

consolidated interim statement  
of changes in financial position

For the three and nine months ended September 30, 1997 (unaudited)

	For the nine months ended September 30, 1997	For the three months ended September 30, 1997	1996	For the three months ended June 30, 1997	From March 7, 1996 to September 30, 1996
<b>CASH PROVIDED BY/ (USED IN) OPERATIONS</b>					
Net income/(loss)	\$ 7,466,693	\$ 4,023,440	\$ (239,257)	\$ 2,287,038	\$ (485,636)
Non-cash items:					
Loss on disposal of capital assets	2,848	-	-	-	-
Amortization	33,391	13,177	4,507	10,942	15,133
	\$ 7,502,932	\$ 4,036,617	\$ (234,750)	\$ 2,297,980	\$ (470,503)
<b>CHANGES IN NON-CASH WORKING CAPITAL</b>					
	(5,027,364)	(3,442,697)	(9,111)	(1,271,108)	(14,184)
	\$ 2,475,568	\$ 593,920	\$ (243,861)	\$ 1,026,872	\$ (484,687)
<b>INVESTING ACTIVITIES</b>					
Purchase of capital assets	\$ (139,448)	\$ (60,177)	\$ (11,960)	\$ (38,641)	\$ (79,818)
<b>FINANCIAL ACTIVITIES</b>					
Proceeds on issue of common shares	\$ -	\$ -	\$ 873,600	\$ -	\$ 873,600
Series "A" warrants exercised	624,000	-	-	-	-
Series "B" warrants exercised	132,500	132,500	-	-	-
Series "C" warrants exercised	32,000	-	-	-	-
Notes receivable	(53,684)	(21,684)	-	-	-
Compensation warrants exercised	400,000	100,000	-	225,000	-
Stock options exercised	409,934	93,234	15,000	266,300	15,000
	\$ 1,544,750	\$ 304,050	\$ 888,600	\$ 491,300	\$ 888,600
<b>INCREASE IN CASH POSITION</b>					
	\$ 3,880,870	\$ 837,793	\$ 632,779	\$ 1,479,531	\$ 324,095
<b>CASH AND SHORT- TERM INVESTMENTS</b>					
BEGINNING OF PERIOD	741,251	3,784,328	44,953	2,304,797	353,637
END OF PERIOD	\$ 4,622,121	\$ 4,622,121	\$ 677,732	\$ 3,784,328	\$ 677,732

notes to the consolidated interim  
financial statements

September 30, 1997 (unaudited)

1. CAPITAL STOCK

Authorized

Unlimited common shares

4,000,000 non-cumulative, redeemable, preference shares.

Redeemable at \$0.10 per share, non-cumulative dividend of  
5% of redemption amount

	September 30, 1997	June 30, 1997	September 30, 1996
<b>Issued</b>			
7,494,220 common shares (June 30, 1997: 7,031,353 common shares, September 30, 1996: 5,531,403 common shares)	\$ 3,068,679	\$ 2,735,215	\$ 1,488,429
1,099,480 preference shares (June 30, 1997: 1,122,880 preference shares, September 30, 1996: 1,181,430 preference shares)	114,273	116,703	122,789
147,000 Series "B" warrants (June 30, 1997: 200,000 warrants)	14,700	20,000	-
160,000 Series "C" warrants	32,000	32,000	-
	\$ 3,229,652	\$ 2,903,918	\$ 1,611,218

During the period, 23,400 preference shares were converted into common shares on a one for one basis.

Class "A" Common Share Purchase Warrant

The company has issued one class "A" common share purchase warrant to the two founders of the company. The warrant entitles the holders to purchase common shares of the company at a price of \$0.50 per share until January 2, 2001. The warrant to purchase the common shares is contingent upon the company realizing cumulative after tax earnings in excess of \$5,000,000 within the five year period expiring January 2, 2001. The number of shares that may be purchased by the holders of the warrant will be equal to such number of common shares which will, in combination with the 1,200,000 common shares originally issued to the two founders, constitute 50% of the issued and outstanding common shares of the company after the exercise.

Series "B" Warrants

During the period, 53,000 series "B" warrants were exercised. 147,000 warrants remain outstanding at September 30, 1997.

