ESI Entertainment Systems Inc.

Consolidated Financial Statements

(expressed in Canadian dollars)

For the Years Ended February 28, 2011 and February 28, 2010

Contents

To the Shareholders of ESI Entertainment Systems Inc.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is used.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

June 27, 2011

"*Tony Greening*"
Tony Greening
Chief Executive Officer

"*Ian Franks*"
Ian Franks
Chief Financial Officer

MNP LLP

Independent Auditors' Report

To the Shareholders of ESI Entertainment Systems Inc.:

We have audited the accompanying consolidated financial statements of ESI Entertainment Systems Inc. which comprise the consolidated balance sheets as at February 28, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ESI Entertainment Systems Inc. as at February 28, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter – Going Concern

We draw attention to Note 1 in the financial statements which indicates that ESI Entertainment Systems Inc. has a net loss and comprehensive loss for the year of $734,083 (2010 - $2,340,299), accumulated losses of $19,773,093 (2010 - $19,039,010) and negative cash flows from operations of $194,411 (2010 - $983,950). In addition, there is a working capital deficit of $5,401,038 (2010 - $4,468,290). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Surrey, British Columbia

June 27, 2011

MNP LLP

Chartered Accountants

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ESI Entertainment Systems Inc.
Consolidated Balance Sheets

(expressed in Canadian dollars)

Years Ended	February 28, 2011	February 28, 2010
Assets		
Cash	$ 17,742	$ 89,208
Accounts receivable	210,160	361,745
Prepaids and other	66,912	65,658
Citadel processing accounts (Note 3)	4,277,252	4,937,401
	4,572,066	5,454,012
Property and equipment (Note 4)	123,002	170,499
Deferred contract costs	382,682	550,362
Capitalized development costs (Note 5)	160,255	47,532
	$ 5,238,005	$ 6,222,405
Liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 2,085,028	$ 1,516,100
Loan Payable (Note 7)	2,081,567	2,174,733
Deferred revenue	485,367	582,230
Citadel processing liabilities (Note 3)	5,321,142	5,649,239
	9,973,104	9,922,302
Deferred revenue	519,494	913,605
	10,492,598	10,835,907
Shareholders' Equity (Deficiency)		
Share capital (Note 8)	9,957,969	9,957,969
Contributed surplus (Note 8)	4,560,531	4,467,539
Deficit	(19,773,093)	(19,039,010)
	(5,254,593)	(4,613,502)
	$ 5,238,005	$ 6,222,405

Commitments (Note 11)
Going Concern (Note 1)

On behalf of the Board

"Tony Greening" Director — *"Michael Meeks"* Director

Tony Greening **Michael Meeks**

ESI Entertainment Systems Inc.
Consolidated Statements of Operations and Comprehensive Loss and Deficit
(expressed in Canadian dollars)

Years Ended		February 28, 2011		February 28, 2010
Revenues (Note 13)	$	3,408,325	$	3,581,478
Direct costs		1,610,447		2,558,307
Gross profit		1,797,878		1,023,171
Operating expenses				
Product development		171,452		175,463
Sales, marketing and customer service		142,460		135,043
General and administrative		2,570,927		2,797,099
Amortization of property and equipment		53,281		187,298
		2,938,120		3,294,903
Loss before under noted items		(1,140,242)		(2,271,732)
Other expenses (income)				
Foreign exchange (gain) loss		(581,718)		(109,597)
Interest income		(3,044)		(20,974)
Interest expense		241,288		175,170
Other		(62,685)		23,968
Net loss and comprehensive loss	$	(734,083)	$	(2,340,299)
Loss per share				
Basic and diluted	$	(0.05)	$	(0.16)
Weighted average basic and diluted common Shares outstanding		14,234,727		14,234,727
Deficit, beginning of year	$	(19,039,010)	$	(16,698,711)
Net loss		(734,083)		(2,340,299)
Deficit, end of year	$	(19,773,093)	$	(19,039,010)

