



ESI Entertainment Systems Inc.

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News Release

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ESI Entertainment announces Fiscal 2012 Second Quarter Financial Results

BURNABY, B.C. October 31, 2011 - ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX : ESY) reported today its financial results (unaudited) for fiscal Q2 2012 ending August 31, 2011. (All dollar amounts reported in Canadian funds).

Consolidated financial highlights for the quarter include (Q2 2012 compared to Q2 2011):

- Revenues increased by 9% to \$896,000 from \$822,000
- Gross profit increased by 169%, to \$914,000 from \$339,000
- Operating Expenses decreased by 91% to \$67,000 from \$724,000
- Net comprehensive income was \$889,000 compared to a net loss of 279,000.

"During the Second Quarter ending August 31, 2011, the Company was pleased to receive approval from certain Executives, Directors and Officers to forgive the majority of amounts owed to them by the Company for their deferred salaries along with the interest accrued on the unpaid amounts for a total of \$1.1 million. The reversal of the Salary Expense significantly reduced the Direct Costs and General and Administration Expense for the quarter, and increased the Gross Profit and Net Income.

Each of the two operating subsidiaries is closely governing expenditures while building its business. ESI Integrity has continued to provide the group with a solid business foundation and Citadel's customers, revenues and transaction volumes have continued to increase."

Tony Greening, CEO

Selected Financial Information

	Three Months Ending		Six Months Ending	
	August 31 2011	August 31 2010	August 31 2011	August 31 2010
<i>(\$ 000) except for EPS</i>				
Revenue	895	822	1,838	1,565
Gross Profit	914	339	1,047	585
Total operating expenses	67	725	418	1,427
Net Income (Loss)	889	(278)	521	(693)
(Loss) earnings per share				
Basic and Diluted	0.06	(0.02)	0.04	(0.05)
Total Assets	5,863	6,856	5,863	6,856
Total long-term liabilities	447	775	447	775
Cash generated from operations	(82)	(78)	(86)	7

Results of Operations

The Company's three and six months ending August 31, 2011 reporting is using IFRS. Figures for the three and six months ended August 31, 2010 have been restated from those previously reported under GAAP to IFRS. Details regarding the transition to IFRS can be found in the condensed consolidated interim financial statements (note 20) which can be found on www.sedar.com.

Consolidated Revenues

The following table provides a breakdown of the Company's total revenues from its subsidiaries for the three and six months ending August 31, 2011 and 2010.

(\$ 000)	Three months ending August 31			Six months ending August 31		
	2011	2010	% change	2011	2010	% change
Integrity	346	440	(21%)	762	874	(13%)
Citadel	550	382	44%	1,076	691	56%
	896	822	9%	1,838	1,565	17%

Total revenue increased by 9% to \$896,000 for the three months ended August 31, 2011 from \$822,000 for the same period in the prior year. Total revenue increased by 17% to \$1,838,000 for the six months ending August 31, 2011 from \$1,565,000 for the six months ending August 31, 2010.

Integrity Revenues

ESI Integrity 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 (horse tracks) organizations.

Integrity Revenues are generated from 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. Revenue is typically earned over a two to five year period, depending on a contract's respective term.

Approximately 38% of ESI's revenues were generated by ESI Integrity during the three months ending August 31, 2011 compared to 54% for the same period in the prior year. Approximately 41% of ESI's revenues were generated by ESI Integrity during the six months ending August 31, 2011 compared to 56% for the same period in the prior year.

The decrease in revenue is due to a reduction in work plan and consulting revenues combined with the adverse effect of the weakened US dollar and Euro currencies relative to the Canadian dollar. The majority of Integrity's revenues are contracted in US dollars or Euros.

Citadel Revenues

Citadel revenues are generated from its on-line payment processing which include electronic cheques and paper cheques but its main focus is its Instant Bank Transfer service. All of Citadel's services are charged on a fee per transaction charged to its merchants.

Approximately 62% of ESI's revenues were generated by Citadel during the three months ended August 31, 2011 compared to 46% for the same period in the prior year. Approximately 59% of ESI's revenues were generated by Citadel during the three months ended August 31, 2011 compared to 44% for the same period in the prior year.

The increase in revenue is due to new merchants implementing Citadel's Instant Bank Transfer service as well as additional volume from existing customers.

Consolidated Gross Profit

The following table provides a summary of the Company's gross profit as prepared in accordance with IFRS for the three months ended:

(\$ 000)	Three months ending Aug 31		Six months ending Aug 31	
	2011	2010	2011	2010
Revenues	896	822	1,838	1,565
Direct Costs	(18)	483	790	980
Gross profit	914	339	1,048	585
Gross profit margin (%)	102%	41%	57%	37%

The increase of gross profit in the second quarter ending August 31, 2011, compared to August 31, 2010, is primarily attributable to the reversal of the salary expenses relating to the forgiveness of the majority of deferred salaries and accrued interest by certain Executives, Directors and Officers.

