*SEPTEMBER 30*

*DECEMBER 31*

	2001	2000
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$41,740	\$42,696
Restricted cash	17,300	14,000
Reserves with credit card processor	589	1,217
Accounts receivable	849	1,435
Prepaid expenses and other	2,164	839
Investments	62,642	60,187
Capital assets	2,480	1,430
	2,138	839
	\$67,260	\$62,456
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 2,740	\$ 2,154
Accrued liabilities	1,346	876
Income taxes payable	304	2
Funds held on deposit	2,864	1,814
	7,254	4,846
Shareholders' equity		
Capital stock	8,233	6,477
Retained earnings	51,773	51,133
	60,006	57,610
	\$67,260	\$62,456

*CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY*  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000  
 (UNAUDITED)

IN THOUSANDS OF US DOLLARS

FOR THE THREE MONTHS  
 ENDED SEPTEMBER 30

FOR THE NINE MONTHS  
 ENDED SEPTEMBER 30

	2001		2000		2001		2000	
	Number of shares (000's)	Stated value	Number of shares (000's)	Stated value	Number of shares (000's)	Stated value	Number of shares (000's)	Stated value
Common shares:								
Balance, beginning of period	13,182	\$ 7,477	14,341	\$ 6,279	14,079	\$ 6,455	8,974	\$ 3,643
Repurchase of shares	(45)	(15)	(39)	(13)	(1,148)	(371)	(221)	(75)
Exercise of stock options	35	242	23	175	241	1,620	172	1,042
Exercise of Class A purchase warrant	—	—	—	—	—	—	5,400	1,831
Exercise of Class C purchase warrant	160	529	—	—	160	529	—	—
	13,332	8,233	14,325	6,441	13,332	8,233	14,325	6,441
Series C warrants:								
Balance, beginning and end of period	160	22	160	22	160	22	160	22
Exercise of Series C warrants	(160)	(22)	—	—	(160)	(22)	—	—
	0	0	160	22	0	0	160	22
Total capital stock	13,332	8,233	14,485	6,463	13,332	8,233	14,485	6,463
Retained earnings, beginning of period		48,105		47,610		51,133		42,175
Net income		4,409		2,604		14,414		11,408
Excess of repurchase price of common shares over stated value		(741)		(716)		(13,774)		(4,085)
		51,773		49,498		51,773		49,498
Total shareholders' equity		\$60,006		\$55,961		\$60,006		\$55,961

*CONSOLIDATED STATEMENTS OF CASH FLOWS*

*FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000  
(UNAUDITED)*

<i>IN THOUSANDS OF US DOLLARS</i>	<i>FOR THE THREE MONTHS ENDED SEPTEMBER 30</i>		<i>FOR THE NINE MONTHS ENDED SEPTEMBER 30</i>	
	<b>2001</b>	2000	<b>2001</b>	2000
Cash flows from (used in) operating activities:				
Net income	\$ 4,409	\$ 2,604	\$14,414	\$11,408
Amortization adjustment to reconcile income to cash flows	83	58	217	136
Changes in operating assets and liabilities:				
Restricted cash	(2,500)	—	(3,300)	(8,960)
Reserves with credit card processor	899	(31)	628	(633)
Accounts receivable	(268)	(272)	586	(139)
Prepaid expenses and other	(1,357)	(281)	(1,325)	(264)
Accounts payable	678	224	586	383
Accrued liabilities	355	353	470	523
Income taxes payable	(747)	62	302	(210)
Funds held on deposit	547	172	1,050	416
	<b>2,099</b>	2,889	<b>13,628</b>	2,660
Cash flows from (used in) financing activities				
Issue of capital stock	749	175	2,127	2,873
Repurchase of common shares	(756)	(729)	(14,145)	(4,159)
	(7)	(554)	(12,018)	(1,286)
Cash flows from (used in) investing activities				
Additions to capital assets	(1,253)	(215)	(1,516)	(464)
Investments	—	—	(1,050)	—
	(1,253)	(215)	(2,566)	(464)
Increase (decrease) in cash and cash equivalents	839	2,120	(956)	910
Cash and cash equivalents, beginning of period	40,901	39,767	42,696	40,977
Cash and cash equivalents, end of period	<b>\$41,740</b>	\$41,887	<b>\$41,740</b>	\$41,887

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 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 stated in US dollars unless otherwise indicated.