ESI Entertainment Systems Inc.
Consolidated Statements of Cash Flows
(expressed in Canadian dollars)

Years Ended	February 28, 2011	February 28, 2010
Cash flows provided by (used in)		
Operating activities		
Net loss	$ (734,083)	$ (2,340,299)
Items not affecting cash:		
Stock-based compensation (Note 9)	92,992	138,655
Amortization of property and equipment	53,281	187,298
Other	(2,567)	3,215
Net changes in non-cash operating items		
Accounts receivable	151,585	738,278
Prepaids and other	(1,254)	40,855
Accounts payable and accrued liabilities	568,929	466,397
Deferred revenue	(490,974)	(364,224)
Deferred contract costs	167,680	145,872
	(194,411)	(983,950)
Investing activities		
Acquisition of property and equipment	(3,218)	(90,778)
Proceeds on disposal	-	10,500
Capitalized development costs	(112,723)	(47,532)
	(115,941)	(127,810)
Financing activities		
Capital lease payments	-	(30,684)
Loan payable	(93,166)	(389,971)
Change in Citadel processing liabilities	(328,097)	2,690,674
Change in Citadel processing accounts	660,149	(1,978,836)
	238,886	291,183
Decrease in cash and cash equivalents	(71,466)	(820,577)
Cash and cash equivalents, beginning of year	89,208	909,785
Cash and cash equivalents, end of year	$ 17,742	$ 89,208

Supplemental information		
Interest received	$ 3,044	$ 20,929
Interest paid	$ 49,339	$ 71,833

1. Nature and continuance of operations

ESI Entertainment Systems Inc. ("the Company") was incorporated as e-Success Inc. on December 9, 1999 under the *Canada Business Corporations Act.* On February 27, 2006, the Company was continued as a British Columbia corporation and changed its name to ESI Entertainment Systems Inc. (“ESI”).

ESI

ESI is a software development company with two main independently operated and controlled subsidiaries: ESI Integrity Inc. (“Integrity”) and Citadel Commerce Corp. (“Citadel”). The two active subsidiaries are located in separate physical locations and operated autonomously with completely separate management, personnel and infrastructure. The Company also has a number of other minor subsidiaries described in note 2.

Integrity

Integrity provides software solutions for real-time auditing, fraud control and risk management systems to businesses requiring high levels of security, integrity, and trust, including government lotteries and pari-mutuel (horse tracks) organizations. Integrity enters into long term customer license and support contracts where it charges a fixed license fee for the use of its audit and risk management software, as well as an annual support fee. The license contracts can be perpetual or renewable. The support contracts are renewable. Revenue is typically earned over a two to five year period, depending on the term of each contract. The change in revenue is dependent on the number of contracts executed in a given year, which may vary substantially from year to year.

The cost of licensing revenue primarily consists of the cost of customizing the software and the cost of installing and testing the software. The cost of support revenues primarily relates to personnel support costs.

Citadel

Citadel’s primary product is its Instant Bank Transfer service. It earns a fee on each payment processed to and from end-users and e-commerce merchants.

Citadel provides on-line payment processing services including electronic cheques and paper cheques but its main focus is its instant online banking services. Transactions are processed with concurrent transactional fraud detection services including full identity pre-authorization via in-house and third party databases and validation of previous transaction history. All of Citadel’s services are based on a fee per transaction charged to its merchants. Its existing infrastructure and personnel have the capability to process substantially larger volumes.

The Instant Bank Transfer service uses a software product that assists the consumer to complete the details of an online bank transfer which simplifies the process and eliminates data entry errors. The software also detects when the customer initiated the transfer and the merchant is notified that the funds have been sent. Citadel uses proprietary back-office software to electronically scan Citadel bank accounts for received deposits and to notify merchants of changes in transaction states. Knowing that the funds have been sent by the customer allows the merchant to have a high level of confidence that the funds will soon be received by Citadel. This allows the merchant to provide the customer with instant access to their funds.

