

ESTEC SYSTEMS CORP.

Interim Consolidated Financial Statements
December 31, 2009 and 2008

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

ESTEC SYSTEMS CORP.
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Quarters Ended December 2009 and 2008

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Interim Consolidated Statements of Income and Deficit

ESTEC SYSTEMS CORP.

Three months ended December 31, 2009 and 2008

	2009	2008
REVENUE	\$ 496,125	\$ 530,496
DIRECT EXPENSES	51,469	44,955
GROSS PROFIT (90%; 2008 – 92%)	444,656	485,541
EXPENSES		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	523,071	415,747
AMORTIZATION OF PROPERTY AND EQUIPMENT	6,688	4,784
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	3,458	0
	533,217	420,531
NET INCOME (LOSS) BEFORE INCOME TAXES	(88,561)	65,010
INCOME TAXES	12,650	21,833
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(75,911)	43,177
DEFICIT, BEGINNING OF PERIOD	(832,458)	(1,169,403)
DEFICIT, END OF PERIOD	\$ (908,369)	\$ (1,126,226)
BASIC AND DILUTED INCOME PER SHARE (Note 12)	\$ (.01)	\$ 0
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 9)	10,461,629	10,461,629

Interim Consolidated Statement of Income and Deficit

ESTEC SYSTEMS CORP.

Six months ended December 31, 2009 and 2008

	2009	2008
REVENUE	\$ 1,121,265	\$ 1,041,501
DIRECT EXPENSES	94,544	51,177
GROSS PROFIT (92%; 2008 – 95%)	1,026,721	990,324
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Schedule 1, page 19)	981,996	824,421
AMORTIZATION OF PROPERTY AND EQUIPMENT	13,581	9,414
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	3,701	139
	999,278	833,974
INCOME (LOSS) BEFORE INCOME TAXES	27,443	156,350
INCOME TAXES	16,351	50,785
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	11,092	105,565
DEFICIT, BEGINNING OF PERIOD	(919,461)	(1,231,791)
DEFICIT, END OF PERIOD	\$ (908,369)	\$ (1,126,226)
BASIC AND DILUTED INCOME PER SHARE (Note 12)	.0	.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 9)	10,461,629	10,461,629

Interim Consolidated Balance Sheets

ESTEC SYSTEMS CORP.

December 31, 2009 and June 30, 2009

ASSETS	31 Dec. 2009	30 June 2009
CURRENT		
Cash (Note 5)	\$ -	\$ 16,466
Accounts receivable	583,342	512,338
Unbilled revenue	50,315	57,764
Prepaid expenses	25,793	60,539
	<u>659,450</u>	<u>647,107</u>
PROPERTY AND EQUIPMENT (Note 3)	102,894	111,846
GOODWILL (Note 4)	75,796	75,796
	<u>\$ 838,140</u>	<u>\$ 834,749</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness (Note 5)	\$ 23,602	\$ -
Accounts payable and accrued liabilities	93,146	144,114
Income taxes payable (Note 7)	16,351	-
	<u>133,099</u>	<u>144,114</u>
ADVANCES FROM RELATED PARTIES (Note 6)	365,804	365,000
	<u>498,903</u>	<u>509,114</u>
CONTRIBUTED SURPLUS (Note 8)	15,343	12,833
SHARE CAPITAL (Note 9)	1,232,263	1,232,263
DEFICIT	(908,369)	(919,461)
	<u>339,237</u>	<u>325,635</u>
	<u>838,140</u>	<u>834,749</u>



