



Trusted Software for Gaming

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News Release

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ESI Entertainment announces Fiscal 2006 Financial Results and Fiscal 2007 Milestones

BURNABY, B.C. May 11, 2006- ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) is pleased to report its audited financial results and operating highlights for the fiscal year ended February 28, 2006 ("fiscal 2006") for its parent company, ESI, and its principal subsidiary, Citadel Commerce Corp. All amounts are in Canadian dollars unless otherwise stated.

Fiscal 2006 Financial Highlights

ESI Entertainment Systems

- 70% increase in consolidated revenues to \$18.5 million for fiscal 2006 from \$10.9 million for fiscal 2005
- 50% increase in consolidated gross profit to \$9.6 million for fiscal 2006 from \$6.4 million for fiscal 2005
- 19% increase in consolidated net earnings before income taxes and non-controlling interest to \$1.9 million for fiscal 2006 from \$1.6 million for fiscal 2005
- 30% increase in consolidated net earnings to \$1.3 million (\$0.08 fully diluted EPS) for fiscal 2006 from \$1.0 million (\$0.06 fully diluted EPS) for fiscal 2005
- 200% increase in cash generated from consolidated operating activities to \$3.9 million for fiscal 2006 from \$1.3 million for fiscal 2005

The results for Citadel Commerce Corp. are as follows:

- 86% increase in revenues to \$14.7 million for fiscal 2006 compared to \$7.9 million for fiscal 2005
- 93% increase in total number of customer accounts to 626,677 accounts at February 28, 2006 from 324,214 accounts at February 28, 2005
- 65% increase in gross profit for Citadel Commerce Corp. to \$8.6 million for fiscal 2006 from \$5.2 million for fiscal 2005
- 23% increase in net earnings before tax to \$3.7 million for fiscal 2006 from \$3.0 million for fiscal 2005

"These results truly demonstrate the strength of ESI's business model," said Tony Greening, Chairman and CEO. "Our revenue has grown substantially over the prior year and our net income after tax has increased even while we made considerable investments in our infrastructure and expanded our employee base by 75% during the year."

“Our strategy in fiscal 2007 is to sustain the momentum by expanding our market reach into new geographic regions and by delivering new products and services that offer compelling value to our customers.”

Fiscal 2006 Business Highlights

Fiscal 2006 was a year of significant progress and expansion for ESI. ESI's strategy during the year was focused on expanding its market in North America, investing in new products, strengthening ESI's management and operating teams and sourcing investment to fund future growth plans.

The Company has delivered on all of these strategic objectives as follows:

- **Expanding the North American market.** North American consolidated revenues increased 75% compared to the prior fiscal year. A significant portion of this growth was driven by Citadel Commerce Corp.'s payment processing business.
- **Investing in new products.** ESI's product marketing and engineering teams have focused on developing new products that are in beta trials with key merchants. Two such products are SecureSwipe and Citadel Switch. Secure Swipe is a proprietary pin pad device that allows consumers to conduct immediate, secure payments from their home computers over the Internet using debit and credit cards. Citadel Switch is a software product that electronically scans Citadel bank accounts and notifies merchants when consumer funds are received.
- **Strengthening the management and operating teams.** The Company expanded its employee base from 71 to 124 employees, which included key management hires, to provide the infrastructure to support future growth plans.
- **Sourcing investment for growth.** The Company raised \$10 million through an Initial Public Offering of its shares which listed on the Toronto Stock Exchange, shortly after the fiscal year end, on March 30, 2006.

Fiscal 2006 Operating Highlights

ESI has three wholly owned subsidiaries: (1) Citadel Commerce Corp. (“Citadel”) provides payment processing services to the on-line gaming industry, (2) ESI Integrity Inc. (“Integrity”) sells real time audit, fraud and risk management software to government lotteries and pari-mutuel organizations, and (3) PlayLine Inc. (“PlayLine”), incorporated in fiscal 2006, markets turnkey gaming systems to land based gaming venues such as casinos, pubs and cruise ships.

Citadel generated the majority of ESI's revenues during fiscal 2005 and fiscal 2006, and therefore, additional operating metrics for this business are reported below.

Citadel Checks, an electronic check product, was used to process the majority of Citadel's transactions during fiscal 2006. myCitadel, an electronic wallet, is in its start up phase and is experiencing increased consumer interest in its e-wallet in advance of its planned commercial launch later in fiscal 2007.

