



CES SOFTWARE plc

Consolidated Financial Statements
(Expressed in pounds sterling)

For the three months and nine months ended September 30, 2004
(Unaudited)

CES SOFTWARE plc
("CES" or "the Company")

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

We are pleased to provide you with the unaudited results of CES Software plc for the three and nine months ended September 30, 2004. The financial statements and their accompanied notes have not been reviewed by the Company's auditors.

There have been significant developments in the Company's business in the three months ended September 30, 2004 which we would like to take this opportunity to update you on.

On July 30, 2004, the Company closed its purchase of the SkillJam business, (www.skilljam.com), a leading provider of diversified fee-based skill gaming solutions. The business was acquired for an initial cash consideration of US\$8 million (approximately £4.4 million), as well as a declining net revenue sharing arrangement on SkillJam's European operations for five years following the closing of the transaction. The cash portion of the purchase price was satisfied through an offering of special warrants and ordinary shares which raised total gross proceeds of Cdn\$11.5 million (approximately £4.7 million).

The SkillJam acquisition has enabled the Company to enter into the regulated North American marketplace. Since the acquisition, the Company has entered into agreements with a number of new distribution partners for its skill gaming platform, including AOL Inc., Golden Palace Games, and SPO Ventures.

The Company reached a milestone in its exchange betting business as well. Betbull – The European Betting Exchange plc ("Betbull"), a licensee of CES's exchange betting technology, completed its initial public offering on the Vienna Stock Exchange in October 2004. CES holds an equity stake in the business. Betbull's website can be accessed at www.betbull.com

On October 5, 2004, the Company listed on the Toronto Stock Exchange and significantly strengthened its balance sheet, closing additional equity financings with aggregate proceeds of approximately £24 million (before expenses).

The section entitled Management's Discussion & Analysis, which follows this letter, provides additional context and disclosure of the Company's financial results.

In the remainder of 2004 and beyond, we look forward to CES's continued growth and evolution.

Andrew Rivkin
Chairman



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2004

The following Management's Discussion and Analysis ("MD&A") of the financial condition and operating results should be read in conjunction with the unaudited consolidated interim financial statements of CES Software plc ("the Company" or "CES"), including the notes thereto, for the three and nine months ended September 30, 2004, and September 30, 2003, and the audited consolidated statements for the year ended December 31, 2003, including the notes thereto, and the MD&A for the same periods as set out in the Company's prospectus dated October 22, 2004. The prospectus can be found at www.sedar.com. Shareholders should note that the interim financial statements were not reviewed by the Company's auditors. All currency amounts are in pound sterling (GBP or £), unless otherwise indicated. The accounting policies followed in the preparation of these financial statements are consistent, in all material respects, with the accounting policies applied to the Company's consolidated financial statements for the year ended December 31, 2003. Note 9 to the consolidated interim financial statements contains a reconciliation of the loss for the period to Canadian generally accepted accounting principles. CES has established December 31 as its fiscal year end.

This MD&A updates the Company's MD&A for the year ended December 31, 2003 found in the prospectus of the Company dated October 22, 2004. Some of the statements contained in this MD&A, including those related to strategies and other statements, are predictive in nature, and depend upon or refer to future events or conditions or include words such as "expects", "intends", "plans", "anticipates", "believes", "estimates" or similar expressions that are forward looking statements. Forward-looking statements include, without limitation, the information concerning possible or assumed further results of operations as set forth herein. These statements are not historical facts but instead represent only expectations, estimates and projections regarding future events and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally.

The forward-looking statements contained in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results of the Company may differ materially from those expressed in the forward-looking statements contained in this MD&A, due to among other factors, the risks and uncertainties inherent in the business of the Company, the risk factors discussed in the Final Prospectus, and in other documents filed from time to time with the Canadian securities regulators. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.

OVERVIEW

CES is focused on the person-to-person (also known as peer-to-peer or P2P) gaming marketplace. CES's strategy is to provide its person-to-person gaming systems to licensed distribution partners in regulated markets around the world. CES has two lines of business: exchange betting and skill gaming.

