

CRYPTOLOGIC LTD  
Form 20-F  
March 25, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-30224

CryptoLogic Limited

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(Exact name of Registrant as specified in its charter)

Guernsey, Channel Islands

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(Jurisdiction of incorporation or organization)

Marine House, Clanwilliam Place  
Dublin 2, Ireland

---

(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of contact person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class: Common Shares  
Name of each exchange on which registered: NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2010.

13,819,051 Common Shares (including 939,131 Exchangeable Shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  
Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, except as otherwise indicated or as the context otherwise requires, the “Company”, “we”, “us” and “our” refers to CryptoLogic Limited and its operating subsidiaries.

Pursuant to a business reorganization implemented by way of an Ontario, Canada Superior Court of Justice court approved plan of arrangement (the “Arrangement”) and approved by the shareholders on May 24, 2007, CryptoLogic Limited acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., an Ontario company, which through the Arrangement became an indirect subsidiary of CryptoLogic Limited. As part of the Arrangement, the Company issued either an equivalent amount of CryptoLogic Limited common shares (“Common Shares”) or, in the case of taxable Canadian residents, exchangeable shares (“Exchangeable Shares”) of CryptoLogic Exchange Corporation (“CEC”), an indirect subsidiary of CryptoLogic Limited. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of the Common Shares. The holders of Exchangeable Shares and Common Shares participate equally in voting and dividends. No additional shares of CEC have been or will be issued.

For accounting purposes, the Arrangement has been accounted for using the continuity of interest method, which recognizes CryptoLogic Limited as the successor entity to CryptoLogic Inc. Accordingly, financial information presented in the annual report reflects the financial position, results of operations and cash flows as if CryptoLogic Limited has always carried on the business formerly carried on by CryptoLogic Inc., with all assets and liabilities recorded at the carrying values of CryptoLogic Inc. The interest held by CEC shareholders has been presented as a minority interest in the consolidated financial statements, as required under Canadian generally accepted accounting principles (“Canadian GAAP”).

We have prepared our financial statements in accordance with Canadian GAAP, which are different from generally accepted accounting principles in the United States (“U.S. GAAP”) and may not be comparable to financial statements of United States companies. Significant measurement differences in our financial information between Canadian GAAP and U.S. GAAP for the years ended December 31, 2010, 2009, and 2008 are disclosed in Note 22 to our audited consolidated financial statements.

In this annual report, all currency refers to U.S. Dollars (US\$) and all information is as of March 21, 2011 unless indicated otherwise.

Percentages and some amounts in this annual report have been rounded for ease of presentation. Any discrepancies between totals and the sums of the amounts listed are due to rounding.

Information contained in this annual report concerning the industry in which we operate has been obtained from publicly available information from third party sources (including Global Betting and Gaming Consultants, March 2009, or “GBGC”). Although we believe such information is reliable, we have not had such information verified by any independent source.

This annual report contains trade names, trademarks, registered marks, and service marks including DC Comics™, Superman™, Wonder Woman™, Marvel™, Jenga™, Batman™, Spider-Man™, The Hulk™, Paramount™, Braveheart™, and Gump™ belonging to us and other companies. All trademarks, trade names, registered marks, and service marks appearing in this annual report are the property of their respective holders.



### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking, including statements regarding our expectations, objectives, anticipations, estimations, intentions, plans, hopes, beliefs, or strategies regarding the future. Such forward-looking statements include, but are not limited to:

- the financial or business impact of new or amendments to legislation or regulation in individual countries or by multi-jurisdictional governmental organizations;

  - the impact of the loss of key licensees;

- the success of our strategy and restructuring programs to reduce operating costs and return to profitability and positive cash flow;

  - the success of Instant Click as a new platform enabling deployment of titles from our suite of games;

    - the ability to reduce our recurring cost base;

    - the ability to expand the network of licensees and channel partners;

- the ability to expand our offerings to platforms to include mobile, and government licensed in-hotel room systems;

- the ability to leverage existing partnerships for potential future growth based upon both the brand recognition and loyalty associated with these partners and their unique and distinctive intellectual property;

  - expected revenue growth from Branded Games and Hosted Casino licensing in 2011;

  - potential new revenue sources in 2011 from gaming sites and new product launches;

    - the impact of potential legal proceedings upon our business; and

- statements that include the words “may”, “will”, “plans”, “estimates”, “anticipates”, “believes”, “expects”, “intends” and other words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and potentially inaccurate assumptions. These risks and uncertainties include, among others, those discussed in “Item 3. Key Information-Risk Factors” of this annual report, (including without limitation, risks associated with i) existing and potential future changes to government regulation, ii) the current global financial condition, iii) legal proceedings, iv) foreign exchange fluctuations, and v) competition) as well as our consolidated financial statements, related Notes, and the other financial information appearing elsewhere in this annual report and our other documents we file with or furnish to the Securities and Exchange Commission. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise.

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

## ITEM 3. KEY INFORMATION

## SELECTED FINANCIAL DATA

The following financial information of our Company, expressed in U.S. dollars unless otherwise indicated, is only a summary and should be read in conjunction with, and is qualified in its entirety by reference to, our audited annual consolidated financial statements and the related notes, which are included in this annual report. The selected historical financial data set forth below as of and for each of the years ended indicated has been derived from our consolidated financial statements.

For the Years Ended December 31, (In thousands, except per share disclosure)	2010	2009	2008	2007	2006
Revenue	\$25,988	\$39,794	\$61,526	\$73,659	\$104,022
Net (loss)/earnings and comprehensive (loss)/income	\$(20,387)	\$(35,510)	\$(32,738)	\$5,528	\$24,812
Basic (loss)/earnings per share	\$(1.58)	\$(2.78)	\$(2.55)	\$0.47	\$1.83
Diluted (loss)/earnings per share	\$(1.58)	\$(2.78)	\$(2.55)	\$0.47	\$1.81
Basic weighted average number of shares	13,820	13,820	13,888	13,891	13,558
Diluted weighted average number of shares	13,820	13,820	13,888	13,907	13,731
Total assets	\$37,558	\$63,370	\$105,806	\$170,633	\$184,520
Shareholders' equity	\$16,815	\$36,796	\$72,440	\$109,306	\$111,584
Share capital	\$34,129	\$33,916	\$33,552	\$33,407	\$29,096
Dividends per share	\$—	\$0.07	\$0.39	\$0.48	\$0.43

Our financial statements have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian GAAP and U.S. GAAP are described in Note 22 to the consolidated financial statements in respect of each of the years presented. If the Company had followed U.S. GAAP, certain items in the consolidated financial statements would have been reported as follow:

For the Years Ended December 31, (In thousands, except per share disclosure)	2010	2009	2008	2007	2006
Net (loss)/earnings	\$(20,102)	\$(36,669)	\$(33,048)	\$5,640	\$25,636
Basic (loss)/earnings per Common Share	\$(1.56)	\$(2.87)	\$(2.57)	\$0.48	\$1.89
Diluted (loss)/earnings per Common Share	\$(1.56)	\$(2.87)	\$(2.57)	\$0.48	\$1.87



## RISK FACTORS

An investment in the Company involves significant risks. Accordingly, prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in the Company. Additional risks and uncertainties not presently known to CryptoLogic, or that the Board currently considers immaterial, may also affect the business, financial condition, results or future operations of the Company and the trading price of the common shares. If any of the following risks materialize, the business, financial conditions, results or future operation could be materially and adversely affected. In such circumstances, the trading price of the common shares could decline and investors could lose part or all of their investment. Before making any investment decision, prospective investors are advised to consult an independent adviser who specializes in advising upon investments.

Current and future legislation and court decisions may have a material impact on our operations and financial results

The Company and our licensees are subject to applicable laws in the jurisdictions in which they operate. Our Hosted Casino licensees hold government licenses to operate Internet gaming sites hosted in Malta and our Branded Games licensees hold similar licenses issued by the jurisdictions in which their gaming servers are hosted. Some countries have introduced regulations attempting to restrict or prohibit Internet gaming, while others have taken the position that Internet gaming should be regulated and have adopted or are in the process of considering legislation to enable that regulation.

While the U.K. and other European countries such as Malta and Gibraltar have currently adopted a regime which permits its licensees to accept wagers from any jurisdiction, other countries, including Italy and France have, or are in the process of implementing regimes which only permit the targeting of the domestic market provided a local license is obtained and local taxes accounted for. Other European territories continue to defend a licensing regime that protects monopoly providers and have combined this with an attempt to outlaw all other supplies. Either of these restrictive approaches may yet be deemed to be in potential conflict (in any specific jurisdiction) with E.U. treaty law (governing the free movement of trade and services throughout the European Union) and case law rendered by the European Court of Justice (the "ECJ"), but recent ECJ decisions have given E.U. Member States wide latitude in regulating the on-line gaming markets. Over the past several years, the European Commission (the "EC") has attempted to prompt the introduction of directives that would harmonize online gaming within the E.U., which is in line with the EC's stated goal of encouraging a free and open cross-border market. In early 2011, the EC's Internal Market Commissioner, Michel Barnier, began an E.U.-wide consultation and review process on on-line gaming regulation. Harmonization in the area of on-line gaming, however, has met with substantial opposition in the past, and there can be no certainty that the consultation and review will recommend such harmonization or that any recommendation of harmonization will be adopted. There is, therefore, no indication that any such harmonization will be achieved in the near term. Contemporaneous with its efforts to harmonize European online gaming laws, the EC has initiated infringement proceedings against various member states in relation to perceived breaches of Article 56 of the Treaty on the Functionality of the European Union (which article enshrines the principle of freedom of movement of services), but in most cases these have not reached conclusion.

As companies and consumers involved in Internet gaming are located around the globe, including our licensees and their players, there is uncertainty regarding which government has authority to regulate or legislate the industry. The Unlawful Internet Gaming Enforcement Act ("UIGEA"), which is designed to prohibit payments relating to Internet gaming was enacted on October 13, 2006 in the United States, and similar legislation may be adopted in other jurisdictions.

Future legislative and court decisions may have a material impact on our operations and financial results. There is a risk that governmental authorities may view us or our licensees as having violated their local laws, despite CryptoLogic's contractual requirement that each of its licensees is licensed to operate an Internet gaming business by the governmental authority of the country in which the gaming servers associated with the licensees' gaming operations are located. Therefore, there is a risk that civil and criminal proceedings, including class actions brought by or on behalf of prosecutors or public entities incumbent monopoly providers, or private individuals, could be initiated against us, our licensees, Internet service providers, credit card processors, advertisers and others involved in the Internet gaming industry. Such potential proceedings could involve substantial litigation expense, penalties, fines, seizure of assets, injunctions or other restrictions being imposed upon us or our licensees or other business partners, while diverting the attention of key executives. Such proceedings could have a material adverse effect on our business, revenues, operating results and financial condition as well as impact upon our reputation.

There can be no assurance that legally enforceable prohibiting legislation will not be proposed and passed in jurisdictions relevant or potentially relevant to our business to legislate or regulate various aspects of the Internet or the Internet gaming industry (or that existing laws in those jurisdictions will not be interpreted negatively). Compliance with any such legislation may have a material adverse effect on our business, financial condition and results of operations, either as a

result of our determining that a jurisdiction should be blocked, or because a local license may be costly for us or our licensees to obtain and/or such licenses may contain other commercially undesirable conditions.

There have recently been a number of legal developments associated with the manner in which the business of gaming, and in particular, Internet gaming, is treated in the U.K. and Continental Europe. Some of these developments can be considered as positive and some as negative. In this regard a brief summary of the regulatory situation in the U.K., Europe, and the United States follows:

#### United Kingdom

In September 2007, the U.K. Gambling Act came into force, which regulated online gaming for the first time in that jurisdiction. Most of the underlying codes in relation to entities established in the U.K., or marketing into the U.K. have been enacted. However, there is no assurance that the U.K. regulatory regime as interpreted by the Gambling Commission, the Gambling Act's independent regulator, will provide a commercially-viable market and may create restrictions that would have a material adverse effect on CryptoLogic's customers, business, revenues, operating results and/or financial condition. Indeed, the Department of Culture Media and Sport (the "DCMS") (the government body with responsibility for overseeing gambling), has recently announced that it may reconsider one of the main tenets of the Gambling Act, namely that if an online gaming operator was regulated either in Europe or in a jurisdiction approved by the DCMS (the so called "white listed" jurisdictions) such an operator could fully target the UK gambling market. The DCMS is in the process of conducting a review of on-line gaming and is expected to publish the results of this review in the next few months. It seems likely that the DCMS will recommend that it will require entities not licensed in the UK to acquire some form of additional accreditation to access the UK market and/or pay taxes in the UK.

#### Continental Europe

##### France

The French law authorizing the licensing of online gaming operators came into effect in April 2010, and the first licenses were issued in June 2010. Licenses are currently available only in relation to poker games and sportsbook. The French authorities have adopted an aggressive enforcement stance against those operators that attempt to operate in France without a French license. Moreover, the licenses are subject to undesirable commercial terms, such as limits on maximum payouts and high levels of tax. Moreover, all poker play can only be amongst French customers, which severely impedes liquidity.

##### Germany

Online gambling was expressly prohibited in Germany by the State Gambling Treaty of 2008, under which an operator is liable to civil or administrative sanctions. Article 284 of the German Criminal Code which applies criminal sanctions to operators who provide online gambling services into Germany without a form of authorization has been the subject of legal debate over the purported breadth of its application.

Conflicting domestic court decisions on the legality of domestic law relating to online gambling (in light of the uncertainty of the application of Article 284 of the Criminal Code to online gambling businesses licensed outside of Germany, in particular by other EU member states, and the legality of the State Gambling Treaty under EU law) has led to uncoordinated enforcement action.

In September 2010, the ECJ handed down two judgments that call into question the enforceability of the State Gambling Treaty under EU law. Moreover, the State Gambling Treaty expires on 31 December 2011, requiring Germany to address the issue of online gambling prior to this date. Although Germany's sixteen regional governments recently announced a consensus to regulate and license the sports betting market, opinions as to the appropriate form of regulation of on-line gambling differ among Germany's sixteen regional governments. There can be no certainty, therefore, as to what form this regulation will take, and whether it will continue to ban online gambling or provide a licensing of online gambling, nor can there be any certainty as to the terms of licensing (or commercial viability of any license) in the event that licensing is implemented in Germany.

#### Italy

Italy introduced a licensing regime in 2010, which allows licenses for on-line casino games as well as sports betting and poker. The administrative, technical, tax and financial burdens, however, associated with these licenses are high. Moreover, there can be no guarantee that the Company's licensees will be successful in obtaining an Italian license, or that the Company's games will be approved under the Italian licensing regime. The Company and its licensees remain at risk that Italy may take aggressive action against parties whose operations are not licensed pursuant to the regulatory regimes established by this country.

## Spain

Madrid's and Basque's regional governments have implemented legislation to regulate Internet gaming but it only permits services to be supplied by the licensed entity to Madrid residents. Therefore obtaining a license may be of little commercial value to any operator.

In February 2011, the Spanish parliament began consideration of nationwide regulation of on-line gambling, including the licensing of online operators. There can be no assurance, however, that the law will be approved by parliament or that casino games would be allowed under the proposed law or that the licensing requirements and taxation will be on a commercially viable basis. In the event of the law is passed, the Company and its licensees will remain at risk that Spain may take aggressive action against parties whose operations are not licensed in Spain.