## 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 September 30, 2000		For the nine months ended September 30, 2000	
	Restated under new recommendations	As previously reported	Restated under new recommendations	As previously reported
Basic earnings per share	\$0.18	\$0.18	\$0.89	\$0.89
Fully diluted earnings per share	\$0.17	\$0.17	\$0.75	\$0.75
Denominator in calculating fully diluted earnings per share (in thousands)	15,250	15,702	15,245	15,586

## 2. INVESTMENTS

In March, 2001 the Company acquired 1,055,700 common shares for \$0.9 million representing a 9.9% interest in publicly listed dot com Entertainment Group Inc. (DCEG-OTCBB), a provider of Java-based bingo and casino software.

In April, 2001 the Company entered into a debenture agreement with LasVegasFromHome.com Entertainment Inc. (LVH-CDNX, LVSHF-OTCBB), a poker licensee of WagerLogic Inc. (a wholly-owned subsidiary of CryptoLogic Inc.) whereby the Company is entitled to full repayment of the principal sum of CDN \$0.2 million, plus interest at a rate of 9% per annum. The principal is due April 26, 2002 and the interest is due monthly.

### 3. SUBSTANTIAL ISSUER BID

On April 9, 2001 the Company purchased 977,103 shares at CDN\$19 per share for a total cost including transaction costs of CDN \$18.8 million (US \$12.2 million).

### 4. 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 shares for the period commencing May 18, 2001 and ending on May 17, 2002.

### 5. COMPARATIVE FIGURES

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

### 6. SUBSEQUENT EVENTS

- i The Company has repurchased 180,000 of its common shares subsequent to September 30, 2001 to October 18, 2001 for a total cost of \$2.4 million.
- ii The Company has been named in several lawsuits incurred in the ordinary course of business. In the opinion of Management, the claims are without merit and no provision has been made in the accounts.
- iii On October 1, 2001 the Company entered into an agreement to acquire 100% of the shares of ALI Online Inc., a gaming content provider operating WINNERonline for \$2.25 million, of which \$1.25 million was paid on October 1, 2001. The remaining purchase price will be payable over two years (\$0.6 million on October 1, 2002; \$0.4 million on October 1, 2003) and is subject to adjustment based on net income targets. This consideration will be recorded when the amounts are due and payable.

The acquisition will be accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable assets and liabilities assumed on October 1, 2001. The following is a preliminary summary of the assets and liabilities acquired and the fair market values assigned thereto, and the purchase consideration given on October 1, 2001:

Fair value acquired	\$( '000)	Purchase consideration	\$( '000)
Current assets	280	Cash	1,250
Capital assets	15	Acquisition costs	12
Customer list	1,104		
Domain names and other rights	54		
	1,453		
Liabilities	(110)		
Minority interest	(81)		
	\$1,262		\$1,262

The purchase price allocation has been estimated and are subject to change as the financial statements are not available as at October 18, 2001 (date of the financial statements). The final purchase price allocation will be provided in the financial statements for the period when the acquisition was completed.

## CORPORATE DIRECTORY

### DIRECTORS & OFFICERS

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

### LEGAL COUNSEL

**STIKEMAN, GRAHAM, KEELEY & SPIEGEL**  
TORONTO, CANADA

### AUDITORS

**KPMG LLP CHARTERED ACCOUNTANTS**  
TORONTO, CANADA

### BANK

**BANK OF MONTREAL**  
TORONTO, CANADA

### COMMON SHARES LISTED

**TSE SYMBOL: CRY**

**NASDAQ SYMBOL: CRYP**

### 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>	EXECUTIVE 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>SERGUEI BOURENKOV</b>	DIRECTOR, PRODUCT DEVELOPMENT
<b>JENIFER CUA</b>	CONTROLLER

### TRANSFER AGENTS

**EQUITY TRANSFER SERVICES INC.**  
TORONTO, CANADA

**CONTINENTAL STOCK TRANSFER & TRUST COMPANY**  
NEW YORK, USA

### INVESTOR RELATIONS

**TEL: 416-545-1455**

**FAX: 416-545-1454**

**EMAIL: [INVESTOR.RELATIONS@CRYPTOLOGIC.COM](mailto:INVESTOR.RELATIONS@CRYPTOLOGIC.COM)**

---

**WWW.CRYPTOLOGIC.COM**

**CRYPTOLOGIC INC.**  
1867 YONGE STREET, 7TH FLOOR  
TORONTO, ON CANADA M4S 1Y5  
TEL: 416-545-1455  
FAX: 416-545-1454