CES entered the skill gaming business with the acquisition of SkillJam, a division of eUniverse, Inc., located in the United States, on July 30, 2004, through the Company's wholly owned subsidiary SkillJam Technologies Corporation ("SkillJam"). Through SkillJam, CES hosts a wide range of skill games across its network of branded and private label properties. Management believes that the acquisition of SkillJam will help solidify CES's position as a leader in the overall P2P gaming marketplace. SkillJam's site can be accessed at: www.skilljam.com.

The Company's exchange betting business consists principally of (i) licensing the Company's proprietary P2P exchange betting technology (the "CES Platform") to eGaming operators to power online betting exchanges, and (ii) providing ancillary operational services to licensees of the CES Platform.

The third quarter saw several significant developments in the Company's business. On July 30, 2004, the Company entered the skill gaming business with the acquisition of SkillJam. In early September, CES licensee Betbull – the European Betting Exchange plc ("Betbull") began test-marketing the Company's exchange software at the site www.betbull.com. In addition, Betbull completed its initial public offering on the Vienna Stock Exchange on October 11, 2004.



The Company's financial results for the quarter include two months of operations of the skill gaming business. The Company reported a loss for the quarter, driven by the ongoing costs of technology development. The Company reported an increase in cash for the quarter, which resulted from the Company's financings and an improvement in its working capital position. After the balance sheet date of September 30, 2004, the Company completed a significant financing which greatly strengthened its overall financial position (see "Subsequent Events").

The Company continues to focus on expanding the distribution of both its skill gaming and exchange betting platforms in order to grow its revenues and generate positive net income.

RESULTS OF OPERATIONS

The following discussion and analysis including the table below, shows, for the periods indicated, results of operations for CES, in thousands of pounds sterling ("£") (except per share figures) (or thousands of US dollars (\$) as otherwise noted).

	Three months ended September 30		Nine months ended September 30	
	2004 Unaudited	2003 Unaudited	2004 Unaudited	2003 Unaudited
Group revenue	484	—	496	—
Cost of revenue	(215)	—	(225)	—
Research and Development	(164)	(48)	(576)	(168)
General and Administrative expenses	(534)	(23)	(870)	(103)
Loss before the under noted	(429)	(71)	(1,175)	(271)
Depreciation and amortization	(183)	(10)	(215)	(37)
Interest income	14	—	70	1
Loss on ordinary activities	(598)	(81)	(1,320)	(307)
Loss on ordinary activities after taxation	(598)	(81)	(1,320)	(307)
Appropriations (non-equity)	—	—	—	(18)
Retained loss for period	(598)	(81)	(1,320)	(325)
Basic loss per share (in pence)	(3.1)	(0.8)	(6.7)	(3.1)
Total assets	7,018	265	7,018	265
Total liabilities	721	129	721	129
Long term debt	—	—	—	—
Cash dividend per share	—	—	—	—

Revenue and Customer Milestones

Revenue for the three months ended September 30, 2004 was £484 compared to nil in the same period in 2003. Revenue for the nine months ended September 30, 2004 was £496 compared to nil in the corresponding period in 2003.

The inclusion of the SkillJam business from August 1, 2004 onwards accounted for approximately 95.6% of the year to date revenue in 2004. In the quarter ended September 30, 2004, the skill gaming business signed supply agreements with Golden Palace Games and America Online Inc., ("AOL"), both of which, the Company believes, have the potential to become significant customers. In the current quarter, however, revenue from these two customers was nominal.

Revenues from the exchange betting unit were generated from Betmart Limited ("Betmart"). Betmart was a joint venture between CES and 4Gi Limited, a group of independent licensed bookmakers from the United Kingdom and Ireland. Betmart has served largely as a testing ground for CES's exchange betting platform. In July 2004, CES acquired 4Gi's equity interest in Betmart. As such, Betmart is now a wholly owned subsidiary of CES.