## The Netherlands

The Dutch government has consistently taken steps to support and protect its state-sponsored casino operator's (Holland Casino) monopoly, including taking legal action against Internet gaming operators. In addition, an announcement in 2009 by the Dutch Minister of Justice to the effect that payment support by Dutch banks of online gaming was unlawful (and precluded by existing law) caused a number of operators to be blocked from the territory, and this cautious approach has been further exacerbated by the judgment of the ECJ in June 2010, following the negative opinion of Advocate General Bot and upholding the Dutch regulations as not inconsistent with EU law, in the case referred to the ECJ by Betfair and Ladbrokes. In the event that the Dutch courts implement the ECJ decision and the government seeks to take further steps to protect the online business of Holland Casino by discouraging other operators from operating in the Dutch marketplace, either through changes in legislation or enforcement measures, the Company's licensees (and CryptoLogic accordingly) could be adversely impacted. While there have been recent reports that the Dutch government is considering licensing online gaming as a revenue raising method, these proposals are in a preliminary stage and there can be no guarantee that the Dutch government would implement a licensing regime or that the terms of such licenses, including the tax and technical requirements thereof, would create commercially viable conditions for online operators.

## Scandinavia

Governments in most Scandinavian countries have attempted to discourage their citizens from gambling with online operators by taxing their citizens' winnings. Generally speaking, winnings realized through a state sponsored operator are not taxable, but winnings from other sources can be subject to inconsistent application of taxation law in relation to domestic and non-domestic products in the E.U. Until such time as the tax authorities in the various countries make an official pronouncement on the manner in which these tax laws will be applied, it is unclear as to what impact these tax policies will have on the business of the Company's licensees. In Norway, the government has specifically banned payment support of online gambling which came into force in 2010. The ban means only payment support of state-owned gambling services will remain legal. Sweden prohibits advertising by foreign gaming operators, which is designed to protect. In Denmark, the Danish parliament has approved legislation on regulating the Danish gaming market, including a licensing regime for on-line gaming. Although this licensing regime was to come into effect on 1 January 2011, its implementation has been delayed due to a number of developments, including challenges to the regime at an EU level. Implementation of the new law may now be delayed by up to two years. Moreover, there can be no guarantee that the Company's licensees will be successful in obtaining a Danish license, or that the Company's games will be approved under the Danish licensing regime.

## United States



Since the enactment of UIGEA in October 2006, the Company has prohibited its licensees from taking any wagers from U.S. residents. The UIGEA sought to clarify the illegality of processing or transferring any funds connected with unlawful Internet gaming, although some U.S. enforcement agencies claimed that previous existing legislation similarly outlawed these activities. Given that the Company had previously derived licensing revenue and provided payment processing solutions (through its e-cash services) on behalf of some licensees who took wagers from the U.S., there is no guarantee that the U.S. Department of Justice will not seek to prosecute the Company, its officers or directors for alleged historic transgressions or similarly prosecute its licensees or their directors or shareholders. Such proceedings could result in criminal penalties, substantial fines, damages and sequestration of assets. They also could damage the reputation of the Company, divert the attention of the Company's key executives and have a material adverse effect on the business, revenues, operating results and/or financial condition of the Company. Although recent developments at a state level have seen the State of New Jersey attempt to introduce an intra-state on-line gambling licensing regime, vetoed by the state governor, there are doubts as to the compatibility of such a regime with federal law. Moreover, such a limited market may not be commercially viable for operators. Moreover, these licenses would be limited to operators already holding land-based casino licenses within the State of New Jersey, and none of the Company's current licenses hold such licenses.

The loss of a major payment option could limit our ability to accept deposits.

With the enactment of the UIGEA, financial institutions in the United States ceased to accept online gaming transactions. There can be no assurance that other financial institutions or credit card issuers outside the United States will not enact additional restrictions. The loss of a major payment option would have a material adverse effect on our business, revenues, operating results and financial condition.

There can be no assurance that the systems and protective measures we have in place will or can guarantee protection against fraudulent activities and unauthorized access from minors.

There can be no assurance that the systems and protective measures we have in place will or can guarantee protection against fraudulent activities and unauthorized access from minors, which could have a material adverse effect on our reputation, business, revenue, operating results and financial conditions. We attempt to mitigate these concerns with systematic controls and a dedicated fraud team.

In addition to regulations pertaining specifically to online gaming, we may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce.

In addition to regulations pertaining specifically to online gaming, we may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce. New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted. As well, current laws, which predate or are incompatible with the Internet and electronic commerce, may be applied and enforced in a manner that restricts the electronic commerce market. The application of such pre-existing laws regulating communications or commerce in the context of the Internet and electronic commerce is uncertain. Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet.

The adoption of new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for our products and services, increase our cost of doing business or could otherwise have a material adverse affect on our business, revenues, operating results and financial condition.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in the value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be assisted by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. As a result, several major economies have been in prolonged recessions, including but not limited to, the United Kingdom, as well as Ireland, where the Company is headquartered. If these economies do not recover in a timely manner, future revenues may be adversely impacted. Secondly, the disruption to the global finance markets may impact the ability of the Company to obtain equity or debt financing in the future on terms favorable to the Company, if at all. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on it by the continued growth of the Internet, the overall online gaming industry or of our customers.

The growth of Internet usage has caused frequent interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on it by the continued growth of the Internet, the overall online gaming industry or of our customers.

The Internet's viability could be affected if the necessary infrastructure is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel.

End-users of our software depend on Internet Service Providers ("ISPs"), online service providers and our system infrastructure for access to the Internet gaming sites operated by our licensees. Many of these services have experienced service outages in the past and could experience service outages, delays and other difficulties due to system failures, stability

or interruption. Our licensees may lose customers as a result of delays or interruption in service, including delays or interruptions relating to high volumes of traffic or technological problems. As a result, we may not be able to meet service levels that we have contracted for, putting us in breach of contractual commitments, which in turn could materially adversely affect our business, revenues, operating results and financial condition.

The demand and acceptance for new products and services are subject to a level of uncertainty and growing competition.

The Internet gaming industry continues to evolve rapidly. The demand and acceptance for new products and services are subject to a level of uncertainty and growing competition, and if our services do not continue to receive market acceptance, our business, revenues, operating results and financial condition could be materially adversely affected.

Our Internet gaming software and electronic commerce services are reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation.

Our Internet gaming software and electronic commerce services are reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation. As users become increasingly sophisticated and devise new ways to commit fraud, our security and network systems may be tested and subject to attack. We have experienced such system attacks in the past and implemented measures to protect against these intrusions. However, there is no assurance that all such intrusions or attacks will or can be prevented in the future, and any system intrusion/attack may cause a delay, interruption or financial loss, which could have a material adverse effect on our business, revenue, operating results and financial condition.

If ISPs experience service interruptions, communications over the Internet may be interrupted and impair our ability to carry on business.

Our electronic commerce product relies on ISPs to allow our licensees' customers and servers to communicate with each other. If ISPs experience service interruptions, communications over the Internet may be interrupted and impair our ability to carry on business. In addition, our ability to process e-commerce transactions depends on bank processing and credit card systems. In order to prepare for system problems, we are strengthening and enhancing our current facilities and the capability of our system infrastructure and support. Nevertheless, any system failure as a result of reliance on third parties, including network, software or hardware failure, which causes a delay or interruption in our e-commerce services could have a material adverse effect on our business, revenues, operating results and financial condition.

Licensees of our software and services compete with existing and established recreational services and products, in addition to other forms of entertainment.

Licensees of our software and services compete with existing and established recreational services and products, in addition to other forms of entertainment. Our success will depend, in part, upon our ability to keep pace with technological developments, respond to evolving customer requirements and achieve continued market acceptance.

We compete with a number of public and private companies, which provide electronic commerce and/or Internet gaming software. In addition to known current competitors, traditional land-based casino operators and other entities, many of which have significant financial resources, an entrenched position in markets and name-brand recognition, may provide Internet gaming services in the future, and thus become our competitors. As well, such companies may be able to require that their own software, rather than the software of others, including our gaming software or our

e-cash systems and support, be used in connection with their payment mechanisms.

The barriers to entry into most Internet markets are relatively low, making them accessible to a large number of entities and individuals. We believe the principal competitive factors in our industry that create certain barriers to entry include reputation, technology, financial stability and resources, a proven track record of successful operations, critical mass (particularly relating to online poker), regulatory compliance, independent oversight and transparency of business practices. While these barriers will limit those able to enter or compete effectively in the market, it is likely that new competitors will enter the market in the future.

Increased competition from current and future competitors has and may in the future result in price reductions and reduced margins, or may result in the loss of our market share, any of which could materially adversely affect our business, revenues, operating results and financial condition.

In fiscal 2010, our top 7 licensees accounted for approximately 81% (2009: 78%) of our total revenue before amortization. In addition, all our key licensees operate from a limited number of licensing jurisdictions.

In fiscal 2010, our top 7 licensees accounted for approximately 81% (2009: 78%) of our total revenue before amortization. In addition, all our key licensees operate from a limited number of licensing jurisdictions. The loss of one or more of these key licensees, or the loss of their license to operate in the limited number of licensing jurisdictions, could have a material adverse effect on our business, revenues, operating results and financial condition.

Contracts are subject to renewal, renegotiation and may be contingent on certain performance requirements. There can be no assurance that license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Licensing contracts generally have multi-year terms, are exclusive, and have renewal provisions, which provide us with a long-term ongoing revenue stream. Contracts are subject to renewal, renegotiation and may be contingent on certain performance requirements. There can be no assurance that license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Similar issues exist in respect of brand licensing agreements. Our Branded Games business is dependent on our ability to continue to incorporate into our premium Branded Games, the intellectual property licensed to us by brand licensors, such as Marvel Comics, DC Comics, a division of Warner Bros., and Paramount Digital Entertainment. There can be no assurance that key brand license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Disputes may also develop with respect to contracts with other parties, including licensees, brand licensors or games development companies, which, if resolved unfavorably to the Company, could adversely affect our business, revenues, operating results and financial conditions.

We are subject to exposure in regard to chargebacks, which may also result in possible penalties and elimination of payment options.

We are subject to exposure in regard to chargebacks, which may also result in possible penalties and elimination of payment options. Chargebacks refer to any deposit transaction credited to a user's account that is later reversed or repudiated. While the Company has various control measures which seek to minimize exposure to chargebacks, it is not possible to entirely eliminate or prevent chargebacks, and a material increased incidence of chargebacks could have a material adverse effect on our business, revenues, operating results and financial conditions.

There are certain difficulties and risks inherent in doing business internationally, including the burden of complying with multiple and conflicting regulatory requirements, foreign exchange controls, potential restrictions or tariffs on gaming activities that may be imposed.

There are certain difficulties and risks inherent in doing business internationally, including the burden of complying with multiple and conflicting regulatory requirements, foreign exchange controls, potential restrictions or tariffs on gaming activities that may be imposed, potentially adverse tax consequences and tax risks, and changes in the political and economic stability, regulatory and taxation structures, and the interpretation thereof, of jurisdictions in which we, our subsidiaries and our licensees operate, and in which our licensees' customers are located, all of which could have a material adverse effect on our business, revenues, operating results and financial condition.

There can be no assurance that we will be able to sustain or increase revenue derived from international operations or that we will be able to penetrate linguistic, cultural or other barriers to new foreign markets.

Fluctuations in the exchange rate of world currencies could have a negative effect on our reported results.

Our financial results are reported in U.S. currency, which is subject to fluctuations as against the value of the currencies of the countries in which we operate, including British pounds, euro, and Canadian dollars. Fluctuations in the exchange rate of world currencies could have a positive effect on our reported results. We may utilize a hedging program from time to time and/or take advantage of the natural hedge in having operations in multiple currencies to mitigate a portion of our currency risks, but there can be no assurance that we will not experience currency losses in the future, which could have a material adverse effect on our business, revenues, operating results and financial condition.

Our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws.

We are subject to income taxes in Ireland, Canada, Cyprus, Malta and other jurisdictions. Our tax calculations involve estimates in several areas including, but not limited to, transfer pricing. Tax authorities may disagree with our estimates and assess additional taxes. We regularly review the likely outcomes of such assessments in order to determine the appropriateness of our tax provision. However, actual outcomes may differ and could have a material impact on our net income or financial condition. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. In particular, the carrying value of future tax assets is dependent on our ability to generate future taxable income in the jurisdiction where we have recognized the deferred tax assets.

We may be involved in litigation arising in the ordinary course of business. The outcome of such matters cannot be predicted with certainty, and could have a material adverse effect on our business, revenues, operating results and financial condition.

We are involved in litigation arising in the ordinary course of business. The outcome of such matters cannot be predicted with certainty, and could have a material adverse effect on our business, revenues, operating results and financial condition.

Moreover, from time to time, third parties have asserted and may continue to assert patent, trademark, copyright and other intellectual property rights to technologies or business methods that we consider important. There can be no assurance that the assertion of such claims will not result in litigation or that we would prevail in any such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party or, if such a license is required, that it would be available on terms acceptable to us.

In December 2010, a significant supplier of games delivered to the Company a notice of arbitration relating to the agreement between the two companies. In February 2011, the Company delivered to the supplier a notice of termination of the agreement, to take effect from March 2011. Notwithstanding this termination, discussions are ongoing with the aim of reaching a commercially acceptable solution prior to the commencement of significant arbitration proceedings. In the absence of achieving such a solution, arbitration hearings are likely to proceed later in 2011.

In February 2011, a brand licensor delivered to the Company a notice purporting to terminate the brand license agreement between the two companies, claiming that the Company had breached such agreement. The Company believes there is no breach that warrants termination of the agreement and, accordingly, considers the agreement to remain in force.

Our competitive position is dependent in part upon our ability to protect our proprietary technology.

We rely on a combination of laws and contractual provisions to establish and protect our rights in our software and proprietary technology. We believe that our competitive position is dependent in part upon our ability to protect our proprietary technology. We generally enter into non-disclosure and invention agreements with employees, licensees, consultants and customers, and historically have restricted access to our software products' source codes. We regard our source code as proprietary information, and attempt to protect the source code versions of our products as trade secrets and unpublished copyrighted works. Despite our precautions and measures implemented to protect against such attempts, unauthorized parties may have or could in the future copy or otherwise reverse engineer portions of our



products or otherwise obtain and use information that we regard as proprietary.

Our Company has patents and trademarks in certain jurisdictions and is in the process of applying for further trademark registrations and patents, which may provide such protection in relevant jurisdictions. However, there can be no assurance that this will be sufficient to fully protect our proprietary technology. In addition, certain provisions of our license agreements, including provisions protecting against unauthorized use, transfer and disclosure, may be found to be unenforceable in certain jurisdictions.

We also have a proprietary interest in our name. The names “CryptoLogic” and “WagerLogic” have become known in the Internet gaming industry. Accordingly, our competitive position could be affected if our name was misappropriated and our reputation in any way compromised.

There can be no assurance that the steps we have taken to protect our proprietary rights will be adequate to deter misappropriation of our technology or independent development by others of technologies that are substantially equivalent or superior to our technology. Any misappropriation of our name, technology or development of competitive technologies could have a material adverse effect on our business, revenues, operating results and financial condition.

We may infringe upon the intellectual property rights of third parties.

Due to the complex, sophisticated and global nature of the business, there can be no assurance that there has been no breach of third parties' intellectual property rights by the Company, and any adverse judgment in this regard could have a material adverse effect on our business, revenues, operating results and financial condition.

Our future success is dependent on certain key management and technical personnel.

Our future success is dependent on certain key management and technical personnel. The loss of these individuals or the inability to attract and retain highly qualified employees and advisors could have a material adverse effect on our business, revenues, operating results and financial condition.

The challenges of our business and the increasing complexity of our product offerings, coupled with the rapid evolution of our markets, are expected to continue to place a significant strain on our management and operational resources and to increase demands on our internal systems, procedures and controls.

The challenges of our business and the increasing complexity of our product offerings, coupled with the rapid evolution of our markets, are expected to continue to place a significant strain on our management and operational resources and to increase demands on our internal systems, procedures and controls. Our future operating results will depend on management's ability to develop and manage growth, enhance our products and services to respond to market demand, deal with competition and evolving customer requirements, manage our system infrastructure and requirements to meet the growing demands of our business, hire and retain significant numbers of qualified employees, accurately forecast revenues and control expenses. A continued decline in our revenues without a corresponding and timely slowdown in our expenses, or our inability to manage or build future growth efficiently, could have a material adverse effect on our business, revenues, operating results and financial condition.