Anthony B. Nelson
director



David E. Wright
director

Interim Consolidated Statement of Cash Flows

ESTEC SYSTEMS CORP.3 months ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	(75,911)	43,177
Items not affecting cash:		
Amortization of property and equipment	6,688	4,784
Loss on disposal of property and equipment	3,458	0
Stock based compensation	0	0
	(65,765)	47,961
<hr/>		
Changes in non-cash working capital	14,656	48,729
<hr/>		
Cash flow from (used by) cash flows from operating activities	(51,109)	96,690
<hr/>		
Cash flows used by investing activity		
Purchase of property and equipment	(2,954)	(5,963)
<hr/>		
Cash flows used by financing activity		
Advances (to) from related parties	0	(7,876)
<hr/>		
INCREASE (DECREASE) IN CASH FLOW	(54,063)	82,851
<hr/>		
DEFICIENCY – BEGINNING OF PERIOD	30,464	(196,786)
<hr/>		
CASH (BANK INDEBTEDNESS) - END OF PERIOD	(23,599)	(113,935)
<hr/>		
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	44	2,695
<hr/>		
CASH (BANK INDEBTEDNESS CONSISTS OF:		
Cash	-	-
Bank indebtedness	(54,066)	(32,149)
<hr/>		

Interim Consolidated Statement of Cash Flows

ESTEC SYSTEMS CORP.

Six months ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	11,092	105,565
Items not affecting cash:		
Amortization of property and equipment	13,581	9,414
Loss on disposal of property and equipment	3,701	139
Stock based compensation	2,510	0
	30,884	115,118
Changes in non-cash working capital (Note 13)	(63,426)	(7,629)
Cash flow from (used by) cash flows from operating activities	(32,542)	107,489
Cash flows used by investing activity		
Purchase of property and equipment	(8,327)	(10,700)
Cash flows used by financing activity		
Advances (to) from related parties	804	(330)
INCREASE (DECREASE) IN CASH FLOW	(40,065)	96,459
CASH (DEFICIENCY) – BEGINNING OF PERIOD	16,466	(210,394)
CASH (BANK INDEBTEDNESS) - END OF PERIOD	(23,599)	(113,935)
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	111	4,303
CASH (BANK INDEBTEDNESS) CONSISTS OF:		
Cash		
Bank indebtedness	(23,602)	(113,935)

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 1

Description of
Business

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 traded on the TSX Venture Exchange.

Note 2

Summary of
Significant
Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because the precise determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of financial statements includes the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of Consolidation

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. All intercompany balances have been eliminated.

Revenue Recognition

Sales revenue is comprised of revenues from consulting and engineering contracts. It is recorded as the related service is provided, in the amount as determined by the contract for services with the customer, and collectability 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.

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 2

Summary of
Significant
Accounting Policies
Continued...

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 stated at cost less accumulated amortization. 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, 2009 and 2008

Note 2

Summary of
Significant
Accounting Policies
Continued...

Impairment of Property and Equipment

Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. No impairment has been recorded in the current fiscal year.

Financial Instruments

The Company has designated its financial assets and liabilities as follows:

<u>Financial Statement item</u>	<u>Classification</u>	<u>Measurement</u>
Cash (bank indebtedness)	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized Cost
Advances from related parties	Other financial liabilities	Amortized Cost

Transaction costs

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception except for held-for-trading securities where the costs are expensed immediately.

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. Management will also review the valuation in the event of any circumstances which might have impaired the fair value. It was concluded that no impairment exists in the value of the goodwill at December 31, 2009 or 2008.

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 2

Summary of
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 10. 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, are credited to share capital.

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) 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 (loss) per share. These shares have not been included in diluted earnings (loss) per share as the result is anti-dilutive.

Statement of Cash Flows

The Company is using the indirect method in its presentation of the Statements of Cash Flows.

Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease; all other leases are accounted for as operating leases. At the time the Company enters into a capital lease, an asset is recorded with its related long-term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred.

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 2

Summary of
Significant
Accounting Policies
Continued...

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, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from those estimates. The significant estimates pertain to the physical and economic lives of property and equipment and the recoverability of accounts receivable.

