COMPANY PROFILE

Estec Systems Corp. is a holding company that owns Allan R. Nelson Engineering (1997) Inc. and Encore Electronics Inc.

Allan R. Nelson Engineering (1997) Inc. (ARN) is a group of professional engineers and technologists who carry diverse skills and a variety of professional backgrounds.
ARN provides design engineering & forensic engineering services to the oil and gas, mining, manufacturing, transportation and forestry industries. The largest part of ARN's business is design of masts and drilling structures to API 4F (American Petroleum Institute 4F Specification for Drilling and Well Servicing Structures).
Committed to continuous improvement ARN utilizes state-of-the-art software to provide timely and competitive solutions for our clients.

Encore Electronics Inc. is an electronics design and manufacturing business located in Saratoga Springs, New York. Its product line includes signal conditioners, strain gage amplifiers, vibration monitoring equipment and computer controlled signal conditioning instrumentation.
Encore is an OEM supplier to some of America's largest aerospace, power generation and technology based industrial multi-national conglomerates.
The Company's products and services are used in a wide variety of engineering, industrial and technology applications including aircraft engine design, automotive and turbine testing, and research and development in aerospace electronics.

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FORWARD LOOKING STATEMENTS

Certain statements in this report may be deemed to be forward-looking statements within the meaning of the federal and provincial securities laws. Although management believes the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results and performance of the Company to be materially different from any future results and performance expressed or implied by such forward-looking statements. Among these risks and uncertainties are:

- changes in the markets in general economic conditions;
- the extent, duration and strength of any economic recovery in the markets in which the company operates;
- changes in the Oil & Gas drilling market;
- the cost and availability of debt and equity financing;
- our ability to realize anticipated cost savings from our internal initiatives and to otherwise create and capture benefits of scale;
- our ability to obtain at reasonable cost, adequate insurance for catastrophic events, such as earthquakes, hurricanes and terrorist acts;
- changes in interest rates;
- other risks and uncertainties.

The forward looking statements should not be read as guarantees of future performance or results, and no assurance can be given that the expectations will be realized. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Without limiting the foregoing, the words "believe", "expect", "anticipate", "intend", "estimate", "plan" and similar expressions identify forward-looking statements.

ESTEC SYSTEMS

Quarter 2 in review

Management Discussion & Analysis

2011/2012

Edmonton – 28 February 2012.

The second quarter showed a significant improvement in sales in both the engineering company and the electronics manufacturing.

On the engineering side sales improved primarily due to an increase in the billable hours per engineer. Most of the staff has significant backlogs for the next quarter, so sales should remain at a high level for the third quarter. Major projects pending will see that backlog of work extend out to the end of the September 2012 quarter.

At Encore, sales improved significantly with several delayed projects returning to active and being shipped during the quarter. Toward the end of the quarter we hired a new salesman and by the end of the quarter we were starting to show sales to new clients acquired by him. We expect his contribution to rise over the next two quarters.

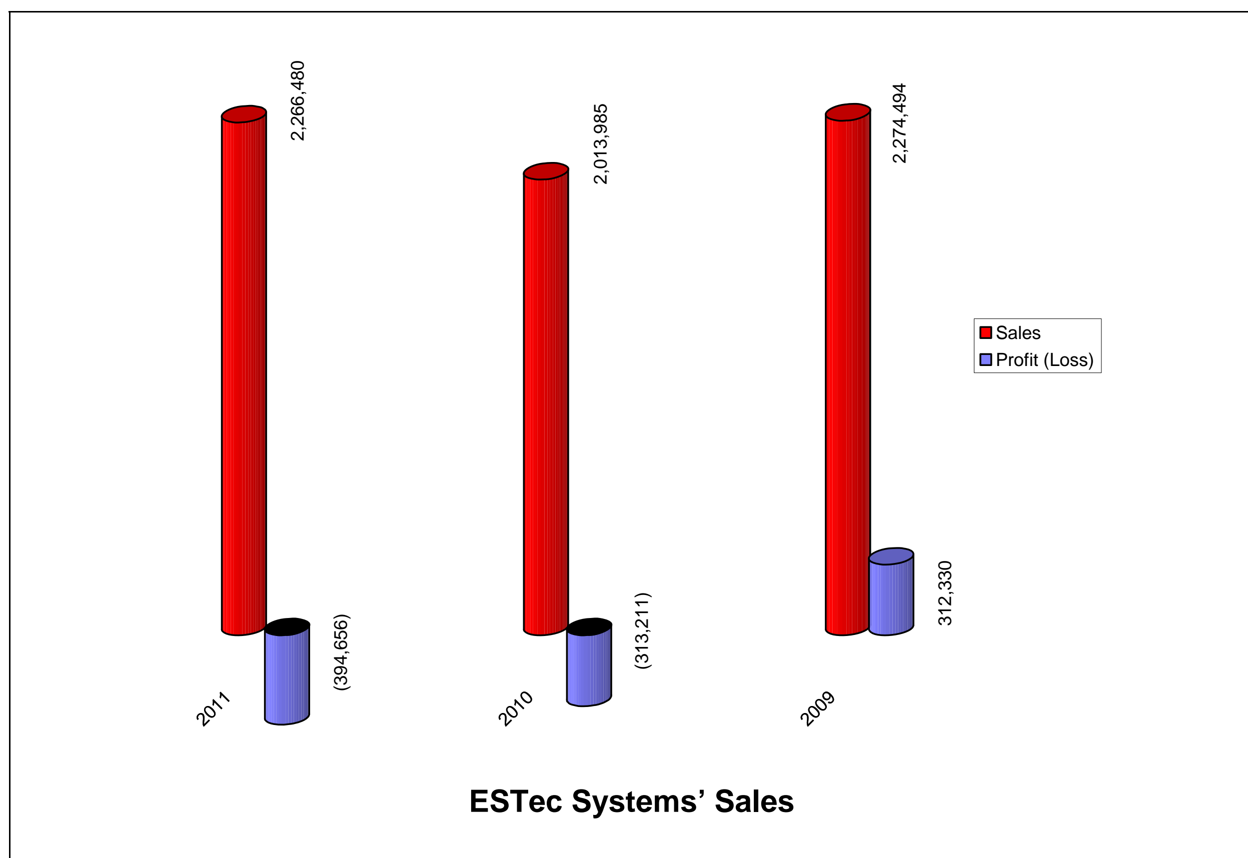
We continue to improve the manufacturing facility and are now in the process of identifying and disposing of obsolete inventory that the previous owners had retained. We expect to be able to reduce the number of active inventory items, resulting in improvements in inventory management. While this will not have a direct impact on the bottom line, it will allow us to produce more product without having to add staff to the inventory management function. We continue to work on improving the controls around the manufacturing process.

