ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Financial Statements
December 31, 2011

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

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Expressed in Canadian Dollars)

	Notes	December 31, 2011 ($)	June 30, 2011 ($)	July 1, 2010 ($)
ASSETS				
CURRENT				
Cash				
Trade and other receivables	8	762,832	746,883	466,914
Prepaid expenses		31,124	53,076	62,701
Inventory	9	194,929	153,757	-
Work in progress		17,986	3,035	14,562
Deposit held in trust		-	192,860	-
		1,006,871	1,149,611	544,177
PROPERTY AND EQUIPMENT	10	213,646	233,938	112,869
INTANGIBLE ASSETS	11	151,251	151,251	-
DEFERRED DEVELOPMENT COSTS		-	-	23,633
GOODWILL	12	559,632	559,632	75,796
TOTAL ASSETS		1,931,400	2,094,432	756,475
LIABILITIES AND EQUITY				
CURRENT				
Bank indebtedness	13	18,604	143,154	157,580
Trade and other payables	14	249,805	313,915	144,980
Customer deposits		-	-	57,000
Income tax payable	15	38,624	723	-
Current portion of callable debt	16	100,000	100,000	-
		407,033	557,792	359,560
Callable debt due after one year	16	1,341,667	1,391,667	-
		1,748,700	1,949,459	359,560
ADVANCES FROM RELATED PARTIES	18	489,676	505,427	381,391
TOTAL LIABILITIES		2,238,376	2,454,886	740,951
EQUITY				
Share capital	19	1,232,263	1,232,263	1,232,263
Contributed surplus	20	16,346	15,844	15,343
Accumulated other comprehensive income		89,897	18,767	-
Deficit		(1,645,482)	(1,627,328)	(1,232,672)
TOTAL EQUITY		306,976	(360,454)	14,934
TOTAL LIABILITIES AND EQUITY		1,931,400	2,094,432	756,475

Approved on behalf of the Board

______________________ Director

______________________ Director

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income
(Unaudited)
(Expressed in Canadian Dollars)

	Notes	Three months ended December 31, 2011 ($)	Three months ended December 31, 2010 ($)
CONTINUING OPERATIONS			
REVENUE		1,284,254	406,038
DIRECT EXPENSES		164,689	13,933
		1,119,565	392,105
EXPENSES			
Selling, general and administrative expenses (Schedule 1)		1,017,849	538,662
Amortization		12,708	6,820
Loss on disposal of property and equipment		-	-
		1,030,557	545,199
		89,008	(153,377)
OTHER INCOME (EXPENSE)			
Transaction closing costs		(282)	-
Unrealized foreign exchange gain		(49,902)	-
INCOME BEFORE TAX		38,824	(153,377)
Income tax expense		19,854	14,498
NET (LOSS) INCOME		18,970	(138,879)
CHANGES IN COMPREHENSIVE INCOME			
Gain on translating net assets of self-sustaining foreign operations		46,458	-
COMPREHENSIVE INCOME (LOSS)		65,428	(138,879)
BASIC AND DILUTED INCOME PER SHARE	21	.0	(0.01)
WEIGHTED AVERAGE NUMBER OF SHARES		10,461,629	10,461,629

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income

(Unaudited)

(Expressed in Canadian Dollars)

	Notes	Six months ended December 31, 2011	Six months ended December 31, 2010
		($)	($)
CONTINUING OPERATIONS			
REVENUE		2,243,193	920,238
DIRECT EXPENSES		292,200	33,216
		1,950,993	887,022
EXPENSES			
Selling, general and administrative expenses (Schedule 1)		1,857,346	984,699
Amortization		25,080	13,293
Loss on disposal of property and equipment		406	-
		1,882,832	997,709
		68,161	(110,970)
OTHER INCOME (EXPENSE)			
Transaction closing costs		(13,446)	-
Unrealized foreign exchange gain		(34,969)	-
INCOME BEFORE TAX		19,746	(110,970)
Income tax expense		37,901	-
NET (LOSS) INCOME		(18,155)	(110,970)
CHANGES IN COMPREHENSIVE INCOME			
Gain on translating net assets of self-sustaining foreign operations		71,130	-
COMPREHENSIVE INCOME (LOSS)		52,975	(110,970)
BASIC AND DILUTED INCOME PER SHARE	21	(.0)	(0.01)
WEIGHTED AVERAGE NUMBER OF SHARES		10,461,629	10,461,629

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Equity

(Unaudited)

(Expressed in Canadian Dollars)

	Share capital (Note 19) ($)	Contributed surplus (Note 20) ($)	Deficit ($)	Other comprehensive income ($)	Total ($)
As at June 30, 2010	1,232,263	15,343	(1,232,672)	-	14,934
Stock based compensation expense	-	502	-	-	502
Income and comprehensive income for the period	-	-	(110,970)	-	(110,970)
As at December 31, 2010	1,232,263	15,845	(1,343,642)	-	(95,534)
As at June 30, 2011	1,232,263	15,844	(1,627,328)	18,767	(360,454)
Stock based compensation expense	-	502	-	-	502
Loss and comprehensive income for the period	-	-	(18,155)	71,130	52,976
As at December 31, 2011	1,232,263	16,346	(1,645,482)	89,897	(306,976)

