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News Release

**For Immediate Release February 13, 2012**

### **ESI Entertainment announces Fiscal 2012 Third Quarter Financial Results**

BURNABY, B.C. February 13, 2012 - ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX : ESY) reported today its financial results (unaudited) for fiscal Q3 2012 ending November 30, 2011. (All dollar amounts reported in Canadian funds).

#### **Consolidated financial highlights for the quarter include (Q3 2012 compared to Q3 2011):**

- Revenues increased by 17% to \$1,094,000 from \$937,000
- Gross profit decreased by 36%, to \$310,000 from \$488,000
- Operating Expenses decreased by 54% to \$304,000 from \$659,000
- Net comprehensive income was (\$198,000) compared to \$255,000.

*During the three month period ending November 30, 2011, the Company has continued to grow revenues and obtain new customers.*

*The Third Quarter Results, particularly in relation to Gross Profit, were influenced by two factors that affect comparison with the prior comparative period. Firstly, the temporary weakness of the Canadian Dollar against the US Dollar in November 2011 triggered an unrealized foreign exchange loss compared to a foreign exchange gain in the prior comparative period; the subsequent return of strength of the Canadian Dollar has now virtually eliminated that unrealized loss. Secondly, in the current period the Company reclassified certain expenses from General and Administrative to Direct Costs; this has reduced the Gross Profit but has had no effect on the Net Income. The difference in Net Income over the prior period mainly relates to the change in foreign exchange rates*

*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 grow.*

*Michael Meeks - President & CEO*

## Selected Financial Information

	Three months ending		Nine months ending	
	November 30 2011	November 30 2010	November 30 2011	November 30 2010
<i>(\$ 000) except for EPS</i>				
Revenue	1,094	937	3,213	2,502
Gross Profit	310	488	1,676	1,074
Total operating expenses	304	659	708	2,087
Net Income (Loss)	(198)	255	711	(438)
(Loss) earnings per share				
Basic and Diluted	(0.01)	0.02	0.05	(0.03)
Total Assets	7,003	6,691	7,003	6,691
Total long-term liabilities	395	520	395	520

## Results of Operations

The Company's three and nine months ending November 30, 2011 reporting is using IFRS. Figures for the three and nine months ended November 30, 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 19) which can be found on [www.sedar.com](http://www.sedar.com).

### Consolidated Revenues

The following table provides a breakdown of the Company's total revenues from its subsidiaries for the three and nine months ending November 30, 2011 and 2010.

(\$ 000)	Three months ending Nov 30			Nine months ending Nov 30		
	2011	2010	% change	2011	2010	% change
Integrity	351	401	(12%)	1,113	1,275	(13%)
Citadel	743	536	39%	2,100	1,227	71%
	1,094	937	17%	3,213	2,502	28%

Total revenue increased by 17% to \$1,094,000 for the three months ended November 30, 2011 from \$937,000 for the same period in the prior year. Total revenue increased by 28% to \$3,213,000 for the nine months ending November 30, 2011 from \$2,502,000 for the nine months ending November 30, 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 32% of ESI's revenues were generated by ESI Integrity during the three months ending November 30, 2011 compared to 43% for the same period in the prior year. Approximately 35% of ESI's revenues were generated by ESI Integrity during the nine months ending November 30, 2011 compared to 51% 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 68% of ESI's revenues were generated by Citadel during the three months ended November 30, 2011 compared to 57% for the same period in the prior year.

Approximately 65% of ESI's revenues were generated by Citadel during the nine months ended November 30, 2011 compared to 49% 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 and nine months ending November 30, 2011 and 2010:

(\$ 000)	Three months ending Nov 30		Nine months ending Nov 30	
	2011	2010	2011	2010
Revenues	1,094	937	3,213	2,502
Direct Costs	784	449	1,537	1,429
Gross profit	310	488	1,676	1,073
Gross profit margin (%)	28%	52%	52%	43%

Certain expenses have been reclassified from General and Administrative to Direct Costs, this has reduced the Gross Profit but has had no effect on the Net Income.

