

ESTEC SYSTEMS CORP.

Consolidated Financial Statements
Quarters ended December 31, 2012 and 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.

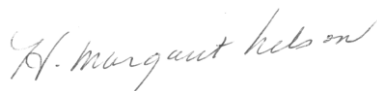
Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian Dollars)

December 31, 2012

		December 31, 2012	June 30, 2012
	Notes	(\$)	(\$)
ASSETS			
CURRENT			
Cash	9	68,033	-
Trade and other receivables	3	1,013,851	1,236,128
Prepaid expenses		25,586	73,808
Inventory	4	221,874	135,566
Deposit held in trust		-	-
		<u>1,329,344</u>	<u>1,445,502</u>
PROPERTY AND EQUIPMENT	5	220,575	219,892
INTANGIBLE ASSETS	6	156,050	159,689
GOODWILL	7	577,391	590,855
		<u>954,016</u>	<u>970,436</u>
TOTAL ASSETS		<u>2,283,360</u>	<u>2,415,938</u>
LIABILITIES AND EQUITY			
CURRENT			
Bank indebtedness	9	-	155,340
Trade and other payables	10	429,373	480,804
Customer deposits		7,000	59,685
Income tax payable		746	764
Current portion of callable debt	11	100,000	100,000
		<u>537,119</u>	<u>796,593</u>
Callable debt due after one year	11	1,241,667	1,291,667
		<u>1,778,786</u>	<u>2,088,260</u>
ADVANCES FROM RELATED PARTIES	12	437,822	489,677
TOTAL LIABILITIES		<u>2,216,608</u>	<u>2,577,937</u>
EQUITY			
Share capital	13	1,232,263	1,232,263
Contributed surplus		16,848	16,346
Accumulated other comprehensive income		33,107	35,683
Deficit		(1,215,466)	(1,446,291)
TOTAL EQUITY		<u>66,752</u>	<u>(161,999)</u>
TOTAL LIABILITIES AND EQUITY		<u>2,283,360</u>	<u>2,415,938</u>

Approved on behalf of the Board



Director



Director

ESTEC SYSTEMS CORP.

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

(Expressed in Canadian Dollars)

December 31, 2012 and 2011

		Three months ended December 31, 2012	Three months ended December 31, 2011
	Notes	(\$)	(\$)
CONTINUING OPERATIONS			
REVENUE		1,352,841	1,284,254
DIRECT EXPENSES	26	676,787	164,689
		676,054	1,119,565
EXPENSES			
Selling, general and administrative expenses (Schedule 1)		673,090	1,017,849
Interest on callable debt		15,093	-
Amortization		12,804	12,708
Loss on disposal of property and equipment		1,118	-
		702,105	1,030,557
		(26,051)	89,008
OTHER INCOME (EXPENSE)			
Transaction closing costs		-	(282)
Unrealized foreign exchange		58,673	(49,902)
Realized foreign exchange		(3,472)	-
INCOME BEFORE TAX		29,150	38,824
Income tax expense (recovery)		(3)	19,854
NET INCOME (LOSS)		29,153	18,970
CHANGES IN COMPREHENSIVE INCOME			
Foreign currency translation (loss) / gain		2,764	46,458
COMPREHENSIVE INCOME (LOSS)		31,917	65,428
BASIC AND DILUTED INCOME PER SHARE			
		.0	.0
WEIGHTED AVERAGE NUMBER OF SHARES		10,461,629	10,461,629

ESTEC SYSTEMS CORP.

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

(Expressed in Canadian Dollars)

December 31, 2012 and 2011

		Six months ended December 31, 2012	Six months ended December 31, 2011
	Notes	(\$)	(\$)
CONTINUING OPERATIONS			
REVENUE		2,735,334	2,243,193
DIRECT EXPENSES	26	1,211,792	292,200
		1,523,542	1,950,993
EXPENSES			
Selling, general and administrative expenses (Schedule 1)		1,251,959	1,857,346
Interest on callable debt		30,783	-
Amortization		24,447	25,080
Loss on disposal of property and equipment		3,133	406
		213,220	68,161
OTHER INCOME (EXPENSE)			
Transaction closing costs		-	(13,446)
Unrealized foreign exchange		19,243	(34,969)
Realized foreign exchange		224	-
INCOME BEFORE TAX		232,687	19,746
Income tax expense		1,862	37,901
NET INCOME (LOSS)		230,825	(18,155)
CHANGES IN COMPREHENSIVE INCOME			
Foreign currency translation (loss) / gain		(2,576)	71,130
COMPREHENSIVE INCOME (LOSS)		228,249	52,975
BASIC AND DILUTED INCOME PER SHARE			
	19	.02	.00
WEIGHTED AVERAGE NUMBER OF SHARES		10,461,629	10,461,629

ESTEC SYSTEMS CORP.