The market price of our common shares has experienced significant fluctuation and may continue to fluctuate significantly.

The market price of our common shares has experienced significant fluctuation and may continue to fluctuate significantly. The market price of our common shares may be adversely affected by various factors, such as proposed Internet gaming legislation or enforcement of existing laws, the loss of a customer, the announcement of new products or enhancements, innovation and technological changes, quarterly variations in revenue and results of operations, changes in earnings estimates by financial analysts, speculation in the press or analyst community and general market conditions or market conditions specific to particular industries, including the Internet and gaming.

In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These company-specific or broad market fluctuations may adversely affect the market price for our common shares. Anti-online gaming legislation could also impact our ability to remain listed.

Although our common shares are listed and traded on the Toronto Stock Exchange, the NASDAQ Global Select Market and the London Stock Exchange's Main Market, this should not imply that there will always be a liquid market in our Common Shares. In addition, pursuant to a business reorganization completed in 2007 (see page 1) exchangeable shares of an indirect subsidiary of the Company, CEC were issued, and are listed and traded on the Toronto Stock Exchange. Because of separate listings, the trading prices of the Common Shares and CEC shares may not reflect equivalent values. Company-specific or broader market fluctuations may adversely affect the market price of the exchangeable shares, and there can be no assurance that there will continue to be an active market for these securities.

The Company is subject to listing requirements in respect of its listings on the NASDAQ Global Select Market, the Toronto Stock Exchange and the London Stock Exchange Main Market and, in the absence of compliance with all such listing requirements, may face delisting action with consequent reduction in markets available for its common shares to trade.

The Company is subject to listing requirements in respect of its listings on the NASDAQ Global Select Market, the Toronto Stock Exchange and the London Stock Exchange Main Market and, in the absence of compliance with all such listing requirements, may face delisting action with consequent reduction in markets available for its common shares to trade.

Under NASDAQ's continued listing requirements, a security is considered deficient if it fails to achieve at least a \$1.00 closing bid price for a period of 30 consecutive business days. Global Market issuers are provided one automatic 180-day period to regain compliance. An issuer can regain compliance by achieving a \$1.00 closing bid price for a minimum of ten consecutive business days. The Company's closing bid price on NASDAQ was below \$1.00 between March 1, 2011 and March 18, 2011.

Under NASDAQ's continued listing requirements, an issuer is required to have an audit committee consisting of at least three independent directors. Upon Mr. Gavagan's appointment as Interim Chief Executive Officer, he was no longer considered independent and, accordingly, the Company does not have three independent directors. The Company has reported to NASDAQ that the audit committee currently comprises only two members. The Company, under NASDAQ continued listing requirements, has until the next Annual General Meeting to rectify this situation.

The Company has incurred significant operating losses and negative cash flows from operations for the last three years, which resulted in a decrease in cash and cash equivalents in each year. A continuation of such operating losses, negative cash flows from operations and decreases in cash and cash equivalents may cast doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses and negative cash flows from operations for the last three years, which resulted in a decrease in cash and cash equivalents in each year. A continuation of such operating losses, negative cash flows from operations and decreases in cash and cash equivalents may cast doubt upon the Company's ability to continue as a going concern.

During 2010, management determined that a material reduction in expenses was necessary in order to preserve cash and give the Company sufficient time to focus on increasing revenues. Accordingly, the Company made a significant restructuring effort resulting in a reduction in operating and general and administrative expense. However, the Company may incur further operating losses and negative cash flows in future periods and, if its cash resources and financing options are insufficient, its ability to operate would be adversely impacted.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company originally was formed by articles of amalgamation under the Business Corporations Act (Ontario) effective March 7, 1996 pursuant to an amalgamation agreement dated January 19, 1996 between Inter.tain.net Inc., a private corporation, and Biroco Kirkland Mines Limited. Immediately prior to the amalgamation, Biroco Kirkland Mines Limited did not carry on active operations. On June 28, 1996, we changed our name from "Inter.tain.net Inc." to "CryptoLogic Inc." Currently, the Company operates under the name "CryptoLogic Limited".

On June 1, 2007, in order to advance its global strategy, the Company moved its headquarters from Canada to the Republic of Ireland by forming a new parent company, CryptoLogic Limited, a company incorporated under the laws of Guernsey with its place of business in Dublin, Ireland. This business reorganization was implemented by way of an Ontario, Canada Superior Court of Justice court approved plan of arrangement (the "Arrangement") and approved by the shareholders on May 24, 2007. CryptoLogic Limited acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., which through the Arrangement, became an indirect subsidiary of CryptoLogic Limited.

On March 25, 2011, the Company announced that it had appointed Deloitte Corporate Finance as financial adviser to assist it with a strategic review of the Company. This review is at an early stage and will consider a number of strategic options, including the possibility of an offer being made for the Company or a disposal of part of the business. There can be no certainty, however, that any offer will be forthcoming.

Our registered office is located at 1 Le Marchant Street, St. Peter Port, Guernsey, Channel Islands, GY1 4HP. Our head office is located at Marine House, Clanwilliam Place, Dublin 2, Ireland, and our telephone number is 353-(0)1-234-0400.

Our head office provides executive and administrative functions to our corporate group. Our subsidiaries, WagerLogic and Gaming Portals, through their offices in Ireland, Malta and the U.K., provide software, licensing, e-cash systems and support, customer support and marketing support services for our Internet gaming software to third-party gaming operators. Our Toronto, Canada office provides software development, upgrades and technical support for WagerLogic.

## B. BUSINESS OVERVIEW

The Company faced substantial challenges in 2010 as it continued its strategy aimed at returning to profitability and long-term growth against the backdrop of a global economic downturn, continuing disappointing returns from major Hosted Casino licensees and licensee-delays in the roll-out of Branded Games.

Founded in 1995, we launched the world's first on-line casino games that year. With a resilient and scalable platform, a commitment to developing the best games in the marketplace and complemented with excellent customer support, the Company thereafter secured an excellent reputation for its product offering. However, changing market conditions in 2006 and 2007 meant that the model was no longer viable and had to change.

During 2008, the management team announced a new business strategy for the Company and, in 2009 and 2010, we focused on the transition towards that goal. In essence, the new business model is centered on the Company evolving from being purely a developer and licensor of poker and casino software on its own network, to one which still develops and licenses an excellent casino product, but also delivers high-quality, branded and non-Branded Games to the industry at large. This effectively opens up a new market and revenue stream for the Company.

Notwithstanding the foregoing, uncertain business conditions continued throughout 2010, reflected in our lower revenue and working capital as compared with 2009. Against this backdrop of a continuing decline in revenues and working capital, the Company made a significant restructuring effort, commencing midway through Q3 2010, and resulting in a reduction of almost 50% in operating and general and administrative expense to \$6.2 million in Q4 2010 from \$12.1 million in Q2 2010, the last full quarter before this restructuring.

#### MARKETING OPPORTUNITY

We currently market our technology and services through a select sales and marketing strategy whereby we identify key potential customers that meet our licensee profile, and then contact such prospects directly. We also attend industry trade shows around the world to generate new prospects, and respond to referrals from existing customers and other industry participants. CryptoLogic has generally sought licensees with an established brand, an audience with a propensity to gamble, and sufficient resources and commitment to successfully market the business.

In Hosted Casino, the key to success is differentiation through the combination of our new and innovative games, a robust e-wallet with multiple payment options and effective marketing to players by our licensees. CryptoLogic will continue to pursue new casino opportunities emphasizing brand name licensees with marketing commitment. In Branded Games, the key to success is the strategic partnerships established by CryptoLogic with trusted media brands such as Marvel Comics, DC Comics, a division of Warner Bros, and Paramount Digital Entertainment.

#### REVENUE SOURCES

CryptoLogic recorded revenues for the year ended December 31, 2010 of \$26.0 million, a decline of 34.7% (2009: \$39.8 million).

##### Hosted Casino

Hosted Casino revenue decreased by \$10.1 million or 31.6% to \$22.0 million for the year ended December 31, 2010 when compared with the prior year (2009: \$32.1 million). Hosted Casino revenue represented 84.6% of total revenue in 2010 (2009: 80.7%).

This decrease in revenue is due primarily to the contribution from a major licensee reducing by \$4.0 million and the loss of a key customer in 2009 reducing revenue by \$3.4 million. In addition, Hosted Casino revenue in 2009 benefited from a \$0.8 million benefit from a revision of our estimate to discharge future jackpot payouts and a non-recurring \$0.8 million benefit associated with the resolution of a commercial matter. The relative strength of the U.S. dollar negatively impacted Hosted Casino revenue by \$0.4 million during 2010 when compared with the prior year. The Company is liable for funding the jackpot wins from the pool of funds collected and accrues the jackpot amount. The Company regularly performs analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts.

Fees and licensing revenue from both our Hosted Casino and Branded Games businesses are calculated as a percentage of a licensee's level of activity in its online casino site. This is affected by the number of active players on the licensee's site and their related gaming activity. In addition, these results are influenced by a number of factors

such as the entertainment value of the games developed by CryptoLogic, the frequency and success of new game offerings and the effectiveness of the licensee's marketing programs. Hosted Casino and Branded Games revenue are also impacted by the relative strength of the U.S. dollar to both the euro and the British pound as our licensees provide online casinos in these currencies for which we earn a percentage that is translated into U.S. dollars, our functional currency.

#### Branded Games

Branded Games revenue increased 95.4% to \$5.5 million for the year ended December 31, 2010 when compared with the prior year (2009: \$2.8 million). Branded Games revenue represented 21.1% of total revenue in 2010 (2009: 7.1%). During the year, the Company's revenue producing games increased from 66 to 170 games at the end of the 2010. The increase in Branded Games revenue is primarily due to the increased number of revenue producing games through an increased number of licensees and games per licensee. The relative strength of the U.S. dollar negatively impacted Branded Games revenue by \$0.1 million during 2010 when compared with the prior year.

## Poker

Poker revenue decreased 53.8% to \$1.6 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Poker revenue represented 6.3% of total revenue in 2010 (2009: 8.8%). The decrease in poker revenue is primarily due to a reduction in player numbers and the transition of our poker network to GTECH in March 2009, which reduced the number of the Company's poker licensees and increased fees paid to GTECH. The relative strength of the U.S. dollar did not have a material impact on poker revenue during 2010 when compared with the prior year.

The Company offers a "virtual" poker room for its licensees using software and technology provided on GTECH Corporation's International Poker Network. Fees from online poker are based on a percentage of the licensee's "rake" per hand in regular or ring games (the "rake" is typically 5% of the pot, up to a maximum amount per hand), or fixed entry fees for entry into poker tournaments. Players prefer poker rooms with strong "liquidity", which are rooms that offer a high availability of games at the desired stake levels, in the currency of choice, and on a 24/7 basis.

## Other Revenue

Other revenue includes fees for software customization, advertising and marketing services generated from our portal business and fees associated with our e-cash business. Other revenue decreased 67.7% to \$1.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Other revenue represented 4.4% of total revenue in 2010 (2009: 8.8%). The decrease in other revenue for the year ended December 31, 2010 was due to reduced commerce based transaction fees, partially offset by a one-time termination fee from a licensee generating an immaterial amount of revenue. The relative strength of the U.S. dollar did not have a material impact on other revenue during 2010 when compared with the prior year.

## Amortization of Royalties

The Company licenses various royalty rights, generally on an exclusive basis, from several owners of intellectual property rights. These rights are used to produce games for use in Hosted Casino and also as Branded Games. Generally, the arrangements require material prepayments of minimum guaranteed amounts which have been recorded as prepaid expenses in the accompanying consolidated balance sheets. These prepaid amounts are amortized over the life of the arrangement as gross revenue is generated or on a straight-line basis if the underlying games are expected to have an effective royalty rate greater than the agreed amount. The amortization of these amounts is recorded as a reduction in revenue.

Amortization of royalties increased 271.5% to \$3.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$0.8 million). Amortization of royalties represented (11.9)% of total revenue in 2010 (2009: (2.1)%). The increase in royalty amortization for the year ended December 31, 2010 was as a result of the Company's regular review of estimates of future revenue under its license arrangements which identified that it was appropriate to begin amortizing certain of these royalties on a straight-line basis, such that substantially all of these royalty payments are amortized on a straight-line basis. In 2010, the Company's net royalty payments were \$4.2 million (2009: \$5.4 million). The Company is committed to make further royalty payments of \$2.8 million.

## Player Restrictions

No revenue is derived from U.S. based players.

## Revenue Trends



The global economic downturn is impacting the Company's business.

While the global online gaming market continues to promise growth potential, competition is intensifying for players and market position.

It is expected that increased regulation of online gaming in key markets will also impact the Company's business in the future.

#### Recurring Revenue

CryptoLogic's licensing fees reflect a revenue model based on building long-standing relationships with customers. In 2010, 96.2% (2009: 91.6%) of CryptoLogic's fee revenue before amortization was generated from software licensing and services contracts that generate recurring revenue.

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Geographical analysis of revenue before amortization is made according to the jurisdiction of the gaming license of the licensee. This does not reflect the region of the end users of the Company's licensees.

For the Years Ended December 31,	2010		2009		2008	
Malta	80	%	75	%	70	%
Gibraltar	15	%	20	%	25	%
Alderney	4	%	1	%	–	
Curaçao	1	%	–		3	%
Rest of the World	1	%	4	%	2	%
Total	100	%	100	%	100	%

## PRODUCTS AND SERVICES

Our Internet-based gaming and electronic commerce software products (i.e. Hosted Casino) are used by licensees to create virtual casinos. The downloadable software package transfers the “front-end” information (i.e., playing cards, roulette wheel, dice numbers) between users and remote servers. The software package utilizes each user's computer to generate the graphics of the virtual gaming site, while the gaming servers perform the “dealer” function, generating the random numbers of playing cards, roulette numbers and dice numbers, as applicable. Many of our most popular casino games are also available on either the Flash platforms, which provide an entertaining gaming experience without having to wait for software to download.

Among other things, our software contains proprietary encryption features, which allows secure transmission of data, and permits our licensees to offer multi-player games, a panoramic virtual casino floor populated by real players, progressive jackpots, Internet browsing features and inter-player chatting.

As part of our commitment and obligation to safe and responsible gaming, our gaming solution provides personal options and security features including deposit and bet limits, temporary and permanent account locks, personal identification verification, and online tracking of a player's gaming activity and financial transactions. We are also able to restrict registration and game play from residents of prohibited jurisdictions.

Our gaming solution is complemented by e-cash systems and support. We provide Internet-based electronic commerce support and technology to our licensees and their respective customers and maintain, through subsidiaries, electronic commerce accounts for both merchants of our electronic commerce software and their end-users.

For the majority of our licensees, we report and remit to them the net transaction revenues less licensing and support fees payable to the Company (as specified in the applicable licensing agreements). Some licensees have responsibility for their own e-cash systems and support to enable an integrated single player account for all their online offerings, and in such cases, the licensees report and remit licensing fees to us.

Using our e-cash software, players can use a wide range of payment options, including credit and debit card and various electronic wallets. Web cashier accounts can be opened in United States dollars, British pounds, and euro. These systems are complimented by electronic payment fraud prevention, detection and player verification software.

To assist our licensees in retaining players and re-activating lapsed accounts, we have invested significantly in our customer relationship management solution. We have a back-office offering with sophisticated business intelligence, data warehousing and marketing tools to assist licensees in understanding, servicing and building one-on-one relationships with their players.

We also provide multi language customer support for the enhanced convenience to our licensees' global player base. Our customer support is available to help players with technical questions or assist with the gaming software and e-cash accounts.

