



ESI Entertainment Systems Inc.

1018 - 4720 Kingsway Ave

Burnaby, BC V5H 4N2

Telephone 604.299.6922

Facsimile 604.299.3984

www.esi.ca

News Release

For Immediate Release August 19, 2010

**ESI ENTERTAINMENT SYSTEMS INC ANNOUNCES
FISCAL 2011 FIRST QUARTER FINANCIAL RESULTS**

BURNABY, B.C. August 19, 2010 - ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX: ESY) reported today its financial results (unaudited) for fiscal Q1 2011 ended May 31, 2010. (All dollar amounts reported in Canadian funds)

Consolidated financial highlights for the quarter include (Q1 2011 compared to Q1 2010):

- Revenues decreased by 11% to \$743,000 from \$834,000
- Gross profit increased by 54%, to \$246,000 from \$160,000
- Operating Expenses decreased by 17% to \$704,000 from \$851,000
- Net loss before income taxes decreased by 21% to \$415,000 from \$522,000.

Our financial results were mainly driven by efforts being made during the First Quarter to reduce operating expenses whilst at the same time working to expand the business base of ESI Integrity and rebuild the business of Citadel Commerce.

"The first quarter of fiscal 2011 has continued to present us challenges but our experienced Management team and Board have worked well together to allow us to weather these difficult conditions" said Tony Greening, Chair and Chief Executive Officer. "Each of the two operating subsidiaries has closely governed expenditures while remaining focused on building its business, ESI Integrity has continued to provide the group with a solid business foundation while Citadel builds on the relationships it has developed for use of its products and services to re-build its revenues."

Financial Review

Consolidated Revenues

(\$ 000)	Three months ended		% change
	May 31/10	May 31/09	
Integrity	434	581	-25%
Citadel	309	253	22%
Total revenue	743	834	-11%

Total revenue decreased by 11% to \$743,000 for the three months ended May 31, 2010 from \$834,000 for the three months ended May 31, 2009.

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 58% of ESI's revenues were generated by ESI Integrity during the three months ended May 31, 2010 compared to 70% 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 42% of ESI's revenues were generated by Citadel during the three months ended May 31, 2010 compared to 30% 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.

Sales, Marketing and Customer Service

Sales, marketing and customer service expenses were \$31,000 during the three months ended May 31, 2010, a decrease of 23% compared to \$40,000 for the three months ended May 31, 2009. The decrease is primarily related to the reduction of staff in sales and marketing and customer service.

General and Administrative

General and administrative expenses were \$659,000 during the three months ended May 31, 2010, a decrease of 2% compared to \$676,000 for the three months ended May 31, 2009. This reduction is due to the Company's ongoing efforts to minimize its operating expenses.

Amortization of Property and Equipment

Amortization expenses were \$14,000 during the three months ended May 31, 2010, a decrease of 80% compared to \$72,000 for the three months ended May 31, 2009. The decrease in amortization expense results from very few new assets being purchased and amortization being reduced on older equipment.

Net (loss) Earnings

Net loss for the quarter ended May 31, 2010 was \$415,000 (\$0.03 loss per share) compared to a loss of \$522,000 (\$0.04 loss per share) for the quarter ended May 31, 2009, a decrease of 21%.

Citadel Processing Accounts and Liabilities

Citadel processing accounts as at May 31, 2010 totaled \$4.6 million compared to \$5.6 million as at February 28, 2010. The accounts are comprised of cash and accounts receivables arising from the processing of deposits and payments for Citadel merchants and consumers.

