

ESTEC SYSTEMS CORP.

Interim Consolidated Financial Statements
March 31, 2008 and 2007

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 March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUE	\$ 410,188	\$ 319,663
DIRECT EXPENSES	10,557	26,485
	399,631	293,178
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	348,965	324,423
AMORTIZATION OF PROPERTY AND EQUIPMENT	5,460	5,605
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	0	3,852
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	174	(3,053)
INCOME (LOSS) BEFORE INCOME TAXES	45,032	(37,649)
INCOME TAXES	17,698	(7,546)
NET INCOME (LOSS)	\$ 27,334	\$ (30,103)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 10)		
Continuing Operations	\$.002	\$ (.003)
Weighted average number of shares outstanding	10,461,629	10,461,629

Interim Consolidated Statement of Income and Deficit

ESTEC SYSTEMS CORP.

Nine months ended March 31, 2008 and 2007

	2008	2007
REVENUE	\$ 1,129,084	\$ 1,208,137
DIRECT EXPENSES	59,479	69,719
	1,069,605	1,138,418
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (See schedule on Page 16)	1,111,215	1,022,365
AMORTIZATION OF PROPERTY AND EQUIPMENT	16,757	18,903
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	0	13,558
LOSS (GAIN) ON DISPOSAL OF PROPERTY AND EQUIPMENT	174	(3,229)
INCOME (LOSS) BEFORE INCOME TAXES	(58,541)	86,821
INCOME TAXES	18,238	40,806
NET INCOME (LOSS)	(76,779)	46,015
DEFICIT, BEGINNING OF YEAR	(1,153,798)	(1,125,752)
DEFICIT, END OF PERIOD	\$ (1,230,577)	\$ (1,079,737)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 10)		
Continuing Operations	(.007)	\$.004
Weighted average number of shares outstanding	10,461,629	10,461,629

Interim Consolidated Balance Sheet

ESTEC SYSTEMS CORP.

March 31, 2008 and June 30, 2007

ASSETS	31 Mar. 2008	30 June 2007
CURRENT ASSETS		
Accounts receivable	\$ 434,038	\$ 251,117
Unbilled revenue	55,745	51,266
Prepaid expenses	20,945	54,876
Income taxes receivable	-	10,000
	<u>510,728</u>	<u>367,259</u>
PROPERTY AND EQUIPMENT (Note 3)	83,086	94,354
GOODWILL (Note 4)	75,796	75,796
	<u>\$ 669,610</u>	<u>\$ 537,409</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	31 Mar. 2008	30 June 2007
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	\$ 198,603	\$ 23,987
Accounts payable and accrued liabilities	134,313	108,051
Income tax payable	8,238	-
	<u>341,154</u>	<u>132,038</u>
DUE TO RELATED PARTIES (Note 6)	326,770	326,907
	<u>667,924</u>	<u>458,945</u>
CONTINGENCY		
SHARE CAPITAL (Note 8)	1,232,263	1,232,263
DEFICIT	(1,230,577)	(1,153,799)
	<u>1,686</u>	<u>78,464</u>
	<u>\$ 669,610</u>	<u>\$ 537,409</u>



Anthony B. Nelson (signed)
director



David E. Wright (signed)
director

Interim Consolidated Statement of Cash Flow

ESTEC SYSTEMS CORP.3 months ended March 31, 2008 and 2007

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	27,334	\$ (30,103)
Items not affecting cash:		
Amortization of property and equipment	5,460	5,605
Amortization of product development costs	-	3,852
Loss on disposal of property and equipment	174	(3,053)
	32,968	(23,699)
Net change in non-cash working capital items	(58,548)	44,155
	(25,580)	20,456
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,567)	(3,136)
Proceeds on disposal of property and equipment	-	8,000
	(1,567)	4,864
CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment to) Advances from related parties	0	(22)
	0	(22)
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	(27,147)	25,298
BANK INDEBTEDNESS, BEGINNING OF PERIOD	(171,456)	(9,831)
CASH (BANK INDEBTEDNESS), END OF PERIOD	(198,603)	\$ 15,467

Interim Consolidated Statement of Cash Flow

ESTEC SYSTEMS CORP.

Nine months ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	(76,779)	\$ 46,015
Items not affecting cash:		
Amortization of property and equipment	16,757	18,903
Amortization of product development costs	-	13,558
Loss (gain) on disposal of property and equipment	174	(3,229)
	(59,848)	75,247
Net change in non-cash working capital items (Note 11)	(108,969)	14,860
	(168,817)	90,107
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,662)	(3,136)
Proceeds on disposal of property and equipment	0	8,542
	(5,662)	5,406
CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment to) Advances from related parties	(137)	(33,255)
	(137)	(33,255)
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	(174,616)	62,258
BANK INDEBTEDNESS, BEGINNING OF YEAR	(23,987)	(46,791)
CASH (BANK INDEBTEDNESS), END OF PERIOD	(198,603)	\$ 15,467

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

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 financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries, Allan R. Nelson Engineering (1997) Inc. and ESTec Oilfield 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.

