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News Release

For Immediate Release February 4, 2008

ESI ENTERTAINMENT ANNOUNCES FISCAL 2008 THIRD QUARTER FINANCIAL RESULTS

BURNABY, B.C. February 4, 2008- ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) reported today its financial results for fiscal Q3 2008 ended November 30, 2007. (All dollar amounts reported in Canadian funds)

Financial highlights for the quarter included (Q3 2008 compared to Q3 2007):

Consolidated basis:

- Revenue for the three months to November 30, 2007, decreased from \$6.3 million to \$0.76 million – negative 88% - over the comparative period in the prior year;
- Revenue for the nine months to November 30, 2007 decreased from \$17.5 million to \$2.2 million – negative 87% - over the comparative period in the prior year;
- Gross Profit for the three months to November 30, 2007, decreased from \$3.97 million to \$0.06 million – negative 98% - over the comparative period in the prior year;
- Gross Profit for the nine months to November 30, 2007, decreased from \$11.04 million to \$0.37 million – negative 97% - over the comparative period in the prior year;
- Net loss for the three months to November 30, 2007, decreased to \$2,250,753 from net loss of \$5,256,916 – positive 57.2% - in the comparative period in the prior year;
- Net loss for the nine months to November 30, 2007, increased to \$7,423,989 from net loss of \$4,535,662 - negative 63.7% - over the comparative period in the prior year;

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 and for domestic gaming merchants. We have seen a significant decrease in our financial performance for the three and nine months ended November 30, 2007 compared to the three and nine months ended November 30, 2006.

We continued to build on our Internet Banking payment service and 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 88% to \$0.76 million for the three months ended November 30, 2007 from \$6.26 million for the three months ended November 30, 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 and for domestic gaming merchants.

Gross profit was \$0.06 million and \$0.37 million for the three and nine months ended November 30, 2007 compared to \$3.97 million and \$11.04 million for the same periods in 2006. Gross margin as a percentage of revenues was 8% compared to 63% for the same quarter in prior year, a decrease of 558%. 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 and for domestic gaming merchants 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 \$253,197 and \$1,108,153 during the three and nine months ended November 30, 2007 respectively, a decrease of 10% and increase of 31% respectively compared to \$282,892 and \$846,333 for the three and nine months ended November 30, 2006. The increase is mainly related to additional software development work on Citadel's new products for the European and general e-commerce markets as well as expensing of product development costs which were being deferred and written off in Q3 of fiscal 2007.

Sales, marketing and customer service expenses were \$503,545 and \$1,312,001 during the three and nine months ended November 30, 2007 respectively, a decrease of 32% and 46% respectively compared to \$748,877 and \$2,418,444 for the three and nine months ended November 30, 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 and for domestic gaming merchants.

General and administrative expenses were \$1,571,751 and \$4,040,688 during the three and nine months ended November 30, 2007 respectively, representing a decrease of 25% and 23% compared to \$2,104,147 and \$5,253,212 for the three months and nine months ended November 30, 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 and for domestic gaming merchants in Q1 2008. Included in general and administrative expenses was non-cash stock compensation expense of approximately \$53,517 for the three months ended November 30, 2007 compared to \$27,764 for three months ending November 30, 2006.

Net loss for the three and nine month periods ended November 30, 2007 were \$2,250,752 (\$0.13 net loss per share – basic and diluted) and \$7,423,939 (\$0.41 net loss per share – basic and diluted) compared to net loss of \$5,256,916 (\$0.28 net loss per share – basic and fully diluted) and \$4,535,662 (\$0.25 net loss per share- basic and fully diluted) for the prior comparative periods. 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.

As at November 30, 2007, the Company had cash and cash equivalents of \$2,194,883, compared to \$10,988,753 on November 30, 2006.

ESI Entertainment Systems Inc.