1. Nature and continuance of operations (Continued)

These financial statements have been prepared on a going concern basis which includes the assumption that the Company will be able to realize its assets and settle its liabilities in the normal course of business. For the year ended February 28, 2011 the Company incurred a loss from operations of $734,083 (2010: $2,340,299) and a deficiency in operating cash flow of $194,411 (2010: $983,950). In addition, there is a working capital deficit of $5,401,038 (2010: $4,468,290).

The Company has made efforts to reduce costs incurred in its operations. The continued revenues from the Company's active businesses form the basis of management's opinion that the Company will meet its liabilities and commitments as they become due. The Company is currently monitoring all expenditures and implementing cash management strategies to ensure that it has adequate cash reserves to fund identified expenditure requirements.

Given the Company's operating losses and working capital deficit, there exists considerable uncertainty about the Company's ability to continue as a going concern. The Company will require continued financial support from its shareholders and creditors and/or new debt or equity financing until it is able to generate sufficient cash flow from operations on a sustained basis. There can be no guarantee that adequate funds will be available on acceptable terms as and when required by the Company. Failure to obtain ongoing support of its shareholders and creditors may make the going concern basis of accounting inappropriate, in which case the Company's assets and liabilities would need to be recognized at their liquidation values. These financial statements do not include any adjustment due to this going concern uncertainty.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles as issued by the Accounting Standards Board in Canada using the following significant accounting polices:

Basis of consolidation and financial statement preparation

The Company has consolidated all the assets, liabilities, revenues and expenses of all subsidiaries after elimination of inter-company transactions and balances. These consolidated financial statements include the accounts of the Company and the following direct and indirect subsidiaries:

Active:

- ESI Integrity Inc. - wholly-owned subsidiary incorporated in Canada
- Citadel Commerce Corp - wholly-owned subsidiary incorporated in Canada
- Citadel Commerce UK Limited - wholly-owned subsidiary incorporated in United Kingdom
- ESI Holdings (Malta) Limited - wholly-owned subsidiary incorporated in Malta
- Citadel Commerce (Malta) Limited - wholly-owned subsidiary incorporated in Malta
- CC Mexico Holdings, S. de R.L. de C.V. - wholly-owned subsidiary incorporated in Mexico

Inactive:

- Playline, Inc. - wholly-owned subsidiary incorporated in Canada
- Fortress Technologies Limited - wholly-owned subsidiary incorporated in Malta
- Playline Technologies Limited - wholly-owned subsidiary incorporated in Malta

2. Summary of significant accounting policies (Continued)

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis at the following annual rates:

Computer hardware	3 years
Computer software	3 years
Equipment under capital leases	3 years
Leasehold improvements	5 years
Furniture and fixtures	10 years

Impairment of long-lived assets

Long-lived assets consist of property and equipment, deferred product development costs and deferred contract costs. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from their use and disposal are less than the assets' carrying amount.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured at the time of recognition.

For Integrity contracts with multiple deliverables, such as software licenses and support services, these arrangements do not qualify for separate units of accounting as there is no vendor specific objective and reliable evidence of their fair value. Accordingly, the software license and the software support services revenue are recognized over the remaining term of the related support services contract, subject to the delivery and installation of the software and acceptance by the customer. Deferred revenue consists of unearned license fees received prior to delivery, installation and acceptance by the customer, unamortized license and support fees revenue and advance payments of annual support service.

Citadel's revenue from transaction processing services is recognized on execution of the underlying transactions. Revenue from consulting and support services is recognized as such services are provided.

Deferred contract costs

Contract costs incurred for the installation of software pursuant to license agreements with Integrity are included in deferred contract costs. These expenditures generally relate to materials and direct labour costs and are charged to direct cost of revenues earned by ESI Integrity over the term of the related revenue contract. When it is determined that expenditures will not likely be recovered by future revenue, such expenditures are included in current year's Statement of Operations.