Interim Consolidated Statements of Equity (Unaudited)

(Expressed in Canadian Dollars)

December 31, 2012 and 2011

	Share capital (\$)	Contributed surplus (\$)	Accumulated other comprehensive income (\$)	Deficit (\$)	Total (\$)
As at June 30, 2011	1,232,263	15,844	18,767	(1,627,328)	(360,454)
Stock based compensation expense	-	502	-	-	502
Income and comprehensive income for the period	-	-	71,130	(18,155)	52,975
As at December 31, 2011	1,232,263	16,346	89,897	(1,645,483)	(306,977)
As at June 30, 2012	1,232,263	16,346	35,683	(1,446,291)	(161,999)
Stock based compensation expense	-	502	-	-	502
Loss and comprehensive income for the period	-	-	(2,576)	230,825	228,249
As at December 31, 2012	1,232,263	16,848	33,107	(1,215,466)	66,752

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in Canadian Dollars)

December 31, 2012 and 2011

	Three months ended December 31, 2012	Three months ended December 31, 2011
	(\$)	
OPERATING ACTIVITIES		
Net (loss) income	29,153	18,970
Items not affecting cash:		
Amortization	12,804	12,708
Loss on disposal of property and equipment	1,118	
Cumulative foreign exchange		46,458
Foreign exchange	22,857	
	65,932	78,136
Change in non-cash working capital	(66,395)	(45,843)
Cash flow from (used by) operating activities	(463)	32,293
INVESTING ACTIVITIES		
Purchase of property and equipment	(10,049)	(5,191)
Foreign exchange on investing activities	(502)	-
	(10,551)	(5,191)
FINANCING ACTIVITIES		
Advances (to) from related parties	(51,855)	(25,000)
Repayment of callable debt	(50,000)	(7,875)
Cash flow from financing activities	(101,855)	(32,875)
INCREASE (DECREASE) IN CASH	(112,869)	(5,773)
Bank indebtedness – Beginning of period	180,902	(12,831)
Cash – End of period	(68,033)	(18,604)

ESTEC SYSTEMS CORP.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in Canadian Dollars)

December 31, 2012 and 2011

	Six months ended December 31, 2012	Six months ended December 31, 2011
	(\$)	
OPERATING ACTIVITIES		
Net income (loss)	230,825	(18,155)
Items not affecting cash:		
Amortization	24,447	25,080
Loss on disposal of property and equipment	3,133	406
Foreign exchange	17,517	71,130
Stock-based compensation	502	502
	276,424	78,963
Change in non-cash working capital	80,057	116,529
Cash flow from (used by) operating activities	356,481	195,492
INVESTING ACTIVITIES		
Purchase of property and equipment	(30,751)	(5,191)
Foreign exchange on investing activities	(502)	-
Cash flow used by investing activities	(31,253)	(5,191)
FINANCING ACTIVITIES		
Advances (to) from related parties	(51,855)	(15,751)
Repayment of callable debt	(50,000)	(50,000)
Cash flow from financing activities	(101,855)	(65,751)
INCREASE (DECREASE) IN CASH	223,373	124,550
Bank indebtedness – Beginning of period	(155,340)	(143,154)
Cash – End of period	68,033	(18,604)

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

1. DESCRIPTION OF BUSINESS

ESTec Systems Corp. (the "Company") is the manager of two entirely owned companies: a forensic and design engineering company, Allan R. Nelson Engineering (1997) Inc., and an electronics manufacturing company, Encore Electronics Inc.

Allan R. Nelson Engineering Inc. (ARN) is made up of a group of highly educated engineers and technologists with different skills and backgrounds. ARN 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. ARN also delivers engineering services to all major insurance companies throughout Canada and has a focus toward damage from petrochemicals, manufacturing and drilling accidents. ARN 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 and aerospace and electronics.

The Company was incorporated under the Business Corporations Act of Alberta and is traded on the TSX Venture Exchange. The address of its registered head office is #209, 17510 – 102 Avenue NW, Edmonton, Alberta, T5S 1K2, Canada.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). 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 audited consolidated financial statements for the year ended June 30, 2012.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE *(continued)*

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities which are stated at fair value. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Management has determined that the functional currency of Encore is the US dollar and that the presentation currency will be the Canadian dollar.