	<u>FY 2006</u>	<u>FY 2005</u>	<u>% increase</u>
• Citadel Revenues	\$14.7 million	\$7.9 million	86%
• Gross profit	\$8.6 million	\$5.2 million	65%
• Net earnings before tax	\$3.7 million	\$3.0 million	23%
• Total number of customer accounts	626,677	324,214	93%

Fiscal 2007 Strategy and Key Milestones

The Company is focused on expanding its market reach into new geographic regions and on delivering new products and services that offer compelling value to its customers.

Similar to fiscal 2006, the Company has also set out the following key milestones for fiscal 2007 as part of its execution strategy:

- **Launch SecureSwipe and Citadel Switch.** SecureSwipe and Citadel Switch are innovative payment features for the myCitadel electronic wallet.
- **Obtain an e-money license from the UK Financial Services Authority.** This e-money license is required prior to launching myCitadel in Europe.
- **Launch myCitadel (e-wallet) in Europe.** Subject to the granting of the e-money license, the Company plans to launch its e-wallet in Europe, a major step in Citadel's expansion outside of North America.
- **Provide real-time monitoring of transactions for the US pari-mutuel market.** Monitoring of the US pari-mutuel market is the next significant business opportunity for ESI Integrity Inc.
- **Continue beta trials of the PlayLine turnkey gaming system.** The Company intends to continue the beta trials of its scalable gaming system.

"We are encouraged by our new product development and business initiatives defined by our management team. We are optimistic regarding our growth prospects and are focused on the execution of our business plan" said Michael Meeks, President.

Fiscal 2006 Financial Review

Results of Operations

Consolidated Revenues

The following table provides a breakdown of the Company's revenues from its three subsidiaries for the reported periods:

(\$ 000)	Years ended		% change
	Feb 28 2006	Feb 28 2005	
Citadel	14,726	7,939	85%
Integrity	3,648	2,743	33%
Other	170	200	(15%)
Total revenue	18,544	10,882	70%

Total revenue increased by 70% to \$18.5 million from \$10.9 million for fiscal 2005. This increase was mainly due to the growth in Citadel revenues, which increased 85% during the fiscal year. This increase arose as a result of growth in revenues from existing gaming merchants, new merchant growth and new revenue generated from NSF fees. During fiscal 2006, a majority of the revenues from Citadel Checks were earned from the growth in existing merchant accounts.

ESI Integrity revenues also contributed to the increase in fiscal 2006 revenues. The increase in Integrity revenues mainly related to a significant computer hardware sale to a United States

based lottery organization. Other revenues related to ESI's share of consulting revenues from its ownership in Riptide Technologies Inc.

Citadel Revenues

As approximately 79% of ESI's revenues were generated by Citadel, we have provided a more comprehensive breakdown of these revenues as follows:

(\$ 000)	Years ended		% change
	Feb 28 2006	Feb 28 2005	
Citadel Checks	13,288	6,891	93%
Citadel Payouts	1,438	1,048	37%
Total Citadel Revenues	14,726	7,939	85%

The majority of Citadel's revenues were generated from Citadel Checks, an electronic cheque service. Approximately 90% of the revenues were generated from fees charged to gaming merchants for processing consumer funds on behalf of the merchants. Citadel does not charge the consumer a fee for this service.

Included in Citadel Checks revenues were fees generated from merchants when consumers who were authenticated by Citadel's risk assessment process did not pass this process, and NSF fees, a new revenue stream in fiscal 2006, where Citadel charged fees to consumers who initially had insufficient funds in their chequing accounts when transactions were being processed.

In addition to Citadel Checks revenues, additional fees were generated from payout transactions. Fees were charged to merchants when funds from merchants were transferred to their consumers.

myCitadel, a business unit within Citadel, is developing enhancements to Citadel's electronic wallet. myCitadel is in its start-up phase and all revenues are being capitalized. \$808,000 of revenues were capitalized during fiscal 2006 and \$234,000 of revenues were capitalized during fiscal 2005. The Company has submitted an application to the Financial Services Authority ("FSA") in the United Kingdom to obtain an e-money license. Upon the grant of this license, the Company is planning to launch its myCitadel electronic wallet to consumers in Europe.

Citadel Checks offers two payment processing programs to its merchants, a non-guarantee program and a guarantee program. The table below reports the allocation of Citadel Checks revenues for each of these programs.