Consolidated Balance Sheets

(expressed in Canadian dollars)

(unaudited)

| | November 30, 2007 | February 28, 2007 |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 2,194,883 | \$ 9,453,701 |
| Accounts receivable | 1,097,498 | 558,29 |
| Prepays | 457,69 | 472,91 |
| | <u>3,750,075</u> | <u>10,484,902</u> |
| Restricted cash (Note 4) | | 1,100,903 |
| Citadel processing accounts (Note 4) | 12,418,932 | 16,075,768 |
| Property and equipment (Note 5) | 895,29 | 1,391,764 |
| Deferred contract costs | 1,039,000 | 502,59 |
| | <u>\$ 18,103,258</u> | <u>\$ 29,555,933</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 700,04 | \$ 1,237,547 |
| Capital lease obligations | 91,1 | 348,67 |
| Software license obligation | | 9, |
| Deferred revenue | 497,91 | 539,19 |
| | <u>1,289,076</u> | <u>2,135,333</u> |
| Citadel processing liabilities (Note 4) | 12,691,820 | 16,883,268 |
| Deferred revenue | 1,860,580 | 1,080,247 |
| Capital lease obligations | 245,39 | 245,39 |
| | <u>16,086,875</u> | <u>20,344,247</u> |
| Shareholders' Equity | | |
| Capital stock (Note 6) | 9,963,885 | 13,226,702 |
| Warrants (Note 7) | 5 | 84,6 |
| Contributed surplus | 3,900,345 | 330,13 |
| (Deficit) | (11,853,773) | (4,429,784) |
| | <u>2,016,383</u> | <u>9,211,686</u> |
| | <u>\$ 18,103,258</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 November 30, | | Nine Months Ended November 30, | |
|---|---------------------------------|-----------------------|--------------------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues (Note 5) | \$ 761,681 | \$ 6,256,549 | 2,219,453 | 17,537,387 |
| Direct costs (Note 5) | <u>697,511</u> | <u>2,290,053</u> | <u>1,846,402</u> | <u>6,500,573</u> |
| Gross profit | <u>64,170</u> | <u>3,966,496</u> | <u>373,051</u> | <u>11,036,814</u> |
| Operating expenses | | | | |
| Product development | 253,197 | 282,809 | 1,108,153 | 846,800 |
| Sales, marketing and customer service | 503,541 | 748,871 | 1,312,001 | 2,418,444 |
| General and administrative (Note 10) | 1,571,751 | 2,104,147 | 4,040,688 | 5,253,212 |
| Amortization of property and equipment | <u>184,821</u> | <u>235,621</u> | <u>597,511</u> | <u>677,600</u> |
| | <u>2,513,314</u> | <u>3,371,536</u> | <u>7,058,363</u> | <u>9,196,146</u> |
| Earnings before under noted items | (2,449,138) | 594,960 | (6,685,314) | 1,840,673 |
| Other expenses (income) | | | | |
| Impairment of intangibles and other assets | | 6,211,465 | | 6,211,465 |
| Foreign exchange loss (gain) | (162,612) | (233,012) | 938,311 | (69,800) |
| Interest income | (43,094) | (105,482) | (268,861) | (391,481) |
| Interest expense | <u>(4,311)</u> | <u>19,911</u> | <u>40,111</u> | <u>10,631</u> |
| Earnings before income taxes and non-controlling interest | (2,239,078) | (5,297,955) | (7,395,254) | (4,015,857) |
| Provision for income taxes | | | | |
| Current | 11,611 | 13,911 | 28,111 | 45,111 |
| Future | | <u>(55,001)</u> | | <u>474,001</u> |
| | <u>11,611</u> | <u>(41,090)</u> | <u>28,111</u> | <u>519,801</u> |
| Net loss | <u>\$ (2,250,752)</u> | <u>\$ (5,256,916)</u> | <u>(7,423,989)</u> | <u>(4,535,662)</u> |
| Earnings per share (Note 9) | | | | |
| Basic | \$ (0.13) | \$ (0.28) | \$ (0.41) | \$ (0.25) |
| Diluted | (0.13) | (0.27) | (0.41) | (0.23) |
| Retained earnings (deficit), beginning of period | \$ (9,603,021) | \$ 1,282,311 | (4,429,784) | 561,000 |
| Net loss | <u>(2,250,752)</u> | <u>88,600</u> | <u>(7,423,989)</u> | <u>(4,535,662)</u> |
| Retained earnings (deficit), end of period | <u>\$ (11,853,773)</u> | <u>\$ (3,974,605)</u> | <u>(11,853,773)</u> | <u>(3,974,605)</u> |

