ESTEC SYSTEMS CORP.

Consolidated Financial Statements

Years ending June 30, 2007 and 2006

Index to Consolidated Financial Statements

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

page number

2900 Bell Tower
10104-103 Avenue
Edmonton, Alberta
T5J 0H8
Tel: 780.424.3000
Fax: 780.429.4817
www.krpgroup.com
An independent member firm of DFK

KRP LLP
KINGSTON•ROSS•PASNAK

August 10, 2007
Edmonton, Alberta

Auditors' Report

To the shareholders of ESTec Systems Corp.:

We have audited the consolidated balance sheets of ESTec Systems Corp. as at June 30, 2007 and 2006 and the consolidated statements of loss and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

Consolidated Statements of Loss and Deficit

ESTEC SYSTEMS CORP.

Years ended June 30, 2007 and 2006

	2007	2006
REVENUE	**$ 1,481,851**	**$ 1,742,538**
DIRECT EXPENSES	86,856	189,035
	1,394,995	1,553,503
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (see schedule on Page 17)	1,384,464	1,388,321
AMORTIZATION OF PROPERTY AND EQUIPMENT	26,828	31,509
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	13,558	19,410
(GAIN) LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	(3,229)	3,830
	1,421,621	1,443,070
NET (LOSS) INCOME BEFORE TAXES	(26,626)	110,433
INCOME TAXES (Note 8)	1,421	-
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	**(28,047)**	**110,433**
INCOME FROM DISPOSAL OF DISCONTINUED OPERATIONS	**-**	**92,851**
NET (LOSS) INCOME	**(28,047)**	**203,284**
DEFICIT, BEGINNING OF YEAR	(1,125,752)	(1,329,036)
DEFICIT, END OF YEAR	**$ (1,153,799)**	**$ (1,125,752)**
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (Note 11)		
Continuing Operations	**$ (0.01)**	**$ 0.01**
Discontinued Operations	**-**	**0.01**
	$ (0.01)	**$ 0.02**
Weighted average number of shares outstanding	10,461,629	10,461,629

Consolidated Balance Sheets

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

ASSETS

		2007		2006
CURRENT ASSETS				
Accounts receivable	$	251,117	$	384,031
Work in progress		51,266		64,676
Prepaid expenses		54,876		50,356
Income taxes receivable		10,000		25,000
		367,259		524,063
PROPERTY AND EQUIPMENT (Note 3)		94,354		112,943
DEFERRED DEVELOPMENT COSTS (Note 4)		-		13,558
GOODWILL (Note 5)		75,796		75,796
	$	537,409	$	726,360

LIABILITIES AND SHAREHOLDERS' EQUITY

		2007		2006
CURRENT LIABILITIES				
Bank indebtedness (Note 6)	$	23,987	$	46,791
Accounts payable and accrued liabilities		108,051		204,898
Current portion of due to related parties		-		32,469
		132,038		284,158
DUE TO RELATED PARTIES (Note 7)		326,907		335,691
		458,945		619,849
SHARE CAPITAL (Note 9)		1,232,263		1,232,263
DEFICIT		(1,153,799)		(1,125,752)
		78,464		106,511
	$	537,409	$	726,360

APPROVED BY THE BOARD

"Anthony Nelson" Director

"David E. Wright" Director

Consolidated Statements of Cash Flow

ESTEC SYSTEMS CORP.

Years ended June 30, 2007 and 2006

	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Income from continuing operations	$ (28,047)	$ 110,434
Items not affecting cash:		
Amortization of property and equipment	26,828	31,509
Amortization of product development costs	13,558	19,410
(Gain) loss on disposal of property and equipment	(3,229)	3,830
	9,110	165,183
Net change in non-cash working capital items (Note 12)	59,958	17,738
	69,068	182,921
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(13,552)	(29,603)
Proceeds on disposal of property and equipment	8,000	2,000
	(5,552)	(27,603)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of obligation under capital lease	-	(12,068)
Repayment of advances from related parties	(40,712)	(39,856)
	(40,712)	(51,924)
NET DECREASE IN BANK INDEBTEDNESS	22,804	103,394
BANK INDEBTEDNESS, BEGINNING OF YEAR	(46,791)	(150,185)
BANK INDEBTEDNESS, END OF YEAR	$ (23,987)	$ (46,791)

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 1
General

ESTec Systems Corp. (the Company) owns and operates an engineering consulting firm. The principal operating subsidiary of the Company is Allan R. Nelson Engineering (1997) Inc.

The Company was incorporated under the Alberta Business Corporations Act and is listed with the TSX Venture Exchange.

Note 2
Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent upon future events. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of Presentation
These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiary, Allan R. Nelson Engineering (1997) Inc.

As at June 30, 2007, ESTec Oilfield Inc. was amalgamated into Allan R. Nelson Engineering (1997) Inc.