(\$ 000)	Years ended		% change
	Feb 28 2006	Feb 28 2005	
Non-guarantee program	9,387	6,891	36%
% of total revenue	71%	100%	
Guarantee program	3,901	-	n/a
% of total revenue	29%		
Total Citadel Checks Revenues	13,288	6,891	93%

Under the non-guarantee program, Citadel charges merchants a fixed fee for processing consumer transactions and it does not accept any chargeback risk. Under the guarantee program, merchants are charged a fee that is a percentage of the value of the transaction processed because Citadel assumes the chargeback risk for the transactions it guarantees. Thus, the guarantee fee charged to merchants is typically higher than for a non-guarantee transaction. The guarantee program was established in fiscal 2006 and represented 29% of the Citadel Checks' revenues during fiscal 2006, whereas the non-guarantee program represented 71%. The Company is experiencing increased interest in its guarantee program from gaming merchants and the revenues from this program as a percentage of total Citadel revenues are expected to increase during fiscal 2007.

All Citadel revenues were generated in North America. Although North American revenues will be the predominant source of revenue in the near term, the Company is focused on expanding its European and Asian presence over the next few years.

Consolidated Gross Profit

The following table provides a summary of the Company's gross profit for the reported periods:

(\$ 000)	Years ended	
	Feb 28 2006	Feb 28 2005
Revenues	18,544	10,882
Direct costs	8,935	4,477
Gross profit	9,609	6,405
Gross profit margin (%)	52%	59%

The decrease in gross profit margin in fiscal 2006 was due to an increase in direct costs which was mainly attributable to Citadel. In response to the rapid growth in Citadel's revenues, management hired additional merchant support and operational personnel to handle the increased activity. Citadel also incurred costs related to its newly launched guarantee program in fiscal 2006. All of these costs were recorded as direct costs of revenues generated by Citadel.

Integrity's gross profit as a percentage of revenue was also lower during fiscal 2006 relative to the prior fiscal year due to the one-time, low margin sale of computer hardware to a United States lottery customer.

The gross profit margin by dollar and as a percentage of revenues for each subsidiary is listed below:

(\$ 000)	Years ended			
	Feb 28 2006	GP%	Feb 28 2005	GP %
Citadel	8,578	58%	5,230	66%
Integrity	976	27%	1,114	41%
Other	55	32%	60	30%
Total gross profit	9,609	52%	6,404	59%

Citadel's gross profit margin during fiscal 2006 was 58%. Electronic cheques generate fees only once, at the time funds are processed from a consumer's bank account on behalf of a gaming merchant ("originating transactions"). These transactions have certain inherent costs such as authentication, processing and chargeback costs. Like electronic cheques, e-wallets also have similar fees for originating transactions, however, e-wallets also earn fees each time funds within

a wallet are moved to a gaming site (“churn”), in which case there are no authentication or chargeback costs associated with them. As noted above, Citadel plans to launch its myCitadel e-wallet in Europe and to expand its customer base in North America.

Product Development

Product development expenses were \$505,000 in fiscal 2006, an increase of 5% compared to \$480,000 for the prior period. The slight increase mainly related to additional software development work on Integrity’s software for pari-mutuel organizations.

Sales, Marketing and Customer Service

Sales, marketing and customer service expenses were \$2.9 million for fiscal 2006, an increase of 81% compared to \$1.6 million for the prior period. 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

General and administrative expenses were \$3.7 million for fiscal 2006, an increase of 42% compared to \$2.6 million for the prior period. This increase resulted from new hires in the financial, human resources and information systems departments to manage the increased activity within the ESI group of companies. In addition, ESI expanded its rental space, incurred additional professional fees and other general corporate expenses as the headcount and activity levels of the Company increased in fiscal 2006. Included in general and administrative expenses was non-cash stock compensation expense of approximately \$20,000 for fiscal 2006 and approximately \$28,000 for fiscal 2005. Stock compensation expense is expected to increase during the next fiscal year as a result of additional stock grants to the Company’s expanded employee base and the increased volatility factor used in the calculation of stock compensation expense by virtue of ESI’s new public company status.

Amortization of Property and Equipment

Amortization expenses were \$654,000 for fiscal 2006, an increase of 241% compared to \$192,000 for the prior period. The increase relates to the purchase of additional computer hardware and software, furniture and fixtures and leasehold improvements regarding the Company’s expanded employee base. Additionally, specific leasehold improvements were made to expand Citadel’s call centre and new equipment was purchased to upgrade Citadel’s data centre.

Other Income

Other income was \$66,000 for fiscal 2006, compared to \$81,000 for the prior period. This change was not material.

Provision for Income Taxes

Future income tax expense was \$671,000 for fiscal 2006, an increase of 12% compared to \$599,000 for the prior period. This increase resulted from higher net earnings before income taxes in fiscal 2006 compared to fiscal 2005.