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

- Allan R. Nelson Engineering (1997) Inc.
- Encore Electronics Inc.

All significant intercompany transactions and balances have been eliminated upon consolidation.

These consolidated interim financial statements of the Company for the six month period ended December 31, 2012 were authorized for issue by the Board of Directors in accordance with a resolution of the Company on 26 February, 2013.

3. TRADE AND OTHER RECEIVABLES

	December 31, 2012	June 30, 2012
	(\$)	(\$)
Trade receivables	1,018,261	1,240,538
Allowance for doubtful accounts	(4,410)	(4,410)
Balance, end of period	<u>1,013,851</u>	<u>1,236,128</u>

	Total	Past due but not impaired			
		< 30 days	30-60 days	60-90 days	> 90 days
	(\$)	(\$)	(\$)	(\$)	(\$)
December 31, 2012	1,018,261	588,536	280,643	45,296	103,786
June 30, 2012	<u>1,240,538</u>	<u>706,973</u>	<u>149,396</u>	<u>278,759</u>	<u>105,410</u>

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

4. INVENTORY

	December 31, 2012	June 30, 2012
	(\$)	(\$)
Raw Materials	123,401	24,223
Work in progress*	36,170	47,601
Finished goods	63,353	61,485
Change in foreign exchange rates	(1,050)	2,257
	<u>221,874</u>	<u>135,566</u>

*Work in progress contains \$16,944 from Allan R. Nelson Engineering, all other amounts belong to Encore's inventory.

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. During the period, write-downs of inventories totaled \$nil (June 30, 2012 - \$nil) and there were no reversals of previous write-downs.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

5. PROPERTY AND EQUIPMENT

	June 30, 2012			Dec. 31, 2012
	Cost	Additions	Disposals	Cost
	(\$)	(\$)	(\$)	(\$)
Equipment	133,731	2,888	300	136,319
Computer software	167,988	-	-	167,988
Computer hardware	64,200	9,847	3,992	70,055
Equipment	55,912	-	-	55,912
Office equipment	31,171	18,016	8,950	40,237
Inspection equipment	7,949	-	-	7,949
Change in foreign exchange	2,421	(3,116)	-	(695)
	<u>463,372</u>	<u>27,635</u>	<u>13,242</u>	<u>477,765</u>

	June 30, 2011			Dec. 31, 2012
	Accumulated amortization	Amortization expense	Disposals	Accumulated amortization
	(\$)	(\$)	(\$)	(\$)
Equipment	27,894	10,005	59	37,840
Computer software	116,207	7,778	-	123,985
Computer hardware	33,392	3,124	1,796	34,720
Equipment	36,933	1,898	-	38,831
Office equipment	21,508	1,620	8,252	14,876
Inspection equipment	7,041	91	-	7,132
Change in foreign exchange	505	(699)	-	(194)
	<u>243,480</u>	<u>23,817</u>	<u>10,107</u>	<u>257,190</u>

	Dec. 31, 2012 Net book value	June 30, 2012 Net book value
	(\$)	(\$)
Equipment	98,479	105,837
Computer software	44,003	51,781
Computer hardware	35,335	30,808
Equipment	17,081	18,979
Office equipment	25,361	9,663
Inspection equipment	817	908
Change in foreign exchange	(501)	1,916
	<u>220,575</u>	<u>219,892</u>

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

6. INTANGIBLE ASSETS

	July 1, 2012 Balance	Addition	Amortization/ Write-off	Dec. 31, 2012 Total
	(\$)		(\$)	(\$)
Intellectual property	104,850	-	-	104,850
Customer list	30,000	-	-	30,000
ISO manual	22,000	-	-	22,000
Change in foreign exchange	2,839	(3,639)	-	(800)
At December 31, 2012	159,689	(3,639)	-	156,050

	July 1, 2011 Balance	Addition	Amortization/ Write-off	June 30, 2012 Total
	(\$)		(\$)	(\$)
Intellectual property	104,850	-	-	104,850
Customer list	30,000	-	-	30,000
ISO manual	22,000	-	-	22,000
Change in foreign exchange	(5,599)	8,438	-	2,839
At June 30, 2012	151,251	8,438	-	159,689

7. GOODWILL

	December 31, 2012		June 30, 2012	
Goodwill, beginning of year	\$	590,855	\$	559,632
Change in foreign exchange rate		(13,464)		31,223
	\$	577,391	\$	590,855

The goodwill arose from the acquisition of Encore Electronics Inc. in fiscal 2011. Any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. As a result, it is translated at the year-end rate.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

8. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS

Goodwill acquired through business combinations has been allocated to one cash-generating unit, which is also an operating and reportable segment, with a net loss, for the year ended June 30, 2012, of \$257,351 attributable to Encore. The Company performed its annual impairment test as at June 30, 2012. The Company considered the relationship between its market capitalization, and its book value among other factors, when reviewing for indicators of impairment.