Consolidated Balance Sheets

(expressed in Canadian dollars)

	May 31, 2010 (unaudited)	February 28, 2010 (audited)
Assets		
Cash and cash equivalents	\$ 175,776	\$ 89,208
Accounts receivable	1,125,154	1,073,580
Prepays	97,876	65,658
Citadel processing accounts	3,755,558	4,937,401
	<u>5,154,364</u>	<u>6,165,847</u>
Capitalized development costs	85,307	47,532
Property and equipment	156,524	170,499
Deferred contract costs	520,577	550,362
	<u>\$ 5,916,772</u>	<u>\$ 6,934,240</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 2,684,546	\$ 2,227,935
Loan Payable	2,175,700	2,174,733
Citadel processing liabilities	4,614,603	5,649,239
Deferred revenue	573,392	582,667
	<u>10,048,241</u>	<u>10,634,137</u>
Deferred revenue	896,843	913,605
	<u>10,945,084</u>	<u>11,547,742</u>
Shareholders' Deficit		
Capital stock	9,957,959	9,957,959
Contributed surplus	4,467,539	4,467,539
(Deficit)	(19,453,810)	(19,039,010)
	<u>(5,028,312)</u>	<u>(4,613,502)</u>
	<u>\$ 5,916,772</u>	<u>\$ 6,934,240</u>

Consolidated Statements of Operations and Comprehensive Loss and Deficit

(expressed in Canadian dollars)
(unaudited)

	Three Months Ended May 31,	
	2010	2009
Revenues	\$ 743,265	\$ 833,991
Direct costs	<u>497,413</u>	<u>674,237</u>
Gross profit	<u>245,852</u>	<u>159,754</u>
Operating expenses		
Product development	-	63,308
Sales, marketing and customer service	31,384	40,325
General and administrative	659,039	675,735
Amortization of property and equipment	<u>13,975</u>	<u>72,226</u>
	<u>704,398</u>	<u>851,594</u>
(Loss) Earnings before under noted items	(458,546)	(691,840)
Other expenses (income)		
Foreign exchange (gain) loss	(92,409)	(215,345)
Interest income	(44)	(690)
Interest expense	<u>48,707</u>	<u>46,318</u>
Net (loss) earnings	<u>\$ (414,800)</u>	<u>\$ (522,123)</u>
(Loss) Earnings per share		
Basic	\$ (0.03)	\$ (0.04)
Diluted	(0.03)	(0.04)
Retained earnings (deficit), beginning of period	\$ (19,039,010)	\$ (16,698,711)
Net (loss) earnings	<u>(414,800)</u>	<u>(522,123)</u>
(Deficit) retained earnings, end of period	<u>\$ (19,453,810)</u>	<u>\$ (17,220,834)</u>

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)
(unaudited)

Three Months Ended May 31,
2010 2009

	2010	2009
Cash flows provided by (used in)		
Operating activities		
Net (loss) earnings	\$ (414,800)	\$ (522,123)
Items not affecting cash:		
Amortization of property and equipment	13,975	72,226
Net changes in non-cash operating items		
Accounts receivable	(51,574)	(288,497)
Prepays	(32,218)	24,548
Accounts payable and accrued liabilities	514,396	224,268
Deferred revenue	26,037	16,658
Deferred contract costs	29,785	7,809
	<u>85,601</u>	<u>(465,111)</u>
Investing activities		
Acquisition of property and equipment	<u>-</u>	<u>(7,652)</u>
	<u>-</u>	<u>(7,652)</u>
Financing activities		
Capital lease payments	-	(12,890)
Loan Payable	<u>967</u>	<u>(330,603)</u>
	<u>967</u>	<u>(343,493)</u>
Increase (decrease) in cash and cash equivalents	86,568	(816,256)
Cash and cash equivalents, beginning of period	<u>89,208</u>	<u>909,785</u>
Cash and cash equivalents, end of period	<u>\$ 175,776</u>	<u>\$ 93,529</u>
Supplemental information		
Interest received	\$ 44	\$ 690
Interest paid	48,707	46,318

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, e-commerce 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.

Forward looking Statements

This news release may contain 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 Canadian National Stock Exchange does not accept responsibility for this press release.

For further information please contact:

ESI Entertainment Systems Inc.

Tony Greening

Chief Executive Officer

Telephone: (604) 299-6922

email: tgreening@esi.ca

Web: www.esi.ca