We view our marketing support services as a key differentiator in our product and service offerings, as they form an integral part of the Company's brand ownership and management strategy. For example, OIGE CG Limited, operator of the InterCasino brand, uses our marketing support services.

It is our objective to continue to introduce innovative software products, support tools and services that appeal to broad segments of gaming audiences worldwide.

Multi-currency jackpot video slot games featuring popular Marvel action characters such as The Incredible Hulk, Daredevil, X-Men, Thor, Elektra, Ghost Rider, Spider-Man, The Fantastic Four, and Sub Mariner. Similar relationships with DC and Paramount have allowed CryptoLogic to deliver slot games with titles that include Batman, Superman, Braveheart and Forrest Gump.

Play-for-real slot versions of highly popular online casual games, such as Cubis, an award-winning, three-dimensional puzzle game, and Bejeweled, a gem-matching game –both among the most played games on AOL, MSN and other major portals – and most recently, Jewel Quest, a popular puzzle-match game;

Our own patented games including the progressive jackpot slot, Millionaires Club, which awarded the two largest online jackpots in the Company’s history; and Multi-Hand Video Blackjack, which brings together blackjack and video poker;

Our own Texas Hold’em Bonus Poker, which is the first-ever online version of the widely popular land-based casino game and combines the huge popularity of poker with the excitement of a casino card game; and

World-famous Street Fighter II arcade game.

New games, introduced in 2010, based on world-famous characters and movies such as Green Lantern, Forrest Gump, Ferris Bueller’s Day Off and others.

Having established generally exclusive relationships with major media companies such as Marvel Comics, DC Comics, a division of Warner Bros., and Paramount Digital Entertainment, we have created industry leading casino games, which are a key component of our Hosted Casino product. Through our Branded Games business, we are able to offer these games not only to our Hosted Casino customers, but to the entire industry at large.

We also operate a gaming portal business under two brands: Casino.co.uk and WinnerOnline.com. These portals earn advertising revenue from gaming operators, and direct traffic to operator sites and those sites owned by the Company’s licensees – providing a known-name marketing channel and a player acquisition tool for licensees.

#### PATENTS AND OTHER INTELLECTUAL PROPERTY

Our general policy has been to seek patent protection for gaming innovations where proprietary rights will improve our competitive position. We hold a series of patents including one related to our Millionaires Club slot game, which offers million-dollar-plus online jackpots, and one related to our Multi-Hand Video Blackjack game. We also have patents pending on various other gaming innovations.

We also license intellectual property, generally on an exclusive basis, from third parties for use in our games.

See Item 3.Key Information – Risk Factors

#### GLOBAL REGULATORY ENVIRONMENT

While the United Kingdom and other European jurisdictions such as Malta have currently adopted a regime which permits its licensees to accept wagers from any jurisdiction differing approaches are developing in other parts of Europe. Italy and France have adopted regimes which only permit the targeting of the domestic market if a local license is obtained and local taxes accounted for. Many other European countries have, or are in the process of implementing regimes which only permit the targeting of the domestic market provided a local license is obtained and local taxes accounted for. Other European countries continue to defend a licensing regime that limits supplies of gambling to a local monopoly and have combined this with an attempt to outlaw all other supplies. Although there have been some judgments of the European Court of Justice (“ECJ”) that have been critical of anti gambling laws in certain territories, several recent decisions suggest that the restrictive approaches of either local licensing or protection of a local monopoly are defensible on the grounds of protection of the public. The European Union’s Internal Markets Commissioner, Michel Barnier, has commenced a consultation process on Internet gambling regulation in the EU. He is expected to publish a green paper on the subject imminently. It is unclear at this stage, however, whether the green paper will recommend the introduction of directives that could harmonize the treatment and operation of online gaming throughout the EU. Even if the green paper does make such recommendation, there is no indication

that any such directive will ever be introduced, as there remains a great deal of political opposition.

Since 1995, online gaming has grown into a large, multi-billion dollar industry, but with regulatory inconsistencies among countries and limited formal regulation. Laws around the world are often outdated, ambiguous and continue to develop on a country-by-country basis.

On October 13, 2006, the U.S. enacted the UIGEA, which effectively banned online gaming in that country by making it illegal to process related financial transactions. The industry-wide impact of UIGEA has negatively affected our business by significantly reducing our revenue and earnings.

At the time the UIGEA was enacted, the entire U.S. market was estimated to represent approximately 50% of the global online gaming market (source: GBGC). However, the online casino and online poker markets outside the U.S., the core areas of our business, are expected to continue to grow. Since 2002, we have focused on licensees that primarily target non-U.S. markets, most notably the U.K. and Continental Europe. After the UIGEA enactment, 100% of licensees' revenue came from outside the U.S.

In September 2007, the UK Gaming Act came into force, which Act regulates online gaming in that jurisdiction, and is generally viewed as a positive development for the industry, our customers and for CryptoLogic. However, there is no assurance that the UK regulatory regime as interpreted by the Gambling Commission, the Gambling Act's independent regulator, will provide a commercially-viable market and may create restrictions that will have a material adverse effect on our customers, our business, revenues, operating results and financial condition. Indeed, the DCMS (the government body with responsibility for overseeing gambling), has recently announced that it may reconsider one of the main tenets of the Gambling Act, namely that if an online gaming operator was regulated either in Europe or in a jurisdiction approved by the DCMS (the so called "white listed" jurisdictions) such an operator could fully target the UK gambling market. It seems likely that instead that the DCMS will recommend (in a report to be published imminently) that it will require entities not licensed in the UK to acquire some form of additional accreditation, such as a local license, and/or the payment of taxes in the UK to access the UK market.

Elsewhere in Europe the legislative environment continues to evolve, with many countries showing signs of following the U.K.'s lead to implementing a licensing regime while others continue to protect state gambling monopolies. While many decisions rendered by the ECJ in the past were broadly favorable to the industry, recent decisions by the ECJ have been to uphold certain jurisdictions' restrictive approaches, whether through local monopolies or licensing, as not contrary to EC treaty law, on public policy grounds.

CryptoLogic has long advocated a regulatory approach to foster a transparent, credible and growing online gaming industry. We believe that government plays an important role and is in the best position to regulate this industry to provide consumer protection, preserve the integrity of the online gaming industry, and build a credible and business-friendly marketplace. We have sought and achieved certification of our software in strictly regulated jurisdictions. It is through this process that we maintain our reputation as a trusted provider for licensees and their customers.

For more information regarding the global regulatory environment in which the Company and its licensees do business, refer to "Risks Related to the Industry" under "Item 3. Key Information."

## COMPETITIVE ENVIRONMENT

We compete with a number of public and private companies that provide electronic commerce and/or Internet gaming software. Given the stage of development of the industry and the number of private organizations operating in the industry, information about the nature of our competitors, their operations and their resources is difficult to compile. In addition to current known competitors, traditional land-based gaming operators and other entities, many of which have significant financial resources and name-brand recognition, may provide Internet gaming services in the future, and thus become our competitors. Increased competition from current and future competitors has and may continue to result in the reduction of our revenues, and may result in the continued loss of our market share.

Licensees of our software and Branded Games compete with existing and more established recreational services and products, in addition to other forms of entertainment. Our success will depend, in part, upon our ability to enhance our products and services, expand our system infrastructure and resiliency, keep pace with technological developments, respond to evolving customer requirements and achieve continued market acceptance.

While it is difficult to confirm the exact number of Internet gaming sites since most companies are private, in 2009 GBGC estimated that there are around 2,400 online gaming properties down from more than 2,800 several years ago. This decrease points to industry consolidation. As Internet gaming has developed and increased in sophistication, so have the players who can choose from a proliferation of sites. Competition for players' attention and share of wallet is intensifying, and players are demanding more value, more games and an enhanced entertainment experience.

The global nature of the Internet makes most Internet markets, including the online gaming industry, relatively accessible to a wide number of entities and individuals. We believe the principal competitive factors in our industry that create certain barriers to entry include reputation, technology, financial stability and resources, proven track record of successful operations, critical mass, regulatory compliance, independent oversight and transparency of business practices. While these barriers will limit those able to enter or compete effectively in the market, it is likely that new competitors will be established in the future, in addition to known current competitors.

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### C. ORGANIZATIONAL STRUCTURE

The organizational structure of the Company as of December 31, 2010 is set out below. CryptoLogic Limited, a company incorporated under the laws of Guernsey with its corporate headquarters in Dublin, Ireland, provides executive functions to our corporate group. Our subsidiary CryptoLogic Inc. is located in Canada, and provides software development, upgrades and technical support for our WagerLogic and Gaming Portals subsidiaries. With offices in Ireland, Malta and the U.K., the WagerLogic and Gaming Portals group of companies provides software licensing for our Internet gaming software, and support, customer support, marketing support and other services to third-party gaming operators or licensees. During 2010, the Company moved its operations previously performed in Cyprus to Malta and also consolidated the majority of its UK operations in Malta. Our Gaming Portals subsidiary provides e-cash systems and support that enables licensees' players to deposit and withdraw funds through a wide range of payment options for use with the licensee. Our WagerLogic Malta Software subsidiary offers customer support and marketing services to our Hosted Casino licensees. Our CryptoLogic Malta subsidiary provides treasury services to the group. Our CryptoLogic Asia subsidiary holds our investments in Asia. CryptoLogic Exchange Corporation and CryptoLogic Callco ULC exist solely to facilitate the exchange of shares for CryptoLogic Limited in connection with the Arrangement (refer to page 1 of this annual report for further information regarding the Arrangement).



## D. PROPERTY, PLANTS AND EQUIPMENT

The following table sets forth the Company's principal leased properties.

Company	Location	Principal Use	Approx. Area (sq. ft.)	Term of Lease	Current Rent (per annum)
CryptoLogic Limited	Dublin, Ireland	Head office	5,400	4 years 10 months	€182,758
CryptoLogic Limited	Dublin, Ireland	Head office	1,440	3 years 6 months	€47,995
CryptoLogic Inc.	Toronto, Canada	Research and development	10,225	5 years	C\$168,713
CryptoLogic Inc.	Toronto, Canada	Research and development	1,500	6 months	C\$24,000 (1)
AdsDotCom Limited	London, England	Marketing support	4,880	3 years 5 months	£45,175
WagerLogic Malta Software Limited	Msida, Malta	Marketing and customer support	12,917	10 years	€96,000

(1) This rent amount is for six months.

In December 2009, in accordance with the rental agreement, the Company exercised its right to exit the leasehold premises in Toronto and recorded termination costs of \$1.8 million; this was paid on termination in July 2010.

## ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian GAAP and U.S. GAAP for the years ended December 31, 2010, 2009 and 2008 are disclosed in Note 22 to our audited consolidated financial statements for the years ended December 31, 2010, 2009 and 2008.

The following discussion should be read in conjunction with our consolidated financial statements and related notes for the years ended December 31, 2010, 2009 and 2008 as set out in this annual report under "Item 17. Financial Statements."

## OVERVIEW

2010 was another difficult year for CryptoLogic as the Company continued its strategy aimed at returning the Company to profitability and long-term growth against the backdrop of a global economic downturn, continuing

disappointing returns from major Hosted Casino licensees and licensee-delays in the roll-out of Branded Games.

Founded in 1995, we launched the world's first on-line casino games that year. With a resilient and scalable platform, a commitment to developing the best games in the marketplace and complemented with excellent customer support, the Company thereafter secured an excellent reputation for its product offering. However, changing market conditions in 2006 and 2007 meant that the model was no longer viable and had to change.

During 2008, the management team announced a new business strategy for the Company and, in 2009 and 2010, we focused on the transition towards that goal. In essence, the new business model is centered on the Company evolving from being purely a developer and licensor of poker and casino software on its own network, to one which still develops and licenses an excellent casino product, but also delivers high-quality, branded and non-Branded Games to the industry at large. This effectively opens up a new market and revenue stream for the Company.

Notwithstanding the foregoing, uncertain trading conditions continued throughout 2010, reflected in our lower revenue and working capital as compared with 2009. Against this backdrop of a continuing decline in revenues and working capital, the Company made a significant restructuring effort, commencing midway through Q3 2010, and resulting in a reduction of almost 50% in operating and general and administrative expense to \$6.2 million in Q4 2010 from \$12.1 million in Q2 2010, the last full quarter before this restructuring.

## A STRATEGY FOR SUSTAINABLE GROWTH

Management remains focused on the development and support of the Hosted Casino business while continuing to build on the success of our Branded Games initiative by expanding our partnerships and broadening the types of games we offer. In addition, we continue to improve our games delivery model through the launch of Instant Click, a new gaming package that enables rapid deployment of a range of titles from our suite of games by online operators and technology providers on their own e-gaming infrastructure and electronic cashier systems. At the same time, we intend to maintain our downward pressure on our recurring cost base.

CryptoLogic's strategy has two main elements:

Focusing on our core Internet Hosted Casino business. Our award-winning games are complemented by a widely acclaimed support services structure.

Licensing our best Branded Games to others, and turning former competitors into collaborators. Through working with highly respected content providers and brand owners, we have successfully delivered the likes of Spiderman, The Hulk and Batman to both our own Hosted Casino licensees and to the market in general.

For this strategy to be successful, it demands the establishment of an expanding network of licensees and channel partners. CryptoLogic has forged excellent relationships with many licensees including two of the largest and most successful in the industry: 888.com and PartyGaming – both of whom are deriving significant revenue and benefits from licensing a sample range of our products.

Among the new signings or launches in 2010 are such well known brands as:

Betsafe  
Betsson  
Bet365  
CasinoEuro  
Sportingbet  
St. Minver  
Tain  
William Hill

Additional product launches were achieved through our brand licensing agreements with companies such as DC Comics, Paramount, CapCom and Marvel. During 2010, we also settled our arbitration with Marvel, relating to the licensing of Marvel comic book characters, that:

Expanded the platforms to include mobile, and government licensed in-hotel room systems;  
Allowed for the creation of wagering games based on Marvel's top team of Super Heroes, The Avengers, in addition to Spider-Man, Fantastic Four and the other characters already included in the license;  
Extended the relationship by 12 months through January 2014; and  
Agreed to make the agreement non-exclusive at a reduced cost to the Company.

We believe these partnerships offer the potential for significant future growth based upon both the brand recognition and loyalty associated with these partners and their unique and distinctive intellectual property.

## PRODUCT PERFORMANCE

CryptoLogic maintains a close working relationship with our brand and content suppliers, our remote development centers, our business development group and, naturally, our licensees.

We began the year under review with 66 Branded Games live and ended with 170. This remains lower than originally planned and we continue to experience delays beyond our control in the roll out of these games by licensees.

Our goal is to continue to provide excellent game content supported by innovative game mechanics and bonuses and to improve on the speed of roll out of new games with our licensees.

#### NEW DEVELOPMENTS

During the year, we unveiled our new lobby for our Internet casino software. Using the newest interactive technology, the lobby enables improved navigation and search, an updated jackpot counter, customized features that allow people to keep track of their favorite games, and a game suggestion engine to connect the player to other CryptoLogic games. In all, the look and feel and the ease of use should add to the “stickiness” of the offering - a key element on any online business.

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We also unveiled our newest offering, Instant Click, a new gaming package that enables rapid deployment of a range of titles from our suite of games by online operators and technology providers on their own e-gaming infrastructure and electronic cashier systems. The first implementations of Instant Click are expected to be live in 2011.

## RESTRUCTURING

The Company has incurred significant operating losses and negative cash flows for the last three years. A continuation of such operating losses and negative cash flows may cast doubt upon the Company's ability to continue as a going concern.

During 2010, management determined that a material reduction in expenses was necessary in order to preserve cash and give the Company sufficient time to focus on increasing revenues. Accordingly, the Company made a significant restructuring effort, commencing midway through Q3 2010, and resulting in a reduction in operating and general and administrative expense to \$6.2 million in Q4 2010 from \$12.1 million in Q2 2010, the last full quarter before this restructuring.