The exchange business unit took a critical step forwards when CES's licensee Betbull, completed its initial public offering on the Vienna Stock Exchange on October 11, 2004 (see "Subsequent Events").

Cost of revenue

Cost of revenue for the three months ended September 30, 2004 was £215 compared to nil in the same quarter in 2003. For the nine months ended September 30, 2004, cost of revenue was £225 compared with nil for the same period in 2003.

The increase in cost of revenue between the comparable periods is almost entirely attributable to SkillJam. Cost of revenue in the skill gaming business unit consists of processing and access fees, which relate to the ability to process credit card transactions, and more significantly, affiliate and partner expenses, which are payments made to SkillJam's marketing partners.

Cost of revenue in the exchange betting unit consists of betting exchange maintenance costs such as technical support via third parties (i.e. hosting facilities for servers). These form a small portion of the Company's overall cost of revenue.

Research and development

Research and development (R&D) expense for the quarter ended September 30, 2004, was £164 compared to £48 for the comparative period in the previous year. For the nine months ended September 30, 2004, research and development expense was £576 compared to £168 for the comparative period in 2003.

The increase in research and development expense in each of the comparative periods is due to two factors: (i) the inclusion of SkillJam's research and development expense; and (ii) the competitive requirement for the Company to deliver state of the art exchange betting technology. This expense is consistent with the Company's strategy to attract licensees by achieving and maintaining technological leadership in the P2P gaming market.

The Company expenses software development costs as incurred.

General and administrative expenses

General and Administrative (G&A) expense for the three months ended September 30, 2004 was £534 compared to £23 in the same quarter in 2003. G&A expense for the nine months ended September 30, 2004 was £870 compared to £103 in the same period in 2003.

The increase in G&A expense is attributable to (i) the acquisition of SkillJam, which almost doubled the head count of the Company, and expanded the offices of the Company to include an office in Los Angeles, California; and (ii) the Company's evolution from a privately held entity for most of 2003 into a public company listed on both the Alternative Investment Market of the London Stock Exchange and the Toronto Stock Exchange.

Depreciation and amortization

Depreciation and amortization (D&A) expense for the three months ended September 30, 2004 was £183 compared to £10 in the third quarter of 2003. For the nine months ended September 30, 2004, D&A was £215 compared to £37 for the corresponding period in 2003.

The increase in D&A expense relates mainly to the Company's amortization of the purchase of SkillJam. The Company has not finalized the determination of goodwill and intangible assets for the purchase of SkillJam and has engaged a third party business valuator for this purpose.

Interest income

Interest income for the three months ended September 30, 2004 amounted to £14 and was nil in the same period in 2003. For the nine months ended September 30, 2004, interest income was £70 compared to £1 for the corresponding period in 2003.

The increase in interest income in each comparable period is attributable to the cash balances on hand from the proceeds of CES's float on AIM in December 2003, which raised net proceeds of £3,662.



Loss on ordinary activities

Loss on ordinary activities for the three months ended September 30, 2004 was £598 compared to £81 for the corresponding period in 2003. For the nine months ended September 30, 2004, loss on ordinary activities was £1,320 compared to £307 for the corresponding period in 2003.

The higher loss in each comparable period reflects the increase in each expense category as previously discussed. Management believes that these higher expenses were necessary in the execution of the Company's business plan. The skill gaming division's operating income was offset by losses in other areas of the Company.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that the Company possesses adequate resources to meet its working capital needs for the foreseeable future, including the working capital needs of the SkillJam business. On October 29, 2004, the Company completed several financings which raised aggregate proceeds of approximately £24,000 (see "Subsequent Events"). Management believes that these financings which were completed in the fourth quarter significantly improve the Company's financial strength and its working capital position.

With the acquisition of the SkillJam business, the Company acquired a material financial obligation where SkillJam has a license agreement with AOL whereby the Company is required to pay AOL US\$618 within 30 days of the effective date of the agreement, US\$200 on or before the 11 month anniversary of the effective date and US\$600 on or before the first anniversary of the effective date. The Company expects all of these payments to be made by December 2005.

