

ESTEC SYSTEMS CORP.

Interim Consolidated Financial Statements
December 31, 2007 and 2006

NOTE: These interim financial statements have been prepared by management and have NOT been reviewed by our external auditors

Interim Consolidated Statement of Income and Deficit

ESTEC SYSTEMS CORP.

Three months ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUE	\$ 378,809	\$ 437,448
DIRECT EXPENSES	22,350	27,119
	353,459	410,329
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	378,350	395,686
AMORTIZATION OF PROPERTY AND EQUIPMENT	5,649	6,613
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	0	4,853
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	0	(394)
INCOME (LOSS) BEFORE INCOME TAXES	(30,540)	3,571
INCOME TAXES	540	7,246
NET INCOME (LOSS)	(31,080)	(3,675)
DEFICIT, BEGINNING OF PERIOD	(1,226,832)	(1,045,959)
DEFICIT, END OF PERIOD	<u>\$ (1,257,912)</u>	<u>\$ (1,049,634)</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 11)		
Continuing Operations	<u>\$ 0</u>	<u>\$ 0</u>
Weighted average number of shares outstanding	10,461,629	10,461,629

Interim Consolidated Statement of Income and Deficit

ESTEC SYSTEMS CORP.

Six months ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUE	\$ 718,896	\$ 888,474
DIRECT EXPENSES	48,922	43,234
	669,974	845,240
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (See schedule on Page 17)	762,250	697,942
AMORTIZATION OF PROPERTY AND EQUIPMENT	11,297	13,298
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	0	9,706
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	0	(176)
INCOME (LOSS) BEFORE INCOME TAXES	(103,573)	124,470
INCOME TAXES	540	48,352
NET INCOME (LOSS)	(104,113)	76,118
DEFICIT, BEGINNING OF YEAR	(1,153,799)	(1,125,752)
DEFICIT, END OF PERIOD	<u>\$ (1,257,912)</u>	<u>\$ (1,049,634)</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 11)		
Continuing Operations	<u>(.01)</u>	<u>\$.01</u>
Weighted average number of shares outstanding	<u>10,461,629</u>	<u>10,461,629</u>

Interim Consolidated Balance Sheet

ESTEC SYSTEMS CORP.

December 31, 2007 and June 30, 2007

ASSETS	31 Dec. 2007	30 June 2007
CURRENT ASSETS		
Accounts receivable	\$ 361,781	\$ 251,117
Unbilled revenue	40,248	51,266
Prepaid expenses	25,121	54,876
Income taxes receivable	9,460	10,000
	<u>436,610</u>	<u>367,259</u>
PROPERTY AND EQUIPMENT (Note 3)	87,152	94,354
GOODWILL (Note 5)	75,796	75,796
	<u>\$ 599,558</u>	<u>\$ 537,409</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	31 Dec. 2007	30 June 2007
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	\$ 171,456	\$ 23,987
Accounts payable and accrued liabilities	126,981	108,051
	<u>298,437</u>	<u>132,038</u>
Advances to subsidiaries		
DUE TO RELATED PARTIES (Note 7)	326,770	326,907
	<u>625,207</u>	<u>458,945</u>
CONTINGENCY		
SHARE CAPITAL (Note 9)	1,232,263	1,232,263
DEFICIT	(1,257,912)	(1,153,799)
	<u>25,649</u>	<u>78,464</u>
	<u>\$ 599,558</u>	<u>\$ 537,409</u>



Anthony B. Nelson
director



David E. Wright
director

Interim Consolidated Statement of Cash Flow

ESTEC SYSTEMS CORP.

3 months ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	\$ (31,080)	\$ (3,675)
Items not affecting cash:		
Amortization of property and equipment	5,649	6,613
Amortization of product development costs	0	4,853
Loss on disposal of property and equipment	0	(394)
	(25,431)	7,397
Net change in non-cash working capital items	1,909	(35,500)
	(23,522)	(28,103)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,095)	542
	(4,095)	542
CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment to) Advances from related parties	0	(3,205)
	0	(3,205)
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	(27,617)	(30,766)
BANK INDEBTEDNESS, BEGINNING OF PERIOD	(143,839)	20,935
CASH (BANK INDEBTEDNESS), END OF PERIOD	<u>\$ (171,456)</u>	<u>\$ (9,831)</u>

Interim Consolidated Statement of Cash Flow

ESTEC SYSTEMS CORP.

Six months ended December 31, 2007

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	\$ (104,113)	\$ 76,118
Items not affecting cash:		
Amortization of property and equipment	11,297	13,298
Amortization of product development costs	0	9,706
Loss on disposal of property and equipment	0	(176)
	<u>(92,816)</u>	<u>98,946</u>
Net change in non-cash working capital items (Note 12)	(50,421)	(29,295)
	<u>(143,237)</u>	<u>69,651</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,095)	542
	<u>(4,095)</u>	<u>542</u>
CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment to) Advances from related parties	(137)	(33,233)
	<u>(137)</u>	<u>(33,233)</u>
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	(147,469)	36,960
BANK INDEBTEDNESS, BEGINNING OF YEAR	(23,987)	(46,791)
BANK INDEBTEDNESS, END OF PERIOD	<u>(171,456)</u>	<u>\$ (9,831)</u>

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 1

General

The Company owns and operates an engineering consulting firm and 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 preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. 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.