## OUTLOOK

Management believes that the results of this restructuring have substantially mitigated doubts regarding the Company's ability to continue as a going concern and believes the Company is much better positioned to respond to the opportunities available to grow again.

The global e-gaming industry continues to become ever more competitive, whilst subject to increasing regulation. CryptoLogic is well placed to enhance its position in the industry but only if we stay focused and lean, and capable of responding to changing market expectations and delivering products and service levels of the highest quality.

The European market offers scope for growth, tempered by the challenges faced by our licensees in an increased regulatory environment. Our goals for 2011 are:

- Improved revenue from Hosted Casino as existing licensees benefit from new games and more efficient game delivery;

- Improved revenue from Branded Games as new and existing licensees roll out games;

- First revenue from Instant Click deployments; and

- Continuing tight control over costs with initiatives to improve efficiency where possible.

Whilst the US market has effectively been closed since the passing of the Unlawful Internet Gaming Enforcement Act in October 2006, there are some indications that the market may re-open. We continue to monitor the situation closely and the various options that would allow us re-entry at the appropriate time.

## A. OPERATING RESULTS

Comparison of 2010 and 2009

Revenue

CryptoLogic recorded revenues for the year ended December 31, 2010 of \$26.0 million, a decline of 34.7% (2009: \$39.8 million).

## Hosted Casino

Hosted Casino revenue decreased by \$10.1 million or 31.6% to \$22.0 million for the year ended December 31, 2010 when compared with the prior year (2009: \$32.1 million). Hosted Casino revenue represented 84.6% of total revenue in 2010 (2009: 80.7%).

This decrease in revenue is due primarily to the contribution from a major licensee reducing by \$4.0 million and the loss of a key customer in 2009 reducing revenue by \$3.4 million. In addition, Hosted Casino revenue in 2009 benefited from a \$0.8 million benefit from a revision of our estimate to discharge future jackpot payouts and a non-recurring \$0.8 million benefit associated with the resolution of a commercial matter. The relative strength of the U.S. dollar negatively impacted Hosted Casino revenue by \$0.4 million during 2010 when compared with the prior year. The Company is liable for funding the jackpot wins from the pool of funds collected and accrues the jackpot amount. The Company regularly performs analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts.

Fees and licensing revenue from both our Hosted Casino and Branded Games businesses are calculated as a percentage of a licensee's level of activity in its online casino site. This is affected by the number of active players on the licensee's site and their related gaming activity. In addition, these results are influenced by a number of factors such as the entertainment value of the games developed by CryptoLogic, the frequency and success of new game offerings and the effectiveness of the licensee's marketing programs. Hosted Casino and Branded Games revenue are also impacted by the relative strength of the U.S. dollar to both the euro and the British pound as our licensees provide online casinos in these currencies for which we earn a percentage that is translated into U.S. dollars, our functional currency.

#### Branded Games

Branded Games revenue increased 95.4% to \$5.5 million for the year ended December 31, 2010 when compared with the prior year (2009: \$2.8 million). Branded Games revenue represented 21.1% of total revenue in 2010 (2009: 7.1%). During the year, the Company's revenue producing games increased from 66 to 170 games at the end of the 2010. The increase in Branded Games revenue is primarily due to the increased number of revenue producing games through an increased number of licensees and games per licensee. The relative strength of the U.S. dollar negatively impacted Branded Games revenue by \$0.1 million during 2010 when compared with the prior year.

#### Poker

Poker revenue decreased 53.8% to \$1.6 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Poker revenue represented 6.3% of total revenue in 2010 (2009: 8.8%). The decrease in poker revenue is primarily due to a reduction in player numbers and the transition of our poker network to GTECH in March 2009, which reduced the number of the Company's poker licensees and increased fees paid to GTECH. The relative strength of the U.S. dollar did not have a material impact on poker revenue during 2010 when compared with the prior year.

The Company offers a "virtual" poker room for its licensees using software and technology provided on GTECH Corporation's International Poker Network. Fees from online poker are based on a percentage of the licensee's "rake" per hand in regular or ring games (the "rake" is typically 5% of the pot, up to a maximum amount per hand), or fixed entry fees for entry into poker tournaments. Players prefer poker rooms with strong "liquidity", which are rooms that offer a high availability of games at the desired stake levels, in the currency of choice, and on a 24/7 basis.

#### Other Revenue

Other revenue includes fees for software customization, advertising and marketing services generated from our portal business and fees associated with our e-cash business. Other revenue decreased 67.7% to \$1.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Other revenue represented 4.4% of total revenue in 2010 (2009: 8.8%). The decrease in other revenue for the year ended December 31, 2010 was due to reduced commerce based transaction fees, partially offset by a one-time termination fee from a licensee generating an immaterial amount of revenue. The relative strength of the U.S. dollar did not have a material impact on other revenue during 2010 when compared with the prior year.

#### Amortization of Royalties

The Company licenses various royalty rights, generally on an exclusive basis, from several owners of intellectual property rights. These rights are used to produce games for use in Hosted Casino and also as Branded Games. Generally, the arrangements require material prepayments of minimum guaranteed amounts which have been recorded as prepaid expenses in the accompanying consolidated balance sheets. These prepaid amounts are amortized

over the life of the arrangement as gross revenue is generated or on a straight-line basis if the underlying games are expected to have an effective royalty rate greater than the agreed amount. The amortization of these amounts is recorded as a reduction in revenue.

Amortization of royalties increased 271.5% to \$3.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$0.8 million). Amortization of royalties represented (11.9)% of total revenue in 2010 (2009: (2.1)%). The increase in royalty amortization for the year ended December 31, 2010 was as a result of the Company's regular review of estimates of future revenue under its license arrangements which identified that it was appropriate to begin amortizing certain of these royalties on a straight-line basis, such that substantially all of these royalty payments are amortized on a straight-line basis. In 2010, the Company's net royalty payments were \$4.2 million (2009: \$5.4 million). The Company is committed to make further royalty payments of \$2.8 million.

#### Player Restrictions

No revenue is derived from U.S. based players.



## Revenue Trends

The global economic downturn is impacting the Company's business.

While the global online gaming market continues to promise growth potential, competition is intensifying for players and market position.

It is expected that increased regulation of online gaming in key markets will also impact the Company's business in the future.

## Recurring Revenue

CryptoLogic's licensing fees reflect a revenue model based on building long-standing relationships with customers. In 2010, 96.2% (2009: 91.6%) of CryptoLogic's fee revenue before amortization was generated from software licensing and services contracts that generate recurring revenue.

## Expenses

Consistent with prior years, during 2010 we incurred expenses in five categories: operating, general and administrative, reorganization charges, finance and amortization. Additionally, due to several factors, including the Company's revised estimates of future revenues and macro-economic factors, the Company has recorded impairment of goodwill and intangible assets and impairment of capital assets.

In November 2008, the Company announced a plan for reorganization of its business after completing a comprehensive review. As a result of that review, the Company decided to reduce costs by outsourcing non-core activities, including integrating its poker network with GTECH Corporation's International Poker Network, transitioning certain functions to lower cost jurisdictions and eliminating certain redundant functions. In December 2009, the Company expanded its previously announced reorganization plan due to continued unfavorable macroeconomic conditions and outsourced additional technology infrastructure activities, consolidated more of its data center operations and migrated additional functions to lower cost jurisdictions resulting in further reduction in headcount and a reduction of its leased office space in both Canada and Cyprus.

In June 2010, the Company commenced an additional reorganization plan consolidating into a new location in Malta its Cyprus and the majority of its UK activities, together with headcount reductions across all locations.

Total expenses decreased 38.8% to \$47.5 million for the year ended December 31, 2010 when compared with the prior year (2009: \$77.6 million) primarily due to the impact of our reorganization plans which reduced operating and general and administrative expense, reduced amortization as a result of less amortization on infrastructure assets as they become fully depreciated and reduced amortization on assets impaired and lower reorganization costs as the Company completed its reorganization plans. In 2010, the Company also recorded approximately \$5.3 million in impairment charges associated with intangible assets and certain capital assets. (2009: \$15.5 million impairment associated with goodwill, capital assets and long-term investments).

## Operating Expense

CryptoLogic's operating expense comprises development and support expense, which includes all personnel costs, equity compensation costs for employee stock options, licensee support, marketing, e-cash systems and support costs, customer service expense and expenses related to regulatory compliance.

Costs associated with software development are expensed as incurred unless costs meet the criteria for deferral and amortization under Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Operating expense decreased by 24.2% to \$30.2 million for the year ended December 31, 2010 when compared with the prior year (2009: \$39.9 million). Operating expenses represented 116.3% of total revenue in 2010 (2009: 100.2%). The decrease in operating expense was primarily due to the Company's reorganization plans, which included consolidating into a new location in Malta its Cyprus and the majority of its UK activities, together with headcount reductions across all locations. The relative strength of the U.S. dollar when compared with the euro, British pound and Canadian dollar, negatively impacted operating expense by \$0.3 million during 2010 when compared with the prior year.

At December 31, 2010, CryptoLogic had 111 employees, down from 211 a year earlier.

#### General and Administrative Expense

General and administrative (G&A) expense includes overhead and administrative expense, travel expense and professional fees relating to our business development, infrastructure and public company listings.

G&A expense decreased by 25.7% to \$7.6 million for the year ended December 31, 2010 when compared with the prior year (2009: \$10.2 million). G&A expense represented 29.1% of total revenue in 2010 (2009: 25.6%). The decrease in G&A expense is a result of the Company's reorganization plans, decreased rent, decreased finance costs and the reversal of a provision no longer required, together with high legal expenses incurred in Q1 2009. The relative strength of the U.S. dollar when compared with the euro, British pound and Canadian dollar, negatively impacted G&A expense by \$0.1 million during 2010 when compared with the prior year.

#### Reorganization Charges

In December 2009, the Company expanded its previously announced reorganization plan due to continued unfavorable macroeconomic conditions and outsourced additional technology infrastructure activities, consolidated more of its data center operations and migrated additional functions to lower cost jurisdictions resulting in further reduction in headcount and a reduction of its leased office space in both Canada and Cyprus. In June 2010, the Company commenced an additional reorganization plan consolidating into a new location in Malta its Cyprus and the majority of its UK activities, together with headcount reductions across all locations. The relative strength of the U.S. dollar when compared with the euro, British pound and Canadian dollar, did not have a material impact on reorganization charges during 2010 when compared with the prior year.

#### Impairment of Capital Assets

The Company regularly reviews its assets for impairment. During 2010, the Company performed an impairment review of certain software development projects as a result of the Company's revised estimate of future revenues. As a result, the Company recorded an impairment charge of \$1.8 million, the amount by which the carrying value exceeded the estimated fair value.

In 2009 the Company reviewed certain software development projects as a result of difficult macro-economic conditions and a decline in expected future revenues, which resulted in an impairment charge of \$2.7 million

#### Impairment of Long-Term Investments

During 2009, as part of the Company's regular reviews of its assets for impairment, the Company noted various indicators of impairment including significant financial difficulty, restructuring activities and limited ability to operate a profitable business in the short and medium term. Furthermore, our book value was significantly in excess of our market capitalization, which was a further indication that our long-term investments may be impaired. Consequently, the Company determined that the carrying value of its long-term investments in Mobilebus Inc., Mikoishi Pte Ltd., Jingle Prize, Inc. and 568 Network Inc. were greater than their respective fair values, resulting in an impairment charge of \$6.3 million. The fair value of the investments was determined by discounting expected net future cash flows.

#### Impairment of Goodwill and Intangible Assets

During 2010, the Company reviewed the results and future expectations of the Parbet brand and its Casino.co.uk business. The Company determined that the carrying amounts of these intangible assets exceeded their value and recorded an impairment charge of \$2.0 million for Parbet, or the entire carrying value of the intangible assets, and \$1.6 million for the Casino.co.uk business. At December 31, 2010, the carrying value of the Casino.co.uk business was \$0.1 million.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. During 2009, the results of the portals business were below

expectations and the Company's book value was significantly in excess of its market capitalization, which were both indications that the value of its goodwill was impaired. The fair value of the goodwill was determined by discounting expected net future cash flows of the portals business. As a result, the Company decided that the carrying value of the goodwill exceeded its fair value and recorded an impairment charge of \$6.5 million.

#### Amortization

Amortization expense is based on the estimated useful lives of the assets and includes the amortization of our investments in computer equipment, leasehold improvements, software licenses, and intangible assets to support our business activities.

Amortization expense decreased 51.2% to \$2.4 million for the year ended December 31, 2010 when compared with the prior year (2009: \$4.9 million). Amortization expense represented 9.1% of total revenue in 2010 (2009: 12.2%). This decrease in amortization expense is as a result of less amortization on infrastructure assets as they become fully depreciated and reduced amortization on assets impaired.

### Interest Income

Interest income, comprising interest earned on cash and short-term investment balances, decreased 82.1% to \$0.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$0.4 million). The decrease was as a result of lower interest rates and lower cash balances due primarily to cash used in operating activities.

### Provision for Income Taxes

Income taxes were an expense of \$0.7 million in the year ended December 31, 2010 (2009: \$1.1 million). The Company is subject to tax in many jurisdictions. This results in a tax charge on transfer pricing of costs between group companies even in periods of overall losses. The Company is actively working to reduce the number of its subsidiaries, which should reduce the overall tax burden. The consolidated net operating loss comprises operating losses in some jurisdictions and operating profits in others, which results in a tax expense despite material consolidated losses. For the year ended December 31, 2009, the income tax expense was further increased as the impairments of capital assets and intangible assets are not immediately deductible for tax purposes and, in some cases, may never be deductible.

### Minority Interest

Pursuant to a business reorganization implemented by way of an Ontario Superior Court of Justice court approved plan of arrangement (the "Arrangement") and approved by the shareholders on May 24, 2007, CryptoLogic Limited acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., an Ontario company, which through the Arrangement became an indirect subsidiary of CryptoLogic Limited. As part of the Arrangement, the Company issued either an equivalent amount of CryptoLogic Limited Common Shares or, in the case of taxable Canadian residents, exchangeable shares of CryptoLogic Exchange Corporation ("CEC"), an indirect subsidiary of the Company. The CEC shares are, as nearly as practicable, the economic equivalent of CryptoLogic Limited Common Shares. These CEC shares participate equally in voting and dividends with the shareholders of the Company. No additional shares of CEC have been or will be issued. For more information, see the Management Information Circular dated April 23, 2007 available on [www.sedar.com](http://www.sedar.com).

For accounting purposes, the Arrangement has been accounted for using the continuity of interest method, which recognizes the Company as the successor entity to CryptoLogic Inc. Accordingly, financial information presented in the MD&A reflects the financial position, results of operations and cash flows as if the Company has always carried on the business formerly carried on by CryptoLogic Inc., with all assets and liabilities recorded at the carrying values of CryptoLogic Inc. The interest held by CEC shareholders has been presented as a minority interest in the consolidated financial statements, as required under GAAP.

At the time of the reorganization, a total of 12.6 million CryptoLogic Limited Common Shares and 1.3 million CEC shares were outstanding, respectively. Since then, a total of 393,437 shares of CEC have been exchanged, with the remaining 939,131 shares of CEC being reflected as minority interest as at December 31, 2010. Minority interest will continue until all CEC shares have been exchanged into CryptoLogic Limited Common Shares or until June 1, 2014, when we will redeem all of the then outstanding CEC shares in return for CryptoLogic Limited Common Shares.

