



ESI Entertainment Systems Inc.

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News Release

For Immediate Release February 1, 2010

**ESI ENTERTAINMENT SYSTEMS INC ANNOUNCES
FISCAL 2010 THIRD QUARTER FINANCIAL RESULTS**

BURNABY, B.C. February 1, 2010 - ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX: ESY) reported today its financial results (unaudited) for fiscal Q3 2010 ended November 30, 2009. (All dollar amounts reported in Canadian funds)

Financial highlights for the period ending November 30, 2009 include:

- Consolidated revenues decreased by 7% to \$2,618,546 from \$2,808,153 during the same period last year.
- Citadel revenues increased by 87% to \$786,088 from \$420,435 during the same period last year.
- Operating expenses decreased by 43% to \$2,427,999 from \$4,263,841 during the same period last year.
- Net loss decreased by 60% to \$525,232 from a net loss of \$1,583,032 during the same period last year.

Our financial results were mainly driven by efforts being made during the third quarter to reduce direct and operating expenses while at the same time working to expand the business base of ESI Integrity and rebuild the business of Citadel Commerce.

During the third quarter of fiscal 2010, Citadel continued to see a steady growth in revenues while holding its costs to a minimum. ESI Integrity has decreased its resource levels due to lower than expected third quarter revenues however it continues to be profitable and has built a strong funnel of business for 2010.

The Company is building its customer base to allow us to work for future accelerated growth. Our team of employees and our Board continued to work well together with skill and dedication. Many have accepted additional workloads to accommodate the growing business while holding down our costs.

Financial Review

Total revenue decreased by 30% to \$832,284 for the three months ended November 30, 2009 from \$1,196,471 for the three months ended November 30, 2008.

Product development expenses were \$56,794 and \$179,682 during the three and nine months ended November 30, 2009 respectively, a decrease of 5% and 33% respectively compared to \$59,986 and \$267,764 for the three and nine months ended November 30, 2008.

Sales, marketing and customer service expenses were \$39,423 and \$117,702 during the three and nine months ended November 30, 2009 respectively, a decrease of 78% and 82% respectively compared to \$181,946 and \$658,789 for the three and nine months ended November 30, 2008.

General and administrative expenses were \$699,865 and \$1,970,403 during the three and nine months ended November 30, 2009 respectively, representing a decrease of 29% and 33% respectively compared to \$985,757 and \$2,957,975 for the three months and nine months ended November 30, 2008.

Amortization expenses were \$28,710 and \$160,212 during the three month and nine month periods ended November 30, 2009 respectively, a decrease of 66% and 58% respectively compared to \$85,186 and \$379,313 for the corresponding periods ended November 30, 2008. The decrease in amortization expense mainly relates to very few new assets being purchased and amortization being reduced on older equipment.

Net loss for the three and nine month periods ended November 30, 2009 was \$525,232 (\$0.04 net loss per share) and \$1,583,032 (\$0.11 net loss per share), respectively, compared to net loss of \$1,106,477 (\$0.07 net loss per share) and \$3,965,574 (\$0.28 net loss per share) for the prior comparative periods.

The decrease in all expense categories and Net Loss is due to the Company's ongoing efforts to minimize its operating expenses.

Citadel processing accounts as at November 30, 2009 totaled \$8.2 million compared to \$2.9 million as at February 28, 2009. These accounts are comprised of cash, which are segregated bank funds arising from the processing of deposits and payments for Citadel merchants and consumers, and accounts receivable relating to Citadel processing accounts for funds in transit from merchants and consumers.

ESI Entertainment Systems Inc.