Long term commitments

The Company does not have any long term debt. Aside from office space leases, and its agreement with America Online Inc., ("AOL"), the Company does not have any long term agreements which carry significant financial obligations. The table below lists the Company's obligations for the next 5 years:

<i>In '000 of £</i>	2004	2005	2006	2007	2008
Office Space Lease	39.3	38.2	38.2	38.2	38.2
AOL Contract	346.0	448.0	—	—	—
Total	385.3	486.2	38.2	38.2	38.2

Cash flow analysis

The following table shows a summary of CES' cash flow from operations for the periods indicated (in thousands of pounds sterling ("£")).

Summary Cash Flow Statements

	Three months ended September 30		Nine months ended September 30	
	2004 Unaudited	2003 Unaudited	2004 Unaudited	2003 Unaudited
Cash Provided by (used by)				
Operating activities	3	(52)	(852)	(254)
Financing activities	4,100	—	4,100	—
Investing activities	(4,939)	—	(5,067)	(21)

For the three months ended September 30, 2004, CES has generated positive cash flow from operations of £3 compared to a cash outflow from operations of £52 in the corresponding quarter in 2003. For the nine months ended September 30, 2004, CES's cash outflow from operations was £852 compared to an outflow of £254 in the comparable period in 2003.

The transition from negative cash flow from operations in the three months ended September 30, 2003, to positive cash flow from operations in the three months ended September 30, 2004 was driven largely by an improvement in the Company's working capital position. For the nine months ended September 30, 2004, negative cash flow



from operations was higher than in the corresponding period in the prior year due to higher cash outflows relating to higher R&D and G&A expenses in those periods.

The increase in financing activities between comparable periods reflects the financing raised to effect the SkillJam acquisition, net of fees and commission. The acquisition consideration was financed by way of a placing of 4,320,000 special warrants and 80,000 ordinary shares through CIBC World Markets Inc. and Canaccord Capital (Europe) Limited.

The increase in investing activities between comparable periods reflects the acquisition of the SkillJam business, and the capitalization of Betbull. The SkillJam acquisition was completed on July 30, 2004. The business was acquired for an initial cash consideration of US\$8,000 (approximately £4,400). In addition there is a reducing net revenue sharing arrangement on SkillJam's European operations for five years following the closing of the transaction.

ACCOUNTING PRINCIPLES

The Company's accounting principles and estimates used in preparation of these financial statements are considered appropriate in the circumstances, but are subject to judgements and uncertainties inherent in the financial reporting process.

Changes in Accounting Policies

The Company has not adopted or changed any of its accounting policies in the nine months ended September 30, 2004, or the year ended December 31, 2003.

Critical Accounting Estimates

The Company has no critical accounting estimates as it related to its day to day operations. However, the acquisition of SkillJam on July 30, 2004 required estimates by management regarding the assumption of goodwill and other intangible assets. The Company has not finalized the determination of goodwill and intangible assets for the purchase of SkillJam and has engaged a third party business valuator for this purpose.

SUBSEQUENT EVENTS

- On October 5, 2004, CES's shares began trading on the Toronto Stock Exchange (TSX), under the symbol "FUN". Concurrent with its listing, the Company closed a placing of 977,700 ordinary shares at a price of Cdn\$3.22 per share for aggregate gross proceeds of approximately £1.4 million (approximately Cdn\$3.1 million). Shortly thereafter, CES completed a private placement of special warrants (the "Special Warrants"). The Company sold a total of 2,230,500 Special Warrants at a price of Cdn\$3.22 per Special Warrant, raising gross proceeds of approximately £3.1 million (approximately Cdn\$7.2 million).
- On October 11, 2004, Betbull completed an offering on the Vienna Stock Exchange whereby 2,100,000 Austrian depository certificates (each representing an ordinary share in Betbull) were issued to investors at a price of €7.00 per certificate. The offering raised gross proceeds of approximately €14.7 million (or approximately £10.1) before expenses, thus valuing Betbull at approximately €31 million. Subsequent to this transaction, CES holds a 24.6% equity interest in Betbull.
- On October 29, 2004, the Company closed a placing of 14,000,000 ordinary shares at a price of £1.40 per share, for aggregate gross proceeds of approximately £19.6 million (approximately Cdn\$44.5 million). Canaccord Capital (Europe) Limited and CIBC World Markets Inc., acted as agents for the Company in connection with the placing.