Revenue Recognition
Sales revenue is comprised of revenues from consulting and engineering contracts. It is recorded as the related service is provided and as determined by the contract for services with the customer. Revenue from sales of computer software and hardware is recorded when the related products are delivered and collection is reasonably assured.

Work in Progress
Costs recoverable for services provided but not yet billed are shown as work in progress. Cost is measured based on the number of hours allocated to the job multiplied by the hourly payroll rate of the professional and the actual cost of associated disbursements.

Income Taxes
The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Changes to the balances are recognized in income when they are expected to occur. A valuation allowance is provided to the extent that it is more likely than not that future tax assets may not be realized in the near term.

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 2
Significant Accounting Policies
Continued...

Property and Equipment
Property and equipment are recorded at cost. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements, other than those of a major nature, are charged to expense as incurred. The Company provides for amortization at an annual rate, which will amortize the original cost to the estimated salvage value over the useful life of the assets.

Amortization is calculated using the declining balance method at the following annual rates:

	Rate
Computer hardware	20%
Computer software	30%
Equipment	20%
Office equipment	20%
Inspection equipment	20%
Automotive equipment	30%

Deferred Development Costs
Deferred expenditures are expensed as incurred with the exception of costs which meet the following criteria: the product is clearly defined and its costs are identifiable, the product is technically feasible, management has indicated their intention to produce and market the product, the future market for the product is clearly defined and adequate resources exist to complete the project. Engineering development costs are deferred and charged against revenues on a straight-line basis over five years commencing in the year that revenue is earned from the related development costs. If, at any time, it appears unlikely that capitalized development costs will be recovered through related future revenues, then the unamortized balance is written off as a charge to income in the year in which such a determination is made.

Goodwill
Goodwill represents the excess of the purchase price paid for Allan R. Nelson Engineering (1997) Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc., taking into account any events and circumstances which might have impaired the fair value. It was concluded that no impairment exists in the value of the goodwill at June 30, 2007 or 2006.

In accordance with CICA Handbook Section 3062, the goodwill has not been amortized since adoption of this policy in 2002.

Note 2
Significant Accounting Policies
Continued...

Stock Based Compensation
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in Note 9. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, would be credited to share capital.

Earnings Per Share
Earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

Shares provided as security for any share purchase financing agreement are excluded from the calculation for the basic earnings per share. These shares have not been included in diluted earnings per share as the result is anti-dilutive.

Share Purchase Financing
Loans granted to purchase shares of the Company are accounted for as an asset, provided the following criteria are met:

a) the loan contains repayment terms and conditions in accordance with current arms length market terms;
b) the borrower has the ability to repay the loan;
c) the borrower is subject to recourse in the event of defaulting on the loan; and
d) management intention is to ensure repayment of the loan regardless of the share price of the company.

Loans that do not meet the above criteria, they are accounted for as a reduction in the share capital of the Company.

Statement of Cash Flow
The Company uses the indirect method of presentation in its statement of cash flow.

Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The significant estimates pertain to the recoverability of accounts receivable and work in progress, the physical and economic lives of property and equipment, and the net recoverable value of deferred development costs and goodwill.

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 3
Property and Equipment

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 64,404	$ 30,415	$ 33,989	$ 35,097
Computer software	97,403	66,633	30,770	36,433
Equipment	31,135	16,778	14,357	17,934
Office equipment	27,248	16,951	10,297	12,867
Inspection equipment	17,296	12,355	4,941	6,324
Automotive equipment	-	-	-	4,288
	$ 237,486	**$ 143,132**	**$ 94,354**	**$ 112,943**

Amortization provided for in the current year totaled $26,828, all of which relates to ongoing operations; (2006 - $31,509).

Note 4
Deferred Development Costs

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Engineering development costs	$ 100,905	$ 100,905	$ -	$ 13,558

Amortization provided for in the current year totaled $13,558; (2006 - $19,410).

Significant estimates have been made by management in assessing the net recoverable value of engineering development costs. Actual results could differ from those estimates.

Note 5
Goodwill

	2007	2006
Goodwill, at cost	$ 133,150	$ 133,150
Less accumulated amortization (prior to 2002)	57,354	57,354
	$ 75,796	$ 75,796

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 6
Bank Indebtedness

Bank indebtedness is comprised of the following:

	2007	2006
Cash in bank	$ 22,548	$ 19,140
Cheques written in excess of bank balance	(31,535)	(50,931)
Bank operating lines	(15,000)	(15,000)
	$ (23,987)	$ (46,791)

The bank operating line is authorized to a total of $250,000 with interest payable at prime plus 1.5%. A general security agreement and limited guarantees from directors and related parties in the amount of $187,500 have been pledged as collateral for the bank operating lines.