2. Summary of significant accounting policies (Continued)

Leases

Leases that transfer substantially all the benefits and risk of ownership to the Company are recorded as capital leases. Assets under capital lease are included in property and equipment with offsetting long-term capital lease obligation being recorded as liabilities. All other leases are classified as operating leases under which lease costs are expensed in the period.

Financial instruments

In accordance with the CICA accounting standards 3855 and 3861, all financial instruments, including embedded derivatives, must initially be recognized at fair value on the balance sheet and classified into the following categories: financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Unrealized gains and losses on available-for-sale financial assets are recognized in other comprehensive income and are transferred to income when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Investment transactions are made on the trade date and any transaction costs with respect to financial instruments are expensed in the period incurred.

The Company's financial instruments are listed as follows, according to their classification:

a) Cash and Citadel processing accounts are classified as held-for-trading and are measured at fair value.

b) Accounts receivable and Citadel processing accounts are classified as loans and receivables and are measured at amortized cost.

c) Accounts payable, accrued liabilities, loan payable and Citadel processing liabilities are classified as other financial liabilities and are measured at amortized cost.

Comprehensive income

The components of other comprehensive income included unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the years ended February 28, 2011 and 2010. As the Company has no items of other comprehensive loss, the net loss for the year is equivalent to comprehensive loss.

Stock-based compensation plans

Stock options granted are accounted for in accordance with the fair value based method. The fair value of options granted to employees is estimated on the date of grant and is recognized as compensation expense over the vesting period of the options with a corresponding credit to contributed surplus. The fair value of each stock option granted is estimated on the date of grant using the Black Scholes option pricing model. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to share capital.

2. Summary of significant accounting policies (Continued)

Income taxes

The Company follows the asset and liability method of tax allocation accounting whereby future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as unutilized losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. The amount of future income tax assets recognized is limited to the amount that is estimated as more likely than not to be realized.

Translation of foreign currencies

The Company's functional currency is the Canadian dollar. The operations of the Company's subsidiaries are considered integrated and are translated using the temporal method. Transactions in foreign currencies are translated into Canadian dollars at the previous month's average exchange rate. Monetary assets and liabilities expressed in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in the Statement of Operations.

Loss per share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The diluted effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by the application of the treasury stock method. This method assumes the proceeds from the exercise of dilutive options and warrants are used to purchase common shares at the weighted average market price during the period.

Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period reported. Items requiring significant estimates and subject to measurement uncertainty include amortization on property and equipment and deferred product development costs, deferred contract costs, bad debt allowance, impairment allowance, valuation allowance against future tax assets and stock based compensation expense. By their nature, these estimates are subject to measurement uncertainty. Actual results could differ, and such estimates may be subject to change in the future.

2. Summary of significant accounting policies (Continued)

Deferred product development costs

Deferred product development costs represent material costs incurred by the Company primarily related to the development of new auditing software, quality assurance processes and the user interface application to improve their existing products. Deferred development costs, net of related investment tax credits, are expensed as incurred unless they meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. Development costs incurred on new product development projects, which in management's view have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and will be amortized over its estimated useful life once revenue is earned after implementation. However, if at any time a product is deemed no longer commercially viable, the balance of deferred development costs is expensed. There is no impairment of deferred development costs as at February 28, 2011 and 2010. Amortization of $2,565 has been recorded for the year ending February 28, 2011 (2010 – nil).

Changes in accounting policies and disclosures

In 2010, the Company early adopted the Canadian Institute of Chartered Accountants Handbook sections 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". All three standards are effective for fiscal years beginning on or after January 1, 2011.

Under section 1582, the purchase price of a business combination is based on the fair value of consideration exchanged at the acquisition date and any contingent consideration of the acquisition is to be recognized at fair value at the acquisition date and subsequently re-measured at fair value with changes recorded through earnings each period until settled. In addition, this new guidance generally requires all transaction costs to be expensed through the income statement and any negative goodwill is required to be recognized immediately into earnings.