Product Development

All Product Development expenses for ESI Integrity are being capitalized.

Sales, Marketing and Customer Service

Sales, marketing and customer service expenses were \$27,440 and \$59,664 during the three and six months ended August 31, 2011 respectively, a decrease of 5% and 1% respectively compared to \$29,035 and \$60,419 for the three and six months ended August 31, 2010. The decrease in cost is primarily related to the reduction of travel expenses associated with the activity in sales, marketing and customer service

General and Administrative

General and administrative expenses were (\$37,396) and \$257,200 during the three and six months ended August 31, 2011 respectively, compared to \$682,700 and \$1,341,118 for the three months and six months ended August 31, 2010. This reduction is due to the reversal of the salary expenses relating to the forgiveness of the majority of deferred salaries and accrued interest by certain Executives, Directors and Officers for a total of \$1.1 million.

Depreciation of Property and Equipment and Capitalized Development Costs

Depreciation expenses were \$19,491 and \$41,578 during the three month and six month periods ended August 31, 2011, respectively, an increase of 57% and 58% compared to \$12,370 and \$26,345 for the corresponding periods ended August 31, 2010. The depreciation being reduced on older equipment is offset by depreciation being recorded on newly incurred capitalized development costs.

Net Loss

Net income for the three and six month periods ended August 31, 2011 was \$889,159 (\$0.06 earnings per share) and \$521,192 (\$0.04 earnings per share), respectively, compared to net loss of \$278,727 (\$0.02 loss per share) and \$692,906 (\$0.05 loss per share) for the prior comparative periods. This change is due to the reversal of the salary expenses relating to the forgiveness of the majority of deferred salaries and accrued interest by certain Executives, Directors and Officers for a total of \$1.1 million.

Citadel Processing Accounts and Liabilities

Citadel processing accounts as at August 31, 2011 totaled \$4.67 million compared to \$4.28 million as at February 28, 2011. The accounts are comprised of cash and accounts receivables arising from the processing of deposits and payments for Citadel merchants and consumers.

Liquidity and Capital Resources

ESI has historically financed its operations through the sale of equity and through cash generated by its operations.

During the three month period ended August 31, 2011, cash used in operating activities was \$81,925 and during the six months ended August 31, 2011, cash used in operating activities was \$86,208. During the three month period ended August 31, 2010, cash used in operating activities was \$78,210 and during the six months ended August 31, 2010, cash provided in operating activities was \$7,390

Cash used in financing activities totaled \$9,975 and cash provided totalled \$371,756 during the three months and six months ended August 31, 2011 respectively. These activities relate mainly to the changes in Citadels processing assets. Cash provided by financing activities for the comparative periods for the three and six months ending August 31, 2010, were \$72,247 and \$73,215 respectively. These activities related mainly to the loan payable.

Certain employees have voluntarily deferred part of their compensation. The unpaid deferred amounts are being accrued without interest and are recorded in the Company's financial statements. The salary deferrals are payable upon termination or when the Company's economic conditions have strengthened to accommodate for the repayment. As at August 31, 2011, the total amount of the deferred salaries is \$560,661 (2010 - \$1,158,502).

As at August 31, 2011, the Company had cash and cash equivalents of \$318,794 compared to \$94,794 on August 31, 2010.

During the three months ending August 31, 2011, the decrease in cash totaled \$87,897 compared to \$80,982 for the quarter ended August 31, 2010. During the six months ending August 31, 2011, the increase in cash totaled \$301,000 compared to \$6,000 for the six months ending August 31, 2010

The Company has incurred significant operating losses and net utilization of cash in operations in prior periods. Accordingly, 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.

Consolidated Financial Statements (Unaudited)

NOTE TO READER: The following unaudited financial statements are extracted from the complete financial statements of the Company which have been filed with the Management's Discussion and Analysis. The Company's documents can be found on www.sedar.com to which the reader is referred.

ESI ENTERTAINMENT SYSTEMS INC.

