



Trusted Software for Gaming

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News Release

For Immediate Release July 17, 2006

ESI ENTERTAINMENT ANNOUNCES FISCAL 2007 FIRST QUARTER FINANCIAL RESULTS

BURNABY, B.C. July 17, 2006- ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) reported today its financial results for fiscal Q1 2007 ended May 31, 2006. (All dollar amounts reported in Canadian funds)

Financial highlights for the quarter included (Q1 2007 compared to Q1 2006):

Consolidated basis:

- 67% increase in revenue to \$5.5 million in 2007 from \$3.3 million in 2006;
- 84% increase in gross profit to \$3.5 million in 2007 from \$1.9 million in 2006;
- 7% increase in gross margin percentage to 63% in 2007 from 59% in 2006;
- 2% increase in earnings before income taxes to \$541,000 in 2007 from \$531,000 in 2006;
- 0.5% increase in net earnings to \$350,000 (\$0.02 fully diluted EPS) in 2007 from \$348,000 (\$0.02 fully diluted EPS) in 2006;
- Completed an Initial Public Offering raising gross proceeds of \$10 million.

Citadel Commerce Corp.:

- 310,540 customer accounts added, or an 81% increase in total number of customer accounts to 696,086 as of May 31, 2006 from 385,546 accounts as of May 31, 2005;
- 13% increase in average daily sign ups to 754 accounts in 2007 from 667 in 2006;
- 95% increase in average daily deposits to \$1.59 million from \$815,000 in 2006;
- 89% increase in revenue to \$5.1 million in 2007 from \$2.7 million in 2006;
- 94% increase in gross profit to \$3.3 million in 2007 from \$1.7 million in 2006.

"We are pleased with our performance this quarter as we have entered into off season for most of our higher volume sports events," said Tony Greening, Chairman & CEO of ESI. "With the launch of our pilot program for SecureSwipe™ and Rapid Transfer we are focused on providing our merchants with secure and efficient payment solutions while transitioning our revenue model to a wallet based transaction system."

Financial Review

Total revenue was \$5.5 million for the first quarter of fiscal 2007 compared to \$3.3 million for the first quarter of fiscal 2006, an increase of \$2.2 million, or 67%. This increase was mainly due to an increase in Citadel revenues from its existing gaming merchants.

Gross profit was \$3.5 million for the first quarter of fiscal 2007 compared to \$1.9 million for the first quarter of fiscal 2006, an increase of \$1.6 million, or 84%. Gross margin as a percentage of revenue was 63% for the current quarter, compared to 59% for the same quarter in the prior year, an increase of 7%. Margin increased mainly as a result of direct costs of sales such as call centre, merchant support and other operations accounting wages remaining relatively fixed as transaction revenues grew.

Product development expenses were \$324,000 for the first quarter of fiscal 2007, compared to \$180,000 for the first quarter of fiscal 2006, an increase of \$144,000, or 80%. The increase mainly related to development upgrades related to the Citadel Checks platform.

Sales, marketing and customer service expenses were \$941,000, for the first quarter of fiscal 2007 compared to \$384,000 for the first quarter of fiscal 2006, an increase of \$557,000, or 145%. The increase primarily related to the expansion of Citadel's sales and marketing forces, increased travel, additional marketing activities relating to trade shows and increased promotional activities to attract new customers.

General and administrative expenses were \$1.4 million for the first quarter of fiscal 2007, compared to \$798,000 for the first quarter of fiscal 2006, an increase of \$602,000, or 75%. This increase resulted from an increase in the Company's administrative infrastructure required to operate a growing organization and from the additional costs associated with being a public company.

Net income was \$350,000 (\$0.02 per share – basic; \$0.02 per share- fully diluted) for the first quarter of fiscal 2007 compared to \$348,000 for the first quarter of fiscal 2006 (\$0.03 per share-basic; \$0.02 per share fully diluted). Net income for the current quarter included a foreign exchange loss of \$135,000 (\$39,261 foreign exchange gain for the first quarter of fiscal 2006). As ESI generates and receives its funds in United States currency, the foreign exchange loss arose from the depreciation of the United States dollar relative to the Canadian dollar.

Cash and cash equivalents totaled \$10.5 million and the working capital position was \$8.9 million at the end of the current quarter.

Management's Discussion and Analysis for the above noted information is located on the SEDAR website at www.sedar.com.

Subsequent Events

On June 13th and 26th, 2006, respectively, the Company entered into a pilot agreement with two gaming merchants, Excapsa Software and Leisure & Gaming, for our SecureSwipe devices. This pilot will continue with their customers through second quarter of the fiscal year.

On June 22nd, 2006 the Company launched Rapid Transfer for customers located in Spain through two banks, Grupo BBVA and La Caxia.

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 discussed more fully in the Company’s Annual Information Form and elsewhere. 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 Toronto Stock Exchange does not accept responsibility for this press release.

About ESI Entertainment Systems Inc.

ESI Entertainment Systems Inc. is a leading provider of secure and efficient payment processing services to the international online and land-based gaming industries. The Company’s strategy is to focus on its transaction services to the high-growth online gaming market, through its wholly owned subsidiary, Citadel Commerce Corp.

For further information please contact:

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ESI Entertainment Systems Inc.