Section 1601, together with Section 1602, replaces former Section 1600 "Consolidated Financial Statements". Section 1601 carries forward the requirements of Section 1600 for preparing consolidated financial statements after acquisition and some aspects of consolidation at the date of a business combination. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary subsequent to a business combination.

The adoption of these standards did not have any impact on the Company's consolidated financial statements.

(expressed in Canadian dollars)

2. Summary of significant accounting policies (Continued)

Recent pronouncements in accounting standards

a) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. For the Company, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS.Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date. The Company is developing a changeover plan to adopt IFRS on date of transition, March 1, 2010. The key elements of the plan include assessing the impact of adopting IFRS and taking preparatory action for transition. The Company does not anticipate significant amendments to its accounting policies, IT and data systems, internal controls over financial reporting or business activities as a result of the changeover to IFRS and does not specifically identify key elements warranting progress update disclosure.

3. Citadel processing

Citadel Processing Accounts represent the bank accounts maintained by the Company for the purpose of payment processing for Citadel merchants and clients. These accounts are recorded separately from the Company's operating bank accounts.

Citadel Processing Liabilities represent balances due to myCitadel clients, merchants and their clients from funds held in trust, pending transaction cancellation periods and processing times. These amounts consist of:

	2011	2010
Merchant processing funds	$ 5,272,083	$ 5,581,442
Merchant reserves	47,220	58,101
myCitadel consumer funds	1,839	9,696
	$ 5,321,142	$ 5,649,239

Merchant processing funds are funds held with Citadel on behalf of the merchants, these are available on demand.

Merchant reserves represent 10% of certain processed transactions accumulated on a six month rolling period for certain merchants.

myCitadel consumer funds represent the funds held by clients to be used in e-commerce activities.

(expressed in Canadian dollars)

4. Property and equipment

2011		Cost		Accumulated Amortization		Net Book Value
Computer hardware	$	1,205,719	$	1,183,244	$	22,474
Computer software		507,643		496,897		10,746
Furniture and fixtures		246,702		184,827		61,875
Leasehold improvements		134,037		106,131		27,906
	$	2,094,101	$	1,971,099	$	123,002

2010		Cost		Accumulated Amortization		Net Book Value
Computer hardware	$	1,202,500	$	1,167,898	$	34,602
Computer software		507,643		487,377		20,266
Furniture and fixtures		246,702		166,447		80,255
Leasehold improvements		134,037		98,661		35,376
	$	2,090,882	$	1,920,383	$	170,499

5. Capitalized development costs

2011		Cost		Accumulated Amortization		Net Book Value
Development costs	$	162,820	$	2,565	$	160,255

2010		Cost		Accumulated Amortization		Net Book Value
Development costs	$	47,532	$	-	$	47,532

6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred salaries totaling $1,403,628 (2010: $861,016). Outstanding deferred salaries accrue interest annually at 8.4%.

(expressed in Canadian dollars)

7. Loan payable

The Company secured a US $2 million dollar loan bearing interest at the rate of 6% per annum. The loan is secured by first ranking fixed charges on the entire issued share capital of the Company's principal subsidiaries, Integrity, Citadel and Citadel Commerce UK Limited. The loan is repayable on demand.

8. Capital stock and contributed surplus

Authorized:

Unlimited voting common shares without par value

Issued and outstanding – common shares		Number of Shares		Share Capital		Contributed Surplus
Balance, February 28, 2009	#	14,234,727	$	9,957,959	$	4,328,884
Stock-based compensation		-		-		138,655
Balance, February 28, 2010	#	14,234,727	$	9,957,959	$	4,467,539
Stock-based compensation		-		-		92,992
Balance, February 28, 2011	#	14,234,727	$	9,957,959	$	4,560,531

9. Stock-based compensation

Under the Company's stock option plan and at the discretion of the board of directors, the Company may grant options to purchase up to 2,850,000 common shares of the Company to its directors, officers, employees and consultants. No one person is to be granted options equal to more than 5% of the total issued and outstanding common shares of the Company on a non-diluted basis. The maximum term of the options under this plan is ten years and the exercise price and vesting period will be determined by the board of directors at the time of granting.