The Company's balance sheet has significantly strengthened since September 30, 2004. The capital raised will be utilized in a variety of ways which include but are not limited to potential acquisitions, expanding the Company's marketing and development efforts, and for general corporate purposes.



OUTSTANDING SHARE DATA

As at November 15, 2004 the Company had 41,162,200 Ordinary shares issued and outstanding. The following table sets out Ordinary Shares issuable under warrant or option plan exercises. (The conversion or exercise terms are disclosed in the notes to the financial statements).

In thousands

Outstanding Shares:	41,162
Issuable on exercise of warrants:	190
Issuable on exercise of outstanding stock options:	1,327
Issuable on exercise of outstanding compensation options:	467
Total:	43,146

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect the Company and its business, financial condition, and results of operations, as they relate to the betting exchange business, are substantially unchanged from those discussed in the Company’s prospectus dated October 22, 2004). That prospectus contains financial information as of June 30, 2004. The acquisition of SkillJam brings with it higher credit card deposit levels which will add to higher processing fees and the possibility of processing errors and/or chargebacks. Chargebacks are any deposit transactions credited to a user’s account that are later reversed or repudiated. Nevertheless, historically, chargeback levels at SkillJam were very low.

OUTLOOK

Management believes that the Company’s products have the ability to generate significant revenues and hence positive cash flow in the future. In particular, management believes that the addition of the skill gaming business has strengthened the Company’s position to generate future positive cash flow.





CES SOFTWARE plc

Consolidated Financial Statements
(Expressed in pounds sterling)

For the three months and nine months ended September 30, 2004
(Unaudited)



CES SOFTWARE PLC

CONSOLIDATED BALANCE SHEETS

		September 30, 2004 (unaudited)	December 31, 2003 (unaudited)
	Note	£000	£000
Fixed Assets			
Intangible assets		4,358	51
Tangible assets		145	19
Investment in Betbull	5	421	(1)
		4,924	69
Current Assets			
Debtors		406	280
Cash at bank and in hand		1,688	3,437
		2,094	3,717
Creditors:			
Amounts falling due within one year		(721)	(273)
		1,373	3,444
Net Current Assets			
		1,373	3,444
Total Assets less Current Liabilities and Net Assets			
		6,297	3,513
Capital and Reserves			
Called up share capital		1,198	978
Share premium account		7,225	3,345
Other reserve		(293)	(298)
Capital redemption reserve		664	664
Profit and loss account		(2,497)	(1,176)
		6,297	3,513
Shareholders' Funds – equity	6	6,297	3,513
Subsequent events	10		

See accompanying notes to the unaudited consolidated interim financial statements. These unaudited consolidated interim financial statements should be read in conjunction with the 2003 annual consolidated financial statements included in the Company's prospectus dated October 22, 2004.



CES SOFTWARE PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

	Note	Three months ended September 30		Nine months ended September 30	
		2004 (unaudited)	2003	2004 (unaudited)	2003
		£000		£000	
Group revenue		484	—	496	—
Cost of revenue		(215)	—	(225)	—
Research & Development		(164)	(48)	(576)	(168)
Administrative expenses		(534)	(23)	(870)	(103)
Loss before the undernoted		(429)	(71)	(1,175)	(271)
Depreciation and amortization		(183)	(10)	(215)	(37)
Interest and similar income		14	—	70	1
Loss on ordinary activities before taxation		(598)	(81)	(1,320)	(307)
Loss on ordinary activities after taxation & loss for the financial period		(598)	(81)	(1,320)	(307)
Appropriations (non-equity)		—	—	—	(18)
Retained loss for the period		(598)	(81)	(1,320)	(325)
Basic loss per share (in pence)	7	(3.1)	(0.8)	(6.7)	(3.1)

The results disclosed in the consolidated profit and loss accounts are on historical cost basis.