### Net Loss

Net loss decreased 42.6% to \$20.4 million or \$(1.58) per diluted share for the year ended December 31, 2010 when compared with the prior year (2009: \$35.5 million or \$(2.78) per diluted share). The decrease in the loss was as a result of decreased operating expense, G&A expense, reorganization costs as the Company completed its reorganization plans, impairment charges associated with capital assets, long-term investments and goodwill and

intangible assets, amortization as a result of less amortization on infrastructure assets as they become fully depreciated, amortization on assets impaired and increased Branded Games revenue. Partially offsetting these movements were decreases in Hosted Casino, poker and other revenue and increased royalty amortization.

Comparison of 2009 and 2008

#### Revenue

CryptoLogic recorded revenues for the year ended December 31, 2009 of \$39.8 million, a decline of 35.3% (2008: \$61.5 million).

Licensing fees and services from our casino licensees, both Hosted Casinos and Branded Games, are calculated as a percentage of a licensee's level of activity in its online casino site. Fees from online poker are based on a percentage of the licensee's "rake" per hand in regular or ring games (the rake is typically 5% of the pot, up to a maximum amount per hand) or fixed fees for entry into poker tournaments.

## Hosted Casino

Hosted Casino revenue decreased to \$30.0 million or 28.4% for the year ended December 31, 2009 (2008: \$41.8 million).

Fees or licensing revenue from our casino business is calculated as a percentage of a licensee's level of activity in its online casino site. This is affected by the number of active players on the licensee's site and their related gaming activity. In turn, these results are influenced by a number of factors such as the entertainment value of the CryptoLogic developed games, the frequency and success of new offerings and the effectiveness of the licensee's marketing programs. Hosted Casino revenue is also impacted by the relative strength of the U.S. dollar to both the euro and the British pound as our licensees provide online casinos in these currencies for which we earn a percentage that is translated into U.S. dollars, our functional currency.

This decrease in revenue is due to the stronger U.S. dollar in relation to both the euro and the British pound, general macro-economic conditions and poor performance of two of the Company's major licensees as well as a non recurring \$1.0 million benefit recorded in 2008 associated with a reduction in expected royalty payments. The relative strength of the U.S. dollar negatively impacted revenue by \$3.1 million. After normalizing for the impact of the strength of the U.S. dollar, Hosted Casino revenue decreased by approximately 21.0% in 2009. Partially offsetting these decreases was \$0.8 million benefit from a revision of our estimate to discharge future jackpot payouts and a non recurring \$0.8 million benefit associated with the resolution of a commercial matter. The Company is liable for funding the jackpot wins from the pool of funds collected and accrues the jackpot amount. The Company regularly performs analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts.

Hosted Casino licensing and associated support fees constitute our core revenue base, representing 75.3% of our total revenue in 2009 (2008: 68.0%). While casino fees declined in absolute dollars they have increased as a percentage of total revenue because of the success of new games and the decline in poker.

## Branded Games

Branded Games revenue was \$2.8 million for the year ended December 31, 2009 (2008: \$0.3 million). Branded Games revenue accounted for 7.1% of total revenue in 2009 (2008: 0.5%). During the year, the Company's revenue producing games increased from 3 to 66 games at the end of the 2009. The majority of the games delivered were in the second half of the year including 20 games in the third calendar quarter and 33 games in the fourth quarter. The Company expects branded game revenue to increase in 2010 as it benefits from a full year of revenue on games delivered in 2009 and from increases in the number of revenue producing games.

Once delivered, licensing revenue is calculated as a percentage of a licensee's level of activity in their online casino sites. Branded Games revenue is affected by the number of active players on the licensee's site and their related gaming activity.

## Poker

Internet poker licensing fees declined 74.4% to \$3.5 million for the year ended December 31, 2009 (2008: \$13.8 million). The decrease in Internet poker revenue is primarily due to the transition of our poker network to GTECH, which reduced the number of the Company's poker licensees and increased fees paid to GTECH, the relative strength of the U.S. dollar and a decline in the overall poker industry. In March 2009, the Company completed its outsourcing of its hosted poker business to GTECH, which gives CryptoLogic's poker licensees and players access to a larger network at significantly lower cost to CryptoLogic. As expected, poker revenue declined as a small number of significant poker licensees did not migrate to GTECH and the fees that we earned were reduced by amounts paid to

GTECH. The migration to the GTECH poker room has resulted in larger declines in poker revenue than expected. In 2009, the U.S. dollar was significantly stronger when compared to the euro and British pound when compared to the same period in 2008, negatively impacting poker revenue by approximately \$0.6 million. Poker fees were 8.8% of total 2009 revenue (2008: 22.4%).

#### Other Revenue

Other revenue, which includes fees for software customization, advertising and marketing services generated from our portal business and fees associated with our e-cash business, decreased to \$3.5 million or 37.4% (2008: \$5.6 million). The decrease in other revenue is primarily due to a decrease in software customization due to timing of completion of certain projects and decreased advertising services associated with our portals business. Offsetting this decrease was an increase in e-cash recoveries. Other revenues accounted for 8.8% of total revenue (2008: 9.1%).



## Recurring Revenue

CryptoLogic's licensing fees reflect a revenue model based on building long-standing relationships with customers. In 2009, 91.2% (2008: 90.9%) of CryptoLogic's fee revenue was generated from software licensing and services contracts that generate recurring revenue.

## Expenses

Consistent with prior years, during 2009 we incurred expenses in five categories: operating, general and administrative, reorganization charges, finance and amortization. Additionally, due to several factors including the decision to merge its poker room and macro-economic factors, the Company has recorded poker room integration costs, asset impairments and impairment of goodwill.

In 2009, total expenses decreased 22.1% to \$77.6 million (2008: \$99.6 million) primarily due to the impact of our cost reduction program which reduced operating and general and administrative expense. Offsetting these decreases were impairments of assets and impairment of goodwill. In 2009, the Company recorded approximately \$24.8 million in non-recurring charges, of which approximately \$3.0 million represents future cash outlays primarily on lease termination costs in Toronto and employee severance.

We continue to focus on maintaining close control over all discretionary expenditures as we align to the new market environment.

## Operating Expense

CryptoLogic's operating expense comprises development and support expense, which includes all personnel costs, equity compensation costs for employee stock options, licensee support, marketing, e-cash systems and support costs, customer service expense, and expenses related to regulatory compliance.

Costs associated with software development are expensed as incurred unless costs meet the criteria for deferral and amortization under Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

In 2009, operating expense decreased by 28.4% or \$15.8 million to \$39.9 million (2008: \$55.6 million). In 2009, operating expenses were 100.2% of revenue (2008: 90.4%). The decrease in operating expense was primarily due to the Company's cost reduction program executed in connection with its reorganization plan, which included outsourcing the poker room to GTECH, reduced headcount and related costs, consulting costs and IT infrastructure costs. Operating expense also benefited from decreased e-cash processing fees resulting from renegotiation of its contract terms and lower deposit levels due primarily to the migration of poker to GTECH as well as reduced marketing program related costs that we share with certain licensees. Operating costs have also benefited by the strengthening of the U.S. dollar, which reduced operating expenses by \$3.3 million in 2009. A strong U.S. dollar is generally favorable on expenses as they are generally denominated in Canadian dollars, euro and British pounds. Operating expense in 2009 also benefited from more active management of risks associated with foreign exchange movements. In 2008, the Company recorded a \$6.1 million loss on foreign exchange and there was no similar loss recorded in 2009. Offsetting these decreases were increased investment in software development capability in lower cost jurisdictions.

At December 31, 2009, CryptoLogic had 211 employees, down from 276 a year earlier.

## General and Administrative Expense

General and administrative (G&A) expense includes overhead and administrative expense, travel expense and professional fees relating to our business development, infrastructure and public company listings.

In 2009, G&A expense was \$10.2 million or 25.6% of revenue (2008: \$13.7 million or 22.2%).

The decrease in G&A expense in 2009 as compared with 2008 is a result of decreased professional fees associated with our annual audit and compliance with Sarbanes Oxley, reduced expenses for tax planning, and decreased consulting fees associated with the protection of our intellectual property. G&A expense was also positively impacted by decreased occupancy costs due to subleasing certain vacant office space.

#### Reorganization Charges

In November 2008, we announced a plan for reorganization of our business focused on reducing costs by outsourcing non core activities, including integrating its poker network with one of the world's leading gaming technology and services companies, transitioning certain functions to lower cost jurisdictions and eliminating certain redundant functions. Due to continued unfavorable macro-economic conditions and lower revenue than expected, we expanded our

reorganization plan and will outsource additional technology infrastructure activities, consolidate additional data center operations, and migrate additional functions to lower cost jurisdictions. This reorganization plan will result in further reductions in headcount related costs, lease termination costs due to a reduction of our leased office space in both Canada and Cyprus, and associated asset impairments. Reorganization expense recorded in 2009 was \$7.1 million and comprises professional fees required to execute the plan of \$1.1 million, severance of \$1.1 million, lease termination costs associated with the office space in Canada of \$1.8 million and associated asset impairments of \$3.1 million.

#### Amortization

Amortization expense is based on the estimated useful lives of the assets and includes the amortization of our investments in computer equipment, leasehold improvements, software licenses, and intangible assets to support our business activities.

Amortization expense was \$4.9 million, or 12.2% of revenue (2008: \$5.9 million or 9.6%). The decrease in amortization reflects lower investments in computer equipment, and software licenses and the impact of asset write downs completed in Q4 2008.

#### Poker-Room Integration Costs

During 2008, the Company announced its plans to integrate our poker operations with a third party poker network. Accordingly the Company identified certain assets including software development projects and certain program costs where their carrying value exceeded the fair value of these assets. Poker room integration costs include poker related program costs of \$2.5 million as well as the write off of in process software development projects of \$0.4 million and other costs of \$0.2 million.

#### Asset Impairments

The Company regularly reviews its assets for impairment. During 2009, the Company reviewed its long term investments and noted various indicators of impairment including significant financial difficulty, restructuring activities and limited ability to operate a profitable business in the short and medium term. Furthermore, our book value was significantly in excess of our market capitalization, which was a further indication that our long-term investments may be impaired. Consequently, the Company determined that the carrying value of its long term investments in Mobilebus, Mikoishi, Jingle and 568 Inc. were greater than their respective fair values resulting in an impairment charge of \$6.3 million. The fair value of the investments was determined by discounting expected net future cash flows. The Company also reviewed certain software development projects as a result of difficult macro-economic conditions and a decline in expected future revenues, which resulted in an impairment charge of \$2.7 million.

During 2008, the Company determined that the carrying values of certain software development projects and intangible assets exceeded their fair value and recorded a charge of approximately \$6.7 million and \$7.2 million, respectively. Furthermore, the Company determined that the carrying value of its investment in Mikoishi, a game developer located in Singapore, was greater than its fair value and recorded a \$2.2 million charge.

#### Impairment of Goodwill

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. During the year, the results of the portals business were below expectations and the book value of the Company was significantly in excess of its market capitalization, which

were both indications that the value of its goodwill was impaired. The fair value of the goodwill was determined by discounting expected net future cash flows of the portals business. As a result, the Company decided that the carrying value of the goodwill exceeded its fair value and recorded an impairment charge of \$6.5 million.

#### Departure Costs of Former CEO

In February 2008 the former President and CEO departed the Company. The Company recorded an associated charge of approximately \$3.4 million which included departure payments of approximately \$2.9 million and related professional fees of \$0.5 million.

#### Interest Income

Interest income, comprising interest earned on cash and short term investment balances, declined to \$0.4 million in 2009 (2008: \$2.1 million). The decrease was as a result of lower cash balances due primarily to cash used in operating activities and lower interest rates earned on cash deposits.

## Provision for Income Taxes

In 2009, despite large operating losses, we recorded an income tax expense of \$1.1 million (2008: net benefit of \$0.5 million) as the impairments of our long term assets, goodwill and certain asset impairments associated with our restructuring are not immediately deductible for tax purposes and in some cases may never be deductible. The tax expense recorded in 2009 is also impacted by a \$2.2 million impairment of future tax assets accumulated in jurisdictions where recoverability is no longer probable. The recoverability of the future tax assets is no longer considered probable due to expected changes in the corporate structure which will reduce operations in certain jurisdictions where losses had accumulated. Offsetting this tax expense is a benefit of \$1.7 million recorded in the first quarter of 2009.

The tax benefit of \$1.7 million recorded in the first quarter of 2009 is primarily a result of recent amendments to Section 261 of the Income Tax Act in Canada that permit certain corporations resident in Canada to elect to determine their Canadian tax amounts in the corporation's "functional currency" as opposed to the general requirement that all amounts that are relevant to the computation of tax under the Canadian Income Tax Act be in Canadian dollars. This change resulted in a benefit to income tax of approximately \$1.4 million in the first quarter of 2009. The Company recorded an additional benefit of approximately \$0.3 million based on the actual tax return filed.

CryptoLogic is subject to tax in many jurisdictions. The Company is actively working to reduce the number of its subsidiaries, which will reduce the overall tax burden. The consolidated net operating loss is composed of operating losses in some jurisdictions and operating profits in others which results in a tax expense despite material consolidated net losses. Subject to significant changes in the tax rates of those jurisdictions or significant changes in our corporate structure, we generally expect a blended tax rate of approximately 15%, once we return to profitability.

## Minority Interest

Pursuant to a business reorganization completed in 2007 (the "Arrangement"), CryptoLogic acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., an Ontario company, which through the Arrangement became an indirect subsidiary of CryptoLogic. As part of the Arrangement, the Company issued to shareholders of CryptoLogic Inc. either an equivalent amount of common shares of the Company or, in the case of taxable Canadian residents, exchangeable shares ("Exchangeable Shares") of CryptoLogic Exchange Corporation ("CEC"), an indirect subsidiary of the Company. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of CryptoLogic's common shares. The Exchangeable Shares participate equally in voting and dividends with the shareholders of the Company. No additional Exchangeable Shares have been or will be issued. For more information, see the Management Information Circular dated April 23, 2007 available on [www.sedar.com](http://www.sedar.com). For accounting purposes, the Arrangement has been accounted for using the continuity of interest method, which recognizes the Company as the successor entity to CryptoLogic Inc. Accordingly, financial information reflects the financial position, results of operations and cash flows as if the Company has always carried on the business formerly carried on by CryptoLogic Inc., with all assets and liabilities recorded at the carrying values of CryptoLogic Inc. The interest held by CEC shareholders has been presented as a minority interest in the consolidated financial statements, as required under Canadian GAAP.

The common shares of the Company owned by CEC are considered a non-controlling interest of the Company for accounting purposes only and consequently, a proportional amount of the net earnings before minority interest is recorded as minority interest.

Minority interest will continue until all Exchangeable Shares have been exchanged into common shares of the Company or until June 1, 2014 when CEC will redeem all outstanding Exchangeable Shares in return for common shares of the Company.

## Net Loss

CryptoLogic recorded a net loss of \$35.5 million for the twelve months ended December 31, 2009 as compared with net loss of \$32.7 million for the same period in 2008. The net loss was primarily due to decreased poker and casino revenues, and \$24.8 million in non-recurring charges consisting of impairments of long term investments, reorganization costs including severance costs, costs to exit lease obligations and the write off of associated capital assets, impairment of future tax assets, and the impairment of goodwill. The non-recurring charges include approximately \$3.0 million representing future cash outlays primarily on lease termination costs in Toronto and employee severance. Offsetting these amounts were increased revenue from Branded Games and decreased operating and G&A expenses.

## Foreign Exchange

Our financial results are reported in U.S. currency, which is subject to fluctuations in respect of the currencies of the countries in which we operate, including British Pounds, euro, and Canadian Dollars. Accordingly, fluctuations in the

exchange rate of world currencies could have a positive or negative effect on our reported results. We may utilize a hedging program from time to time and/or take advantage of the natural hedge in having operations in multiple currencies to mitigate a portion of our currency risks, but there can be no assurance that we will not experience currency losses in the future, which could have a material adverse effect on our business, revenues, operating results and financial condition.