March 31, 2008 and 2007

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>
Office equipment	20%
Equipment under capital lease	20%
Computer hardware	20%
Computer software	30%
Inspection equipment	20%
Automotive equipment	30%

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

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 March 31, 2008 or March 31, 2007.

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, will be credited to share capital.

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

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.

Loans that do not meet the above criteria, 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.

March 31, 2008 and 2007

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

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 97,404	\$ 73,572	\$ 23,832	\$ 28,217
Computer hardware	69,157	35,011	34,146	32,209
Office equipment	58,383	37,430	20,953	26,188
Inspection equipment	17,296	13,141	4,155	5,249
	\$ 242,245	\$ 159,159	83,086	91,863

Amortization provided for in the current year totaled \$16,757 all of which relates to ongoing operations; (2007 - \$18,903).

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

Note 4

Goodwill

	<u>2008</u>	<u>2007</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 5

Bank Indebtedness

Bank indebtedness is comprised of the following:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 21,879	\$ 44,748
Outstanding cheques	(30,482)	(29,281)
Bank operating lines	(190,000)	-
	<u>\$ 198,603</u>	<u>\$ 15,467</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.

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:

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

Note 6

Related Party
Transactions and
Balances
Continued...

	<u>2008</u>	<u>2007</u>
Payment of rent to a company controlled by certain directors	\$ 67,500	\$ 67,500
Due to directors, non-interest bearing	159,859	167,996
Due to corporations controlled by directors, non-interest bearing	166,911	166,911
	<u>\$326,770</u>	<u>\$334,907</u>

The long-term portion of the loans payable to related parties in the amount of \$326,770 (2007 - \$334,907) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year. Interest expense of \$0 (2007 - \$622) has been accrued on related party advances.

Included in trade accounts payable is \$262 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 32.12%.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

Note 8

Share Capital

Authorized:

200,000,000 common shares without par value

Issued shares:

	<u>2008</u>		<u>2007</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 February 7, 2013. The Company has a total reserve of 1,046,162 shares in Treasury to meet share options outstanding. On October 24, 2005 and on 07 February 2008 stock options were granted to key employees and directors of the Company. The plan has to be approved by the Exchange and by the shareholders every year.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

Note 8

Share Capital

Continued...

	2008		2007	
	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	350,000	0.10		
Options exercised	-		-	
Options cancelled or expired	-		(225,000)	0.29
End of period	650,000	\$ 0.10	350,000	\$ 0.12

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 - Mar. 31, 2008	Weighted average remaining contractual life (years)
Exercise price per share		
\$0.10	300,000	2.57
\$0.10	350,000	4.86
	650,000	3.8

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

Note 9

Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet include accounts receivable, bank indebtedness, accounts payable and accrued liabilities and obligations under capital lease. 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 employees, directors and related parties cannot be estimated, due to the uncertainty associated with the length of time until repayment.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables and unbilled revenue.

The Company's bank operating lines are subject to fluctuations in interest rates. Based on the amount of the operating line at March 31, 2008, fluctuations in the interest rate would not materially affect the operating results of the Company.

Note 10

Diluted (loss) earnings per share

Options to purchase 650,000 common shares during the quarter ended March 31, 2008 were included in the computation of diluted earnings per share.

Note 11

Changes in non-cash working capital

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$(182,921)	\$ 60,068
Work in progress	(4,479)	2,865
Prepaid expense	33,931	28,589
Loans receivable	-	(8,000)
Accounts payable and accrued liabilities	26,262	(123,260)
Income taxes payable	18,238	54,598
	<u>\$ 108,969</u>	<u>\$ 14,860</u>

SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

ESTEC SYSTEMS CORP.

March 31, 2008 and 2007

	2008	2007
Salaries and benefits	\$ 827,704	\$ 780,551
Rent	67,500	67,500
Professional fees	48,561	5,062
Insurance	46,097	41,398
Advertising and promotion	38,143	30,909
Repairs and maintenance	15,754	21,064
Office supplies and maintenance	17,343	17,591
Technology and telecommunications	15,252	14,994
Public company compliance	12,693	17,514
Dues, memberships and business taxes	10,751	16,671
Bank charges and interest	8,113	7,308
Office	2,146	715
Courier and freight	1,158	1,088
	<hr/>	<hr/>
	\$ 1,111,215	\$ 1,022,365