The fair value of Encore has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projection ranges between 14.30% and 16.70% and cash flow beyond five-year period are extrapolated using a 3% growth rate, which management believes is consistent with inflationary expectations. As a result of this analysis, management did not identify an impairment for goodwill and intangible assets.

Key Assumptions

The calculation of value in use for Encore is most sensitive to the following assumptions:

- a. *Gross margin* – Gross margin are based on average values achieved in recent periods, which are reflected in the Company's budget. The Company believes gross margin will be relatively consistent in the future and accordingly, no changes have been reflected in cash flows over the projected periods.
- b. *Discount rate* – Discount rate represent the current market assessment of the risks specific to each cash-generating unit, regarding the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from the weighted average cost of capital ("WACC") of relevant market participants. The WACC takes into account both debt and equity.
- c. *Growth rates estimates* – Rate are based on expectations by management considering the industry and locations in which the Company operates.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

9. BANK INDEBTEDNESS

Bank indebtedness is comprised of the following:

	Dec. 31, 2012	June 30, 2012
	(\$)	(\$)
Cash in bank	383,974	205,949
Outstanding cheques	(67,216)	(106,764)
Net cash	316,758	99,185
Bank operating line	(248,725)	(254,525)
Cash	68,033	(155,340)

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, 2012 \$nil 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 USD with interest payable at prime less .50%. At December 31, 2012 \$250,000 was outstanding on this credit facility. This line of credit is secured by a letter of credit provided by Export Development Canada.

10. TRADE AND OTHER PAYABLES

	Total	< 30 days	Past due		
			30-60 days	60-90 days	> 90 days
	(\$)	(\$)	(\$)	(\$)	(\$)
December 31, 2012	275,664	158,202	85,947	30,150	1,365
June 30, 2012	223,884	159,952	45,058	16,251	2,623

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

10. TRADE AND OTHER PAYABLES *(continued)*

	December 31, 2012	June 30, 2012
Trade payables	275,664	223,884
Other payables		
Accrued liabilities	52,533	62,143
Payroll payable	27,226	27,485
Vacation payable	59,652	129,456
GST payable	14,298	37,836
	<u>429,373</u>	<u>480,804</u>

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

11. CALLABLE DEBT

	December 31, 2012	June 30, 2012
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.	1,341,667	1,391,667
Principal due in one year	(100,000)	(100,000)
	<u>1,241,667</u>	<u>1,291,667</u>

Principal repayment terms are approximately:

Less than one year	50,000
Later than one year and not later than five years	500,000
Later than five years	791,667
	<u>1,341,667</u>

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

12. RELATED PARTIES

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, 2012	June 30, 2012
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	270,911	322,766
	<u>\$ 437,822</u>	<u>\$ 489,677</u>
Companies controlled by certain directors:		
Rent expense	<u>\$80,038</u>	<u>\$ 158,305</u>

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.

13. SHARE CAPITAL

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

Issued and outstanding

	December 31, 2012		June 30, 2012	
	Shares	Stated Capital	Shares	Stated Capital
Balance – beginning of year				
Issued or repurchased	10,461,629	1,232,363	10,461,629	1,232,363
Shares outstanding at the end of period	<u>10,461,629</u>	<u>1,232,363</u>	<u>10,461,629</u>	<u>1,232,363</u>

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

14. LEASE COMMITMENTS

The Company has operating lease commitment relating to office space in the United States. The agreement requires the Company to make the following lease payments on a fiscal year basis:

Not later than one year	35,657
Later than one year and not later than five years	<u>214,819</u>
	<u>250,476</u>

15. STOCK-BASED COMPENSATION 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, 2012		June 30, 2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding beginning of period	560,000	0.10	560,000	0.10
Expired	-	-	-	-
Outstanding at end of period	560,000	0.10	560,000	0.10