In 2009, the Company recognized a total foreign exchange loss of \$0.3 million (2008: \$6.2 million, 2007: foreign exchange gain of \$0.68 million), which is recorded as an operating expense in the accompanying consolidated statements of earnings.

#### Government Regulation

On October 13, 2006, the U.S. enacted the UIGEA, which effectively banned online gaming in that country by making it illegal to process related financial transactions. The industry-wide impact of UIGEA has negatively affected our business by significantly reducing our revenue and earnings. Similar prohibition legislation may be adopted in other jurisdictions.

While the U.K. and other European countries such as Malta and Gibraltar have currently adopted a regime which permits its licensees to accept wagers from any jurisdiction, other countries, including Italy and France have, or are in the process of implementing regimes which only permit the targeting of the domestic market provided a local license is obtained and local taxes accounted for. Other European territories continue to defend a licensing regime that protects monopoly providers and have combined this with an attempt to outlaw all other supplies. Either of these restrictive approaches may yet be deemed to be in potential conflict (in any specific jurisdiction) with E.U. treaty law (governing the free movement of trade and services throughout the European Union) and case law rendered by the European Court of Justice (the "ECJ"), but recent ECJ decisions have given E.U. Member States wide latitude in regulating the on-line gaming markets.

There can be no assurance that legislation prohibiting Internet gaming or regulating various aspects of Internet gaming or the Internet gaming industry will not be proposed and passed in potentially relevant jurisdictions. The burden of compliance with any such legislation may have a material adverse effect on our business, financial condition and results of operations.

#### B. LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses of \$21.5 million, \$37.8 million and \$38.1 million and negative cash flows from operations of \$11.7 million, \$17.8 million and \$18.6 million for the three years ended December 31, 2010, 2009 and 2008, respectively, which resulted in a decrease in cash and cash equivalents to \$10.6 million, \$23.4 million and \$36.3 million as of December 31, 2010, 2009 and 2008, respectively. A continuation of such operating losses, negative cash flows from operations and decreases in cash and cash equivalents may cast doubt upon the Company's ability to continue as a going concern.

During 2010, management determined that a material reduction in expenses was necessary in order to preserve cash and give the Company sufficient time to focus on increasing revenues. Accordingly, the Company made a significant restructuring effort, commencing midway through Q3 2010, and resulting in a reduction in operating and general and administrative expense to \$6.2 million in Q4 2010 from \$12.1 million in Q2 2010, the last full quarter before this

restructuring. Management believes that the results of this restructuring have substantially mitigated doubts regarding the Company's ability to continue as a going concern.

Management has considered expectations for future revenues and reduced operating and general and administrative expense and, on that basis, believes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business and, accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis.

Furthermore, having regard to expectations for future revenues, reduced operating and general and administrative expense, the completion of the Company's reorganization plan and lower levels of future purchase commitments, management expects cash needs to be funded through existing cash resources and operating cash flow.



## Comparison of 2010 and 2009

### Net Cash Position

CryptoLogic remained debt-free in 2010. Cash and cash equivalents at December 31, 2010 were \$10.6 million (2009: \$23.4 million). The decrease in net cash of \$12.9 million is primarily due to the cash impact of operating losses of \$13.5 million, decrease in accounts payable and accrued liabilities of \$0.1 million, comprising primarily a \$2.9 million decrease in the reorganization cost accrual as the Company completed its reorganization plan, partially offset by a \$2.3 million increase in jackpot provision, decrease in income taxes receivable and payable of \$1.6 million and purchase of capital assets of \$1.1 million, offset by decreased accounts receivable and other of \$2.9 million and decreased prepayments of \$0.5 million, primarily consisting of royalty and game amortization of \$4.2 million offset by \$4.2 million of net royalty payments.

### Operating Activities

Cash flow used in operating activities was \$11.7 million for the year ended December 31, 2010 (2009: \$17.8 million). The use of cash in operating activities is due to the cash impact of operating losses of \$13.5 million, decrease in accounts payable and accrued liabilities of \$0.1 million, comprising primarily a \$2.9 million decrease in the reorganization cost accrual as the Company completed its reorganization plan, partially offset by a \$2.3 million increase in jackpot provision and decrease in income taxes receivable and payable of \$1.6 million, offset by decreased accounts receivable and other of \$2.9 million and decreased prepayments of \$0.5 million, primarily consisting of royalty and game amortization of \$4.2 million offset by \$4.2 million of net royalty payments.

### Financing Activities

Cash flow used in financing activities was \$nil for the year ended December 31, 2010 (2009: \$1.4 million). Cash flow used in financing activities in 2009 was due to dividends paid of \$1.4 million. CryptoLogic did not declare a dividend for any quarter in 2010.

### Investing Activities

Cash flow used in investing activities was \$1.1 million for the year ended December 31, 2010 (2009: cash flow provided by investing activities \$6.3 million). Cash flow used in investing activities in 2010 was due to purchase of capital assets of \$1.1 million and an increase in security deposits of \$0.3 million due to the Company appointing a second bank to provide payment processing facilities to process deposits and credit card transactions, partially offset by \$0.2 million cash received from a long-term investment. Cash flow provided by investing activities in 2009 was due to a reduction in restricted cash of \$7.2 million as the Company reduced the amount required to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds, offset by capital expenditure of \$0.4 million primarily associated with infrastructure improvement and investments in Jingle Prize, Inc. and Mikoishi Pte Ltd. of \$0.5 million.

### Working Capital

Working capital at December 31, 2010 was \$12.4 million (2009: \$26.5 million).

### User Funds Held on Deposit

User funds held on deposit at December 31, 2010 was \$6.1 million (2009: \$7.9 million). The decrease in user funds is due primarily to the reduced number of active players at a major licensee and a reduction in our poker business.

## Capitalization

Since inception, CryptoLogic has had neither debt nor unutilized credit facilities. At December 31, 2010, CryptoLogic had 12,879,920 common shares outstanding (2009: 12,794,020) and 223,500 stock options outstanding (2009: 563,521). The 12,879,920 outstanding common shares excludes 939,131 (2009: 1,025,031) exchangeable shares (“Exchangeable Shares”) in CryptoLogic Exchange Corporation (“CEC”) which are entitled to be exchanged on a one-for-one basis for common shares of the Company. Including the Exchangeable Shares of CEC, the outstanding common shares of the Company would be 13,819,051 (2009: 13,819,051). As of March 21, 2011 there were 12,907,120 Common Shares of CryptoLogic outstanding and 911,931 Exchangeable Shares in CEC outstanding.

As part of the 2007 reorganization, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of CryptoLogic. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of common shares of CryptoLogic. For accounting purposes, the acquisition is accounted for using the continuity of interest method, which recognizes CryptoLogic as the successor entity to CryptoLogic Inc. The Exchangeable Shares can be exchanged for an equivalent amount of common shares of the Company at anytime and are accounted for as a minority interest. On June 1,

2014, CryptoLogic through its subsidiaries will redeem not less than all of the then outstanding Exchangeable Shares for an amount per share equal to the redemption price. The redemption price will be satisfied through the issuance and delivery of one common share of CryptoLogic for each Exchangeable Share. CryptoLogic has issued a special voting share to a third party trustee, the purpose of which is to provide holders of Exchangeable Shares with the right to vote on matters to be voted on by CryptoLogic shareholders. All outstanding options of CryptoLogic Inc. as of the date of the Arrangement were fully assumed by CryptoLogic under the same terms and conditions as originally granted by CryptoLogic Inc. The Exchangeable Shares provide those shareholders with the same voting and dividend rights as the common shares of CryptoLogic. No additional Exchangeable Shares will be issued and all stock options will give rise to the issue of additional common shares of CryptoLogic.

From December 3, 2008 to December 2, 2009, CryptoLogic had, through its Normal Course Issuer Bid, authorization to repurchase up to 1,267,871 common shares, under which the Company did not buy back any common shares.

### Comparison of 2009 and 2008

#### Net Cash Position

At December 31, 2009, CryptoLogic ended the year with \$23.4 million cash and cash equivalents (2008: \$36.3 million). The decrease in cash and cash equivalents of \$12.9 million is primarily due to cash impact of operating losses (\$10.2 million), dividends paid (\$1.4 million), increase in prepaid assets (\$2.6 million) due primarily to payments to royalty providers including DC Comics, Marvel and Paramount offset by amortization, increase in accounts receivable (\$1.8 million) due primarily to the outsourcing of the poker network and the increase in Branded Games which each have a one month delay in cash settlement, a decrease in accounts payable and accrued liabilities (\$5.2 million) due to decrease in activity consistent with a cost reduction plan, capital expenditures (\$0.4 million), and investments in Asia (\$0.5 million). These decreases are offset by decrease in restricted cash of \$7.2 million and net tax refunds of \$2.0m. CryptoLogic continues to be debt free.

We are no longer required to maintain a deposit to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds on deposit (2008: \$5.0 million).

At December 31, 2008, we were required to maintain a deposit of \$2.2 million that would have been paid to the Company's former CEO if there had there been a change in control of the Company prior to April 30, 2009. There were no such amounts at December 31, 2009.

We pledge \$0.3 million in a security deposit at year end (2008: \$0.3 million). We maintain security on deposits as collateral granted to banks and payment processors that process deposit transactions on our behalf.

#### Operating Activities

Cash flow used in operating activities was \$17.8 million for the year ended December 31, 2009 (2008: \$18.6 million). Several factors contributed to the decrease in cash flow from operating activities from the prior year including, but not limited to:

- losses from operations primarily due to reduced revenues impacting cash by \$10.2 million; and
- working capital movements of \$7.6 million associated with increase in accounts receivable, payments to royalty providers, payments of accounts payable and accrued liabilities including amounts for reorganization of our business, offset in part by net tax refunds.

#### Financing Activities

In 2009, \$1.4 million was used for financing activities (2008: \$6.7 million) due to dividends paid of \$1.4 million.

CryptoLogic did not declare a dividend for the fourth quarter 2009 and does not expect to declare any dividends for the foreseeable future.

#### Investing Activities

Investing activities provided \$6.3 million in 2009 (2008: \$6.2 million). The cash provided by investing activities was due to a reduction in restricted cash of \$7.2 as the Company reduced the amount to be maintained to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds, offset by capital expenditure of \$0.4 million primarily associated with infrastructure improvement and investments in Jingle Inc. and Mikoishi of \$0.5 million.

#### Working Capital

CryptoLogic's working capital at December 31, 2009 was \$26.5 million (December 31, 2008: \$41.2 million).

### User Funds Held on Deposit

User funds held on deposit decreased 26.8% to \$7.9 million at December 31, 2009 (2008: \$10.8 million). The decrease in user funds is due primarily to the reduction in our poker business.

### Capitalization

Since inception, CryptoLogic has had neither debt nor unutilized credit facilities. At December 31, 2009, CryptoLogic had 12,794,020 common shares outstanding and 563,521 stock options outstanding. The 12,794,020 outstanding common shares excludes 1,025,031 (2008: 1,090,974) exchangeable shares in CryptoLogic Exchange Corporation (“CEC”) which are entitled to be exchanged on a one-for-one basis for common shares of the Company. Including the exchangeable shares of CEC, the outstanding common shares of the Company would be 13,819,051 (2008: 13,819,051).

As part of the 2007 reorganization, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of CryptoLogic. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of common shares of CryptoLogic. For accounting purposes, the acquisition is accounted for using the continuity of interest method, which recognizes CryptoLogic as the successor entity to CryptoLogic Inc. The Exchangeable Shares can be exchanged for an equivalent amount of common shares of the Company at anytime and are accounted for as a minority interest. On June 1, 2014, CryptoLogic through its subsidiaries will redeem not less than all of the then outstanding Exchangeable Shares for an amount per share equal to the redemption price. The redemption price will be satisfied through the issuance and delivery of one common share of CryptoLogic for each Exchangeable Share. CryptoLogic has issued a special voting share to a third party trustee, the purpose of which is to provide holders of Exchangeable Shares with the right to vote on matters to be voted on by CryptoLogic shareholders. All outstanding options of CryptoLogic Inc. as of the date of the Arrangement were fully assumed by CryptoLogic under the same terms and conditions as originally granted by CryptoLogic Inc. The Exchangeable Shares provide those shareholders with the same voting and dividend rights as the common shares of CryptoLogic. No additional Exchangeable Shares will be issued and all stock options will give rise to the issue of additional common shares of CryptoLogic.

From December 3, 2008 to December 2, 2009, CryptoLogic has, through its Normal Course Issuer Bid, authorization to repurchase up to 1,267,871 common shares, under which we did not buy back any common shares. Under the 2007 Normal Course Issuer Bid, we repurchased and cancelled 124,905 common shares during 2008 for a total cost of \$1.4 million.

### CRITICAL ACCOUNTING ESTIMATES

CryptoLogic’s accounting policies are specified in the notes to our financial statements, in particular note 1. The accounting estimates discussed below are considered particularly important as they require judgments by management. Management has instituted policies that are intended to ensure these judgments are well controlled and consistently applied from period to period.

The Company licenses various royalty rights, generally on an exclusive basis, from several owners of intellectual property rights. These rights are used to produce games for use in the Hosted Casino and also as Branded Games. Generally the arrangements require material prepayments of minimum guaranteed amounts which have been recorded as prepaid expenses in the accompanying consolidated balance sheets. These prepaid amounts are amortized over the life of the arrangement as gross revenue is generated or on a straight-line basis if the underlying games are expected to have an effective royalty rate greater than the agreed amount. The amortization of these amounts is recorded as a reduction in the revenue.

The Company regularly reviews its estimates of future revenues under its license arrangements and, during the second quarter of 2010, the review identified that it was appropriate to begin amortizing certain of these royalties on a straight-line basis, such that substantially all of these royalties are amortized on a straight-line basis. For the year ended December 31, 2010 amortization of \$3.1 million (2009: \$0.8 million; 2008 \$1.1 million) was recorded as a reduction of revenue.

Several of the Company's licensees participate in progressive jackpot games. Each time a progressive jackpot game is played, a preset amount is added to a cumulative jackpot for that specific game. Once a jackpot is won, the progressive jackpot game is reset with a predetermined amount. The Company is liable for funding the jackpot wins as well as amounts required to reset the progressive jackpot game from the pool of funds collected and accrues the jackpot amount for all games on a monthly basis. The reset amount is accrued, up to the predetermined amount, as wagering occurs. The accrual for the jackpot at the consolidated balance sheet dates is included in accounts payable and accrued liabilities.

The Company regularly performs an analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts. During Q4 2009, as part of the statistical analysis of the amounts required for jackpot resets, the Company revised its estimated liability arising from the cumulative jackpot. The change in accounting estimate resulted in the reduction of the liability for jackpot accrual and a corresponding increase in revenue of \$0.8 million.

At December 31, 2010, accounts payable and accrued liabilities include \$5.4 million in jackpot provisions (2009: \$3.0 million). This amount is sufficient to cover the full amount of any required pay-out.

During 2009, the Company reviewed its e-cash operations and determined that certain provisions associated with its commerce based transactions should not be recorded, and further that, based on new facts and circumstances, certain estimates should be revised. Accordingly, approximately \$1.7 million that was recorded as a liability for future payments was no longer required. These changes were recorded in revenue in the accompanying consolidated statements of loss and comprehensive loss.

The Company may receive from time to time claims and enter into litigation arising out of the ordinary course and conduct of business including intellectual property matters. Management assesses such claims, and if considered likely to result in material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. Management does not make provisions for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. Adjustments will be made to the accrual for such amounts as new information is obtained or the claim settled. During 2009, the Company reviewed its accounting for certain contingencies and determined \$0.8 million was no longer required, which increased revenue by a corresponding amount.