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)

(Expressed in Canadian Dollars)

	Three months ended Dec 31, 2011	Three months ended Dec 31, 2010
	($)	($)
OPERATING ACTIVITIES		
Net (loss) income	18,970	(138,879)
Items not affecting cash:		
Amortization	12,708	6,820
Loss on disposal of property and equipment	-	-
Cumulative foreign exchange	46,458	-
Stock-based compensation	-	-
	78,136	(132,059)
Change in non-cash working capital		
Trade and other receivables	(164,768)	58,967
Work in progress.	(13,387)	14,374
Inventory	(2,940)	-
Prepaid expenses	11,462	15,196
Deposits held in trust	-	-
Trade and other payables	103,936	(8,688)
Customer deposits	-	-
Income tax payable	19,854	(14,498)
Cash flow from (used by) operating activities	32,293	(66,708)
INVESTING ACTIVITIES		
Purchase of property and equipment	(5,191)	(9,093)
Cash flow used by investing activities	(5,191)	(9,093)
FINANCING ACTIVITIES		
Repayment of callable debt	(25,000)	
Advances (to) from related parties	(7,875)	23,625
Cash flow from financing activities	(32,875)	23,625
INCREASE (DECREASE) IN CASH	(5,773)	(52,176)
Bank indebtedness – Beginning of period	(12,831)	(168,808)
Bank indebtedness – End of period	(18,604)	(220,984)

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)

(Expressed in Canadian Dollars)

	Six months ended Dec 31, 2011	Six months ended Dec 31, 2010
	($)	($)
OPERATING ACTIVITIES		
Net (loss) income	(18,155)	(110,970)
Items not affecting cash:		
Amortization	25,080	13,293
Loss on disposal of property and equipment	406	-
Cumulative foreign exchange	71,130	-
Stock-based compensation	502	502
	78,963	(97,175)
Change in non-cash working capital		
Trade and other receivables	(15,949)	46,347
Work in progress.	(14,951)	(3,998)
Inventory	(41,173)	
Prepaid expenses	21,952	30,475
Deposits held in trust	192,860	
Trade and other payables	(64,111)	(4,800)
Customer deposits	-	(57,000)
Income tax payable	37,901	-
Cash flow from (used by) operating activities	195,492	(86,151)
INVESTING ACTIVITIES		
Purchase of property and equipment	(5,191)	(9,093)
Cash flow used by investing activities	(5,191)	(9,093)
FINANCING ACTIVITIES		
Repayment of callable debt	(50,000)	-
Advances (to) from related parties	(15,751)	31,840
Cash flow from financing activities	(65,751)	31,840
INCREASE (DECREASE) IN CASH	124,550	(63,404)
Bank indebtedness – Beginning of period	(143,154)	(157,580)
Bank indebtedness – End of period	(18,604)	(220,984)

1. NATURE OF OPERATIONS

ESTec Systems (“ESTec” or the “Company”) is the manager of two entirely owned companies: a forensic and design engineering company, Allan R. Nelson Engineering Inc., and an electronics manufacturing company, Encore Electronics Inc.

Allan R. Nelson Engineering Inc. (ARNE) is made up of a group of highly educated engineers and technologists with different skills and backgrounds. ARNE provides engineering services such as design engineering, failure analysis, inspection and certification of equipment, equipment appraisals, accident investigations, maintenance engineering, capital project commissioning, expert witness testimony and product development. This company also delivers engineering services to all major insurance companies throughout Canada and has a focus toward damage from petrochemicals, manufacturing and drilling accidents. ARNE operates in many industries such as oil and gas, petrochemical, mining, construction, forestry, power and utilities, manufacturing and transportation industries.

Encore Electronics Inc. (Encore) is a manufacturing and design company whose products are used in a wide variety of engineering and technology industries. Such products include: signal conditioners, custom power supplies, computer controlled amplifiers and computer controlled signal conditioning instrumentation. Encore has its own product line and manufactures products specific to customer needs. Encore’s products and services are used in many industries, some of which include: aircraft engines, automotive and turbine testing, product design, research and development, power generation, aerospace and electronics.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. They should be read in conjunction with the Company’s consolidated financial statements and related notes included in the Company’s Financial Information contained in its audit consolidated financial statements for the year ended June 30, 2011.

These condensed consolidated interim financial statements of the Company for the three month period ended December 31, 2011 were authorized for issue by the Board of Directors in accordance with a resolution of the Company on February 28, 2012.