Net Earnings

Net earnings for fiscal 2006 were \$1.3 million (\$0.11 per share – basic; \$0.08 per share- fully diluted) compared to \$999,000 (\$0.09 per share- basic; \$0.06 per share fully diluted). This increase was largely driven by the higher sales volumes during fiscal 2006 relative to the prior year.

Capital Expenditures

Capital expenditures for fiscal 2006 were \$1.6 million compared to \$1.0 million for fiscal 2005. The increase in capital expenditures for the current fiscal year related to computer hardware and software purchases (including upgrades to Citadel’s data centre), furniture and fixtures purchases and leasehold improvements (including expansion of Citadel’s call centre).

Deferred Start-Up Costs

The Company established PlayLine early in fiscal 2006 and the myCitadel division in fiscal 2004. Direct costs associated with the start up of these operations are being deferred until each commences commercial operations, at which time the accumulated start up costs will be amortized over a period not to exceed five years. During fiscal 2006, sales, marketing, business development and other direct expenses in the amount of \$628,000 and \$1.3 million were capitalized for PlayLine and myCitadel, respectively. As at February 28, 2006 start up costs for PlayLine totaled \$628,000 and \$2.1 million for myCitadel. The Company expects to be in full commercial operations before the end of fiscal 2007.

Capitalized Development Cost

The Company has capitalized certain computer software production costs for PlayLine and myCitadel. Amortization of the software development costs will commence on reaching commercial operations using the straight line method over the useful life of the software. During fiscal 2006, software expenses in the amount of \$565,000 and \$187,000 were capitalized for PlayLine and myCitadel, respectively. As at February 28, 2006 capitalized development costs for PlayLine totaled \$565,000 and \$912,000 for myCitadel. The Company expects to be in full commercial operations for both PlayLine and myCitadel before the end of fiscal 2007.

Citadel Processing Accounts and Liabilities

Citadel processing accounts as at February 28, 2006 totaled \$33.8 million compared to \$19.1 million as at February 28, 2005. The accounts are comprised of restricted cash, which are segregated bank funds arising from the processing of deposits and payments for Citadel merchants and consumers, and accounts receivable relating to Citadel processing accounts for funds in transit from merchants and consumers. The processing accounts balance is also recorded as a liability because these funds represent amounts due to consumers and merchants. The growth in Citadel processing accounts and liabilities is positively correlated to the growth in Citadel revenues.

Liquidity and Capital Resources

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

During fiscal 2006, cash provided by operating activities was \$3.9 million compared to \$1.3 million during fiscal 2005, an increase of \$2.6 million from the prior period. This increase resulted from a \$0.8 million increase in cash generated from operations and a \$1.8 million increase in non-cash operating items during fiscal 2006. Cash from operations was higher during fiscal 2006 compared to fiscal 2005 because of higher cash based earnings mainly as a result of increased activity within Citadel. Non-cash operating items in fiscal 2006 was higher than fiscal 2005 as a result of more effective management of the Company's working capital. For example, the Company collected significant receivables from a US lottery corporation and a pari-mutuel organization during fiscal 2006. Additionally, the Company incurred additional expenses during the year which were funded by credit from its suppliers.

Cash used in investing activities totaled approximately \$4.1 million during fiscal 2006. Investments consisted of the purchase of property and equipment (approximately \$0.7 million), funding of PlayLine and myCitadel development costs (approximately \$2.7 million) and the acquisition of assets from Riptide Technologies Inc (approximately \$0.7 million).

Cash used in financing activities totaled \$232,000 during fiscal 2006. These activities related to the payment of capital lease and license obligations of \$280,000, share issue and repurchase costs of \$15,000, payment of initial public offering costs of \$937,000 and the receipt of proceeds from a loan of \$1 million to fund short term working capital requirements.

Overall, the net use of cash was \$0.4 million in fiscal 2006 compared to a use of cash of \$0.7 million in fiscal 2005. Excluding non-recurring events, ie. cash used to acquire Riptide assets (\$0.7 million), cash used to fund IPO costs (\$0.94 million) and cash proceeds from the loan (\$1.0 million), the net increase in cash during fiscal 2006 totaled \$0.2 million. This represents an increase in cash generated by ESI of approximately \$0.9 million from the prior year.