At the end of the period ended December 31, 2012 there were 560,000 options, with an exercise price of \$0.10 and weighted average remaining contractual life of .74 years, outstanding.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

16. SEGMENTED INFORMATION

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

	December 31, 2012		
	Engineering	Electronics	Total
Revenue	1,175,293	1,560,041	2,735,334
Direct expenses	471,311	740,481	1,211,792
Expenses	673,647	609,095	1,282,742
Amortization	14,511	9,936	24,447
Loss on disposal of property and equipment	2,894	239	3,133
Income (loss) from operations	12,930	200,290	213,220
Other income (expenses)	19,467	-	19,467
Income (loss) before income taxes	32,397	200,290	232,687
Income tax expense	-	(1,862)	(1,862)
Net income (loss)	32,397	198,428	230,825
Identifiable assets	659,501	1,623,859	2,283,360
	June 30, 2012		
	Engineering	Electronics	Total
Revenue	2,722,196	2,391,052	5,113,248
Direct expenses	816,915	1,198,470	2,015,385
Expenses	1,771,078	1,010,523	2,781,601
Amortization	31,060	25,852	56,912
Loss on disposal of property and equipment	1,720	-	1,720
Income (loss) from operations	101,423	156,207	257,630
Other income (expenses)	336,965	(412,815)	(75,850)
Income (loss) before income taxes	438,388	(256,608)	181,780
Income taxes	-	(743)	(743)
Net income (loss)	438,388	(257,351)	181,037
Identifiable assets	815,243	1,601,412	2,416,655

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

17. INCOME TAX

The income tax provision recorded differs from the amount which would be obtained by applying the statutory income tax rate of 25.00% (2011 – 27.25%) to the income for the year as follows:

	Dec. 31, 2012	June 30, 2012
	(\$)	(\$)
Income before income tax	232,687	181,780
Income tax expense at the combined basic federal and provincial tax rate:	58,172	45,445
Non-deductible expense	-	(5,637)
Non-capital loss carried forward	-	57,874
Non-capital losses applied in current year	(56,310)	(97,682)
	1,862	-
Current	1,862	-
Deferred	-	-
Income taxes	1,862	-

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

18. PENSION PLAN

The pension plans are defined contribution (money purchase) plans, funded wholly by contributions. Pensions cost relates to current employee services and are charged to operation on a current basis.

<i>Allan R. Nelson Engineering (1997) Inc./ ESTec Systems Corp.</i>	December 31, 2012	June 30, 2012
	(\$)	(\$)
Employer contributions expensed during the current period	22,244	39,036
Estimated value of plan	258,051	195,848
Number of participants	17	16

<i>Encore Electronics Inc.</i>	December 31, 2012	June 30, 2012
	(\$)	(\$)
Employer contributions expensed during the current period	14,560	34,709
Estimated value of plan	278,054	247,253
Number of participants	22	22

Encore Electronics previously had a profit sharing plan. During the year ended June 30, 2012 they started a 401k pension plan and rolled the assets from the profit sharing into the pension plan.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

19. 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, 2012	June 30, 2012
Net income (loss)	\$ 230,825	\$ 181,037
Weighted average number of common shares outstanding during the period	10,461,629	10,461,629
Basic earnings per share	0.02	0.02
Common shares and stock options	11,021,629	11,021,629
Diluted earnings per share	0.02	0.02

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

20. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of bank indebtedness, trade and other receivables, trade and other payables, callable debt, and advances from related parties.

	December 2012		June 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and Receivables				
Cash	68,033	68,033	-	-
Trade and other receivables	1,013,851	1,013,851	1,236,128	1,231,615
Financial Liabilities				
Bank indebtedness	-	-	155,340	155,340
Trade and other payables	429,373	429,373	480,804	480,804
Callable debt	1,341,667	1,341,667	1,391,667	1,391,667

Fair value

The advances from related parties are financial liabilities of the Company. The fair value of these amounts are less than the 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.

The fair value of callable debt is determined using the present value of future cash flows under current financing agreements, based on interest rates that are consistent with the current rates offered to the Company for debt with similar terms.

The fair value of bank indebtedness is measured under level 1 of the fair value hierarchy. The three levels of the fair value hierarchy are described as follows:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability
- Level 3: Value based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

20. FINANCIAL INSTRUMENTS *(continued)*

Risk Management Policy

The Company is exposed to market risk, credit risk, interest risk, liquidity risk and currency risk.

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

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 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. The Company is subject to credit risk, having 16% in trade and other receivables from its largest customer as at December 31, 2012.