All of the above results are from continuing operations.

See accompanying notes to the unaudited consolidated interim financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the 2003 annual consolidated financial statements included in CES's prospectus dated October 22, 2004.



CES SOFTWARE PLC

CONSOLIDATED CASHFLOW STATEMENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

	Note	Three months ended September 30		Nine months ended September 30																																																				
		2004 (unaudited)	2003	2004 (unaudited)	2003																																																			
		£000		£000																																																				
Consolidated cash flow statement																																																								
Net cash outflow from operating activities	8	3	(52)	(852)	(254)																																																			
Returns on investments and servicing of finance		14	—	70	1																																																			
Capital expenditure and financial investment		(19)	—	(147)	(21)																																																			
Acquisitions and disposals		(4,920)	—	(4,920)	—																																																			
Cash outflow before management of liquid resources and financing		(4,922)	(52)	(5,849)	(274)																																																			
Managing of liquid resources		1,196	—	2,225	229																																																			
Financing		4,100	—	4,100	—																																																			
Increase/(Decrease) in cash in the period		374	(52)	476	(45)																																																			
<table border="1"> <thead> <tr> <th></th> <th colspan="2">Three months ended September 30</th> <th colspan="2">Nine months ended September 30</th> </tr> <tr> <th></th> <th>2004 (unaudited)</th> <th>2003</th> <th>2004 (unaudited)</th> <th>2003</th> </tr> <tr> <th></th> <th colspan="2">£000</th> <th colspan="2">£000</th> </tr> </thead> <tbody> <tr> <td>Reconciliation of net cash flow to movement net funds</td> <td colspan="5"></td> </tr> <tr> <td>Increase/(Decrease) in cash in the period</td> <td>374</td> <td>(52)</td> <td>476</td> <td>(45)</td> </tr> <tr> <td>Cash inflow from decrease in liquid resources</td> <td>(1,196)</td> <td>—</td> <td>(2,225)</td> <td>(229)</td> </tr> <tr> <td>Translation differences and other non-cash movements</td> <td>(4)</td> <td>(6)</td> <td>1</td> <td>(9)</td> </tr> <tr> <td>Movement in net funds in the period</td> <td>(826)</td> <td>(58)</td> <td>(1,748)</td> <td>(283)</td> </tr> <tr> <td>Net funds at the start of the period</td> <td>2,514</td> <td>149</td> <td>3,436</td> <td>374</td> </tr> <tr> <td>Net funds at the end of the period</td> <td>1,688</td> <td>91</td> <td>1,688</td> <td>91</td> </tr> </tbody> </table>							Three months ended September 30		Nine months ended September 30			2004 (unaudited)	2003	2004 (unaudited)	2003		£000		£000		Reconciliation of net cash flow to movement net funds						Increase/(Decrease) in cash in the period	374	(52)	476	(45)	Cash inflow from decrease in liquid resources	(1,196)	—	(2,225)	(229)	Translation differences and other non-cash movements	(4)	(6)	1	(9)	Movement in net funds in the period	(826)	(58)	(1,748)	(283)	Net funds at the start of the period	2,514	149	3,436	374	Net funds at the end of the period	1,688	91	1,688	91
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See accompanying notes to the unaudited consolidated interim financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the 2003 annual consolidated financial statements included in CES's prospectus dated October 22, 2004.