During the year, the company repriced stock option awards to officers and employees. Such options are repriced at a new exercise price of $0.05 per share. The Company has accounted for the repricing as a modification under CICA Section 3870. The modification did not result in additional compensation, however it accelerated the vesting to one year.

(expressed in Canadian dollars)

9. Stock-based compensation (Continued)

During the fiscal years ended shown below, common share incentive stock options were granted and exercised as follows:

	Number of Shares Issuable on Exercise	Weighted Average Exercise Price
Balance, February 28, 2009	1,950,250	0.64
Granted during the year	195,000	0.07
Expired during the year	(87,750)	0.78
Forfeited during the year	(97,500)	0.36
Balance, February 28, 2010	1,960,000	0.60
Expired during the year	(33,250)	0.27
Cancelled during the year	(815,000)	0.87
Granted during the year	481,000	0.05
Forfeited during the year	(33,750)	0.65
Balance, February 28, 2011	1,559,000	0.05
Exercisable at February 28, 2011	498,500	0.05

All options granted carried exercise prices equal to the current trading price of common shares at the date of grant. The Company recorded a stock based compensation expense in the statement of operations of $92,992 for the year ended February 28, 2011 (2010: $138,655). This amount is included in General and Administrative operating expenses.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free interest rate	1.26% to 1.70%	1.26% to 1.70%
Dividend yield	-	-
Expected life	1	1 to 4
Volatility	401% to 332%	388% to 401%

The fair value of the options granted during fiscal 2011 was $24,050 (2010: $12,431).

Common share incentive stock options outstanding at February 28, 2011 are summarized as follows:

Exercise Price	Number of Shares Issuable on Exercise	Weighted Average Remaining Life (Years)	Number of Shares Issuable on Exercisable Options
$0.05	145,000	8.62	145,000
0.05	1,414,000	9.51	353,500
	1,559,000		498,500

(expressed in Canadian dollars)

10. Income taxes

The Company has filed all Canadian corporate tax returns relating to Canadian operations, however is not compliant with foreign statutory requirements related to its subsidiaries. It is the Company's position that no foreign tax provisions are outstanding due to the accumulated foreign non-capital losses held by these subsidiaries.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are as follows:

	2011	2010
Future income tax asset (liability)		
Property and equipment – Canada	$ 13,000	$ 46,000
Cumulative eligible capital – Canada	10,000	11,000
Unrealized foreign exchange	(55,000)	-
Deferred share issuance cost – Canada	-	107,000
Deferred start up cost and contract cost – Canada	(96,000)	(138,000)
Deferred development costs – Canada	(40,000)	(12,000)
Non-capital losses carried forward – Canada	3,455,000	3,320,000
Non-capital losses carried forward – Malta	3,102,000	1,727,000
Total future income tax asset	6,389,000	5,061,000
Less valuation allowance	(6,389,000)	(5,061,000)
Net future income taxes	$ -	$ -

The Company has Canadian non-capital tax losses amounting to $13,821,731 which are available to be carried forward to reduce taxable income in future years, and expire as follows:

2015	1,239
2025	194,148
2026	1,712,936
2027	705,398
2028	5,366,765
2029	4,881,570
2030	297,040
2031	662,635
	$ 13,821,731

The Company has Maltese non-capital losses amounting to $8,863,939 which are available to be carried forward indefinitely to reduce taxable income in future years.