Consolidated Balance Sheets

(expressed in Canadian dollars)

	November 30, 2009 (unaudited)	February 28, 2009 (audited)
Assets		
Cash and cash equivalents	\$ 105,544	\$ 909,785
Accounts receivable	390,207	1,100,023
Prepays	236,783	106,513
	<u>732,534</u>	<u>2,116,321</u>
Citadel processing accounts	8,239,214	2,958,565
Property and equipment	124,996	280,725
Deferred contract costs	595,823	696,234
	<u>\$ 9,692,567</u>	<u>\$ 6,051,845</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 1,562,290	\$ 1,049,700
Loan Payable	2,161,636	2,564,704
Capital lease obligations	-	30,684
Deferred revenue	672,487	535,667
	<u>4,396,413</u>	<u>4,180,755</u>
Citadel processing liabilities	8,239,214	2,958,565
Deferred revenue	1,051,839	1,324,392
	<u>13,687,466</u>	<u>8,463,712</u>
Shareholders' Equity (Deficit)		
Capital stock	9,957,959	9,957,959
Contributed surplus	4,328,885	4,328,885
(Deficit)	(18,281,743)	(16,698,711)
	<u>(3,994,899)</u>	<u>(2,411,867)</u>
	<u>\$ 9,692,567</u>	<u>\$ 6,051,845</u>

On behalf of the Board

"Tony Greening" Director
Tony Greening

"Michael Meeks" Director
Michael Meeks

ESI Entertainment Systems Inc.

Consolidated Statements of Operations and Comprehensive Loss and Deficit

(expressed in Canadian dollars)

(unaudited)	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2008	2009	2008
Revenues	\$ 832,284	\$ 1,196,471	\$ 2,618,546	\$ 2,808,153
Direct costs	<u>633,693</u>	<u>576,837</u>	<u>1,905,219</u>	<u>2,086,399</u>
Gross profit	<u>198,591</u>	<u>619,634</u>	<u>713,327</u>	<u>721,754</u>
Operating expenses				
Product development	56,794	59,986	179,682	267,764
Sales, marketing and customer service	39,423	181,946	117,702	658,789
General and administrative	699,865	985,757	1,970,403	2,957,975
Amortization of property and equipment	<u>28,710</u>	<u>85,186</u>	<u>160,212</u>	<u>379,313</u>
	<u>824,792</u>	<u>1,312,875</u>	<u>2,427,999</u>	<u>4,263,841</u>
Earnings before under noted items	(626,201)	(693,241)	(1,714,672)	(3,542,087)
Other expenses (income)				
Foreign exchange loss (gain)	(143,733)	369,369	(240,407)	375,252
Interest income	(640)	(6,574)	(20,840)	(34,779)
Interest expense	<u>43,404</u>	<u>43,619</u>	<u>129,607</u>	<u>74,485</u>
Earnings before income taxes and non-controlling interest	<u>(525,232)</u>	<u>(1,099,655)</u>	<u>(1,583,032)</u>	<u>(3,957,045)</u>
Provision for income taxes				
Current	<u>-</u>	<u>6,822</u>	<u>-</u>	<u>8,529</u>
	<u>-</u>	<u>6,822</u>	<u>-</u>	<u>8,529</u>
Net loss and comprehensive loss	<u>\$ (525,232)</u>	<u>\$ (1,106,477)</u>	<u>\$ (1,583,032)</u>	<u>\$ (3,965,574)</u>
Earnings (Loss) per share				
Basic	\$ (0.04)	\$ (0.07)	\$ (0.11)	\$ (0.28)
Deficit, beginning of period	\$ (17,756,511)	\$ (14,489,282)	\$ (16,698,711)	\$ (11,630,185)
Net loss	<u>(525,232)</u>	<u>(1,106,477)</u>	<u>(1,583,032)</u>	<u>(3,965,574)</u>
Deficit, end of period	<u>\$ (18,281,743)</u>	<u>\$ (15,595,759)</u>	<u>\$ (18,281,743)</u>	<u>\$ (15,595,759)</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

(unaudited) Three Months Ended November 30, 2009 2008 Nine Months Ended November 30, 2009 2008

Cash flows provided by (used in)