Capital Disclosures

In the last fiscal year, the Company adopted new CICA issued Handbook Section 1535 “Capital Disclosures.” This Section establishes standards for disclosing information about the entity’s capital and how it is managed, in order for a user of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital. This change has been applied retrospectively as the result of a change in primary source of generally accepted accounting principles in Canada and has no effect on the consolidated financial statements of the Company for the years ended June 30, 2009 and 2008, but provided an enhanced level of disclosure.

The required disclosures have been included in Note 14 to the financial statements.

Changes in accounting policies

In the last fiscal year, the Company adopted the newly issued CICA Handbook Section 3862 “Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation” which are the primary source of generally accepted accounting principles in Canada. The change is applied prospectively and does not have a material effect on the financial statements of the Company for the years ended June 30, 2009 and 2008 but provides an enhanced level of disclosure.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 2

Summary of
Significant
Accounting Policies
Continued...

Effectively July 1, 2008, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, "Inventories", which supersedes Section 3030. The new standard introduces significant changes to the measurement and disclosure of inventory and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. In addition, in certain circumstances, write-downs of inventory previously recognized may be reversed.

Adoption of this standard has not had a material impact on the Company's financial statements.

Note 3

Property and
Equipment

			December 2009
			Net book value
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 74,775	\$ 32,566	\$ 42,209
Computer software	132,544	91,823	40,721
Equipment	31,135	22,865	8,270
Office equipment	26,695	17,847	8,848
Inspection equipment	17,296	14,450	2,846
	\$ 282,445	\$ 179,551	\$ 102,894

Amortization provided for in the current period totaled \$13,581

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 3

Property and
Equipment
Continued...

	December 2008		
	Net book value		
	Accumulated		Net Book
	Cost	Amortization	Value
Computer hardware	\$ 78,128	\$ 39,996	\$ 38,132
Computer software	98,604	79,101	19,503
Equipment	31,135	20,798	10,337
Office equipment	28,877	19,680	9,197
Inspection equipment	17,296	13,738	3,558
	\$ 254,040	\$ 173,313	\$ 80,727

Amortization provided for in the current period totaled \$9,414

Note 4

Goodwill

	2009	2008
Goodwill, at cost	\$ 133,150	\$ 133,150
Less accumulated amortization (prior to 2002)	57,354	57,354
	\$ 75,796	\$ 75,796

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 5

Cash and Bank Indebtedness

Bank indebtedness is comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash in bank	\$ 30,340	\$ 23,352
Outstanding Cheques	(53,942)	(62,287)
Bank operating lines	-	(75,000)
	<u>\$ 23,602</u>	<u>\$ (113,935)</u>

The bank operating lines are authorized to a total of \$250,000 with interest payable at prime plus 2% (2008 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 6

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>2009</u>	<u>2008</u>
Payment of rent to a company controlled by certain directors	\$ 45,000	\$ 45,000
Advances from directors, non-interest bearing, unsecured	166,911	167,353
Advances from corporations controlled by directors, non-interest bearing, unsecured	198,893	206,286
	<u>\$365,804</u>	<u>\$373,639</u>

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 6

Related Party
Transactions and
Balances
Continued...

Loans payable to related parties in the amount of \$ 365,804 (2008 - \$ 373,639) 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 \$ 9,877 (2008 - \$134) owing to a director.

Note 7

Income Taxes

Income taxes for the quarters are estimated by taking the profit of the company and using the statutory rate of 25% (2008 – 29.5%).