Compensation Warrants

The company has issued 1,500,000 compensation warrants to sales agents for their services in obtaining financing for the company. Each compensation warrant entitles the holder to purchase one common share in the company at a price of \$0.50 per share. The warrants expire January 9, 1999. During the period 200,000 warrants were exercised. As at September 30, 1997, 700,000 compensation warrants remained outstanding.

Stock Option Plan

The company has adopted a stock option plan with 900,000 common shares reserved for this plan. The options are granted at the discretion of the board of directors. At June 30, 1997, 381,500 options were outstanding. During the period 186,467 options were exercised, 603,600 were granted, and 9,000 were cancelled. As at September 30, 1997, 789,633 options remain outstanding, as follows:

Number of Shares	Price Per Share	Expiry Date
48,833	\$0.50	March 4, 1999
10,000	\$3.05	January 6, 2001
112,500	\$7.00	February 11, 2001
14,700	\$8.25	May 26, 2002
603,600	\$8.00	July 8, 2002

2. COMPARATIVE INFORMATION

Certain statement figures have been reclassified to conform with the current period's financial statement presentation.

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TEL (416) 545-1455 FAX (416) 545-1454



Consolidated Interim  
Financial Statements

For the three and nine months  
ended September 30, 1997

r e p o r t t o s h a r e h o l d e r s

CryptoLogic Inc. is pleased to present the Company's unaudited financial statements for the three and nine months ended September 30, 1997.

CryptoLogic has had another strong quarter with growth in both revenues and earnings. Revenues for the quarter ended September 30, 1997 were \$5.9 million, bringing its nine month revenue to \$11.2 million. The Company had insignificant revenues in the same period last year, as it was in its start-up phase.

Net earnings for the third quarter were \$4.0 million, bringing the Company's net earnings for the period to \$7.4 million. This compares with a loss of \$0.5 million for the same period last year. Basic earnings per share in the third quarter, 1997 were \$0.55, bringing the nine month total to \$1.13 per share. On a fully diluted basis, earnings per share were \$0.25 for the quarter and \$0.49 for the first nine months of 1997. There are approximately 7.5 million common shares currently outstanding.

CryptoLogic's growth momentum continues, as witnessed by a comparison of this quarter versus the second quarter. Revenues increased by 65.5%, while Net earnings increased by 75.9%. On a per share basis, basic earnings rose 57.1%, while fully diluted earnings increased 56.2%.

The Company released version 2.20 of its Internet Gaming Software during the quarter. The new version offers users many advanced features including two new games, namely Craps and Baccarat.

During the third quarter, CryptoLogic's wholly owned subsidiary licensed three operators to use the Company's Casino Gaming Software, under the trade names: Casino Internationale, Sands of the Caribbean and Casino Inn bringing the total number of operators to four.

On September 30, 1997, the application brought by Mr. Lowry respecting the founders' warrants was heard in court. The Company is currently awaiting a decision from that court.

CryptoLogic has almost completed the further development of its Electronic Commerce software version 2.0. The commercial version of this product is scheduled for release in the fourth quarter, as well, an additional casino gaming operator has gone online using the name Casino Regal, bringing the total number of operators to five.

As at October 22, 1997, CryptoLogic's software products are being used by individuals in more than 160 countries. The Company had processed more than 42 million individual Secure Electronic Transactions, from more than 80,000 registered users, with nearly USD \$325 million in Electronic Commerce Transactions being processed by CryptoLogic's Server Technology.

CryptoLogic is a public Ontario Corporation listed on the Canadian Dealing Network, Symbol CRYP. The company is involved in software development and operations for Internet transaction processing. Its current focus is on Internet Gaming software and Electronic Commerce software.

Andrew Rivkin  
President, C.E.O.

