



**ESI Entertainment Systems Inc.**  
130 – 8610 Glenlyon Parkway  
Burnaby, BC V5J 0B6

Telephone 604.299.6922  
Facsimile 604.299.3984  
[www.esi.ca](http://www.esi.ca)

News Release

**For Immediate Release October 30, 2012**

### **ESI Entertainment announces Fiscal 2013 First Quarter Financial Results**

BURNABY, B.C. October 30, 2012 - ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX : ESY) reported today its financial results (unaudited) for fiscal Q2 2013 ended August 31, 2012. (All dollar amounts reported in Canadian funds).

#### **Consolidated financial highlights for the quarter include (Q2 2013 compared to Q2 2012):**

- Revenue decreased by 28% from \$896,000 to \$648,000
- Gross profit decreased by 92% from \$914,000 to \$74,000
- Net income decreased by 99% to \$5,810 from \$889,000

With the asset sale of ESI Integrity occurring in the first quarter of fiscal 2013, the second quarter results only represent the activities and operations of our Citadel business unit. In addition, during the same period last year, the Company received approval from certain Executives, Directors and Officers to forgive the majority of the amounts owed to them by the Company for their deferred salaries and the accrued interest. The reversal of the Salary Expense reduced the Direct Costs and General and Administration Expense for the same quarter last year, and increased the Gross Profit and Net Income. These two factors significantly impact the current Quarter results and the comparison figures from the previous year.

The asset sale of ESI Integrity is now complete; a significant amount of the Loan Payable has been reduced, and revenue is continuing to grow within Citadel. We are excited about the coming year. Citadel Commerce continues to closely govern expenditures while focusing on its pipeline of payment processing opportunities and new initiatives.

"Michael Meeks"  
President & CEO

## Selected Financial Information

	Three Months Ending		Six Months Ending	
	August 31	August 31	August 31	August 31
	2012	2011	2012	2011
<i>(\$ 000) except for EPS</i>				
Revenue	648	895	2,388	1,838
Gross Profit	74	914	765	1,047
Total operating expenses	148	67	520	418
Net Income	6	889	1,455	521
Earnings per share				
Basic and Diluted	\$0.01	\$0.06	\$0.10	\$0.04
Total Assets	7,090	5,863	7,090	5,863
Total long-term liabilities	-	447	-	447
Cash generated from operations	1,382	(82)	1,195	(86)

## Results of Operations

### Consolidated Revenues

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

	Three months ended August 31			Six months ended August 31		
(\$ 000)	2012	2011	% Change	2012	2011	% Change
Integrity	-	346	(100%)	1,016	762	33%
Citadel	648	550	18%	1,372	1,076	27%
Total Revenue	648	896	(28%)	2,388	1,838	30%

Total revenue decreased by 28% to \$648,000 for the three months ended August 31, 2012 from \$896,000 for the three months ended August 31, 2011 and increased by 30% to 2,388,000 for the six months ended August 31, 2012 from \$1,838,000 for the six months ended August 31, 2011. The second quarter decrease is due to Citadel being the only active and operational business unit. The six months ended August 31, 2012 increase in consolidated revenues is mainly due to the one time recognition of the ESI Integrity deferred revenue upon closing of the asset sale in May 2012.

### Integrity Revenues

ESI Integrity provided 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.

ESI Integrity Revenues were generated from long term customer license and support contracts where it charged a fixed license fee for the use of its audit and risk management software, as well as an annual support fee. Revenue was typically earned over a two to five year period, depending on a contract's respective term.

***The reader should note that as a consequence of the sale of the ESI Integrity business effective May 31, 2012, revenue and expense of ESI Integrity will no longer impact the results of operations for future periods.***

### 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.

100% of ESI's revenues are now generated solely by Citadel.

The increase in revenue is due to new merchants implementing Citadel's Instant Bank Transfer service as well as additional volume from existing customers.

