

ESTEC SYSTEMS CORP.

Interim Consolidated Financial Statements
September 30, 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.

Quarters ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUE	\$ 511,024	\$ 343,087
DIRECT EXPENSES	(1,759)	26,572
	512,783	316,515
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (See schedule on Page 18)	393,426	383,900
AMORTIZATION OF PROPERTY AND EQUIPMENT	4,630	5,648
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	139	-
	114,588	(73,033)
INCOME (LOSS) BEFORE INCOME TAXES		
INCOME TAXES	35,809	-
NET INCOME (LOSS)	78,779	(73,033)
DEFICIT, BEGINNING OF YEAR	(1,231,791)	(1,153,798)
DEFICIT, END OF PERIOD	(1,153,012)	(1,226,831)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 14)	\$.01	\$ (.01)
Weighted average number of shares outstanding	<u>10,461,629</u>	<u>10,461,629</u>

Interim Consolidated Balance Sheet

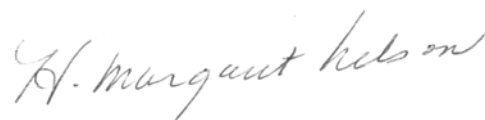
ESTEC SYSTEMS CORP.

September 30, 2008 and June 30, 2008

<u>ASSETS</u>	<u>30 Sept. 2008</u>	<u>30 June 2008</u>
CURRENT ASSETS		
Accounts receivable	\$ 551,532	\$ 467,478
Unbilled revenue	66,946	52,536
Prepaid expenses	53,886	42,449
	<u>672,364</u>	<u>562,463</u>
PROPERTY AND EQUIPMENT (Note 5)	79,547	79,580
GOODWILL (Note 6)	75,796	75,796
	<u>\$ 827,707</u>	<u>\$ 717,839</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
	<u>30 Sept. 2008</u>	<u>30 June 2008</u>
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	\$ 196,786	\$ 210,394
Accounts payable and accrued liabilities	121,514	120,172
Income taxes payable	35,809	
	<u>354,109</u>	<u>330,566</u>
DUE TO RELATED PARTIES (Note 8)	381,514	373,968
	<u>735,623</u>	<u>704,534</u>
CONTRIBUTED SURPLUS (Note 10)	12,833	12,833
SHARE CAPITAL (Note 11)	1,232,263	1,232,263
DEFICIT	(1,153,012)	(1,231,791)
	<u>92,084</u>	<u>13,305</u>
	<u>\$ 827,707</u>	<u>\$ 717,839</u>



Anthony B. Nelson (signed)
director



H. Margaret Nelson (signed)
director

Interim Consolidated Statement of Cash Flow

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	\$ 78,779	\$ (73,033)
Items not affecting cash:		
Amortization of property and equipment	4,630	5,648
Loss on disposal of property and equipment	139	-
	<u>83,548</u>	<u>(67,385)</u>
Net change in non-cash working capital items (Note 15)	<u>(72,749)</u>	<u>(52,330)</u>
	<u>10,799</u>	<u>(119,716)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,737)	0
	<u>(4,737)</u>	<u>0</u>
CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment to) Advances from related parties	7,546	(137)
	<u>7,546</u>	<u>(137)</u>
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	13,608	(119,853)
BANK INDEBTEDNESS, BEGINNING OF YEAR	<u>(210,394)</u>	<u>(23,987)</u>
CASH (BANK INDEBTEDNESS), END OF PERIOD	<u>\$ (196,786)</u>	<u>\$ (143,839)</u>

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

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

Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that ESTec Systems Corp. (the “Company”) will be able to realize its assets and discharge its liabilities in the normal course of business. However, the Company has in the past experienced significant operating losses and its ability to continue operations is dependent upon its ability to achieve profitability or secure additional debt or equity financing.

Although there is no assurance, management believes that the going concern basis is appropriate. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be significant.

Note 3

Significant

Accounting Policies

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

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 3

Significant

Accounting Policies

Continued...

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. 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.

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.

September 30, 2008 and 2007

Note 3

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:

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

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 carrying value of the asset over its fair value.

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 3

Significant

Accounting Policies

Continued...

Financial Instruments

The CICA has issued new guidance related to financial instruments that is effective for the Company commencing July 1, 2007.

CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement” provides guidance on when a financial instrument must be recognized on the balance sheet and how it is to be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The Company has elected to apply the following treatment to each of its significant categories of financial instruments:

<u>Financial statement item</u>	<u>Classification</u>	<u>Measurement</u>
Bank indebtedness	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

The Company has also adopted CICA Handbook Section 3861, “Financial Instruments – Disclosure and Presentation” and CICA Handbook Section 1530, “Comprehensive Income”.

The Company’s adoption of these new accounting standards on July 1, 2007 had no material impact on the financial statements of the Company.

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 September 30, 2008 or 2007.

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 3

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 11. 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.

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 financials 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 valuation of goodwill.

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 4

Future Changes in
Accounting Policies

The CICA has announced several future changes in accounting policy which affect the financial statements of the Company subsequent to June 30, 2008. The significant changes, along with the impact on the financial statements for the Company are as follows:

International Financial Reporting Standards

The Accounting Standards Board (“AcSB”) establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards (“IFRS”) is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 “Capital Disclosures”, which establishes guidelines for the disclosure of information on an entity’s capital and how it is managed. Effective for the Company’s fiscal periods beginning July 1, 2008, this enhanced disclosure enables users to evaluate the entity’s objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 4

Future Changes in
Accounting Policies
Continued...