Mark Rivkin  
Executive Vice President

c o n s o l i d a t e d i n t e r i m  
b a l a n c e s h e e t

September 30, 1997 (unaudited)

	September 30, 1997	June 30, 1997	September 30, 1996
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and short-term investments	\$ 4,622,121	\$ 3,784,328	\$ 677,732
Accounts receivable	2,449,141	1,605,451	–
Reserves and deposits with credit card processors	3,711,249	687,467	–
Sundry receivables and prepaid expenses	209,199	90,865	14,010
	<u>\$ 10,991,710</u>	<u>\$ 6,168,111</u>	<u>\$ 691,742</u>
<b>CAPITAL ASSETS</b>	222,709	175,709	121,003
<b>NOTES RECEIVABLE</b>	73,684	52,000	–
	<u>\$ 11,288,103</u>	<u>\$ 6,395,820</u>	<u>\$ 812,745</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued charges	\$ 465,640	\$ 250,493	\$ 26,698
Accrued payroll and source deductions	64,199	59,412	–
Provision for income taxes	488,880	230,777	–
Deposit from marketing representative	–	138,110	–
Funds held on deposit	514,980	311,798	–
	<u>\$ 1,533,699</u>	<u>\$ 990,590</u>	<u>\$ 26,698</u>
<b>SHAREHOLDERS' EQUITY</b>			
<b>CAPITAL STOCK</b>	\$ 3,229,652	\$ 2,903,918	\$ 1,611,218
<b>RETAINED EARNINGS/ (DEFICIT)</b>	6,524,752	2,501,312	(825,171)
	<u>\$ 9,754,404</u>	<u>\$ 5,405,230</u>	<u>\$ 786,047</u>
	<u>\$ 11,288,103</u>	<u>\$ 6,395,820</u>	<u>\$ 812,745</u>

Toronto, Canada  
October 22, 1997

c o n s o l i d a t e d i n t e r i m s t a t e m e n t  
o f e a r n i n g s a n d r e t a i n e d e a r n i n g s

For the nine months ended September 30, 1997 (unaudited)

	For the nine months ended September 30, 1997	For the three months ended September 30, 1997	For the three months ended September 30, 1996	For the three months ended June 30, 1997	From March 7, 1996 to September 30, 1996
<b>REVENUE</b>					
Fees	\$ 11,135,931	\$ 5,860,075	\$ –	\$ 3,548,497	\$ –
Sundry	99,950	62,281	5,134	28,761	5,134
	<u>\$ 11,235,881</u>	<u>\$ 5,922,356</u>	<u>\$ 5,134</u>	<u>\$ 3,577,258</u>	<u>\$ 5,134</u>
<b>EXPENSES</b>					
Software development and support costs	\$ 2,369,013	\$ 1,175,835	\$ 184,022	\$ 857,361	\$ 364,293
General and administrative	495,193	193,726	49,845	180,031	109,419
Defence of legal action	330,249	248,860	–	81,389	–
Financial costs	52,462	9,215	1,472	35,875	1,925
Amortization	33,391	13,177	9,052	10,942	15,133
	<u>\$ 3,280,308</u>	<u>\$ 1,640,813</u>	<u>\$ 244,391</u>	<u>\$ 1,165,598</u>	<u>\$ 490,770</u>
<b>EARNINGS/(LOSS) – BEFORE PROVISION FOR INCOME TAXES</b>	\$ 7,955,573	\$ 4,281,543	\$ (239,257)	\$ 2,411,660	\$ (485,636)
<b>PROVISION FOR INCOME TAXES</b>	488,880	258,103	–	124,622	–
<b>NET EARNINGS/(LOSS)</b>	\$ 7,466,693	\$ 4,023,440	\$ (239,257)	\$ 2,287,038	\$ (485,636)
<b>RETAINED EARNINGS/ (DEFICIT) BEGINNING OF PERIOD</b>	(941,941)	2,501,312	(585,914)	214,274	(339,535)
<b>RETAINED EARNINGS/ (DEFICIT) END OF PERIOD</b>	<u>\$ 6,524,752</u>	<u>\$ 6,524,752</u>	<u>\$ (825,171)</u>	<u>\$ 2,501,312</u>	<u>\$ (825,171)</u>
<b>EARNINGS/(LOSS) PER COMMON SHARE</b>	\$ 1.13	\$ 0.55	\$ (0.04)	\$ 0.35	\$ (0.11)
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>	6,588,493	7,267,022	5,330,379	6,540,597	4,382,636
<b>FULLY DILUTED EARNINGS PER COMMON SHARE</b>	\$ 0.49	\$ 0.25	\$ –	\$ 0.16	\$ –
<b>WEIGHTED AVERAGE NUMBER OF SHARES FULLY DILUTED</b>	15,275,979	15,954,508	–	14,455,951	–