### Consolidated Gross Profit

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

	Three months ended Aug 31		Six months ended Aug 31	
(\$ 000)	2012	2011	2012	2011
Revenues	648	896	2,388	1,838
Direct Costs	574	(18)	1,623	790
Gross profit	74	914	765	1,048
Gross profit margin (%)	11%	102%	32%	57%

With the asset sale of ESI Integrity occurring in the first quarter of fiscal 2013, the three months ended August 31, 2012 results only represent the activities and operations of the Citadel business unit. In addition, during the same period last year, the Company received approval from certain Executives, Directors and Officers to forgive the majority of the amounts owed to them by the Company for their deferred salaries and the accrued interest. The reversal of the Salary Expense reduced the Direct Costs for the same period last year, and increased the Gross Profit. These two factors significantly impact the current Quarter results and the comparison figures from the previous year.

#### Sales, Marketing and Customer Service

Sales, marketing and customer service expenses were \$6,853 and \$29,662 during the three and six months ended August 31, 2012 respectively, a decrease of 75% and 50% respectively, compared to \$27,440 and \$59,664 for the three and six months ended August 31, 2011.

#### General and Administrative

General and administrative expenses were \$148,182 and \$520,098 during the three and six months ended August 31, 2012 respectively, representing an increase of 122% and 24% compared to \$66,611 and \$418,277 for the three months and six months ended August 31, 2011.

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#### Amortization of Property and Equipment

Amortization expenses were \$6,016 and \$22,453 during the three month and six month periods ended August 31, 2012, respectively, a decrease of 73% and 46% compared to \$22,086 and \$41,578 for the corresponding periods ended August 31, 2011. The decrease in amortization expense mainly relates to very few new assets being purchased and amortization being reduced on older equipment and the disposal of all the Integrity Property and Equipment in May 2012.

#### Net Income/Loss

Net income for the three months ended August 31, 2012 was \$5,810 (\$0.01 net earnings per share) and for the six months ended August 31, 2012 was \$1,455,025 (\$0.10 net earnings per share), respectively, compared to net income of \$889,159 (\$0.06 net earnings per share) and \$521,192 (\$0.04 net earnings per share) for the prior comparative periods.

#### Citadel Processing Accounts

Citadel processing accounts as at August 31, 2012 totaled \$6.8 million compared to \$6.3 million as at February 29, 2012. The accounts are comprised of cash and accounts receivables arising from the processing of deposits and payments for Citadel merchants and consumers.

#### **Liquidity and Capital Resources**

ESI has historically financed its operations through the sale of equity and through cash generated by its operations. During the three and six month ended August 31, 2012, cash flow generated in operating activities was \$1,382,605 and \$1,195,226 respectively, compared to cash used in operating activities of \$81,925 and \$86,208 during the comparative periods ended August 31, 2011, respectively.

Cash used in financing activities totaled \$1,487,782 and \$1,498,366 during the three months and six months ended August 31, 2012 respectively. These activities related mainly to the loan payable. Cash used in financing activities for the comparative periods for the three and six months ending August 31, 2011, were \$9,975 and \$371,756 respectively.

As at August 31, 2012, the Company had cash and cash equivalents of \$82,541, compared to \$318,794 on August 31, 2011.

For the three month period ending August 31, 2012 the Company incurred a loss from operations of \$35,179 with a decrease of operating cash flow of \$109,120. In addition, the Company has incurred operating losses and net utilization of cash in operations in prior periods. Accordingly, the Company will require continued financial support from its shareholders and creditors and/or new debt or equity financing until it is able to generate sufficient cash flow from operations on a sustained basis

#### **Consolidated Financial Statements (Unaudited)**

**NOTE TO READER:** The following financial statements (unaudited) are extracted from the complete financial statements of the Company which have been filed with the Management's Discussion and Analysis. The Company's documents can be found on [www.sedar.com](http://www.sedar.com) to which the reader is referred.

