

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

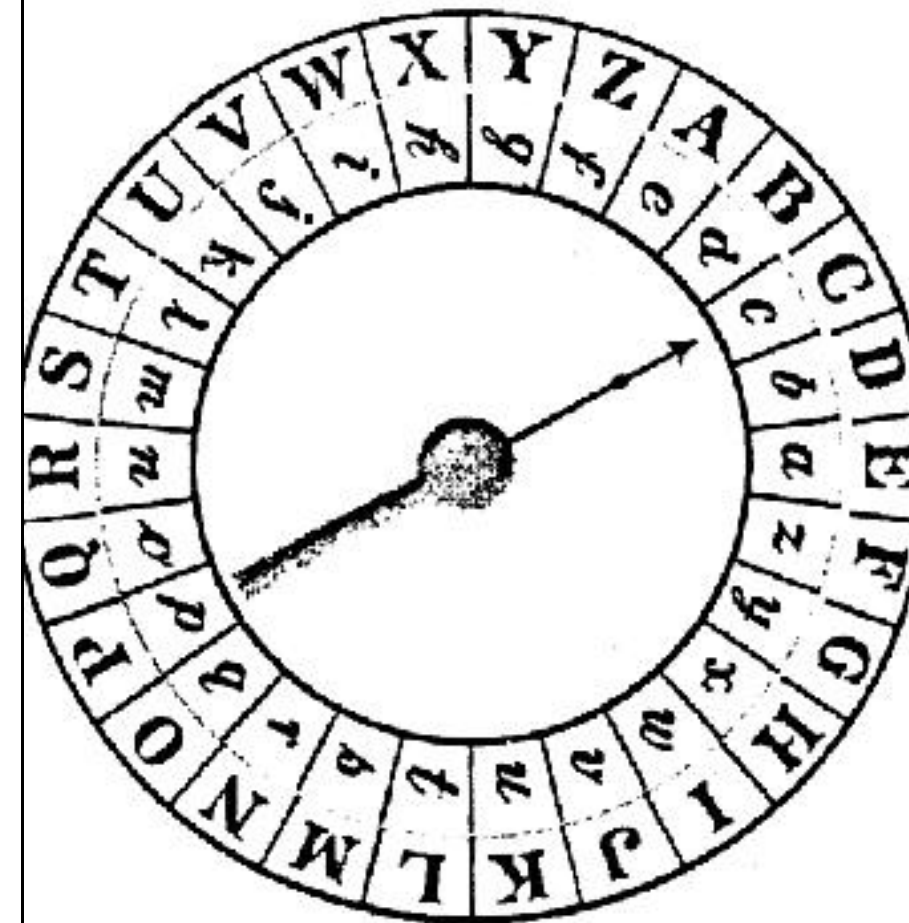
	For the three months ended		For the nine months ended	
	Sept.30, 1998	Sept.30, 1997	Sept.30, 1998	Sept.30, 1997
Cash provided by (used for)				
Operating Activities:				
Net earnings	\$ 5,880	\$ 4,023	\$ 16,858	\$ 7,466
Non-cash items:				
Loss on disposal of capital assets	-	-	-	3
Amortization	31	13	87	33
	<u>5,911</u>	<u>4,036</u>	<u>16,945</u>	<u>7,502</u>
Sources and uses of cash through working capital	<u>2,056</u>	<u>(3,442)</u>	<u>815</u>	<u>(5,027)</u>
	<u>7,967</u>	<u>594</u>	<u>17,760</u>	<u>2,475</u>
Investing Activities:				
Additions to capital assets	(42)	(60)	(120)	(139)
Financing Activities:				
Capital stock, conversion of preference shares and warrants issued and exercised	9	326	647	1,599
Notes receivable	-	(22)	-	(54)
	<u>9</u>	<u>304</u>	<u>647</u>	<u>1,545</u>
Increase in Cash Position	<u>7,934</u>	<u>838</u>	<u>18,287</u>	<u>3,881</u>
Cash position, beginning of period	<u>19,799</u>	<u>3,784</u>	<u>9,446</u>	<u>741</u>
Cash position, end of period	<u>\$ 27,733</u>	<u>\$ 4,622</u>	<u>\$ 27,733</u>	<u>\$ 4,622</u>

Cash position is defined as cash and cash equivalents plus restricted cash.

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CRYPTOLOGIC INC.



CONSOLIDATED INTERIM
 FINANCIAL STATEMENTS

For the three and nine months
 ended September 30, 1998

TSE:CRY

TO OUR SHAREHOLDERS

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

Total revenue for the quarter ended September 30th, 1998 totaled \$7.77 million, an increase of \$1.85 million or 31% over the same period last year. Net earnings for the quarter totaled \$5.88 million, an increase of \$1.86 million or 46% over the same period last year. As a result, earnings per share in the third quarter of 1998 were \$0.69 per share compared to \$0.55 in the third quarter of 1997. On a fully diluted basis, earnings per share were \$0.39 for the third quarter of 1998, compared to \$0.25 for the third quarter of 1997.