CES SOFTWARE PLC

STATEMENT OF TOTAL CONSOLIDATED RECOGNISED GAINS AND LOSSES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

	Three months ended September 30		Nine months ended September 30	
	2004 (unaudited)	2003	2004 (unaudited)	2003
	£000		£000	
Statement of total consolidated recognised gains and losses				
Loss for the financial period:				
Group	(598)	(81)	(1,320)	(307)
Foreign exchange differences	(7)	1	(1)	(2)
Total consolidated recognised gains and losses	(605)	(80)	(1,321)	(309)
	Three months ended September 30		Nine months ended September 30	
	2004 (unaudited)	2003	2004 (unaudited)	2003
	£000		£000	
Reconciliation of movements in shareholders' funds				
Loss for the financial period	(598)	(81)	(1,320)	(307)
Appropriations	—	—	—	(18)
Retained loss for the financial period	(598)	(81)	(1,320)	(325)
Reversal of financing charge on preference shares	—	—	—	18
New share capital subscribed net of issue costs	4,100	—	4,100	—
Preacquisition reserve in joint venture acquired	5	—	5	—
Foreign exchange differences	(7)	1	(1)	(2)
Net (decrease)/increase in shareholders funds	3,500	(80)	2,784	(309)
Opening shareholders' funds	2,797	216	3,513	445
Closing shareholders' funds	6,297	136	6,297	136

See accompanying notes to the unaudited consolidated interim financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the 2003 annual consolidated financial statements included in CES's prospectus dated October 22, 2004.



CES SOFTWARE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

(Expressed in pounds sterling)

1 Nature of business

The principal activity of the Company, along with its wholly owned subsidiaries, is as a software solutions provider developing gaming applications for distribution partners in regulated markets. There are two main lines of business: skill gaming and exchange betting.

2 Basis of preparation

The financial information contained in this quarterly report does not constitute statutory accounts as defined in S240 of the UK Companies Act 1985 (as amended). The figures for the year ended 31 December 2003 are extracted from the statutory accounts of CES Software plc for that year. The statutory accounts for that year have been reported on by the Company's Auditors and delivered to the UK Registrar of Companies. The report of the Auditors was unqualified and did not contain a statement under S 237(2) or (3) of the UK Companies Act 1985 (as amended).

The financial information set out above has been prepared, in all material respects, on the basis of the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2003. The disclosures contained in these unaudited consolidated interim financial statements do not include all requirements for annual financial statements. These statements should be read in conjunction with the 2003 annual consolidated financial statements included in our prospectus dated October 22, 2004.

3 Significant accounting policies

The consolidated interim financial statements include the accounts of CES Software plc, its wholly owned subsidiaries and equity investments. All material intercompany transactions and balances have been eliminated upon consolidation.

4 Acquisition of SkillJam Division of eUniverse Inc.

On July 30, 2004, the Company acquired the net operating assets of the SkillJam division of eUniverse, Inc. for a total cash consideration of £4,773,000 including acquisition costs of approximately £147,000. SkillJam is in the business of on-line cash-prize, skill-based gaming and is a provider of fee based skill gaming solutions.

The acquisition will be accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable net assets acquired on the closing date. Under Canadian GAAP the Company is required to assign value to any identifiable intangible assets acquired that may be different from the value if any, assigned under UK GAAP. The Company has engaged an independent valuator to determine the fair value of any identifiable intangible assets acquired. Adjustments to the estimated fair values of such identifiable intangible assets and goodwill will be recorded upon receipt of the independent valuation and such adjustments may be material. The Company expects the amortization period of the intangible assets identified in the acquisition to be on the straight-line basis over the following periods:

Customer contracts	5 years
End-user database	3 years
Intellectual property	3 years

The preliminary fair value allocation of the net assets acquired is as follows:

	£000
	<hr/>
Working capital deficiency	(72)
Goodwill and Intangible assets	4,845
	<hr/>
Consideration – cash	4,773
	<hr/> <hr/>



CES SOFTWARE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

(Expressed in pounds sterling)

5 Investment in Betbull – The European Exchange Betting plc (“Betbull”)

The Company has an equity investment in Betbull. The Directors are of the opinion that commercial operations of Betbull had not been achieved as at September 30, 2004. For this reason, the investment is reported at cost in these financial statements.