#### *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 \$84,664 during the three and nine months ended November 30, 2011 respectively, a decrease of 5% and 24% respectively compared to \$29,035 and \$110,915 for the three and nine months ended November 30, 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 \$303,642 and \$707,879 during the three and nine months ended November 30, 2011 respectively, a decrease of 217% and 295% respectively compared to \$659,422 and \$2,087,304 for the three months and nine months ended November 30, 2010. This reduction is due to reclassification of certain expenses to Direct Costs and 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 during the period ending August 31, 2011

### *Depreciation of Property and Equipment and Capitalized Development Costs*

Depreciation expenses were \$16,296 and \$48,213 during the three month and nine month periods ended November 30, 2011, respectively, an increase of 78% and 81% compared to \$12,915 and \$39,260 for the corresponding periods ended November 30, 2010. The depreciation being reduced on older equipment is offset by depreciation being recorded on newly incurred capitalized development costs.

### *Net Income*

Net income for the three and nine month periods ended November 30, 2011 was (\$198,000) (\$0.01 loss per share) and \$710,795 (\$0.05 earning per share), respectively, compared to \$255,210 (\$0.02 earning per share) and (\$437,696) (\$0.03 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 and fluctuating Foreign Exchange rates.

### *Citadel Processing Accounts and Liabilities*

Citadel processing accounts as at November 30, 2011 totaled \$5.75 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 November 30, 2011, cash provided in operating activities was \$114,122 and during the nine months ended November 30, 2011, cash provided in operating activities was \$358,806. During the three month period ended November 30, 2010, cash used in operating activities was \$94,383 and during the nine months ended November 30, 2010, cash used in operating activities was \$101,803.

Cash used in financing activities totaled \$135,358 and \$476,439 during the three and nine months ended November 30, 2011 respectively. These activities relate mainly to the changes in Citadels processing assets. Cash used by financing activities for the three months ending November 30, 2010 was \$62,332 and for the nine months ending November 30, 2010, cash provided by financing activities was \$10,853. 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 November 30, 2011, the Company had cash and cash equivalents of \$151,182 compared to \$101,411 on November 30, 2010.

During the three months ending November 30, 2011, the increase in cash totaled \$37,680 compared to \$6,617 for the quarter ended November 30, 2010. During the nine months ending November 30, 2011, the increase in cash totaled \$133,440 compared to \$12,203 for the nine months ending November 30, 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](http://www.sedar.com) to which the reader is referred.

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**ESI ENTERTAINMENT SYSTEMS INC.**

Condensed Consolidated Interim Statements of Financial Position

As at November 30, 2011, February 28, 2011, and March 1, 2010

(Unaudited – expressed in Canadian dollars)

	November 30, 2011	February 28, 2011	March 1, 2010
<b>Assets</b>			
Cash and cash equivalents	\$ 151,182	\$ 17,742	\$ 89,208
Accounts receivable	341,224	210,160	361,745
Prepays and other	148,725	66,912	65,658
Citadel processing accounts	5,753,915	4,277,252	4,937,401
<b>Current Assets</b>	<b>\$ 6,395,046</b>	<b>\$ 4,572,066</b>	<b>\$ 5,454,012</b>
Capitalized Development Costs	136,033	160,255	47,532
Property and equipment	110,915	123,002	170,499
Deferred contract costs	360,664	382,682	550,362
<b>Total Assets</b>	<b>\$ 7,002,658</b>	<b>\$ 5,238,005</b>	<b>\$ 6,222,405</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,319,580	\$ 2,085,038	\$ 1,516,110
Loan Payable	2,245,985	2,081,567	2,174,733
Citadel Processing Liabilities	7,109,826	5,321,142	5,649,239
Deferred Revenue	482,260	485,367	582,230
<b>Current Liabilities</b>	<b>\$ 11,157,651</b>	<b>\$ 9,973,114</b>	<b>\$ 9,922,312</b>
Deferred Revenue	394,958	519,494	913,605
<b>Total Liabilities</b>	<b>\$ 11,552,609</b>	<b>\$ 10,492,608</b>	<b>\$ 10,835,917</b>
<b>Shareholders' Equity (Deficiency)</b>			
Share Capital	\$ 9,957,959	\$ 9,957,959	\$ 9,957,959
Contributed Surplus	4,592,947	4,575,772	4,506,304
Other Comprehensive Income (Loss)	(64,457)	23,318	-
Deficit	(19,036,400)	(19,811,652)	(19,077,775)
<b>Total Equity</b>	<b>\$ (4,549,951)</b>	<b>\$ (5,254,603)</b>	<b>\$ (4,613,512)</b>
<b>Total liabilities and equity</b>	<b>\$ 7,002,658</b>	<b>\$ 5,238,005</b>	<b>\$ 6,222,405</b>