Note 7
Related Party Transactions and Balances

During the year, the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were in the normal course of operations and measured at the exchange value agreed between the parties, are as follows:

	2007	2006
Payment of rent to a company controlled by certain directors	$ 90,000	$ 90,000

	2007	2006
Due to directors, non-interest bearing, unsecured	$ 167,996	$ 168,780
Due to corporations controlled by directors, non-interest bearing, unsecured	158,911	199,380
	326,907	368,160
Less: current portion of due to related parties	-	32,469
Due to related parties	$ 326,907	$ 335,691

Loans payable to related parties in the amount of $326,907 (2006 - $335,691) have no fixed terms of repayment and the parties have waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $8,808 (2006 - $10,748) owing to a director.

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 8
Income Taxes

As at June 30, 2007, the Company and its subsidiaries have approximately $1,008,060 in non-capital losses and $ 873,241 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

2009	31,445
2010	632,497
2014	229,412
2015	2,155
2027	85
	$ 895,594

The potential benefit of $315,100 (2006 - $439,200) of these non-capital losses has not been recorded in these consolidated financial statements.

Note 8
Income Taxes
Continued...

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of June 30, 2007 are as follows:

	2007	2006
Future income tax assets:		
Non-capital losses	$ 315,100	$ 439,200
Capital losses	152,800	152,800
Valuation allowance	(413,500)	(518,000)
	54,400	74,000
Future income tax liabilities:		
Unbilled revenue	16,500	21,700
Property and equipment	11,400	21,000
Deferred development costs	-	4,800
Goodwill	26,500	26,500
	54,400	74,000
Net future tax assets (liabilities)	$ -	$ -

The components of income tax expense are as follows:

	2007	2006
Tax expense (recovery) at the statutory rate of 32.12%	$ (8,552)	$ 44,802
Amortization claimed in excess of capital cost allowance	12,580	2,774
Non-deductible meals and entertainment expense	932	165
Recovery of Valuation allowance	-	(52,300)
Permanent differences and other	(3,539)	4,559
	$ 1,421	$ -

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 9
Share Capital

Authorized:
200,000,000 common shares without par value

Issued:

	2007		2006	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Balance - Beginning of year	10,461,629	$ 1,232,363	10,736,096	$ 1,273,533
Cancellation of shares	-	-	(274,467)	(41,170)
Balance - End of year	10,461,629	$ 1,232,363	10,461,629	$ 1,232,363

Stock option plan
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. These share options vest immediately once they have been granted. Outstanding stock options will expire over a period ending no later than October 24, 2010. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 9
Share Capital
Continued...

	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option				
Beginning of year	575,000	$ 0.19	315,000	$ 0.27
Options granted	-	-	300,000	0.10
Options exercised	-	-	-	-
Options cancelled or expired	(275,000)	0.26	(40,000)	0.21
End of year	300,000	$ 0.10	575,000	$ 0.19

Using the Black Scholes option pricing model, using a spot rate of $0.06, a strike rate of $0.17, maturity of 1.65 years, a risk free rate of 3.6% and a volitility of 0.67%, the fair value of the options noted above at the date of their issuance was $nil. No additional compensation expense was recorded.

At the end of the year, the following options were outstanding:

	Number of share options outstanding - June 30, 2007	**Weighted average remaining contractual life (years)**
Options outstanding ($0.10 exercise price)	300,000	3.32

ESTEC SYSTEMS CORP.

June 30, 2007 and 2006

Note 10
Financial Instruments

Fair value
The Company's financial instruments recognized in the consolidated balance sheet include accounts receivable, bank indebtedness, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the amounts due to related parties cannot be estimated, due to the uncertainty associated with the length of time until repayment.

Credit risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables and unbilled revenue. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

Interest rate risk
The Company's bank operating lines are subject to fluctuations in interest rates. Based on the amount of the operating line at June 30, 2007, fluctuations in the interest rate would not materially affect the operating results of the Company.

Note 11
Diluted Loss Per Share

Options to purchase 300,000 common shares that were outstanding as of June 30, 2007 were included in the computation of diluted earnings per share. The effect of these options was not significant.

Note 12
Changes in Non-Cash Working Capital

	2007	**2006**
Accounts receivable	$ 132,915	$ (10,784)
Work in progress	13,410	12,490
Prepaid expenses	(4,520)	(5,761)
Accounts payable and accrued liabilities	(96,847)	46,793
Income taxes receivable	15,000	(25,000)
	$ 59,958	$ 17,738

Consolidated Schedule of Selling, General and Administrative Expenses

ESTEC SYSTEMS CORP.

Years ended June 30, 2007 and 2006

	2007	2006
Salaries and benefits	$ 1,021,947	$ 1,038,583
Rent	90,000	90,000
Insurance	55,950	50,928
Professional fees	49,657	50,940
Advertising and promotion	42,444	22,883
Repairs and maintenance	37,896	29,809
Technology and telecommunications	23,005	23,961
Office supplies and maintenance	22,227	34,625
Dues, memberships and business taxes	19,062	15,089
Public company compliance	12,135	10,627
Bank charges and interest	8,250	15,466
Courier and freight	1,176	4,414
Office	715	759
Other costs	-	237
	$ 1,384,464	$ 1,388,321