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**ESI ENTERTAINMENT SYSTEMS INC.**

## Condensed Consolidated Interim Statements of Financial Position

As at August 31, 2012 and February 29, 2012

(Unaudited – expressed in Canadian dollars)

		<b>August 31, 2012</b>	<b>February 29, 2012</b>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$	82,541	\$ 231,570
Accounts receivable		28,638	173,695
Prepays and other		63,797	133,410
Citadel processing accounts		6,847,774	6,340,666
Deferred contract costs		-	114,495
		7,022,750	6,993,836
<b>Non-current</b>			
Capitalized Development Costs		-	127,940
Property and equipment		67,885	116,509
Deferred contract costs		-	216,263
<b>Total Assets</b>	<b>\$</b>	<b>7,090,635</b>	<b>\$ 7,454,548</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$	1,317,288	\$ 1,368,350
Loan Payable		815,225	2,145,232
Citadel Processing Liabilities		7,881,570	7,542,821
Deferred Revenue		-	426,162
		10,014,083	11,482,565
<b>Non-current</b>			
Deferred Revenue		-	354,818
<b>Total Liabilities</b>	<b>\$</b>	<b>10,014,083</b>	<b>\$ 11,837,383</b>
<b>Shareholder's deficit</b>			
Share Capital	\$	9,957,959	\$ 9,957,959
Contributed Surplus		4,595,230	4,590,868
Other Comprehensive Income (Loss)		454,520	362,048
Deficit		(17,931,157)	(19,293,710)
<b>Total deficit</b>		<b>(2,923,448)</b>	<b>(4,382,835)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$</b>	<b>7,090,635</b>	<b>\$ 7,454,548</b>

**ESI ENTERTAINMENT SYSTEMS INC.**

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

For The Three and Six Months Ending August 31, 2012 and 2011.

(Unaudited – expressed in Canadian dollars)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2012	2011	2012	2011
<b>Continuing Operations</b>				
Revenues	\$ 647,615	\$ 895,878	\$ 2,388,476	\$ 1,838,739
Direct Costs	573,624	(18,291)	1,623,308	790,898
<b>Gross Profit</b>	<b>73,991</b>	<b>914,169</b>	<b>765,168</b>	<b>1,047,841</b>
<b>General and administration expenses</b>	<b>148,182</b>	<b>66,611</b>	<b>520,098</b>	<b>418,277</b>
<b>Income (loss) before under noted items</b>	<b>(74,191)</b>	<b>847,558</b>	<b>245,070</b>	<b>629,564</b>
<b>Other expenses (income)</b>				
Foreign exchange (gain) loss	(1,646)	(160,973)	95,725	(22,850)
Tax expense	(28,133)	(562)	(28,133)	(562)
Other Income	(35,094)	-	(64,271)	-
Interest income	(1)	-	(2,029)	(10)
Interest expense	16,778	31,505	49,330	62,770
(Gain) Loss on asset sale	9,084	-	(1,168,105)	-
<b>Income (loss) for period attributable to equity holders</b>	<b>(35,179)</b>	<b>977,588</b>	<b>1,362,553</b>	<b>590,216</b>
<b>Other comprehensive income</b>				
Foreign currency translation gain (loss)	40,989	(88,429)	92,472	(69,024)
<b>Total Comprehensive income for the period attributable to equity holders</b>	<b>\$ 5,810</b>	<b>\$ 889,159</b>	<b>\$ 1,455,025</b>	<b>\$ 521,192</b>
<b>Basic and diluted income per share</b>	<b>\$ 0.01</b>	<b>\$ 0.06</b>	<b>\$ 0.10</b>	<b>\$ 0.04</b>

**ESI ENTERTAINMENT SYSTEMS INC.**

Condensed Consolidated Interim Statements of Changes in Equity  
(Unaudited – expressed in Canadian dollars)