Consolidated Balance Sheets

(expressed in Canadian dollars)

February 28	2006	2005
Assets		
Current		
Cash and cash equivalents	\$ 2,498,268	\$ 2,895,176
Accounts receivable	717,324	1,045,280
Prepays	485,982	378,479
	3,701,574	4,318,935
Citadel processing accounts	33,805,751	19,113,816
Deferred share issue costs	936,987	-
Deferred contract costs	537,822	661,346
Deferred start-up costs	2,675,695	749,275
Property and equipment	1,973,586	1,020,775
Capitalized development cost	1,477,731	725,542
Future income tax assets	-	412,000
	\$ 45,109,146	\$ 27,001,689
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 2,213,787	\$ 1,226,951
Loan payable	1,000,000	-
Capital lease obligations	258,631	-
Software license obligation	114,286	114,286
Deferred revenue	564,239	689,833
	4,150,943	2,031,070
Citadel processing liabilities	33,805,751	19,113,816
Deferred revenue	687,895	611,464
Non-controlling interest	-	26,803
Software license obligation	5,247	111,383
Capital lease obligations	486,058	-
Future income tax liabilities	258,500	-
	39,394,394	21,894,536
Shareholders' Equity		
Capital stock	5,095,916	5,745,506
Contributed surplus	57,779	37,426
Retained earnings (Deficit)	561,057	(675,779)
	5,714,752	5,107,153
	\$ 45,109,146	\$ 27,001,689

Consolidated Statements of Earnings and Retained Earnings

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

Years Ended February 28	2006	2005
Revenues	\$ 18,544,167	\$ 10,882,406
Direct costs	8,934,785	4,477,762
Gross profit	9,609,382	6,404,644
Operating expenses		
Product development	505,346	480,345
Sales, marketing and customer service	2,925,280	1,578,924
General and administrative	3,661,088	2,635,067
Amortization of property and equipment	653,972	191,903
	7,745,686	4,886,239
Earnings before under noted items	1,863,696	1,518,405
Other expenses (income)		
Foreign exchange loss (gain)	38,096	(1,689)
Interest income	(183,351)	(83,578)
Interest expense	79,706	4,303
Earnings before income taxes and non-controlling interest	1,929,245	1,599,369
Provision for income taxes		
Current	-	104
Future	670,500	599,000
	670,500	599,104
Earnings before non-controlling interest	1,258,745	1,000,265
Non-controlling interest	(4,762)	1,048
Net earnings	\$ 1,263,507	\$ 999,217
Earnings per share		
Basic	\$ 0.11	\$ 0.09
Diluted	0.08	0.06
Deficit, beginning of year	\$ (675,779)	\$ (1,674,996)
Excess of consideration paid over ascribed value for shares repurchased	(26,671)	-
Net earnings	1,263,507	999,217
Retained earnings (deficit), end of year	\$ 561,057	\$ (675,779)

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

Years Ended February 28

	2006	2005
Cash flows provided by (used in)		
Operating activities		
Net earnings	\$ 1,263,507	\$ 999,217
Items not affecting cash:		
Stock-based compensation	20,353	27,669
Amortization of property and equipment	653,972	191,903
Non-controlling interest in results of subsidiary	(4,762)	1,048
Future income taxes	670,500	599,000
Net changes in non-cash operating items		
Accounts receivable	327,956	(675,568)
Prepays	(107,503)	(231,141)
Accounts payable and accrued liabilities	986,836	714,640
Deferred revenue	(49,163)	(65,558)
Deferred contract cost	123,524	(272,218)
	3,885,220	1,288,992
Investing activities		
Acquisition of property and equipment	(688,096)	(995,614)
Capitalized development cost	(752,189)	(172,165)
Acquisition of Riptide Technologies Inc., net of acquisition costs incurred	(683,827)	--
Deferred start up cost	(1,926,420)	(749,275)
	(4,050,532)	(1,917,054)
Financing activities		
Loan payable	1,000,000	-
Deferred share issue costs	(936,987)	-
Capital lease payments	(173,998)	-
Software license obligation	(106,136)	(92,100)
Repurchase of common shares	(42,600)	-
Issuance of common shares	28,125	5,000
	(231,596)	(87,100)
Decrease in cash and cash equivalents	(396,908)	(715,162)
Cash and cash equivalents, beginning of year	2,895,176	3,610,338
Cash and cash equivalents, end of year	\$ 2,498,268	\$ 2,895,176

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 Final Prospectus dated March 22, 2006 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. (“ESI”) (TSX: ESY) provides products and services to the international gaming industry through its three principal subsidiaries, Citadel Commerce Corp., ESI Integrity Inc. and PlayLine Inc. ESI's products and services, which primarily consist of payment processing, transaction monitoring and turnkey gaming platforms, are deployed in the on-line and land based gaming markets.

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