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News Release

For Immediate Release July 12, 2007

ESI ENTERTAINMENT ANNOUNCES FISCAL 2008 FIRST QUARTER FINANCIAL RESULTS

BURNABY, B.C. July 12, 2007- ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) reported today its financial results for fiscal Q1 2008 ended May 31, 2007. (All dollar amounts reported in Canadian funds)

Financial highlights for the quarter included (Q1 2008 compared to Q1 2007):

Consolidated basis:

- Revenues decreased 86% to \$0.78 million from \$5.5 million
- Gross profit decreased 92% to \$0.28 million from \$3.5 million
- Net loss before income taxes increased by \$3.0 million to loss of \$2.5 million from net income before taxes of \$0.5 million
- Net loss increased by \$2.9 million to \$2.5 million from net earnings of \$0.35 million

Our financial results were mainly driven by the decline in Citadel Commerce Corp., our payment processing service to the on-line gaming and e-commerce industries, due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers. We have seen a significant decrease in our financial performance for the three months ended May 31, 2007 compared to the three months ended May 31, 2006.

"The first quarter of 2008 was a challenging quarter" said Tony Greening Chair and Chief Executive Officer. "The Company has a solid foundation to build from with a Financial Services Authority e-Money issuer status in UK, intellectual property and know-how for financial processing. We are continuing to pursue the European gaming markets as well as the general e-commerce markets worldwide. We look forward to providing another update during the following quarters as we continue to develop new and additional markets for our products."

Financial Review

Total revenue decreased by 86% to \$0.78 million for the three months ended May 31, 2007 from \$5.5 million for the three months ended May 31, 2006. This decrease was mainly because of the decline in Citadel revenues due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers.

Gross profit was \$0.28 million for the first quarter of fiscal 2008 compared to \$3.5 million for the first quarter of fiscal 2007, a decrease of \$3.22 million, or 92%. Margins decreased because revenues dropped from payment processing business due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers while direct costs of sales such as call centre, merchant support and other operations related wages remained relatively fixed as transaction revenues declined.

Product development expenses were \$475,000 during the three months ended May 31, 2007, an increase of 47% compared to \$324,000 for the three months ended May 31, 2006. The increase is mainly related to additional software development work on Citadel's software for the European and general e-commerce markets as well as expensing of product development costs which were being deferred and were subsequently written off in Q3 of fiscal 2007.

Sales, marketing and customer service expenses were \$442,000 during the three months ended May 31, 2007, a decrease of 53% compared to \$941,000 for the three months ended May 31, 2006. The decrease is primarily related to the reduction of staff in sales and marketing and customer service due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers.

General and administrative expenses were \$1.1 million during the three months ended May 31, 2007 a decrease of 23% compared to \$1.4 million for the three months ended May 31, 2006. This decrease resulted from a reduction of staff due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers in Q4 2007.

Net loss for the quarter ended May 31, 2007 was (\$2.5 million) (\$0.13 net loss per share – basic) compared to \$350,000 for the quarter ended May 31, 2006 (\$0.02 net earnings per share- basic and diluted). Net loss for the current quarter included a foreign exchange loss of \$742,000. As ESI generates and receives its funds in United States currency, the foreign exchange loss arose from the devaluation of the United States dollar relative to the Canadian dollar. The fully diluted loss per share has not been computed, as the effect would be anti-dilutive (meaning that the loss per share would decrease on a fully diluted basis). Therefore, in accordance with GAAP, fully diluted loss per share is not provided. The fully diluted calculation would have otherwise included Common Shares underlying outstanding securities, such as options and warrants exercisable to acquire Common Shares.

Cash and cash equivalents totaled \$7.5 million and the working capital position was \$7.4 million at the end of the current quarter.

ESI Entertainment Systems Inc.

Consolidated Balance Sheets

(expressed in Canadian dollars)
(unaudited)

May 31,
2007

February 28,
2007

	May 31, 2007	February 28, 2007
Assets		
Current		
Cash and cash equivalents	\$ 7,524,210	\$ 9,453,701
Accounts receivable	576,447	558,291
Prepays	502,422	472,910
	<u>8,603,079</u>	<u>10,484,902</u>
Restricted cash	-	1,100,903
Citadel processing accounts	13,255,927	16,075,768
Property and equipment	1,255,522	1,391,764
Deferred contract costs	695,134	502,596
	<u>\$ 23,809,661</u>	<u>\$ 29,555,933</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 939,917	\$ 1,237,547
Capital lease obligations	265,371	348,671
Software license obligation	-	9,917
Deferred revenue	655,712	539,198
	<u>1,861,000</u>	<u>2,135,333</u>
Citadel processing liabilities	13,255,927	16,883,268
Deferred revenue	1,692,024	1,080,247
Capital lease obligations	245,399	245,399
	<u>17,054,350</u>	<u>20,344,247</u>
Shareholders' Equity		
Capital stock	13,305,410	13,226,702
Warrants	5,926	84,634
Contributed surplus	405,350	330,134
(Deficit)	(6,961,375)	(4,429,784)
	<u>6,755,311</u>	<u>9,211,686</u>
	<u>\$ 23,809,661</u>	<u>\$ 29,555,933</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Operations and (Deficit) Retained Earnings