Operating activities

Net earnings	\$ (525,232)	\$ (1,106,477)	\$ (1,583,032)	\$ (3,965,574)
Items not affecting cash:				
Amortization of property and equipment	28,710	85,186	160,212	379,313
Impairment of intangible assets	-	-	-	(34,746)
Future income taxes	-	6,822	-	8,529
Net changes in non-cash operating items:				
Accounts receivable	146,013	(207,148)	709,816	88,206
Prepays	(64,990)	254,104	(130,270)	25,269
Allowance for bad debts	-	-	-	(310,608)
Accounts payable and accrued liabilities	483,128	463,896	512,590	(32,599)
Deferred revenue	(72,334)	(495,627)	(135,733)	(463,095)
Deferred contract costs	36,967	(63,691)	100,411	(124,487)
	<u>32,262</u>	<u>(1,062,935)</u>	<u>(366,006)</u>	<u>(4,429,792)</u>

Investing activities

Acquisition of property and equipment	<u>(9,685)</u>	<u>-</u>	<u>(4,483)</u>	<u>-</u>
	<u>(9,685)</u>	<u>-</u>	<u>(4,483)</u>	<u>-</u>

Financing activities

Loan payable	(47,472)	-	(403,068)	2,461,868
Capital lease payments	<u>(4,515)</u>	<u>(38,330)</u>	<u>(30,684)</u>	<u>(187,261)</u>
	<u>(51,987)</u>	<u>(38,330)</u>	<u>(433,752)</u>	<u>2,274,607</u>

Decrease in cash and cash equivalents	(29,410)	(1,101,265)	(804,241)	(2,155,185)
Cash and cash equivalents, beginning of period	<u>134,954</u>	<u>1,988,543</u>	<u>909,785</u>	<u>3,042,463</u>
Cash and cash equivalents, end of period	<u>\$ 105,544</u>	<u>\$ 887,278</u>	<u>\$ 105,544</u>	<u>\$ 887,278</u>

Supplemental information

Interest received	\$ 640	\$ 6,574	\$ 20,840	\$ 34,779
Interest paid	43,404	43,619	129,607	74,485

About ESI Entertainment Systems Inc.

ESI Entertainment Systems Inc (CNSX: ESY) is an idea generation and software development company. We develop concepts, create prototypes, establish partnerships and validate potential markets. When we have proven a product and its opportunities we create subsidiaries with a dedicated team, infrastructure, and resources to allow it to focus on building and selling the product to its market niche. Our team of experienced and dedicated people have led us to be revolutionary market leaders in many industries, including e-commerce payment technologies, hardware based input devices, real time auditing systems, transaction processing systems, graphical 3D displays, e-commerce web services, and payment fraud and risk mitigation. Since formation in 1999 ESI Entertainment Systems Inc has created three independently operated and controlled subsidiaries based on validated and proven products: Citadel Commerce Corp., ESI Integrity Inc., and PlayLine Inc. PlayLine Inc. is presently dormant.

Forward looking Statements

This news release may contain forward-looking statements concerning ESI Entertainment Systems Inc, which statements can be identified by the use of forward-looking terminology such as “expect”, “proposed”, “may”, “plan”, “intend”, “will”, “would” or the negative thereof or any other variations thereon or comparable terminology referring to future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and the actual events or results could be materially different than those anticipated in those forward-looking statements as a result of numerous factors discussed more fully in the Company’s Final Prospectus dated March 22, 2006, Annual Information Form and elsewhere in other filings on www.sedar.com. These risks include risks related to revenue growth, operating results, industry growth, changes in regulation and legislation, products, technology, financing, competition, personnel and other factors affecting the Company and its business, any of which could cause actual events or results to vary materially from ESI’s anticipated future results. Forward-looking statements are based on beliefs, opinions and expectations of ESI’s management at the time they are made, and ESI does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances should change.

The Canadian National Stock Exchange does not accept responsibility for this press release.

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