For all periods up to and including the year ended June 30, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

The consolidated financial statements have been prepared on a historical cost basis. The functional and presentation currency of the Company and its subsidiary, Allan R. Nelson Engineering Inc., is the Canadian dollar. The functional currency of the Company’s subsidiary, Encore Electronics Inc., is the US dollar. Transactions in currencies other than the functional currency are translated at the rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. These financial statements have been presented in Canadian dollars.

These interim consolidated financial statements are unaudited.

3. BASIS OF CONSOLIDATION

These consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries:

- Allan R. Nelson Engineering Inc.
- Encore Electronics Inc.

All intercompany transactions and balances have been eliminated upon consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its consolidated financial statements:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

<u>Foreign currency translation</u>
The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. Each entity in the organization group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Company uses the direct method of consolidation with respect to its US subsidiary, Encore Electronics Inc.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Company's entities at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that forms part of Encore Electronics Inc. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is recognized in line with the gain or loss of the item that gave rise to the translation difference (translation differences on items whose gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

<u>Revenue recognition</u>
The Company derives revenue from both consulting and engineering contracts. The Company recognizes such revenue when services are provided, in the amount stated in the contract with the customer, and when there is reasonable assurance that collectability will occur. In the

occasion that customers make deposits in advance, the revenue will not be recorded until the related service has been performed.

When products are sold, revenue is recognized when the title of ownership is passed to the customer. This generally corresponds to the delivery and receipt of such goods.

Taxes
Current income taxes
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognized only to the extent that it is probable

that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

Sales tax
Revenues, expenses, assets and liabilities are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

<u>Non-current assets held for sale and discontinued operations</u>
Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale

(Expressed in Canadian Dollars)

in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized. The Company did not have any assets held for sale or discontinued operations during the six month periods ended December 30, 2011 or 2010 or the year ended June 30, 2011.

Property and equipment
Property and equipment is stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and amortization. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The Company provides for amortization using the following rates on a declining-balance method designed to amortize the cost of the equipment over its estimated useful life. The annual amortization rates are as follows:

Equipment	20%
Computer software	30%
Computer hardware	20%
Office equipment	20%
Inspection equipment	20%

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment of property and equipment

Impairment tests are performed on property and equipment whenever there are events or changes in circumstances that show the asset's carrying value might not be recoverable. The recognition of an impairment loss would indicate that the carrying value of an asset exceeds the sum of its discounted cash flows expected from its useful life and eventual disposal. This amount is determined as the excess of the carrying value over the asset's fair value.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Financial instruments – Initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

The Company has determined its financial assets to include trade and other receivables and deposits held in trust (2011).

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the income statement.

The Company evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. In relation to receivables, the Company is exposed to credit risk and interest rate risk.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs. The Company did not have any held-to-maturity investments during the six month periods ended December 31, 2011 or 2010 or the year ended June 30, 2011.

Available-for-sale financial investments
Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss. The Company did not have any available-for-sale financial investments during the six month periods ended December 31, 2011 or 2010 or the year ended June 30, 2011.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company's continuing involvement in it.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available-for-sale financial investments
For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement — is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairments are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, callable debt and advances from related parties.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognized in the income statement.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Liquidity Risk
Liquidity risk, which is the risk that a company cannot meet its financial obligations, the Company actively monitors all financing to ensure all liabilities are met when due. In addition, the Company has budgets and cash estimates to make sure that all necessary obligations can be met.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

Financial guarantee contracts
Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization. The Company did not have financial guarantee contracts during the six month period ended December 31, 2011 or 2010 or the year ended June 30, 2011.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Company did not have any offsetting financial instruments during the six month periods ended December 31, 2011 or 2010 or the year ended June 30, 2011.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions, reference to the current fair value of another instrument that is substantially the same, or a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16.

<u>Impairment of non-financial assets</u>
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill
Goodwill is the excess of the price paid to purchase Encore Electronics Inc. over the fair value of the assets required to make the purchase. Goodwill is reviewed annually for impairment and

when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Share-based payment transactions
The Company may provide employees with remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The Company may also issue share-based payments to non-employees in exchange for goods or services provided by the non-employee.

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Earnings per share

The income (loss) per share calculation is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method to determine the dilutive effect from the exercise of stock options. This assumes that any proceeds received from in-the-money options would be used to buy back common shares at the average market price during the year. When the results of calculating diluted earnings per share are anti-dilutive, they are excluded from the dilutive calculation.

First-time adoption of IFRS

The Company's financial statements for the year ended June 30, 2012 will be the first annual financial statements that the Company has prepared in accordance with IFRS. These interim condensed consolidated financial statements have been prepared as described in Note 2, including the application of IFRS 1, First-time adoption of International Financial Reporting Standards.

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after December 31, 2011, together with the comparative period data as at and for the six month period ended December 31, 2010. This note explains the principal adjustments made by the Company in restating its previously published Canadian GAAP financial statements as at and for the six month period ended December 31, 2010.