	Number of shares	Share capital	Contributed Surplus	Foreign Currency Cumulative Translation Reserve	Deficit	Total equity
<b>Balance, February 28, 2011</b>	<b>14,234,727</b>	<b>\$ 9,957,959</b>	<b>\$ 4,575,773</b>	<b>\$ 352,213</b>	<b>\$ (20,140,548)</b>	<b>\$ (5,254,603)</b>
Share-based compensation	-	-	15,095	-	-	15,095
Foreign currency translation differences for foreign operations	-	-	-	9,835	-	9,835
Profit from continuing operations attributable to the equity holders	-	-	-	-	846,838	846,838
<b>Balance, February 29, 2012</b>	<b>14,234,727</b>	<b>\$ 9,957,959</b>	<b>\$ 4,590,868</b>	<b>\$ 362,048</b>	<b>\$ (19,293,710)</b>	<b>\$ (4,382,835)</b>
Share-based compensation	-	-	4,362	-	-	4,362
Foreign currency translation differences for foreign operations	-	-	-	92,472	-	92,472
Profit from continuing operations attributable to the equity holders	-	-	-	-	1,362,553	1,362,553
<b>Balance, August 31, 2012</b>	<b>14,234,727</b>	<b>\$ 9,957,959</b>	<b>\$ 4,595,230</b>	<b>\$ 454,520</b>	<b>\$ (17,931,157)</b>	<b>\$ (2,923,448)</b>

**ESI ENTERTAINMENT SYSTEMS INC.**

## Condensed Consolidated Interim Statements of Cash Flows

For the Three and Six Months Ending August 31, 2012 and 2011.

(Unaudited – expressed in Canadian dollars)

	Three Months Ending August 31		Six Months Ending August 31	
	2012	2011	2012	2011
<b>Cash provided by (used for) the following activities</b>				
<b>Operating activities</b>				
Income for the period	\$ 5,810	\$ 889,159	\$ 1,455,025	\$ 521,192
Add (deduct)				
Depreciation	6,016	22,086	22,453	41,578
Stock-based compensation	980	(29,416)	4,362	(9,414)
	12,806	881,829	1,481,840	553,356
Changes in non-cash working capital:				
Accounts receivable	1,534,214	(98,994)	145,057	28,455
Prepays	21,059	20,106	69,613	(3,507)
Accounts payable and accrued liabilities	(185,474)	(715,515)	(51,062)	(538,322)
Deferred revenue	-	(179,608)	(780,980)	(140,726)
Deferred contract costs	-	10,317	330,758	14,536
Cash flow (used in) from operations	1,382,605	(81,925)	1,195,226	(86,208)
<b>Investment activities</b>				
Capitalized development costs	-	8,182	127,940	24,792
Acquisition of property and equipment	(3,943)	(4,179)	26,171	(9,606)
Cash from (used in) investing activities	(3,943)	4,003	154,111	15,186
<b>Financing activities</b>				
Loan payable	(1,376,756)	20,880	(1,330,007)	45,335
Change in Citadel processing liabilities	323,537	361,161	338,749	721,620
Change in Citadel processing assets	(434,563)	(392,016)	(507,108)	(395,199)
Cash from (used in) financing activities	(1,487,782)	(9,975)	(1,498,366)	371,756
<b>Increase (decrease) in cash and cash equivalents</b>	(109,120)	(87,897)	(149,029)	300,734
<b>Cash and cash equivalents, beginning of period</b>	191,661	406,373	231,570	17,742
<b>Cash and cash equivalents, end of period</b>	\$ 82,541	\$ 318,476	\$ 82,541	\$ 318,476

### **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. 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.

### **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, ecommerce 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.

For further information please contact:

#### **ESI Entertainment Systems Inc.**

**Michael Meeks**

President and CEO

Telephone: (604) 299-6922

[email: mmeeks@esi.ca](mailto:mmeeks@esi.ca)

Web: [www.esi.ca](http://www.esi.ca)