Financial Instruments

The CICA issued Handbook Section 3862 “Financial Instruments – Disclosure” and Handbook Section 3863, “Financial Instruments – Presentation” to replace Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”. Handbook Section 3862 requires enhanced disclosure of the nature and extent of financial instrument risks and how an entity manages those risks. Handbook Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after January 1, 2008 for the Company. This new requirement is for disclosure only and will not impact the financial results of the Company.

Note 5

Property and
Equipment

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 74,147	\$ 38,122	\$ 36,025	\$ 32,277
Computer software	97,322	77,421	19,901	28,460
Equipment	31,135	20,224	10,911	13,639
Office equipment	28,177	19,222	8,955	9,769
Inspection equipment	17,296	13,541	3,755	4,560
	\$ 248,077	\$ 168,530	\$ 79,547	\$ 88,705

Amortization provided for in the current period totaled \$4,630 (2007 - \$5,648).

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 6

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 7

Bank Indebtedness

Bank indebtedness is comprised of the following:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 30,312	\$ 19,463
Outstanding Cheques	(37,097)	(38,302)
Bank operating lines	(190,000)	(125,000)
	<u>\$ (196,786)</u>	<u>\$ (143,839)</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.

September 30, 2008 and 2007

Note 8

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>2008</u>	<u>2007</u>
Payment of rent to a company controlled by certain directors	\$ 22,500	\$ 22,500
Due to directors, non-interest bearing, unsecured	167,353	167,859
Due to corporations controlled by directors, non-interest bearing, unsecured	214,161	158,911
	<u>\$381,514</u>	<u>\$326,770</u>

Loans payable to related parties in the amount of \$ 381,514 (2007 - \$ 326,770) 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 \$0 (2007 - \$461) owing to a director.

Note 9

Income Taxes

Income taxes for the quarters are estimated by taking the profit of the company and using the statutory rate of 29.5% (2007 - 32.12%).

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 10

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>2008</u>	<u>2007</u>
Opening Contributed surplus	\$ -	\$ -
Fair value of options granted – recorded as compensation expense	12,833	-
	<u>\$ 12,833</u>	<u>\$ -</u>

Note 11

Share Capital

Authorized:

200,000,000 common shares without par value

Issued shares:

	<u>2008</u>		<u>2007</u>	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Balance - Beginning of year	10,461,629	\$1,232,363	10,461,629	\$1,273,533
Balance – End of period	10,461,629	\$1,232,363	10,461,629	\$1,232,363

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 11

Share Capital

Continued...

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. Outstanding stock options will expire over a period ending no later than February 7, 2013. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option				
Beginning of year	650,000	\$ 0.10	300,000	\$ 0.10
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options cancelled or expired	25,000	0.10	-	-
End of period	625,000	\$ 0.10	300,000	\$ 0.10

Using the Black Scholes option pricing model, using a spot rate of \$0.06, a strike rate of \$0.10, maturity of 5 years, a risk free rate of 3.23% and a volatility of 87.25%, the fair value of the options noted above at the date of their issuance is \$12,833.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 11

Share Capital

Continued...

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

	Number of share options outstanding - Sept. 30, 2008	Weighted average remaining contractual life (years)
Options outstanding (\$0.10 exercise price)	625,000	3.26

Note 12

Capital Management

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 Financial 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 in compliance with these conditions.

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

Note 12

Capital Management Continued...

	<u>Sept 30, 2008</u>	<u>June 30, 2008</u>
Shareholder Loans	315,371	315,700
Related Party Loans	66,143	58,268
ATB Financial	190,000	170,000
Total Debt	571,514	543,968
Cash & Cash Equivalents	(6,786)	(40,394)
Net Debt	578,300	584,362
Shareholders' equity	(127,897)	(13,305)
Total Capitalization	706,197	597,667

Note 13

Financial Instruments

Fair Value

The carrying amount of the Company's accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these amounts.

The fair value of amounts due to related companies have not be estimated since these items are not marketable and are not subject to terms and conditions that would otherwise be available with arm's length parties.

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

Notes to the Consolidated Financial Statements

ESTEC SYSTEMS CORP.September 30, 2008 and 2007

Note 13Financial Instruments
Continued...

The Company is subject to a concentration of credit risk with respect to \$ 246,944 in accounts receivable from the Company's three largest customers at September 30, 2008.

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 September 30, 2008, fluctuations in the interest rate would not materially affect the operating results of the Company.

Note 14Diluted Earnings Per
Share

Options to purchase 625,000 common shares that were outstanding as of the quarter ended September 30, 2008 were not included in the computation of diluted earnings per share, since the effect of these options was anti-dilutive.

Note 15Changes in Non-Cash
Working Capital

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$ (84,054)	\$(108,689)
Work in progress	(14,410)	(5,296)
Prepaid expense	(11,437)	5,328
Accounts payable and accrued liabilities	1,343	56,327
Income taxes payable	35,809	-
	<hr/>	<hr/>
	\$ (72,749)	\$ (52,330)

SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

ESTEC SYSTEMS CORP.

September 30, 2008 and 2007

	2008	2007
Salaries and benefits	279,769	284,843
Advertising and promotion	39,134	24,679
Professional fees	34,958	22,698
Rent	22,500	22,500
Office supplies and maintenance	3,719	6,968
Technology and telecommunications	6,660	4,405
Repairs and maintenance	3,821	3,867
Bank charges and interest	3,239	2,021
Public company compliance	1,097	1,463
Dues, memberships and business taxes	459	2,370
Courier and freight	413	216
Bad debts	105	0
Office	0	2,146
Misc. costs	0	72
Insurance	(2,448)	5,652
	393,426	383,900