Exemptions applied

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Company has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before July 1, 2010. Use of this exemption means that the Canadian GAAP carrying amounts of assets and liabilities, which are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Company did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the Canadian GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Company has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at July 1, 2010.
- IFRS 2 *Share-based Payment* has not been applied to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before July 1, 2010.

- The Company has applied the transitional provision in IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and has assessed all arrangements based upon the conditions in place as at the date of transition.

Estimates
IFRS 1 stipulates a mandatory exemption from full retrospective application of IFRS as it relates to the use of estimates. It requires that estimates at the date of transition to IFRS must be consistent with estimates made for the same date in accordance with previous Canadian GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. The Company did not use hindsight in its estimates upon transition to IFRS.

(Expressed in Canadian Dollars)

Company reconciliation of the Statement of Financial Position as at July 1, 2010

	Canadian GAAP	Remeasurement	IFRS as at July 1, 2010
	($)	($)	($)
ASSETS			
CURRENT			
Trade and other receivables	466,914	-	466,914
Prepaid expenses	62,701	-	62,701
Work in progress	14,562	-	14,562
	544,177	-	544,177
PROPERTY AND EQUIPMENT	112,869	-	112,869
DEFERRED DEVELOPMENT COSTS	23,633	-	23,633
GOODWILL	75,796	-	75,796
TOTAL ASSETS	756,475	-	756,475
LIABILITIES AND EQUITY			
CURRENT			
Bank indebtedness	157,580	-	157,580
Trade and other payables	144,980	-	144,980
Customer deposits	57,000	-	57,000
	359,560	-	359,560
ADVANCES FROM RELATED PARTIES	381,981	-	381,981
TOTAL LIABILITIES	741,541	-	741,541
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,343	-	15,343
Deficit	(1,232,672)	-	(1,232,672)
TOTAL EQUITY	14,934	-	14,934
TOTAL LIABILITIES AND EQUITY	756,475	-	756,475

Company reconciliation of the Statement of Equity as at July 1, 2010

	Canadian GAAP	Remeasurement	IFRS as at July 1, 2010
	($)	($)	($)
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,343	-	15,343
Deficit	(1,232,672)	-	(1,232,672)
TOTAL EQUITY	14,934	-	14,934

(Expressed in Canadian Dollars)

Company reconciliation of the Statement of Financial Position as at June 30, 2011

	Canadian GAAP	Remeasurement	IFRS as at June 30, 2011
	($)	($)	($)
ASSETS			
CURRENT			
Trade and other receivables	746,883	-	746,883
Prepaid expenses	53,076	-	53,076
Inventory	153,757	-	153,757
Work in progress	3,035	-	3,035
Deposit held in trust	192,860		192,860
	1,149,611	-	1,149,611
PROPERTY AND EQUIPMENT	233,938	-	233,938
INTANGIBLE ASSETS	151,251	-	151,251
GOODWILL	559,632	-	559,632
TOTAL ASSETS	2,094,432	-	2,094,432
LIABILITIES AND EQUITY			
CURRENT			
Bank indebtedness	143,154	-	143,154
Trade and other payables	313,915	-	313,915
Income taxes payable	723	-	723
Callable debt due in one year	100,000	-	100,000
	557,792		557,792
Callable debt due after one year	1,391,667	-	1,391,667
	1,949,459		1,949,459
ADVANCES FROM RELATED PARTIES	505,427	-	505,427
TOTAL LIABILITIES	2,454,886		2,454,886
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,844	-	15,844
Accumulated other comprehensive income	18,767	-	18,767
Deficit	(1,627,328)	-	(1,627,328)
TOTAL EQUITY	(360,454)	-	(360,454)
TOTAL LIABILITIES AND EQUITY	2,094,432	-	2,094,432

(Expressed in Canadian Dollars)

Company reconciliation of the Statement of Equity as at June 30, 2011

	Canadian GAAP	Remeasurement	IFRS as at June 30, 2011
	($)	($)	($)
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,844	-	15,844
Accumulated other comprehensive income	18,767	-	18,767
Deficit	(1,627,328)	-	(1,627,328)
TOTAL EQUITY	(360,454)	-	(360,454)

Company reconciliation of the Statement of Income and Comprehensive Income for the year ended June 30, 2011

	Canadian GAAP	Remeasurement	IFRS as at June 30, 2011
	($)	($)	($)
CONTINUING OPERATIONS			
REVENUE	2,266,480	-	2,266,480
DIRECT EXPENSES	366,641	-	366,641
	1,899,839	-	1,899,839
EXPENSES			
Selling, general and administrative expenses	1,944,246	-	1,944,246
Amortization	30,804	-	30,804
Loss on disposal of property and equipment	1,412	-	1,412
	(76,623)	-	(76,623)
OTHER INCOME	(335,634)	-	(335,634)
INCOME BEFORE TAX	(412,257)	-	(412,257)
Income tax expense	(17,601)	-	(17,601)
NET (LOSS) INCOME	(394,656)	-	(394,656)
CHANGES IN COMPREHENSIVE INCOME			
Gain on translating net assets of self-sustaining foreign operations	18,767	-	18,767
COMPREHENSIVE INCOME	(375,889)	-	(375,889)
BASIC AND DILUTED INCOME PER SHARE	(0.04)	-	(0.04)
WEIGHTED AVERAGE NUMBER OF SHARES	10,461,629	-	10,461,629