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

| (unaudited) | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|--|---------------------------------|----------------------|--------------------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flows provided by (used in) | | | | |
| Operating activities | | | | |
| Net loss | \$ (2,250,752) | \$ (5,256,916) | \$ (7,423,989) | \$ (4,535,662) |
| Items not affecting cash: | | | | |
| Stock-based compensation (Note 8) | 53,517 | 27,764 | 231,687 | 110,976 |
| Amortization of property and equipment | 184,821 | 235,620 | 597,523 | 677,652 |
| Future income taxes | - | (55,000) | - | 474,000 |
| Net changes in non-cash operating items: | | | | |
| Accounts receivable | (154,636) | (643,986) | (539,207) | (839,513) |
| Inventory | - | 32,002 | - | (205,250) |
| Prepays | 88,593 | (324,510) | 15,216 | (380,528) |
| Allowance for bad debts | 272,888 | - | (534,612) | |
| Accounts payable and accrued liabilities | (57,173) | 558,374 | (537,503) | 726,934 |
| Deferred revenue | (30,622) | 333,820 | 739,050 | 556,861 |
| Deferred contract costs | (132,296) | 65,219 | (536,404) | 60,401 |
| | <u>(2,025,660)</u> | <u>1,183,852</u> | <u>(7,988,239)</u> | <u>2,857,336</u> |
| Investing activities | | | | |
| Acquisition of property and equipment | (6,745) | (112,888) | (101,010) | (314,418) |
| Capitalized development cost | - | (258,727) | - | (398,685) |
| Restricted cash | - | - | 1,100,903 | - |
| Deferred start up cost | - | (259,991) | - | (1,253,151) |
| | <u>(6,745)</u> | <u>(631,606)</u> | <u>999,893</u> | <u>(1,966,254)</u> |
| Financing activities | | | | |
| Loan payable | - | - | - | (1,000,000) |
| Capital lease payments | (88,218) | (82,234) | (257,555) | (214,039) |
| Software license obligation | - | (29,261) | (9,917) | (79,946) |
| Share cancellation costs | (3,000) | - | (3,000) | - |
| Issuance of common shares, net of issue costs | - | - | - | 8,893,388 |
| | <u>(91,218)</u> | <u>(111,495)</u> | <u>(270,472)</u> | <u>7,599,403</u> |
| Increase in cash and cash equivalents | (2,123,623) | 440,751 | (7,258,818) | 8,490,485 |
| Cash and cash equivalents, beginning of period | <u>4,318,506</u> | <u>10,548,002</u> | <u>9,453,701</u> | <u>2,498,268</u> |
| Cash and cash equivalents, end of period | <u>\$ 2,194,883</u> | <u>\$ 10,988,753</u> | <u>\$ 2,194,883</u> | <u>\$ 10,988,753</u> |

ESI Entertainment Systems Inc.

Consolidated Statements of Cash Flows (Continued)

(expressed in Canadian dollars)

| (unaudited) | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---------------------------------|------------|--------------------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 |
| 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 | - | - | - | 732,500 |
| Fair value of options exercised | - | - | - | 519 |
| Agents' warrants included in share issue costs | - | - | - | 78,708 |
| Cash and cash equivalents comprises | | | | |
| Cash | | | \$ 2,194,883 | \$ 8,478,645 |
| Cash equivalents | | | - | 2,510,108 |
| | | | <u>\$ 2,194,883</u> | <u>\$ 10,988,753</u> |
| Supplemental information | | | | |
| Interest received | \$ 43,094 | \$ 144,457 | \$ 160,279 | \$ 367,011 |
| Interest paid | 16,096 | 19,944 | 68,790 | 106,354 |
| Income taxes paid | - | 50,763 | - | 50,763 |

ESI Entertainment Systems Inc.

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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