(expressed in Canadian dollars)

10. Income taxes (Continued)

The provision for income taxes shown on the statements of operations differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to the earnings before taxes as follows:

	2011	2010
Loss before income taxes	$ (734,083)	$ (2,340,304)
Combined statutory rate	28.2%	29.8%
Expected income tax recovery based on the statutory rate	$ (206,800)	$ (696,240)
Stock – based compensation	26,200	41,250
Tax effect of non-capital losses expired during the year	26,700	27,864
Change in tax rates	(21,800)	123,067
Change in valuation allowance	1,328,000	665,678
Tax effect of income taxed in foreign jurisdictions	(59,400)	(163,231)
Tax effect of permanent and other differences	(21,600)	1,612
Change in tax estimates	(1,071,300)	-
	$ -	$ -

11. Commitments and contingencies

(a) The Company leases its office premises. The future minimum payments under these leases are as follows:

2012	$	228,322
2013	$	13,106

(b) The Company is subject to anti-money laundering ("AML") legislation in jurisdictions in which it operates or has operated. Management has implemented controls and procedures that it believes put the Company in compliance with all applicable AML rules and regulations.

It is possible that regulatory authorities may audit the Company systems and processes and assess monetary penalties for non-compliance which could be material; however, the likelihood and magnitude of any such assessments cannot be determined at this time.

(c) The Company filed separate tax returns for its Canadian subsidiaries that were not filed on an individual basis in years prior to fiscal 2006. Management has recorded their best estimate of the Company's income tax obligation in the consolidated financial statements. The ultimate liability however is subject to final approval by taxation authorities. It is possible that the tax authorities may reassess the Company's filing position which could result in a material increase in the Company's liability for current and prior financial periods, however any such adjustment is indeterminate at this time.

(expressed in Canadian dollars)

12. Capital management

Management defines capital as the Company's total shareholders' equity. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. The consolidated capital structure for the Company at February 28, 2011 and 2010 is as follows:

	2011	2010
Share Capital	9,957,969	9,957,969
Contributed Surplus	4,560,531	4,467,539
Deficit	(19,773,093)	(19,039,010)

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, as well as to generate sufficient cash flow to manage its existing debt.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt, issue new shares, or defer various expenses in order to conserve cash flow. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the Company.

13. Segmented information

The Company operates two main operating segments – Integrity and Citadel.

The Integrity segment provides software solutions for real-time auditing of transaction processing systems to businesses requiring high levels of security, integrity and trust including government regulated lotteries and pari-mutuel betting. Citadel provides on-line payment processing services including internet bank transfers and electronic cheques, with concurrent transactional fraud detection services including pre-authorization via in-house and third party databases and validation of previous transaction history.

Corporate activities include the Company's indirect support costs for the two operating segments.

(expressed in Canadian dollars)

13. Segmented information (Continued)

The segmented information for each business segment is as follows:

2011	Citadel	ESI Integrity	Corporate	Consolidated
Revenue	1,765,841	1,642,484	-	3,408,325
Direct costs	754,742	855,705	-	1,610,447
Gross profit	1,011,099	786,779	-	1,797,878
Operating expenses	1,256,532	653,115	975,192	2,884,839
Amortization	19,292	24,570	9,419	53,281
(Loss) earnings before other income, expenses, and income taxes	(264,725)	109,094	(984,611)	(1,140,242)
Interest income	3,004	40	-	3,044
Interest expense	27,866	13	213,408	241,287
Foreign exchange loss (gain)	(361,693)	35,759	(255,784)	(581,718)
Other income	62,684	-	-	62,684
Provision for income taxes	-	-	-	-
Net (loss) income	134,790	73,362	(942,235)	(734,083)
Property and equipment, net	26,702	53,809	42,491	123,002

2010	Citadel	ESI Integrity	Corporate	Consolidated
Revenue	1,128,171	2,453,307	-	3,581,478
Direct costs	1,204,781	1,353,526	-	2,558,307
Gross profit (loss)	(76,610)	1,099,781	-	1,023,171
Operating expenses	1,263,627	753,692	1,090,286	3,107,605
Amortization	109,346	26,347	51,605	187,298
Other	-	-	23,968	23,968
(Loss) earnings before other income, expenses, and income taxes	(1,449,583)	319,742	(1,165,859)	(2,295,700)
Interest income	2,913	12,744	5,317	20,974
Interest expense	1,270	18	173,882	175,170
Foreign exchange loss (gain)	180,972	132,164	(422,733)	(109,597)
Provision for income taxes	-	-	-	-
Net (loss) income	(1,628,912)	200,304	(911,691)	(2,340,299)
Property and equipment, net	61,784	72,596	36,119	170,499