(Expressed in Canadian Dollars)

Company reconciliation of the Statement of Financial Position as at December 31, 2010

	Canadian GAAP	Remeasurement	IFRS as at December 31, 2010
	($)	($)	($)
ASSETS			
CURRENT			
Trade and other receivables	420,567	-	420,567
Prepaid expenses	32,226	-	32,226
Work in progress	18,560	-	18,560
	471,353	-	471,353
PROPERTY AND EQUIPMENT	108,669	-	108,669
DEFERRED DEVELOPMENT COSTS	23,633	-	23,633
GOODWILL	75,796	-	75,796
TOTAL ASSETS	679,451	-	679,451
LIABILITIES AND EQUITY			
CURRENT			
Bank indebtedness	220,984	-	220,984
Trade and other payables	140,180	-	140,180
Income taxes payable	-	-	-
	361,164		361,164
ADVANCES FROM RELATED PARTIES	413,821	-	413,821
TOTAL LIABILITIES	774,985		774,985
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,845	-	15,845
Deficit	(1,343,642)	-	(1,343,642)
TOTAL EQUITY	(95,534)	-	(95,534)
TOTAL LIABILITIES AND EQUITY	679,451	-	679,451

Company reconciliation of the Statement of Equity as at December 31, 2010

	Canadian GAAP	Remeasurement	IFRS as at December 31, 2010
	($)	($)	($)
EQUITY			
Share capital	1,232,263	-	1,232,263
Contributed surplus	15,845	-	15,845
Deficit	(1,343,642)	-	(1,343,642)
TOTAL EQUITY	(95,534)	-	(95,534)

(Expressed in Canadian Dollars)

Company reconciliation of the Statement of Income and Comprehensive Income for the period ended September 30, 2010

	Canadian GAAP	Remeasurement	IFRS as at December 31, 2010
	($)	($)	($)
CONTINUING OPERATIONS			
REVENUE	920,238	-	920,238
DIRECT EXPENSES	33,216	-	33,216
	887,022	-	887,022
EXPENSES			
Selling, general and administrative expenses	984,699	-	984,699
Amortization	13,293	-	13,293
	997,992	-	997,992
INCOME BEFORE TAX	(110,970)	-	(110,970)
Income tax expense	-	-	-
NET INCOME AND COMPREHENSIVE INCOME	(110,970)	-	(110,970)
BASIC AND DILUTED INCOME PER SHARE	(0.01)	-	(0.01)
WEIGHTED AVERAGE NUMBER OF SHARES	10,461,629	-	10,461,629

There were no changes as a result of the implementation of IFRS to the consolidated statement of cash flow for the periods ending July 1, 2010, June 30, 2011 or December 31, 2010, and as a result a reconciliation has not been prepared.

As there were no adjustments to any of the presented Statements of Financial Position, Statements of Equity, or Statements of Income and Comprehensive Income for the periods ending July 1, 2010, June 30, 2011 or December 31, 2010 no notes explaining the adjustments have been provided.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Company's domicile. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 22).

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE
Standards issued but not yet effective up to the date of issuance of the Company’s financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 7 - On October 7, 2010, the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off-balance sheet activities. The amendments are intended to provide users of financial statements additional information regarding financial assets, including the possible effects of risks that remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are to be applied for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9 – Financial Instruments was issued in November 2009. This Standard is the first step in the process to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect the Company's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are within a group. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 – Investment in Joint Ventures and IAS 28 – Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The disclosure requirements are substantial. IFRS 13 is not applicable until annual periods beginning on or after January 1, 2013 and will be adopted prospectively.

(Expressed in Canadian Dollars)

7. SEGMENTED INFORMATION

The Company operates in two distinct business segments. Relative segmented information is as follows:

	Engineering	Electronics	December 31, 2011 Total
			($)
Revenue	1,174,190	1,069,003	2,243,193
Direct expenses	72,440	219,760	292,200
Expenses	1,010,063	847,689	1,857,752
Amortization	13,521	11,559	25,080
Income (loss) from operations	78,166	(10,005)	68,161
Other income (expenses)		(48,415)	(48,415)
Income (loss) before income taxes	78,166	(58,420)	19,746
Income taxes	37,901	-	37,901
Net income (loss)	40,265	(58,420)	(18,155)
Identifiable assets	534,174	1,397,226	1,931,400

As the Electronic segment was acquired on May 1, 2011, it was not operating at December 31, 2010 and therefore comparative information has not been presented.