Consolidated Balance Sheets

(expressed in Canadian dollars)
(unaudited)

May 31,
2006

February 28,
2006

Assets

Current Assets

Cash and cash equivalents	\$ 10,569,371	\$ 2,498,268
Accounts receivable	925,080	717,324
Prepays	553,265	485,982
	<u>12,047,716</u>	<u>3,701,574</u>
Citadel processing accounts (Note 4)	39,187,117	33,805,751
Deferred share issue costs	-	936,987
Deferred contract costs	587,370	537,822
Deferred start-up costs (Note 6)	3,149,206	2,675,695
Property and equipment (Note 6)	1,822,275	1,973,586
Capitalized development costs (Note 6)	1,539,645	1,477,731
Future income tax assets	273,000	-
	<u>\$ 58,606,329</u>	<u>\$ 45,109,146</u>

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable and accrued liabilities	\$ 2,348,873	\$ 2,213,787
Loan payable (Note 5)	-	1,000,000
Capital lease obligations	206,779	258,631
Software license obligation	98,153	114,286
Deferred revenue	519,617	564,239
	<u>3,173,422</u>	<u>4,150,943</u>
Citadel processing liabilities (Note 4)	39,187,117	33,805,751
Deferred revenue	995,980	687,895
Software license obligation	-	5,247
Capital lease obligations	472,988	486,058
Future income tax liabilities	-	258,500
	<u>43,829,507</u>	<u>39,394,394</u>

Shareholders' Equity

Capital stock (Note 7)	13,705,007	5,089,990
Warrants (Note 8)	84,634	5,926
Contributed surplus	76,464	57,779
Retained earnings	910,717	561,057
	<u>14,776,822</u>	<u>5,714,752</u>
	<u>\$ 58,606,329</u>	<u>\$ 45,109,146</u>

Contingency (Note 12)

On behalf of the Board

"Anthony Greening" Director

"Michael Meeks" Director

ESI Entertainment Systems Inc.

Consolidated Statements of Earnings and Retained Earnings

(expressed in Canadian dollars, except shares and per share amounts)

Three Months Ended May 31

(unaudited)

	2006	2005
Revenues (Note 6)	\$ 5,498,373	\$ 3,260,417
Direct costs (Note 6)	<u>2,035,617</u>	<u>1,333,959</u>
Gross profit	<u>3,462,756</u>	<u>1,926,458</u>
Operating expenses		
Product development	323,912	180,477
Sales, marketing and customer service	941,171	384,088
General and administrative	1,393,762	797,873
Amortization of property and equipment	<u>218,330</u>	<u>98,280</u>
	<u>2,877,175</u>	<u>1,460,718</u>
Earnings before under noted items	585,581	465,740
Other expenses (income)		
Foreign exchange loss (gain)	134,987	(39,261)
Interest income	(132,678)	(35,363)
Interest expense	<u>42,612</u>	<u>9,323</u>
Earnings before income taxes and non-controlling interest	<u>540,660</u>	<u>531,041</u>
Provision for income taxes		
Current	-	-
Future	<u>191,000</u>	<u>184,855</u>
	<u>191,000</u>	<u>184,855</u>
Earnings before non-controlling interest	349,660	346,186
Non-controlling interest	<u>-</u>	<u>(1,587)</u>
Net earnings	<u>\$ 349,660</u>	<u>\$ 347,773</u>
Earnings per share (Note 10)		
Basic	\$ 0.02	\$ 0.03
Diluted	0.02	0.02
Retained earnings (deficit), beginning of year	\$ 561,057	\$ (675,779)
Net earnings	<u>349,660</u>	<u>347,773</u>
Retained earnings (deficit), end of year	<u>\$ 910,717</u>	<u>\$ (328,006)</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

Three Months Ended May 31

(unaudited)

2006

2005

Cash flows provided by (used in)

Operating activities

Net earnings	\$	349,660	\$	347,773
Items not affecting cash:				
Stock-based compensation (Note 9)		18,945		-
Amortization of property and equipment		218,330		98,280
Non-controlling interest in results of subsidiary		-		(1,587)
Future income taxes		191,000		184,855
Net changes in non-cash operating items				
Accounts receivable		(207,756)		529,880
Prepays		(67,283)		(294,194)
Accounts payable and accrued liabilities		135,086		467,922
Deferred revenue		263,463		202,854
Deferred contract costs		(49,548)		(77,086)
		<u>851,897</u>		<u>1,458,697</u>

Investing activities

Acquisition of property and equipment		(67,019)		(196,942)
Capitalized development cost		(61,914)		(179,724)
Deferred start up cost		(473,511)		(387,110)
		<u>(602,444)</u>		<u>(763,776)</u>

Financing activities

Loan payable		(1,000,000)		-
Capital lease payments		(64,922)		-
Software license obligation		(21,380)		(225,669)
Issuance of common shares, net of issue costs		8,907,952		-
		<u>7,821,650</u>		<u>(225,669)</u>

Increase in cash and cash equivalents		8,071,103		469,252
Cash and cash equivalents, beginning of year		<u>2,498,268</u>		<u>2,895,176</u>
Cash and cash equivalents, end of year	\$	<u>10,569,371</u>	\$	<u>3,364,428</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows (Continued)

(expressed in Canadian dollars)

Three Months Ended May 31

(unaudited)

2006

2005

Non-cash investing and financing transactions not included in cash flows

Conversion of preferred shares into common shares	2,706,941	-
Share issue costs incurred in prior fiscal year	936,987	-
Future income tax on share issue costs	722,500	-
Fair value of options exercised	260	-
Agents' warrants included in share issue costs	78,708	-

Cash and cash equivalents comprises

Cash	\$ 3,569,979	\$ 1,914,428
Cash equivalents	6,999,392	1,450,000
	<u>\$ 10,569,371</u>	<u>\$ 3,364,428</u>

Supplemental information

Interest received	\$ 111,073	\$ 35,363
Interest paid	42,612	9,323
Income taxes paid	-	-