Condensed Consolidated Interim Statements of Financial Position

As at August 31, 2011, February 28, 2011, and March 1, 2010

(Unaudited – expressed in Canadian dollars)

	August 31, 2011	February 28, 2011	March 1, 2010
Assets			
Cash and cash equivalents	\$ 318,476	\$ 17,742	\$ 89,208
Accounts receivable	181,705	210,160	361,745
Prepays and other	70,419	66,912	65,658
Citadel processing accounts	4,672,451	4,277,252	4,937,401
Current Assets	5,243,051	4,572,066	5,454,012
Capitalized Development Costs	144,125	160,255	47,532
Property and equipment	107,327	123,002	170,499
Deferred contract costs	368,146	382,682	550,362
Total Assets	\$ 5,862,649	\$ 5,238,005	\$ 6,222,405
Liabilities			
Accounts payable and accrued liabilities	\$ 1,594,983	\$ 2,085,028	\$ 1,516,100
Loan Payable	2,126,902	2,081,567	2,174,733
Citadel Processing Liabilities	6,042,762	5,321,142	5,649,239
Deferred Revenue	417,393	485,367	582,230
Current Liabilities	10,182,040	9,973,104	9,922,302
Deferred Revenue	446,742	519,494	913,605
Total Liabilities	\$ 10,628,782	\$ 10,492,598	\$ 10,835,907
Equity			
Share Capital	\$ 9,957,969	9,957,969	\$ 9,957,969
Contributed Surplus	4,589,882	4,599,296	4,500,536
Other Comprehensive Income (Loss)	(69,024)	23,318	-
Deficit	(19,244,960)	(19,835,176)	(19,072,007)
Total Equity	\$ (4,766,133)	\$ (5,254,593)	\$ (4,613,502)
Total liabilities and equity	\$ 5,862,649	\$ 5,238,005	\$ 6,222,405

ESI ENTERTAINMENT SYSTEMS INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Three and six months ending August 31, 2011 and 2010
(Unaudited – expressed in Canadian dollars)

	Three Months Ending August 31,		Six Months Ending August 31,	
	2011	2010	2011	2010
Continuing Operation				
Revenues	\$ 895,878	\$ 822,029	\$ 1,838,739	\$ 1,565,294
Direct Costs	(18,291)	482,599	790,898	980,012
Gross Profit	914,169	339,430	1,047,841	585,282
General and administration expenses	66,611	724,105	418,277	1,427,882
Income (loss) before under noted items	847,558	(384,675)	629,564	(842,600)
Other expenses (income)				
Foreign exchange (gain) loss	(160,973)	(94,250)	(22,850)	(186,659)
Tax expense	(562)	-	(562)	-
Interest income	-	(645)	(10)	(689)
Interest expense	31,505	53,223	62,770	101,930
Income (loss) for period attributable to equity holders	977,588	(343,003)	590,216	(757,182)
Other comprehensive income				
Foreign currency translation gain (loss)	(88,429)	64,276	(69,024)	64,276
Total Comprehensive income (loss) for the period attributable to equity holders	\$ 889,159	\$ (278,727)	\$ 521,192	\$ (692,906)
Basic and diluted loss per share	\$ 0.06	\$ (0.02)	\$ 0.04	\$ (0.05)

ESI ENTERTAINMENT SYSTEMS INC.

Condensed Consolidated Interim Statements of Cash Flows

For the Three and Six Months Ending August 31, 2011 and 2010.

(Unaudited – expressed in Canadian dollars)

	Three Months Ending August 31		Six Months Ending August 31	
	2011	2010	2011	2010
Cash provided by (used for) the following activities				
Operating activities				
Income (Loss) for the period	\$ 889,159	\$ (278,727)	\$ 521,192	\$ (692,906)
Add (deduct)				
Depreciation	22,086	12,370	41,578	26,345
Stock-based compensation	(29,416)	(4,697)	(9,414)	(5,318)
	881,829	(271,054)	553,356	(671,879)
Changes in non-cash working capital:				
Accounts receivable	(98,994)	(149,495)	28,455	(201,069)
Prepays	20,106	(6,114)	(3,507)	(38,332)
Accounts payable and accrued liabilities	(715,575)	546,693	(538,322)	1,061,088
Deferred revenue	(179,608)	(251,903)	(140,726)	(225,866)
Deferred contract costs	10,317	53,663	14,536	83,448
Cash flow (used in) from operations	(81,925)	(78,210)	(86,208)	7,390
Investment activities				
Capitalized development costs	8,182	(71,801)	24,792	(71,801)
Acquisition of property and equipment	(4,179)	(3,218)	(9,606)	(3,218)
Cash from (used in) investing activities	4,003	(75,019)	15,186	(75,019)
Financing activities				
Loan payable	20,880	72,247	45,335	73,215
Change in Citadel processing liabilities	361,161	-	721,620	-
Change in Citadel processing assets	(392,016)	-	(395,199)	-
Cash from (used in) financing activities	(9,975)	72,247	371,756	73,215
Increase (decrease) in cash and cash equivalents	(87,897)	(80,982)	300,734	5,586
Cash and cash equivalents, beginning of period	406,373	175,776	17,742	89,208
Cash and cash equivalents, end of period	\$ 318,476	\$ 94,794	\$ 318,476	\$ 94,794

Forward- looking Statements

This news release contains 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. 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.

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, ecommerce 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.

For further information please contact:

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