Revenue for the nine months ended September 30, 1998 totaled \$24.13 million, compared to \$11.24 million in 1997, an increase of \$12.89 million or 115%. Net earnings for the nine months ended September 30, 1998 totaled \$16.86 million, compared to \$7.47 million in 1997, an increase of \$9.39 million or 126%. For the nine months, earnings per share were \$2.01, and \$1.12 on a fully diluted basis compared to \$1.13 and \$0.49 fully diluted in the third quarter of 1997. At the end of the third quarter, CryptoLogic's cash reserves, including restricted cash totaled \$27.73 million. The Company currently has approximately 8.5 million common shares outstanding.

This third quarter ends with the Company moving forward on many positive and exciting notes. We have continued to experience record earnings and cash flow, and our licensing and support revenue continues to grow.

American legislation aimed at prohibiting U.S. residents from engaging in Internet gaming has not been enacted in this session of U.S. Congress. Earlier in the year, the U.S. Justice Department had characterized the proposed legislation as unenforceable. While the Kyl Bill or something similar may be reintroduced when Congress resumes for the next session, at the same time, significant efforts by industry groups are currently underway to propose new legislation aimed at regulating U.S. Internet gaming.

During the third quarter, CryptoLogic released Version 3.0 of its Internet gaming software. The new software has many new features including, multi-player games where customers can join games and play with others from anywhere in the world, a 3D panoramic environment, chat functionality that allows the players to communicate with each other while playing, as well as the ability for players to browse the Internet. The software can generate ancillary revenues through advertising and by providing services such as stock tickers, news, and other types of content. By including content and other types of services through the licensees' sites, version 3.0 provides a unique way to expand into the Internet content and services market. This new software ensures that licensees will continue to offer the best gaming software on the Internet, and enables CryptoLogic to continue to be the leading software developer for this market.

At this time, we would like to thank each of you for your continued support.

Andrew Rivkin
President & CEO

Mark Rivkin
Executive Vice-President & COO

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

	September 30, 1998	September 30, 1997
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 21,110	\$ 4,207
Restricted cash	6,623	415
Reserves and deposits with credit card processors	3,232	3,711
Accounts receivable	692	2,449
Prepaid expenses and other	295	209
	<u>31,952</u>	<u>10,991</u>
CAPITAL ASSETS	396	223
NOTES RECEIVABLE	32	74
	<u>\$ 32,380</u>	<u>\$ 11,288</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,187	\$ 530
Provision for income taxes	206	489
Funds held on deposit	1,162	515
	<u>3,555</u>	<u>1,534</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	4,168	3,230
RETAINED EARNINGS	24,657	6,524
	<u>28,825</u>	<u>9,754</u>
	<u>\$ 32,380</u>	<u>\$ 11,288</u>

Toronto, Canada
October 26, 1998

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

	For the three months ended		For the nine months ended	
	Sept.30, 1998	Sept.30, 1997	Sept.30, 1998	Sept.30, 1997
REVENUE	\$ 7,467	\$ 5,878	\$ 23,503	\$ 11,168
INTEREST EARNED	302	44	630	68
	<u>7,769</u>	<u>5,922</u>	<u>24,133</u>	<u>11,236</u>
EXPENSES				
Software development and support costs	2,240	1,176	7,137	2,369
General and administrative	585	194	1,378	496
Loss/(Gain) on foreign exchange	(900)	6	(1,487)	44
Financial costs	25	3	46	8
Amortization	31	13	87	33
	<u>1,981</u>	<u>1,392</u>	<u>7,161</u>	<u>2,950</u>
EARNINGS BEFORE THE UNDERNOTED	5,788	4,530	16,972	8,286
Recovery of write-down of receivables	(363)	—	(790)	—
Defence of legal action	—	249	—	331
	<u>(363)</u>	<u>249</u>	<u>(790)</u>	<u>331</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES	6,151	4,281	17,762	7,955
PROVISION FOR INCOME TAXES	271	258	904	489
NET EARNINGS	5,880	4,023	16,858	7,466
RETAINED EARNINGS/ (DEFICIT) BEGINNING OF PERIOD	18,777	2,501	7,799	(942)
RETAINED EARNINGS END OF PERIOD	<u>\$ 24,657</u>	<u>\$ 6,524</u>	<u>\$ 24,657</u>	<u>\$ 6,524</u>
EARNINGS PER COMMON SHARE	\$ 0.69	\$ 0.55	\$ 2.01	\$ 1.13
WEIGHTED AVERAGE NUMBER OF SHARES (,000)	8,464	7,267	8,371	6,588
FULLY DILUTED EARNINGS PER COMMON SHARE	\$ 0.39	\$ 0.25	\$ 1.12	\$ 0.49
WEIGHTED AVERAGE NUMBER OF SHARES FULLY DILUTED (,000)	15,335	15,955	15,284	15,276