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.

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.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

20. FINANCIAL INSTRUMENTS *(continued)*

At December 31, 2012 the Company's exposure to foreign currency risk are as follows:

Reporting Rate (\$US - \$CAD)	December 31 , 2012	June 30, 2012
	.9949	1.018
Cash and cash equivalents	USD 359,114	84,712
Trade and other receivables	486,117	589,696
Trade and other payables	224,760	239,662

For each % change in rate, based on the monetary assets and liabilities held at December 31, 2012, the Company's net earnings would be impacted by approximately \$3,261 (June 2012 - \$4,732).

Interest rate risk

Interest rate risk is an issue, whereby financial instrument values can be unfavorably affected by fluctuations in interest rates. The Company does not enter into derivative financing contracts. The Company is exposed to such risk because of its floating interest rate operating line and floating interest rate callable debt. Such fluctuations did not materially affect the Company's operating results as at December 31, 2012. A change of 0.25% in the Canadian prime rate would result in an increase or decrease in the interest expense by approximately \$3,750 per year.

Liquidity risk

Liquidity risk is the risk that the Company may not have cash to meet its financial liabilities as they come due. The Company has sufficient credit facilities to meet its current and long term financial needs.

	Bank Indebtedness	Accounts Payable	Callable Debt	Total
2013	\$ -	\$ 429,373	\$ 50,000	\$ 479,373
2014	-	-	100,000	100,000
2015	-	-	100,000	100,000
2016	-	-	100,000	100,000
2017	-	-	100,000	100,000
Thereafter	-	-	891,667	891,667

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

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

21. CAPITAL DISCLOSURE

The Company's objectives in managing capital are:

1. to safeguard its ability to operate as a going concern;
2. to maintain a strong financial position; and
3. to maintain a low cost of debt.

Protecting the ability to pay current and future liabilities includes: maintain a prudent base of capital, ensure adequate liquidity and financial flexibility, and satisfy 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, 2012, the Company's share capital was \$1,232,263 (December 31, 2011 - \$1,232,263), bank indebtedness was \$68,033 (December 31, 2011 - \$(18,604)) and callable debt was \$1,341,667 (December 31, 2011 - \$1,441,667).

The Company is not subject to any external capital requirements.

22. CHANGES IN NON-CASH WORKING CAPITAL

	Dec. 2012	June 2012
Trade and other receivables	222,277	(489,245)
Inventory	(86,308)	21,226
Prepaid Expenses	48,222	(20,729)
Deposits held in trust	-	192,860
Trade and other payables	(51,431)	166,888
Income taxes	(18)	41
Customer deposits	(52,685)	59,685
	\$ 80,057	\$ (69,274)

23. ECONOMIC DEPENDENCE

The Company's subsidiary, Encore Electronics Inc., sells approximately 33% of its products to one customer. Should this customer substantially change its dealings with Encore, management is of the opinion that continued viable operations for Encore would be doubtful.

ESTEC SYSTEMS CORP.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Period Ended December 31, 2012 and 2011

24. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2013. The adoption of the first phase of IFRS 9 is not expected to have a material effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Other standards

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements, IFRS 13 Fair Value Measurement, and amended IAS 28 Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

25. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

26. REALLOCATION OF DIRECT EXPENSES

The direct expenses, pages 2 and 3, and wage expense, page 26 are very different from last years' numbers due to the fact that part of the wage expenses are now being allocated to "cost of goods sold" which is part of the direct expenses.

ESTEC SYSTEMS CORP.

Schedule 1 - Selling, General and Administrative Expenses

(Unaudited)

(Expressed in Canadian Dollars)

		Six months ended December 31, 2012	Six months ended December 31, 2011
	Notes	(\$)	(\$)
EXPENSES			
Employee costs	27	925,514	1,510,791
Lease rentals on operating lease		80,038	78,657
Repairs and maintenance		22,281	51,054
Supplies and maintenance		22,949	28,607
Interest and bank charges		28,713	47,325
Public company compliance		12,458	13,977
Telephone and fax		20,243	20,269
Insurance		33,261	30,578
Advertising		23,402	17,759
Courier & Freight		969	10,646
Training		2,016	13,035
Dues, memberships & business taxes		12,877	12,955
Stock based compensation	20	502	502
Product development		-	50
Travel		13,814	5,271
Consulting and professional fees		52,922	15,870
		<u>1,251,959</u>	<u>1,857,346</u>