The Company regularly reviews its long-term assets, comprising capital assets, intangible assets and long-term investments for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability generally requires the Company to estimate the fair value of the long-term asset, which requires the Company to make assumptions and judgments on several items including, but not limited to, the future cash flows that will be generated by these assets and the appropriate discount rate to apply to those cash flows. Measurement of any impairment loss for long-lived assets is based on the amount by which the carrying value exceeds the fair value of the asset. During 2010, the Company recorded impairment charges of \$5.6 associated with intangible assets and certain capital assets. (2009: \$15.5 million impairment associated with goodwill, capital assets and long-term investments).

Accounting for both current and future tax requires the Company to make assumptions, judgments and estimates about current tax laws, which require certain interpretations of tax laws in several jurisdictions around the world as well as possible outcomes of current and future audits conducted by the respective tax authorities. The Company has established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although the Company believes our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of the current and any future tax audits could significantly impact the amounts provided for income taxes in its consolidated financial statements.

The Company's assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting its financial position and results of operations.

The Company has a stock option plan where the amount of compensation expensed is determined using an option pricing model. In addition, the Company provided a long-term incentive program where the amount of the compensation expensed is determined based on estimated performance criteria and the Company's stock price. Calculations for these plans with the necessary assumptions inherently mean judgments are required by management.

Recently issued and adopted accounting pronouncements

Recently Issued Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.



The adoption of IFRS will require the restatement of amounts reported by the Company for its previous year end, and of the opening balance sheet as at the date of adoption.

The IFRS conversion project consists of three phases which have been substantially completed by the Company. However, management has not yet finalized the determination of the impact of these differences on the consolidated financial statements.

**Phase One: Scoping and Diagnostics**, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS.

**Phase Two: Analysis and Development**, involved detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; initial staff and audit committee training; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition to IFRS; summarization of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues.

**Phase Three: Implementation and Review** involved the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across the Company's finance and other affected areas, as necessary, culminating in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS in business processes; and audit committee approval of IFRS-compliant financial statements.

#### Impact on Internal Controls over Financial Reporting and Disclosure Controls and Procedures

The Company has completed an assessment of its internal controls over financial reporting and its disclosure controls and procedures. There were no matters identified that materially affect, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

#### Changes in Accounting Policies

The Company has identified the following key areas where changes in accounting policies are expected to impact our consolidated financial statements. The individual amounts disclosed, which are estimates based on current expectations, are on a pre-tax basis and the tax impact of all changes discussed is presented on an overall basis. The list and comments should not be regarded as a complete list of estimated changes that will result from transition to IFRS and are intended to highlight those areas the Company believes are most significant.

The information set out below is provided to allow users of the financial statements to obtain a better understanding of the Company's IFRS changeover plan and the resulting possible effects on, for example, the financial statements and operating performance measures. These are estimates based on the Company's current understandings, and readers are cautioned that it may not be appropriate to use such information for any other purpose. This information also reflects the Company's most recent assumptions and expectations; circumstances may arise such as changes in IFRS, regulations or economic conditions, which could change the assumptions or expectations.

The following unaudited consolidated financial statements show the expected impacts of the noted differences between IFRS and Canadian GAAP as at the date of transition (January 1, 2010) and as at and for the year ended December 31, 2010.



CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands of U.S. dollars)

Notes	Previous GAAP	Effect of transition to IFRS January 1, 2010	IFRS	Previous GAAP	Effect of transition to IFRS December 31, 2010	IFRS	
<b>ASSETS</b>							
Deferred tax assets	\$ 1,549	\$ –	\$ 1,549	\$ 864	\$ –	\$ 864	
Property, plant and equipment	D	7,774	(4,948 )	2,826	4,713	(2,128 )	2,585
Intangible assets	B, D	4,342	4,564	8,906	95	2,115	2,210
Total non-current assets		13,665	(384 )	13,281	5,672	(13 )	5,659
Total current assets		49,705	–	49,705	31,886	–	31,886
Total assets		\$ 63,370	\$ (384 )	\$ 62,986	\$ 37,558	\$ (13 )	\$ 37,545
<b>EQUITY</b>							
Share capital		\$ 33,916	\$ –	\$ 33,916	\$ 34,129	\$ –	\$ 34,129
Stock options	A	7,633	(1,987 )	5,646	7,826	(2,262 )	5,564
Deficit	A	(4,753 )	1,987	(2,766 )	(25,140 )	2,262	(22,878 )
Total equity attributable to equity holders of the Company		36,796	–	36,796	16,815	–	16,815
Non-controlling interest	C	2,948	–	2,948	1,226	–	1,226
Total equity		39,744	–	39,744	18,041	–	18,041
<b>LIABILITIES</b>							
Deferred tax liabilities	B	384	(384 )	–	29	(13 )	16
Total non-current liabilities		384	(384 )	–	29	(13 )	16
Total current liabilities		23,242	–	23,242	19,488	–	19,488
Total liabilities		23,626	(384 )	23,242	19,517	(13 )	19,504
Total equity and liabilities		\$ 63,370	\$ (384 )	\$ 62,986	\$ 37,558	\$ (13 )	\$ 37,545



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(In thousands of U.S. dollars)

Note	Previous GAAP	Effect of transition to IFRS December 31, 2010	IFRS
<b>Continuing operations:</b>			
Total Revenue	\$ 25,988	\$ –	\$ 25,988
Operating expenses:	A 30,230	(275 )	29,955
General and administrative expenses	7,561	–	7,561
Reorganization expenses	1,935	–	1,935
Impairment of property, plant and equipment	1,763	–	1,763
Impairment of intangible assets	3,566	–	3,566
Depreciation	2,047	–	2,047
Amortization of intangible assets	325	–	325
	47,427	(275 )	47,152
Results from operating activities	(21,439 )	275	(21,164 )
Finance income	80	–	80
Finance costs	(65 )	–	(65 )
Net finance costs	15	–	15
Other income	185	–	185
Loss before income taxes	(21,239 )	275	(20,964 )
Income tax expense	657	–	657
Loss for the period	(21,896 )	275	(21,621 )
Other comprehensive income	–	–	–
Other comprehensive income for the period net of income tax	–	–	–
Total comprehensive income for the period	\$ (21,896 )	\$ 275	\$ (21,621 )
Loss attributable to:			
Shareholders of the Company	(20,387 )	275	(20,112 )
Non-controlling interests	(1,509 )	–	(1,509 )
Loss for the period	\$ (21,896 )	\$ 275	\$ (21,621 )
Total comprehensive income attributable to:			
Shareholders of the Company	–	–	–
Non-controlling interests	–	–	–
Total comprehensive income for the period	\$ –	\$ –	\$ –
Loss per share:			
Basic loss per share	\$ (1.58 )		\$ (1.57 )
Diluted loss per share	\$ (1.58 )		\$ (1.57 )

A. Share-Based Payments

The Company has a stock option plan for directors, officers and other key employees. Under Canadian GAAP, stock option grants are accounted for as capital transactions at the time of the grant and are reflected as stock options in the total equity attributable to the equity holders of the Company. The fair value of the options is measured at grant date

using the Black-Scholes pricing model, and is recognized over the period that the employee earns the options. The fair value is recognized as an expense in the consolidated statements of comprehensive loss with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. The Company does not estimate forfeitures in determining the expense to be recognized over the service period and forfeitures are accounted for as they occur.

Under IFRS, stock options for directors, officers and other key employees are measured initially, based on the fair value of the options, using an option-pricing model. Each vesting installment over the vesting period of the options is accounted for as a separate arrangement and the Company estimates the number of options for which the requisite service is expected to be rendered.

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Expected Impact:

In accordance with IFRS 1, the adjustment will be recorded in opening deficit upon transition to IFRS. We expect the change at January 1, 2010 will be a decrease in deficit of \$2.0 million with a corresponding decrease in stock options reserve. Net income for the year ended December 31, 2010 is expected to increase by \$0.3 million.

B. Deferred Tax

In January 2007, the Company acquired the poker brand and the customer list of Parbet and the assets and operations of Casino.co.uk, a gaming portal. Included in the allocation of the purchase price, the Company recorded future income tax liabilities.

Under IFRS, a deferred tax liability is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

Expected Impact:

In accordance with IFRS 1, an adjustment will be recorded as a decrease in intangible assets in the consolidated balance sheets and a corresponding decrease in deferred tax liabilities. We expect the change at January 1, 2010 will be a decrease in intangible assets in the consolidated balance sheets of \$0.4 million with a corresponding decrease in deferred taxes. The Company does not expect any impact to net income for the year ended December 31, 2010.

C. Non-Controlling Interest

Under Canadian GAAP, the Company classifies non-controlling interest (minority interest) as a separate component between liabilities and equity in the consolidated balance sheets.

Under IFRS, non-controlling interest is classified as a component of equity separately disclosed from the parent shareholders' equity.

In addition, the Company has elected to avail of the exemption under IFRS 1, not to retrospectively restate any business combinations under IFRS 3 Revised.

Expected Impact:

In accordance with IFRS 1, the adjustment will be recorded as a reduction in non-controlling interest recorded as a separate component between liabilities and equity of \$3.0 million and a corresponding increase in equity.

D. Property, Plant and Equipment

Under Canadian GAAP, the Company classifies computer software licenses and capitalized software development costs as property, plant and equipment.

Under IFRS, computer software licenses and capitalized software development costs are classified as intangible assets.

Expected impact:

In accordance with IFRS 1, the adjustment will be recorded as a reduction in property, plant and equipment and a corresponding increase in intangible assets of \$4.9 million at January 1, 2010 and \$2.1 million at December 31, 2010.

C. RESEARCH AND DEVELOPMENT

CryptoLogic makes significant investments in research and development to remain competitive with technology advancements and product evolution in the global online gaming market. Research and development personnel comprised 18% of our workforce at December 31, 2010 (2009: 34%; 2008: 34%).

D. TREND INFORMATION

Refer to the Overview at the beginning of this “Item 5. Operating and Financial Review and Prospects” above.

E. OFF-BALANCE SHEET ARRANGEMENTS

As of March 21, 2011, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company’s financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



## F. CONTRACTUAL OBLIGATIONS

The following table summarizes our known contractual obligations as of December 31, 2010:

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
(In thousands of U.S. dollars)					
Facility leases	\$ 4,688	\$ 1,161	\$ 2,033	\$ 932	\$ 562
Minimum royalty payments and purchase commitments	3,344	2,590	529	225	–
Total outstanding cash commitments	\$ 8,032	\$ 3,751	\$ 2,562	\$ 1,157	\$ 562

Total cash commitments at December 31, 2010 were \$8.0 million (2009: \$14.6 million). The Company has entered into lease agreements for premises expiring at various periods up to May 2020.

## G. SAFE HARBOR

Refer to “Cautionary Statement Regarding Forward-Looking Information” on page 2 of this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. DIRECTORS AND SENIOR MANAGEMENT

The following table and the narrative that follows set forth the name, age, residence, position, date of first election of each director and member of senior management for CryptoLogic as at March 21, 2011.

Name and Municipality of Residence	Age	Principal Occupation	Served as a Director (5)/ Officer Since
Thomas Byrne (1)(2)(3)(4) Dublin, Ireland	61	Director Self-employed Chartered Accountant	April 13, 2007
David M.J. Gavagan (2)(3)(4) Dublin, Ireland	59	Interim Chief Executive Officer, Chairman and Director Self-employed Chartered Accountant	June 17, 2008
James Wallace (1)(2)(4) Cheshire, England	67	Director Self-employed Chartered Accountant	June 3, 2009
Huw Spiers Dublin, Ireland	47	Group Head of Operations and Chief Financial Officer	August 15, 2010

John Loughrey Dublin, Ireland	49	General Counsel and Company Secretary	August 11, 2010
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Ian Price West Sussex, England	49	Group Head of Business Development	October 1, 2010
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- (1) Member of Audit Committee at December 31, 2010 and up to March 21, 2011.
- (2) Member of Remuneration Committee at December 31, 2010 and up to March 21, 2011.
- (3) Member of Nominating Committee at December 31, 2010 and up to March 21, 2011.
- (4) Member of Compliance and Governance Committee at December 31, 2010 and up to March 21, 2011.
- (5) Each director is elected annually to hold office until the next annual meeting of shareholders.

Biographies of each of the directors and officers set out in the above table and their respective positions held for the last five years are noted below.

Thomas Byrne is a Chartered Accountant and a Chartered Director. He was a partner in a global accounting firm before joining Ireland's largest brokerage firm where he was head of Corporate Finance. He set up his own corporate advisory company in 2001. He served as Chairman of the Audit Committee of EcoSecurities Group Plc until it was privatized in late 2009. In addition to serving on the boards of SWIP 11 PLC, the Irish Takeover Panel, and the Institute of Directors in Ireland, he is also a non-executive director of a number of Irish private companies.

David M.J. Gavagan was the co-founder and managing/senior partner of Hibernia Capital Partners, where he served in this capacity from 1996 until the fund closed in 2006. Hibernia Capital Partners was a private equity fund manager. At present, Mr. Gavagan is a self-employed Chartered Accountant and serves as a non-executive director on a number of private companies. Mr. Gavagan was appointed Chairman of the Board at the annual shareholder's meeting on June 3, 2009. Mr. Gavagan was appointed Interim CEO on August 12, 2010.

James Wallace, FCA is a professional public company director who currently sits on the boards of two public companies in the United Kingdom. He is currently Chairman of Scapa Group plc, and a non-executive director of the Manchester Airport Group. Previously Mr. Wallace served as senior independent non-executive director and Audit Committee Chairman of NCC Group plc until 2010, Chairman of Bodycote International plc until 2008, and senior independent non-executive director of Holidaybreak plc until 2008. Mr. Wallace also served as Chairman of Sigma Capital Group plc until 2008 and Chairman of the Audit Committee of Sanctuary Group plc until 2007. Mr. Wallace is also a chartered accountant by profession.

Huw Spiers, FCA is a Fellow of the Institute of Chartered Accountants in England and Wales. From 2009 to 2010, Mr. Spiers was CFO at dotMobi, a leading domain registry and mobile technology company based in Dublin. Mr. Spiers prior posts include nine years at PolarLake, a provider of data distribution and integration solutions primarily for financial services and government markets, five years as director and CFO of London & Overseas Freighters, a NASDAQ and LSE-listed tanker shipping group headquartered in Bermuda, and Senior Manager with KPMG Peat Marwick.

John Loughrey was appointed General Counsel and Company Secretary in August 2010. He previously held senior positions in the legal department for Vodafone Group Plc, and was an attorney for AirTouch Communications, Inc., and an associate with the law firm of Squire, Sanders & Dempsey.

Ian Price has over twenty years experience in senior management and operational roles in the betting and gaming industry and now leads CryptoLogic's business development, product management and sales teams. Mr. Price's previous roles include Chief Operating Officer at LVS, a betting and gaming software development company, Head of UK Retail Operations at Paddy Power, Managing Director of Victor Chandler International, Operations Director at Victor Chandler International, and Regional Director at William Hill.

## B. COMPENSATION

The following table presents all compensation in respect of senior management for the financial year ended December 31, 2010.

Name and Principal Position	Year	Salary (1)	Share-Based Awards	Option-Based Awards	Non-Equity Incentive Plan Compensation	Annual Incentive Plans	Long-Term Incentive Plans	Pension Value	All Other Compensation	Total Compensation
David Gavagan Chairman, Interim Chief Executive Officer and Director	2010	111,549	NIL	NIL	NIL	NIL	NIL	NIL	76,263 (2)	187,812
Huw Spiers Group Head of Operations and Chief Financial Officer	2010	98,139	NIL	NIL	37,144	NIL	NIL	9,336	6,078 (3)	150,697
Ian Price Group Head of Business Development	2010	255,041	NIL	NIL	NIL	NIL	NIL	29,368	10,820 (3)	295,229
Brian Hadfield Former President, Chief Executive Officer and Director	2010	413,181	NIL	NIL	NIL	NIL	NIL	NIL	337,684 (4)	