**ESI ENTERTAINMENT SYSTEMS INC.**

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
For The Three and Nine months ended November 30, 2011 and 2010  
(Unaudited – expressed in Canadian dollars)

	Three months ended November 30,		Nine months ended November 30,	
	2011	2010	2011	2010
<b>Continuing Operations</b>				
Revenues	\$ 1,094,334	\$ 936,842	\$ 3,213,185	\$ 2,502,136
Direct Costs	783,856	448,585	1,537,422	1,428,597
<b>Gross Profit</b>	<b>310,478</b>	<b>488,257</b>	<b>1,675,763</b>	<b>1,073,539</b>
<b>General and administration expenses</b>	<b>303,642</b>	<b>659,422</b>	<b>707,879</b>	<b>2,087,304</b>
<b>Income (loss) before under noted items</b>	<b>6,836</b>	<b>(171,165)</b>	<b>967,884</b>	<b>(1,013,765)</b>
<b>Other expenses (income)</b>				
Foreign exchange (gain) loss	175,983	(397,698)	97,456	(584,357)
Tax expense	-	-	(564)	-
Other income	-	(83,978)	-	(83,978)
Interest income	-	(57)	(10)	(746)
Interest expense	32,979	55,358	95,750	157,288
<b>Income (loss) for period attributable to equity holders</b>	<b>(202,126)</b>	<b>255,210</b>	<b>775,252</b>	<b>(501,972)</b>
<b>Other comprehensive income (loss)</b>				
Foreign currency translation gain (loss)	4,567	-	(64,457)	64,276
<b>Total Comprehensive income (loss) for the period attributable to equity holders</b>	<b>\$ (197,559)</b>	<b>\$ 255,210</b>	<b>\$ 710,795</b>	<b>\$ (437,696)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>(0.01)</b>	<b>0.02</b>	<b>0.05</b>	<b>(0.03)</b>

**ESI ENTERTAINMENT SYSTEMS INC.**

Condensed Consolidated Interim Statements of Cash Flows  
For The Three and Nine months ended November 30, 2011 and 2010  
(Unaudited – expressed in Canadian dollars)

	Three months ending November 30,		Nine months ending November 30,	
	2011	2010	2011	2010
<b>Cash provided by (used for) the following activities</b>				
<b>Operating activities</b>				
Income (Loss) for the period	\$ (202,126)	\$ 255,210	\$ 775,252	\$ (437,696)
Add (deduct)				
Depreciation	16,296	12,915	48,213	39,260
Stock-based compensation	3,068	(4,860)	17,175	(10,178)
	(182,762)	263,265	840,640	(408,614)
Changes in non-cash working capital:				
Accounts receivable	35,319	262,045	(166,548)	60,976
Prepays	(45,580)	40,411	(81,813)	2,109
Accounts payable and accrued	84,502	(471,581)	(845,460)	589,507
Deferred revenue	(13,083)	(42,506)	(127,643)	(268,372)
Deferred contract costs	7,482	42,749	22,018	126,197
Cash flow (used in) from operations	(114,122)	94,383	(358,806)	101,803
<b>Investment activities</b>				
Capitalized development costs	(8,092)	(25,434)	24,222	(97,235)
Acquisition of property and	(8,415)	-	(8,415)	(3,218)
Cash from (used in) investing activities	16,444	(25,434)	15,807	(100,453)
<b>Financing activities</b>				
Loan payable	119,083	(62,332)	164,418	10,853
Change in Citadel processing	1,081,464	-	1,788,684	-
Change in Citadel processing	(1,065,189)	-	(1,476,663)	-
Cash from (used in) financing activities	135,358	(62,332)	476,439	10,853
Increase (decrease) in cash and cash equivalents	37,680	6,617	133,440	12,203
Cash and cash equivalents, beginning of period	113,502	94,794	17,742	89,208
<b>Cash and cash equivalents, end of</b>	<b>\$ 151,182</b>	<b>\$101,411</b>	<b>\$ 151,182</b>	<b>\$ 101,411</b>

## **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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