8. TRADE AND OTHER RECEIVABLES

	December 31, 2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Trade receivables	762,832	746,883	466,914
Receivables from other related parties	-	-	-
Balance, end of period	762,832	746,883	466,914

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

(Expressed in Canadian Dollars)

	Impaired trade receivables
	($)
At July 1, 2010	16,800
Charged for year	-
Utilized	-
Unused amount reversed	12,390
At June 30, 2011	4,410
Charged for period	-
Utilized	-
Unused amount reversed	-
At December 31, 2011	4,410

		Past due but not impaired			
	Total	< 30 days	30-60 days	60-90 days	> 90 days
	($)	($)	($)	($)	($)
December 31, 2011	762,832	618,697	92,842	41,231	10,062
June 30, 2011	746,883	522,319	62,491	97,439	64,634
July 1, 2010	466,914	226,299	66,180	29,403	145,032

(Expressed in Canadian Dollars)

9. INVENTORY

	December 31, 2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Raw Materials	33,000	35,464	-
Work in progress	85,664	37,271	-
Finished goods	73,007	86,714	-
Subtotal	191,671	159,449	-
Change in foreign exchange rates	3,258	(5,692)	-
	194,929	153,757	-

The Company measures inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the normal practice of business, less any estimated costs required to complete and make the sale. Inventory costs include all amounts required to purchase and transform an item to its final state and transfer to its final location. Inventory that is slow moving or obsolete will be put to an inventory valuation reserve.

(Expressed in Canadian Dollars)

10. PROPERTY AND EQUIPMENT

	July 1, 2010 Cost	Additions	Disposals	June 30, 2011 Cost
	($)	($)	($)	($)
Equipment	-	128,126	-	128,126
Computer software	122,493	21,618	-	144,111
Computer hardware	62,873	3,128	-	66,001
Equipment	55,912	-	-	55,912
Office equipment	26,169	1,690	-	27,859
Inspection equipment	8,694	-	745	7,949
Change in foreign exchange	-	-	4,574	(4,574)
	276,141	154,562	5,319	425,384

	July 1, 2010 Accumulated amortization	Amortization expense	Disposals	June 30, 2011 Accumulated amortization
	($)	($)	($)	($)
Equipment	-	2,135	-	2,135
Computer software	87,667	11,482	-	99,149
Computer hardware	23,783	7,473	-	31,256
Equipment	26,261	5,929	-	32,190
Office equipment	18,331	1,647	-	19,978
Inspection equipment	7,230	-	416	6,814
Change in foreign exchange	-	-	76	(76)
	163,272	28,666	492	191,446

(Expressed in Canadian Dollars)

	June 30, 2011 Cost	Additions	Disposals	Dec. 31, 2011 Cost
	($)	($)	($)	($)
Equipment	128,126	550	-	128,676
Computer software	144,111	3,602	-	147,713
Computer hardware	66,001	-	3,077	62,924
Equipment	55,912	-	-	55,912
Office equipment	27,859	1,040	-	28,899
Inspection equipment	7,949	-	-	7,949
Change in foreign exchange	(4,574)			(4,574)
	425,384	5,192	3,077	427,499

	June 30, 2011 Accumulated amortization	Amortization expense	Disposals	Dec 31, 2011 Accumulated amortization
	($)	($)	($)	($)
Equipment	2,135	11,540	-	13,675
Computer software	99,149	6,727	-	105,876
Computer hardware	31,256	3,434	2,670	32,020
Equipment	32,190	2,371	-	34,561
Office equipment	19,978	877	-	20,855
Inspection equipment	6,814	114	-	6,928
Change in foreign exchange	(76)	14		(62)
	191,446	25,077	2,670	213,853

(Expressed in Canadian Dollars)

	December 31, 2011 Net book value	June 30, 2011 Net book value	July 1, 2010 Net book value
	($)	($)	($)
Equipment	115,001	125,991	-
Computer software	41,837	44,962	34,826
Computer hardware	30,904	34,745	39,090
Equipment	21,351	23,722	29,651
Office equipment	8,044	7,881	7,838
Inspection equipment	1,021	1,135	1,464
Change in foreign exchange	(4,512)	(4,498)	-
	213,646	233,938	112,869

11. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Total
	($)	($)	($)
At July 1, 2010	-	-	-
Additions	151,251	-	151,251
At June 30, 2011	151,251	-	151,251
Additions	-	-	-
At December 31, 2011	151,251	-	151,251

Intangible assets consist of ISO manual development, intellectual property and customer lists.