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 2

Significant

Accounting Policies

Continued...

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.

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:

	<u>Rate</u>
Computer hardware	20%
Computer software	30%
Equipment	20%
Office equipment	20%
Inspection equipment	20%

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 2

Significant

Accounting Policies

Continued...

Deferred Development Costs

Deferred expenditures are expensed as incurred with the exception of costs, which meet criteria whereby 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 December 31, 2007 or December 31, 2006.

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

Stock based compensation

The Company has a 10% rolling 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.

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 2

Significant

Accounting Policies

Continued...

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 dilutive 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.

As these loans 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.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 2

Significant

Accounting Policies

Continued...

Measurement Uncertainty

The preparation of the 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.

Note 3

Property and

Equipment

			2007	2006
	Accumulated		Net Book	Net Book
	Cost	Amortization	Value	Value
Computer software	\$ 97,404	\$ 71,253	\$ 26,151	\$ 30,969
Computer hardware	68,499	33,839	34,660	31,382
Equipment	31,135	18,214	12,921	16,140
Office equipment	27,248	18,008	9,240	11,586
Inspection equipment	17,296	13,116	4,180	5,558
Automotive equipment	-	-	-	3,645
	\$ 241,582	\$ 154,430	\$ 87,152	\$ 99,280

Amortization provided for in the current year totaled \$11,297, all of which relates to ongoing operations; (2006 - \$13,298).

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 4

Deferred

Development Costs

			<u>2007</u>	<u>2006</u>
	Accumulated Cost	Amortization	Net Book Value	Net Book Value
Engineering development costs	\$ 100,905	\$ 100,905	\$ -	\$ 3,852

Amortization provided for in the current year totaled \$0; (2006 - \$9,706).

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

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

Note 6

Bank Indebtedness

Bank indebtedness is comprised of the following:

	<u>2007</u>	<u>2006</u>
Cash in bank	\$ 22,842	\$ 47,788
Outstanding Cheques	(54,298)	(57,619)
Bank operating lines	(140,000)	-
	<u>\$(171,456)</u>	<u>\$ (9,831)</u>

The bank operating lines are 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.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

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:

	<u>2007</u>	<u>2006</u>
Payment of rent to a company controlled by certain directors	\$ 45,000	\$ 45,000
Due to directors, non-interest bearing, unsecured	167,859	168,016
Due to corporations controlled by directors, non-interest bearing, unsecured	158,911	166,911
	<u>\$326,770</u>	<u>\$334,927</u>

Loans payable to related parties in the amount of \$ 326,770 (2006 - \$ 334,927) have no fixed terms of repayment and the parties 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 \$2,607 (2006 - \$753) owing to a director.

Note 8

Income Taxes

Income taxes for the quarters are estimated by taking the profit of the company and using the statutory rate of 32.12%.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 9

Share Capital

Authorized:

200,000,000 common shares without par value

Issued shares:

	<u>2007</u>		<u>2006</u>	
	<u>Number of Shares</u>	<u>Stated Capital</u>	<u>Number of Shares</u>	<u>Stated Capital</u>
Balance - Beginning of year	10,461,629	\$1,232,363	10,461,629	\$1,232,363
Balance – End of period	<u>10,461,629</u>	<u>\$1,232,363</u>	<u>10,461,629</u>	<u>\$1,232,363</u>

Stock option plan

The Company has a 10% rolling 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. 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.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 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	300,000	\$ 0.10	575,000	\$ 0.19
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options cancelled or expired	-	-	(100,000)	0.29
End of period	300,000	\$ 0.10	475,000	\$ 0.16

Using the Black Scholes option pricing model, the fair value of the options noted above is \$nil. No additional compensation expense was recorded.

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

	Number of share options outstanding - Dec. 31, 2007	Weighted average remaining contractual life (years)
Exercise price per share		
\$0.10	300,000	2.82

ESTEC SYSTEMS CORP.

December 31, 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, accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the amounts due to and from 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 December 31, 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 the quarter ended December 31, 2007 were included in the computation of diluted earnings per share. The effect of these options was not significant.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

Note 12

Changes in non-cash
working capital

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ (110,665)	\$ 36,391
Work in progress	11,018	(22,320)
Prepaid expense	29,755	14,328
Accounts payable and accrued liabilities	18,930	(53,301)
Income taxes payable	540	31,107
	<u>\$ (50,422)</u>	<u>\$ 6,205</u>

SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

ESTEC SYSTEMS CORP.

December 31, 2007 and 2006

	2007	2006
Salaries and benefits	567,638	540,712
Rent	45,000	45,000
Advertising and promotion	36,140	24,530
Professional fees	35,199	2,592
Insurance	30,999	29,408
Technology and telecommunications	9,691	10,774
Office supplies and maintenance	9,016	13,043
Dues, memberships and business taxes	7,792	7,336
Repairs and maintenance	6,854	10,686
Public company compliance	5,985	6,131
Bank charges and interest	4,777	6,573
Office	2,146	330
Courier and freight	1,013	827
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	762,250	697,942