

**ESTEC SYSTEMS CORP.**

Interim Consolidated Financial Statements  
September 30, 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.**  
**Index to Consolidated Financial Statements**  
**Quarters Ended September 2009 and 2008**

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## Interim Consolidated Statements of Income and Deficit

### ESTEC SYSTEMS CORP.

Three months ended September 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
<b>REVENUE</b>	<b>\$ 625,140</b>	<b>\$ 511,005</b>
DIRECT EXPENSES	43,075	6,222
GROSS PROFIT (93%; 2008 – 99%)	582,065	504,783
<b>EXPENSES</b>		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Schedule 1)	458,925	408,674
AMORTIZATION OF PROPERTY AND EQUIPMENT	6,893	4,630
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	243	139
	466,061	413,443
NET INCOME (LOSS) BEFORE INCOME TAXES	116,004	91,340
INCOME TAXES (Note 7)	29,001	28,952
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>87,003</b>	<b>62,388</b>
DEFICIT, BEGINNING OF PERIOD	(919,461)	(1,231,791)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (832,458)</b>	<b>\$ (1,169,403)</b>
<b>BASIC AND DILUTED INCOME PER SHARE (Note 12)</b>	<b>\$ .01</b>	<b>\$ .01</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 9)</b>	10,461,629	10,461,629

Interim Consolidated Balance Sheets

**ESTEC SYSTEMS CORP.**

September 30, 2009 and June 30, 2008

<b>ASSETS</b>	<b>30 September 2009</b>	<b>30 June 2009</b>
<b>CURRENT</b>		
Cash (Note 5)	\$ 30,464	\$ 16,466
Accounts receivable	632,755	512,338
Unbilled revenue	37,759	57,764
Prepaid expenses	44,465	60,539
	<u>745,443</u>	<u>647,107</u>
PROPERTY AND EQUIPMENT (Note 3)	110,083	111,846
GOODWILL (Note 4)	75,796	75,796
	<u>\$ 931,322</u>	<u>\$ 834,749</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Bank indebtedness (Note 5)	\$ -	\$ -
Accounts payable and accrued liabilities	121,369	144,114
Income taxes payable (Note 7)	29,001	-
	<u>150,370</u>	<u>144,114</u>
ADVANCES FROM RELATED PARTIES (Note 6)	365,804	365,000
	<u>516,174</u>	<u>509,114</u>
CONTRIBUTED SURPLUS (Note 8)	15,343	12,833
SHARE CAPITAL (Note 9)	1,232,263	1,232,263
DEFICIT	(832,458)	(919,461)
	<u>415,148</u>	<u>325,635</u>
	<u>931,322</u>	<u>834,749</u>



Anthony B. Nelson  
director



David E. Wright  
director

## Interim Consolidated Statement of Cash Flow

### ESTEC SYSTEMS CORP.

3 months ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 87,003	\$ 62,388
Items not affecting cash:		
Amortization of property and equipment	6,893	4,630
Loss on disposal of property and equipment	243	139
Stock based compensation	2,510	-
	<u>96,649</u>	<u>67,157</u>
Net change in non-cash working capital items	(78,082)	(56,358)
	<u>18,567</u>	<u>10,799</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(5,373)	(4,737)
	<u>(5,373)</u>	<u>(4,737)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Repayment to) Advances from related parties	804	7,546
	<u>804</u>	<u>7,546</u>
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	13,998	13,608
CASH, BEGINNING OF PERIOD	16,466	(210,394)
CASH (BANK INDEBTEDNESS), END OF PERIOD	<u>30,464</u>	<u>\$ (196,786)</u>

**ESTEC SYSTEMS CORP.**

September 30, 2009 and 2008

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**Note 1**

Description of  
Business

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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

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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 judgement. 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 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.

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**ESTEC SYSTEMS CORP.**

September 30, 2009 and 2008

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**Note 2**

Summary of  
Significant  
Accounting Policies  
Continued...

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**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%

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**ESTEC SYSTEMS CORP.**

September 30, 2009 and 2008

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**Note 2**

Summary of  
Significant  
Accounting Policies  
Continued...

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**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 September 30, 2009 or 2008.



**ESTEC SYSTEMS CORP.**

September 30, 2009 and 2008

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**Note 2**

Summary of  
Significant  
Accounting Policies  
Continued...

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**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 Flow**

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.**

September 30, 2009 and 2008

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**Note 2**

Summary of  
Significant  
Accounting Policies  
Continued...

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**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 financials 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.