(Expressed in Canadian Dollars)

12. GOODWILL

	December 31,2011	June 30, 2011	July 1, 2010
		($)	($)
Goodwill at cost	559,632	133,150	133,150
Acquisition of Encore Electronics Inc.	-	549,244	-
Change in foreign exchange rate	-	10,388	-
Accumulated amortization (prior to 2002)	-	(57,354)	(57,354)
Loss on impairment of goodwill	-	(75,796)	-
	559,632	559,632	75,796

13. BANK INDEBTEDNESS

Bank indebtedness is comprised of the following:

	December 31, 2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Cash in bank	58,527	118,762	27,892
Outstanding cheques	(77,131)	(101,916)	(115,472)
Net cash (deficit)	(18,604)	16,846	(87,580)
Bank operating line	0	(160,000)	(70,000)
Bank indebtedness	(18,604)	(143,154)	(157,580)

ARN and ESTec: The bank revolving demand facility is authorized to a total of $250,000 with interest payable at prime plus 1.50%. At December 31, 2011 $0 was outstanding on this credit facility. A general security agreement and limited guarantees from directors and related parties in the amounts of $200,000 have been pledged as collateral for the bank operating line.

Encore: The bank revolving demand facility is authorized to a total of $500,000 with interest payable at prime less .5%. At December 31, 2011 $0 was outstanding on this credit facility. This line of credit is secured by a letter of credit provided by EDC.

(Expressed in Canadian Dollars)

14. TRADE AND OTHER PAYABLES

	Total	< 30 days	Past due 30-61 days	60-90 days	> 90 days
	($)	($)	($)	($)	($)
December 31, 2011	249,805	203,186	24,865	21,571	183
June 30, 2011	313,915	100,490	98,913	48,311	66,201
July 1, 2010	144,980	137,251	5,973	619	1,137

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- Other payables are non-interest bearing and have an average term of six months

15. INCOME TAX

The provision for income taxes recorded in the consolidated financial statements for the quarters are estimated by taking the profit of the Company and applying the statutory income tax rate of 26.50% (December 31, 2010 – 28.50%).

	December 31, 2011	December 31, 2010
	($)	($)
Income (Loss) before tax	19,746	(110,970)
Statutory income tax (recovery)	5,233	(31,626)
Non-deductible items	-	
Tax losses available but not utilized	32,668	31,626
	37,901	0
Current	37,901	0
Deferred	-	-
Income taxes	37,901	0

(Expressed in Canadian Dollars)

16. CALLABLE DEBT

	December 31, 2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Current portion of callable debt	100,000	100,000	-
Callable debt due after one year	1,341,667	1,391,667	-
	1,441,667	1,491,667	-

The callable debt relates to a demand loan bearing interest at prime plus 1.50% per annum, repayable in monthly payments of $8,333 plus interest. The loan matures on May 3, 2026 and is secured with a general security agreement constituting a first ranking interest in all personal property, guarantees, and postponement of claims by related parties and directors.

Principal repayment terms are approximately:

2012	50,000
2013	100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	991,667
	1,441,667

17. PENSION PLAN

Allan R. Nelson Engineering (1997) Inc.

	December 31,2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Employer contributions expensed			
during the current period	20,883	24,234	27,058
Estimated value of plan	166,302	123,291	54,205
Number of participants	11	10	10

(Expressed in Canadian Dollars)

Encore Electronics Inc.

	December 31,2011	June 30, 2011	July 1, 2010
	($)	($)	($)
Employer contributions expensed			
during the current period	18,333	-	-
Estimated value of plan	208,891	-	-
Number of participants	21	-	-

Encore Electronics previously had a profit sharing plan. They have now started a pension plan and have rolled the assets from the profit sharing into the pension plan.

18. RELATED PARTY TRANSACTIONS

During the period, 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:

	Dec 31, 2011	Dec 31, 2010
	($)	($)
Company controlled by certain directors:		
Rent expense	78,654	45,000
Advances from related parties:		
Advances from directors, non-interest bearing, unsecured	166,911	166,911
Advances from corporations controlled by directors, non-interest		
bearing, unsecured	322,765	246,910
	489,676	413,821

Advances from related parties have no fixed terms of repayment and the parties have waived their right to receive any repayment in the current year, therefore these amounts have been classified as long term.

(Expressed in Canadian Dollars)

19. SHARE CAPITAL

Authorized:
200,000,000 Common shares without par value

Issued and outstanding

	December 31, 2011		June 30, 2011	
	Shares	Amount	Shares	Amount
		($)		($)
Balance – end of period	10,461,629	1,232,363	10,461,629	1,232,363

20. SHARE-BASED PAYMENT PLAN

The Company has a stock option plan that provides for the issuance of stock options to employees, directors and officers. Stock options allow the holder to obtain one common share for each stock option exercised. Options granted to Directors vest immediately. Options granted to employees vest over a 4-year period, with 25% of options vesting on each anniversary of the date the options were 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.

The Company makes options available to all employees, directors, officers in tiered levels based on salary compensation and performance. As options expire or are exercised, new options are issued.

	December 31, 2011		June 30, 2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		($)		($)
Balance, beginning of period	560,000	0.10	835,000	0.10
Granted	-	-	-	-
Cancelled or expired	-	-	(275,000)	0.10
Outstanding at end of period	560,000	0.10	560,000	0.10

At the end of the period ended December 31, 2011 there were 560,000 options, with an exercise price of $0.10 and weighted average remaining contractual life of 1.71 years, outstanding.