Note 8

Contributed Surplus

The Company uses the fair value based method to account for stock-based compensation. Fair values are determined using the Black Scholes Model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

	<u>2009</u>	<u>2008</u>
Opening Contributed surplus	\$ 12,833	\$ -
Fair value of options granted – recorded as compensation expense	<u>2,510</u>	<u>12,833</u>
	<u>\$ 15,343</u>	<u>\$ 12,833</u>

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 9

Share Capital

Authorized:

200,000,000 common shares without par value

Issued shares:

	<u>2009</u>		<u>2008</u>	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Balance – End of period	10,461,629	\$1,232,363	10,461,629	\$1,232,363

Note 10

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 July 24, 2014. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

	<u>2009</u>		<u>2008</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option				
Beginning of year	600,000	\$ 0.10	650,000	\$ 0.10
Options granted	270,000	0.10		
Options exercised	-	-	-	-
Options cancelled or expired	-	-	50,000	0.10
End of quarter	870,000	\$ 0.10	600,000	\$ 0.10

ESTEC SYSTEMS CORP.December 31, 2009 and 2008

Note 10Stock Option Plan
Continued...

Using the Black Scholes option pricing model, using a spot rate of \$0.04, a strike rate of \$0.10, maturity of 5 years, a risk free rate of 2.1% and a volatility of 91.3%, the fair value of the options noted above at the date of their issuance is \$2,510.

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

	Number of share options outstanding - December 31, 2009	Weighted average remaining contractual life (years)
Options outstanding (\$0.10 exercise price)	<u>870,000</u>	<u>2.40</u>

Note 11Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and advances from related parties

Fair Value

The Company's carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The fair value of the advances from related parties are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

Credit Risk

The Company is exposed to credit risk through trade receivables and work in progress. 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.

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 11

Financial Instruments

Continued...

Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

The Company is subject to a concentration of credit risk with respect to \$236,059 in accounts receivable from the Company's three largest customers at December 31, 2009.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate operating line. At December 31, 2009, the operating line was not drawn on and therefore fluctuations in interest rate would not affect the results of the Company.

Market risk

The Company is exposed to market risk through its reliance on the oil industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business.

Note 12

Diluted Income Per

Share

Options to purchase 870,000 common shares that were outstanding as of the quarter ended December 31, 2009 were included in the computation of diluted earnings per share.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

Note 13

Changes in Non-Cash Working Capital

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ (71,004)	\$25,690
Work in progress	7,449	(84,075)
Prepaid expense	34,746	23,735
Accounts payable and accrued liabilities	(50,968)	(23,764)
Income taxes payable	16,351	50,785
	<u>\$ (63,426)</u>	<u>\$ (7,629)</u>

Note 14

Capital Disclosures

The Company's objectives in managing capital are:

- i. to safeguard its ability to operate as a going concern, and
- ii. to maintain a strong financial position, and
- iii. to maintain a low cost of debt

Through its subsidiary Allan R. Nelson Engineering (1997) Inc. the company has a \$250,000 line of credit with ATB Financial Services (ATB). ATB has placed conditions on Allan R. Nelson Engineering (1997) Inc. with regards to working capital, debt to equity and debt service. Allan R. Nelson Engineering (1997) Inc. is fully compliant with these conditions at December 31, 2009.

	<u>Dec. 31, 2009</u>	<u>June 30, 2009</u>
Related Party Loans	(365,804)	(365,000)
ATB Financial	-	-
Total Debt	(365,804)	(365,000)
Cash (Bank indebtedness)	(23,602)	16,466
Net Debt	(389,406)	(348,534)
Shareholders' equity	(339,237)	(325,635)
Total Capitalization	<u>(728,643)</u>	<u>(674,169)</u>

SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

ESTEC SYSTEMS CORP.

December 31, 2009 and 2008

	2009	2008
Salaries and benefits	761,522	588,770
Rent	45,000	45,000
Professional fees	40,761	31,106
Advertising and promotion	33,668	76,406
Repairs and maintenance	31,391	8,009
Insurance	29,010	24,481
Office supplies and maintenance	17,073	10,667
Technology and telecommunications	10,551	11,645
Dues, memberships and business taxes	4,258	6,575
Public company compliance	3,826	5,272
Bank charges and interest	1,886	14,988
Office	1,630	350
Courier and freight	750	1,047
Misc. costs	670	0
	981,996	824,421