September 30, 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

	<b>September 2009</b>		
	<b>Net book value</b>		
	Accumulated		Net Book
	Cost	Amortization	Value
Computer hardware	\$ 78,287	\$ 35,242	\$ 43,045
Computer software	134,137	89,582	44,555
Equipment	31,135	22,406	8,729
Office equipment	31,966	21,216	10,750
Inspection equipment	17,296	14,292	3,004
	<b>\$ 292,821</b>	<b>\$ 182,738</b>	<b>\$ 100,083</b>

Amortization provided for in the current period totaled \$6,893

Notes to the Consolidated Financial Statements

**ESTEC SYSTEMS CORP.**

September 30, 2009 and 2008

**Note 3**

Property and  
Equipment  
Continued...

	<b>September 2008</b>		
	<b>Net book value</b>		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 74,147	\$ 38,122	\$ 36,025
Computer software	97,322	77,421	19,901
Equipment	31,135	20,224	10,911
Office equipment	28,177	19,222	8,955
Inspection equipment	17,296	13,541	3,755
	<b>\$ 248,077</b>	<b>\$ 168,530</b>	<b>\$ 79,547</b>

Amortization provided for in the current period totaled \$4,630

**Note 4**

Goodwill

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

## Notes to the Consolidated Financial Statements

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### ESTEC SYSTEMS CORP.

September 30, 2009 and 2008

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#### Note 5

##### Cash and Bank Indebtedness

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Bank indebtedness is comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash in bank	\$ 74,220	\$ 30,312
Outstanding Cheques	(43,756)	(37,097)
Bank operating lines	-	(190,000)
	<u>\$ 30,464</u>	<u>\$ (196,786)</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

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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	\$ 22,500	\$ 22,500
Advances from directors, non-interest bearing, unsecured	166,911	167,353
Advances from corporations controlled by directors, non-interest bearing, unsecured	198,893	214,161
	<u>\$365,804</u>	<u>\$381,514</u>

## Notes to the Consolidated Financial Statements

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### ESTEC SYSTEMS CORP.

September 30, 2009 and 2008

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#### Note 6

Related Party  
Transactions and  
Balances  
Continued...

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Loans payable to related parties in the amount of \$ 365,804 (2008 - \$ 381,514) 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 \$ 746(2008 - \$0) owing to a director.

#### Note 7

Income Taxes

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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

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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.

September 30, 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 period	600,000	\$ 0.10	650,000	\$ 0.10
Options granted	270,000	0.10		
Options exercised	-	-	-	-
Options cancelled or expired	-	-	25,000	0.10
End of period	870,000	\$ 0.10	625,000	\$ 0.10

## Notes to the Consolidated Financial Statements

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**ESTEC SYSTEMS CORP.**September 30, 2009 and 2008

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**Note 10**Stock Option Plan  
Continued...

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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.

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

	<b>Number of share options outstanding - September 30, 2009</b>	<b>Weighted average remaining contractual life (years)</b>
Options outstanding (\$0.10 exercise price)	<u>870,000</u>	<u>3.08</u>

**Note 11**Financial 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.**

September 30, 2009 and 2008

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**Note 11**

Financial Instruments

Continued...

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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 \$ 287,290 in accounts receivable from the Company's three largest customers at September 30, 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 September 30, 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

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Options to purchase 870,000 common shares that were outstanding as of the quarter ended September 30, 2009 were included in the computation of diluted earnings per share.

## Notes to the Consolidated Financial Statements

### ESTEC SYSTEMS CORP.

September 30, 2009 and 2008

#### Note 13

##### Changes in Non-Cash Working Capital

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$(120,417)	\$(182,921)
Work in progress	20,005	(4,479)
Prepaid expense	16,074	33,931
Accounts payable and accrued liabilities	(22,745)	26,262
Income taxes payable	29,629	18,238
	<u>\$ (77,454)</u>	<u>\$ 108,969</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 September 30, 2009.

	<u>Sept. 30, 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)	30,465	16,466
Net Debt	(335,339)	(348,534)
Shareholders' equity	(414,520)	(325,635)
Total Capitalization	<u>(749,859)</u>	<u>(674,169)</u>

## SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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### ESTEC SYSTEMS CORP.

September 30, 2009 and 2008

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	<b>2009</b>	<b>2008</b>
Salaries and benefits	363,223	279,769
Rent	22,500	22,500
Professional fees	14,502	34,958
Advertising and promotion	14,258	39,136
Repairs and maintenance	12,837	3,239
Insurance	12,818	10,514
Technology and telecommunications	6,130	6,661
Office supplies and maintenance	5,669	3,821
Dues, memberships and business taxes	2,517	1,097
Public company compliance	1,827	2,767
Bank charges and interest	1,194	3,693
Office	1,148	105
Courier and freight	302	414
	458,925	408,674

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