(expressed in Canadian dollars)
(unaudited)

Three Months Ended May 31,
2007 2006

Revenues	\$	775,580	\$	5,498,373
Direct costs		<u>496,075</u>		<u>2,035,617</u>
Gross profit		<u>279,505</u>		<u>3,462,756</u>
Operating expenses				
Product development		475,148		323,912
Sales, marketing and customer service		441,682		941,171
General and administrative		1,073,907		1,393,762
Amortization of property and equipment		211,616		218,330
		<u>2,202,353</u>		<u>2,877,175</u>
Earnings before under noted items		(1,922,849)		585,581
Other expenses (income)				
Foreign exchange (gain) loss		742,038		134,987
Interest income		(156,941)		(132,678)
Interest expense		23,645		42,612
(Loss) Earnings before income taxes		<u>(2,531,591)</u>		<u>540,660</u>
Provision for income taxes				
Future		-		191,000
Net (loss) earnings	\$	<u>(2,531,591)</u>	\$	<u>349,660</u>
(Loss) Earnings per share				
Basic	\$	(0.13)	\$	0.02
Diluted		(0.13)		0.02
Retained earnings (deficit), beginning of period	\$	(4,429,784)	\$	561,057
Net (loss) earnings		<u>(2,531,591)</u>		<u>349,660</u>
(Deficit) retained earnings, end of period	\$	<u>(6,961,375)</u>	\$	<u>910,717</u>

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)
(unaudited)

Three Months Ended May 31,
2007 2006

Cash flows provided by (used in)

Operating activities

Net (loss) earnings	\$	(2,531,591)	\$	349,660
Items not affecting cash:				
Stock-based compensation		75,216		18,945
Amortization of property and equipment		211,616		218,330
Future income taxes		-		191,000

Net changes in non-cash operating items

Accounts receivable	(18,156)	(207,756)
Prepays	(29,512)	(67,283)
Accounts payable and accrued liabilities	(297,630)	135,086
Allowance for bad debts	(807,500)	-
Deferred revenue	728,291	263,463
Deferred contract costs	(192,537)	(49,548)

	<u>(2,861,803)</u>	<u>851,897</u>
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Investing activities

Deferred start up cost	-	(473,511)
Capitalized development cost	-	(61,914)
Acquisition of property and equipment	(75,374)	(67,019)
Restricted cash	1,100,903	-

	<u>1,025,529</u>	<u>(602,444)</u>
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Financing activities

Issuance of common shares, net of issue costs	-	8,907,952
Loan payable	-	(1,000,000)
Capital lease payments	(83,300)	(64,922)
Software license obligation	(9,917)	(21,380)

	<u>(93,217)</u>	<u>7,821,650</u>
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Increase (decrease) in cash and cash equivalents

	<u>(1,929,491)</u>	<u>8,071,103</u>
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Cash and cash equivalents, beginning of period

	<u>9,453,701</u>	<u>2,498,268</u>
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Cash and cash equivalents, end of period

\$	<u>7,524,210</u>	\$	<u>10,569,371</u>
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ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows (Continued)

(expressed in Canadian dollars)
(unaudited)

Three Months Ended May 31,
2007 2006

Non-cash investing and financing transactions

Not included

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 costs	-	78,708

Cash and cash equivalents comprises

Cash	\$ 2,710,902	\$ 3,569,979
Cash equivalents	<u>4,813,308</u>	<u>6,999,392</u>
	<u>\$ 7,524,210</u>	<u>\$ 10,569,371</u>

Supplemental information

Interest received	\$ 73,968	\$ 111,073
Interest paid	<u>31,477</u>	<u>42,612</u>

About ESI Entertainment Systems Inc.

ESI Entertainment Systems Inc. ("ESI") (TSX: ESY) provides products and services to the international gaming and e-commerce industries 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 and e-commerce markets.

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, Annual Information Form and elsewhere in other filings on www.sedar.com. 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.

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