A new updated web site is under development that will properly showcase the products and services that we can provide to customers, and to provide investors with a better idea of why they should invest in ESTec. This can be expected to come live sometime this spring.

Selected Annual Information

	Year ended June 30, 2011	Year ended June 30, 2010	Year ended June 30, 2009
Total Revenues	2,266,480	2,013,985	2,274,494
Income/(Loss) from operations	(76,623)	(313,211)	312,330
Basic (loss) / income per share	(0.01)	(0.03)	.03
Diluted (loss) / income per share	(0.01)	(0.03)	.03
Net (loss) / income	(394,656)	(313,211)	312,330
Comprehensive (loss) / income	(375,889)	(313,211)	312,330
Basic (loss) / income per share	(0.04)	(0.03)	.03
Diluted (loss) / income per share	(0.04)	(0.03)	.03
Total Assets	2,094,432	756,475	834,749
Total long-term financial liabilities	1,897,094	381,981	365,000

In the 2010 fiscal year we were hit by the on-going economic slowdown. Our workload dropped significantly and that was compounded by the loss of our engineering manager. Continuing staff turnover in 2011 and continued slowing of economic activity resulted in lower sales for the engineering services in 2011. In addition to the slower sales we had significant costs associated with the purchase of Encore Electronics and implementing new software and control systems at Encore Electronics.



ESTec Systems' Sales

Discussion of Operations

	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.

Engineering sales are up from last year, reflecting the recovering economic conditions. This quarter reflects increased salaries due to additional staff. Most of the expenses that increased over this period last year reflect the additional business added with the acquisition of Encore.

Summary of Quarterly Results

	For the 3 months ended 31 Dec. 2011	For the 3 months ended 30 Sept. 2011	For the 3 months ended 30 June 2011	For the 3 months ended 31 March 2011
Total revenues	$ 1,284,254	$ 958,939	$ 884,497	$ 461,745
(Loss) / income from operations	38,824	(19,078)	40,702	(6,355)
Basic and diluted income / (loss) per share	.0	(0)	0	(0)
Net (loss) / income	18,970	(37,125)	(214,458)	(69,228)
Comprehensive (loss) / income	65,428	(12,453)	(195,691)	(69,228)
Basic and diluted income / (loss) per share	0	0	(.02)	(.01)

	For the 3 months ended 31 Dec. 2010	For the 3 months ended 30 Sept. 2010	For the 3 months ended 30 June 2010	For the 3 months ended 31 March 2010
Total Revenues	$ 406,038	$ 514,200	$ 444,510	$ 448,210
(Loss) / income from operations	(138,879)	27,909	(254,315)	(69,988)
Basic and diluted (loss) / income per share	(.02)	0	(.03)	(.01)
Net (loss) / income	(138,879)	27,909	(254,315)	(69,988)
comprehensive (loss) / income	(138,879)	27,909	(254,315)	(69,988)
Basic and diluted (loss) / income per share	(.01)	0	(.03)	(.01)

The variation in sales is due to the oil & gas sector economic activity. The June 30, 2011 sales are the first period to include Encore Electronics Inc.

Liquidity

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.

The company has positive working capital. Over the next year the company expects to meet all cash requirements from cash flow. While the company has a significant amount of its receivables invested in a small number of clients, these funds are largely attributable to insurance clients and the insurance company has reserves allocated to pay these accounts. The addition of Encore has resulted in a significant exposure to one customer as a major receivable. Management believes it has appropriately managed the company's credit risk.