6 Shareholders’ Funds

	Share capital	Share premium	Other reserve	Capital redemption reserve	Profit and loss
	£000	£000	£000	£000	£000
Balance December 31, 2003	978	3,345	(298)	664	(1,177)
New share issue	4	80			
Special warrants issued	216	4,320			
Less: issue costs		(520)			
Preacquisition reserve of a joint venture now fully owned			5		
Retained loss for the period					(1,320)
Balance September 30, 2004	1,198	7,225	(293)	664	(2,497)

7 Loss per share

	Three months ended September 30		Nine months ended September 30	
	2004 (unaudited)	2003	2004 (unaudited)	2003 (unaudited)
Loss after tax and preference dividends (£000’s)	(598)	(81)	(1,320)	(325)
Weighted average numbers of shares in issue (000’s)	19,573	10,425	19,573	10,425
Loss per share (in pence):				
basic	(3.1)	(0.8)	(6.7)	(3.1)

Diluted loss per share has not been presented as including all potential ordinary shares in the calculation would be anti-dilutive.



CES SOFTWARE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

(Expressed in pounds sterling)

8 Reconciliation of operating loss to operating cash flows

	Three months ended September 30		Nine months ended September 30	
	2004 (unaudited)	2003	2004 (unaudited)	2003
	£000		£000	
Group operating loss	(612)	(81)	(1,390)	(308)
Amortization of intangible assets	177	9	194	26
Charge for stockbased compensation	—	—	—	3
Depreciation of tangible assets	6	1	22	11
Decrease/(Increase) in debtors	(102)	(1)	(126)	(76)
(Decrease)/Increase in creditors	534	20	448	90
Net cash outflow from operating activities	3	(52)	(852)	(254)

9 Reconciliation to Canadian GAAP

The following table reconciles the loss for the period as reported on the Consolidated Profit and Loss Account to the consolidated loss that would have been reported had the financial statements been prepared under Canadian GAAP:

	Three months ended September 30		Nine months ended September 30	
	2004 (unaudited)	2003	2004 (unaudited)	2003
	£000		£000	
Retained loss for the period	(598)	(81)	(1,320)	(325)
Less: Stock based compensation*	20	—	(131)	—
Add: amortization of goodwill	47	—	47	—
Retained loss for the period under Canadian GAAP	(531)	(81)	(1,404)	(325)
Loss per share (in pence):				
basic	(2.7)	(0.8)	(7.2)	(3.1)

* Stock based compensation cost for the quarter ended 30 September 2004 includes an adjustment arising from options withdrawn.



CES SOFTWARE PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

(Expressed in pounds sterling)

10 Subsequent events

The following events occurred after September 30, 2004:

- On October 5, 2004, CES's shares began trading on the Toronto Stock Exchange (TSX), under the symbol "FUN". Concurrent with its listing, the Company closed a placing of 977,700 ordinary shares at a price of Cdn\$3.22 per share for aggregate gross proceeds of approximately £1.4 million (approximately Cdn\$3.1 million). Shortly thereafter, CES completed a private placement of special warrants (the "Special Warrants"). The Company sold a total of 2,230,500 Special Warrants at a price of Cdn\$3.22 per Special Warrant, raising gross proceeds of approximately £3.1 million (approximately Cdn\$7.2 million).
- On October 11, 2004, Betbull completed an offering on the Vienna Stock Exchange whereby 2,100,000 Austrian depository certificates (each representing an ordinary share in Betbull) were issued to investors at a price of €7.00 per certificate. The offering raised gross proceeds of approximately €14.7 million (or approximately £10.1) before expenses, thus valuing Betbull at approximately €31 million. Subsequent to this transaction, CES holds a 24.6% equity interest in Betbull.
- On October 29, 2004, the Company closed a placing of 14,000,000 ordinary shares at a price of £1.40 per share, for aggregate gross proceeds of approximately £19.6 million (approximately Cdn\$44.5 million). Canaccord Capital (Europe) Limited and CIBC World Markets Inc., acted as agents for the Company in connection with the placing.