Geographic location

The company's operations are conducted in three geographic segments: Canada, the USA and International. Revenues earned by geographic location are as follows:

	2011	2010
United States	$ 495,428	$ 905,829
Canada	346,269	328,685
International	2,566,628	2,346,964
	$ 3,408,325	$ 3,581,478

As at February 28, 2011, 79% of the Company's fixed assets were situated in Canada and 21% were located internationally.

(expressed in Canadian dollars)

14. Economic dependence

The Citadel business unit revenue consists of transaction processing. Customer dependency for Citadel revenue is as follows:

	2011	2010
Customer A	20%	19%
Customer B	18%	15%
Customer C	14%	12%
Customer D	9%	8%

The Integrity business unit revenue consists of license and support contracts where it charges a fixed license fee for the use of its audit and risk management software, as well as an annual support fee. Customer dependency for Integrity revenue is as follows:

	2011	2010
Customer A	37%	48%
Customer B	21%	13%
Customer C	15%	11%
Customer D	6%	10%

15. Financial instruments and concentration of risk

Fair values

The carrying values of cash, accounts receivable, Citadel processing accounts, accounts payable and accrued liabilities and Citadel processing liabilities approximated their fair values due to their short-term nature. The carrying value of the loan payable approximates its fair value as it is payable on demand and bears market rate of interest.

The Company's financial assets and liabilities recorded at fair value have been classified according to the following hierarchy based on the mount of observable inputs used to value the instruments.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequent and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputes are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on imputes, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

The Company's cash has been assessed on the fair value hierarchy described above; cash, Citadel processing accounts and Citadel processing liabilities are classified as Level 1.

15. Financial instruments and concentration of risk (Continued)

The Company's activities are exposed to a variety of financial risks: credit risk, foreign exchange and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Credit and chargeback risk

Financial instruments that potentially subject the Company to concentration of credit risk are primarily accounts receivable, Citadel processing accounts and Citadel processing liabilities. To minimize credit risk the Company maintains substantially all of its cash and cash equivalents with major financial institutions internationally. Management is of the opinion that any risk of loss is significantly reduced due to the financial strength of the Company's major customers.

The ageing of receivables at the reporting date was as follows (the ageing days relates to balances past due):

February 28, 2011	Total $	Current and <30 days $	30-60 days $
Net trade receivables	113,564	65,849	47,715

As at February 28, 2011, three customers accounted for 93% of the trade accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments of its customers and provided allowances for potentially uncollectible accounts receivable.

Foreign currency risk

A significant component of the Company's transactions, particularly revenues, is undertaken in US Dollars, Euros and other foreign currencies. The Company maintains significant deposits in foreign currencies denominated accounts. Fluctuations in exchange rates between those foreign currencies could have a material effect on the business, results of operations and financial condition of the Company. The Company does not use hedging instruments to manage its exposure to foreign currency exchange risk.

At February 28, 2011, if the Canadian dollar had weakened 5% against other currencies, with all other variables held constant, after-tax net income for the year would have been $115,593 lower. Conversely, if the Canadian dollar had strengthened 5% against other currencies, with all other variables held constant, pre-tax net income would have been $115,593 higher.

Liquidity risk

The Company is exposed to liquidity risk, which is the risk that the Company may be unable to generate or obtain sufficient cash to meet its commitments as they become due. The financial liabilities on the balance sheet consist of accounts payable and accrued liabilities, loan payable and capital lease obligations. This risk is mitigated through the management of cash and loans received and the Company may adjust capital spending, issue new shares or draw additional debt.

Forecasted cash flows and operating and capital outlays are updated frequently to ensure necessary liquidity remains available. All of the Company's financial obligations are either demand or are due within one year.

16. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.