A new bank line of credit has been negotiated to cover the cash requirements to purchase Encore Electronics Inc. Debt repayment will be scheduled over 15 years to be repaid from the operating profits of Encore Electronics Inc. We anticipate being able to repay the debt faster than the agreed amortization schedule.

See also liquidity risk on page 7

Capital Resources

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. Capital expenditures planned for the coming year are expected to be covered out of operating cash flow and leveraging existing assets. No material capital expenditures are planned.

Transactions with 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, 2011	Dec. 31, 2010
	($)	($)
Company controlled by certain directors:		
Rent expense	78,657	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 fiscal year, therefore these amounts have been classified as long term.

Equity Transactions

During the year no stock options were granted to employees and directors of the company.

During the year no stock options were exercised, were cancelled or expired.

Off Balance Sheet Transactions

Top drive manufacture: On March 25, 2011 a press release was disseminated regarding the cessation of the Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. This agreement provided for royalty payments to Allan R. Nelson Engineering (1997) Inc. in relation to the licensing for the manufacture and sale of the top drives based upon designs prepared by Allan R. Nelson Engineering (1997) Inc.

It was our hope that with the economic turn around, sales of the top drive would follow. However, Farr Canada decided to stop commercial production of the top drives. As a result we wrote off our deferred development costs associated with the top drive during the last part of the 2011 year.

On October 17, 2011 we signed a new licensing agreement with Torishima Canada Inc. on essentially the same terms as we had with Farr Canada. A press release was disseminated at the same time.

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.

<u>Fair values</u>

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)

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

			December 31, 2011		June 30, 2011	
	Fair value category	Classification	Fair value	Carrying value	Fair value	Carrying value
			($)	($)	($)	($)
Financial liabilities: Bank indebtedness	Level 1	Held for trading	18,604	18,604	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.

International Financial Reporting Standards ("IFRS")

IFRS 1 – First-time adoption of international financial reporting standards

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 of the financial statements, 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.

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.

Risk and Uncertainty

The following factors among others could cause our actual results to differ materially from those projected in our forward-looking statements:

- The effects of fluctuations in interest rates or currency values
- The effects of war or terrorist activities
- The effects of disease or illness on local, national or international economies
- The effects of disruption to public infrastructure
- The effects of disruptions to our internal IT infrastructure
- The effects of industry or worldwide economic or political conditions
- The effects of regulatory or statutory developments
- The effects of competition in the geographic or business areas in which we operate
- The effects of undetected fraud
- The actions of management and staff
- Potential liability claims as a result of the work we perform
- Credit risk associated with accounts receivable
- The effects of technological changes.

Investors and the public should carefully consider these factors, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when relying on these statements to make decisions with regards to ESTec. Except as required by law, we do not undertake to update any forward looking statements, whether written or verbal that may be made from time to time by the organization, or on its behalf.

Controls and Procedures

The Company's Chief Executive Officer ("CEO") and acting Chief Financial Officer ("CFO") have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of December 31, 2011, pursuant to the requirements of Multilateral Instrument 52-109.

Management has recognized that weakness exists in segregation of duties. The small administrative staff makes it difficult to have adequate segregation of duties. While it is recognized as a weakness, management has no plans to change in the short term. It is believed that the monitoring that is in place is sufficient to control the risk.

A concern has been raised about the Management Bonus structure in Encore. This has been recognized as a potential weakness and management is investigating changes or additional controls to mitigate the weakness.

The accounting staff at Encore does not have the training or expertise to handle public company level accounting. Management is providing additional supervision and training to the staff.

Inventory management at Encore is inadequate. It is not possible to identify obsolete inventory or to properly allocate inventory costs to cost of sales. Management is implementing a new inventory control system that will address both these issues. Management believes that the price paid for the inventory reflects this inadequacy in the inventory controls at the company, and allows for the obsolete inventory.

Minor weaknesses in HR practices, invoice preparation practices and computer data security have been identified by management. During the year, management has implemented full use of their accounting software, preparing invoices through this program, mitigating the risk that existed with previous practices. HR practices have improved in the engineering business but HR record keeping at Encore was inadequate and it will be some time before proper records are created and brought up to date. Computer Data Security has improved over the past year, however additional improvements are in progress.

Management is continuing to review procedures to minimize identified weaknesses as much as possible.

Specific reviews of controls and procedures have been undertaken to identify any changes required by the transition to IFRS.

Other MD&A Requirements

Additional information relating to ESTec Systems and its subsidiaries can be found on SEDAR at www.sedar.com. Press releases announcing activities of the company will be posted on our web site www.estec.com.

On Behalf of the Board of Directors – February 28, 2012
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

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President and Chief Executive Officer

H. Margaret Nelson
Director
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Allan R. Nelson
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Stock Exchange Listing

The shares of ESTec Systems Corporation are listed on the **Toronto Venture Exchange**
Trading Symbol: **ESE**

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