(Expressed in Canadian Dollars)

21. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	December 31, 2011	December 31, 2010
	($)	($)
Net income (loss)	(18,155)	(110,970)
Weighted average number of common shares outstanding during the period	10,461,629	10,461,629
Income (loss) per share Basic and diluted	(0.00)	(0.01)

Options to purchase 560,000 common shares that were outstanding as of December 31, 2011 were not included in the computation of diluted earnings per share, since the effect of these options was anti-dilutive.

22. FINANCIAL INSTRUMENTS

The Company's principal financial assets are trade and other receivables and its principal financial liabilities are comprised of bank indebtedness, trade and other payables, callable debt, and advances from related parties.

Fair values

All financial instruments carried at fair value are categorized in one of three categories:

Level 1 – Quoted market price
Level 2 – Valuation technique (market observable)
Level 3 – Valuation technique (non-market observable)

(Expressed in Canadian Dollars)

The following table summarizes the bases used to measure certain financial assets and financial liabilities at fair value through profit and loss:

	Fair value category	Classification	December 31, 2011 Fair value	December 31, 2011 Carrying value	June 30, 2011 Fair value	June 30, 2011 Carrying value
			($)	($)	($)	($)
Financial liabilities:						
Bank indebtedness	Level 1	Held for trading	-	-	143,154	143,154

During the three and six month periods ended December 31, 2011 there were no transfers between levels of the fair value hierarchy.

Risk exposure and management
The Company is exposed to market risk, credit risk, liquidity risk and currency risk.

The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk.

The Company does not currently have any significant direct exposure to commodity price risk or other price risk. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business.

General economic conditions globally, including the relative strength of the Canadian dollar may adversely affect the value of the Company's business and the value of its financial instruments.

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk can be heightened from exposure to a single customer or to several customers that have similar qualities and characteristics. The Company is currently subject to credit risk, having $64,681 in accounts receivable from its largest customer as at December 31, 2011. The Company continuously evaluates the financial condition and credit worthiness of all customers and potential customers in order to lessen such risk. In the event that losses do occur, all impairments are recognized in the income statement in finance costs.

Interest rate risk

Interest rate risk is an issue, whereby financial instrument values can be unfavorably affected by fluctuations in interest rates. In order to mitigate this risk, the Company does not enter into derivative financing contracts. The main reason the Company is exposed to such risk is because of its floating interest rate operating line. Such fluctuations would not materially affect the Company's operating results as at December 31, 2011. A change of 0.25% in the Canadian prime rate would result an increase or decrease in the interest expense by approximately $3,500 per year.

Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The table below summarizes the future undiscounted contractual cash flow requirements at December 31, 2011 for financial liabilities:

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 3 years	Thereafter
	($)	($)	($)	($)	($)	($)
Trade and other payables	249,805	249,805	249,805	-	-	-
Callable debt	1,441,667	1,441,667	50,000	100,000	100,000	1,191,667
	1,691,472	1,691,472	299,805	100,000	100,000	1,191,667

The Company's liquidity requirements are met through the cash generated from operations. Management monitors and manages its liquidity risk through regular monitoring of its financial liabilities against the constraints of its available financial assets.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on bank indebtedness, trade and other receivables and trade and other payables held in US dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

23. CAPITAL DISCLOSURE

The Company's objectives in managing capital are:

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

Protecting the ability to pay current and future liabilities includes maintain a prudent base of capital, ensuring adequate liquidity and financial flexibility and satisfying internally determined capital guidelines based on risk management.

Capital is comprised of the Company's share capital, bank indebtedness and callable debt. As at December 31, 2011, the Company's share capital was $1,232,263 (June 30, 2011 - $1,232,263), bank indebtedness was $0 (June 30, 2011 - $143,154) and callable debt was $1,441,667 (June 30, 2011 - $1,491,667).

The Company is subject to a specific debt service coverage requirement on its callable debt.

ESTEC SYSTEMS CORP.

Schedule 1 - Selling, General and Administrative Expenses

(Unaudited)

(Expressed in Canadian Dollars)

	Notes	Six months ended December 31, 2011 ($)	Six months ended December 31, 2010 ($)
EXPENSES			
Employee costs		1,510,791	780,480
Lease rentals on operating lease		78,657	45,000
Repairs and maintenance		51,054	16,638
Interest and bank charges		47,325	5,169
Insurance		30,578	24,023
Supplies and maintenance		34,112	16,131
Telephone and fax and utilities		20,269	10,326
Advertising		17,759	22,050
Consulting and professional fees		15,870	34,072
Public company compliance		13,977	5,239
Training		13,035	3,580
Subscriptions		8,909	6,620
Postage		3,574	2,106
Travel		5,271	12,130
Property tax		4,046	-
Corporate tax expense		1,567	-
Stock based compensation	20	502	502
Product development		50	-
Bad debts		-	633
		1,857,346	984,699