Management Discussion & Analysis

2009/2010

Edmonton – 17 September 2010.

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.

The Business

Estec Systems Corp. is a holding company that owns Allan R. Nelson Engineering (1997) Inc. Allan R. Nelson provides design engineering & forensic engineering services to the oil and gas, mining, manufacturing, transportation and forestry industries. The largest part of Allan R. Nelson’s business is design of masts and drilling structures to API 4F.

Summary of activities

The first part of the fiscal year was good, however starting in December a number of on-going projects were put on hold by customers. This was compounded by our engineering manager leaving in April. As we have experienced in the past, the loss of the managing engineer and the transition to the new managing engineer was difficult and the company is only just returning to profitability as this MD&A is being prepared.

The Canadian Association of Oilwell Drilling Contractors is predicting an increase in drilling activity in the last half of the calendar year (http://www.caodc.ca/forecast/forecast.html), and we are seeing some advance

engineering projects taking place. While this will not be a return to the peak levels of 2009 it will be a significant improvement over 2010.

While staffing levels are not a problem now, we expect to be looking for additional staff in the fall to allow us to handle the projected work load.

Our mergers and acquisitions activity continues to look at possible takeover targets. At this time we have not found a company that has passed our due diligence checks and with whom we have been able to negotiate an acceptable price. At this time we have two potential takeover opportunities that we are investigating. If we are able to find a company that meets our criteria we would expect to have to go to the market to obtain part of the financing.

By the end of the coming year we expect our sales to recover to close to the 2009 levels, with similar profitability.

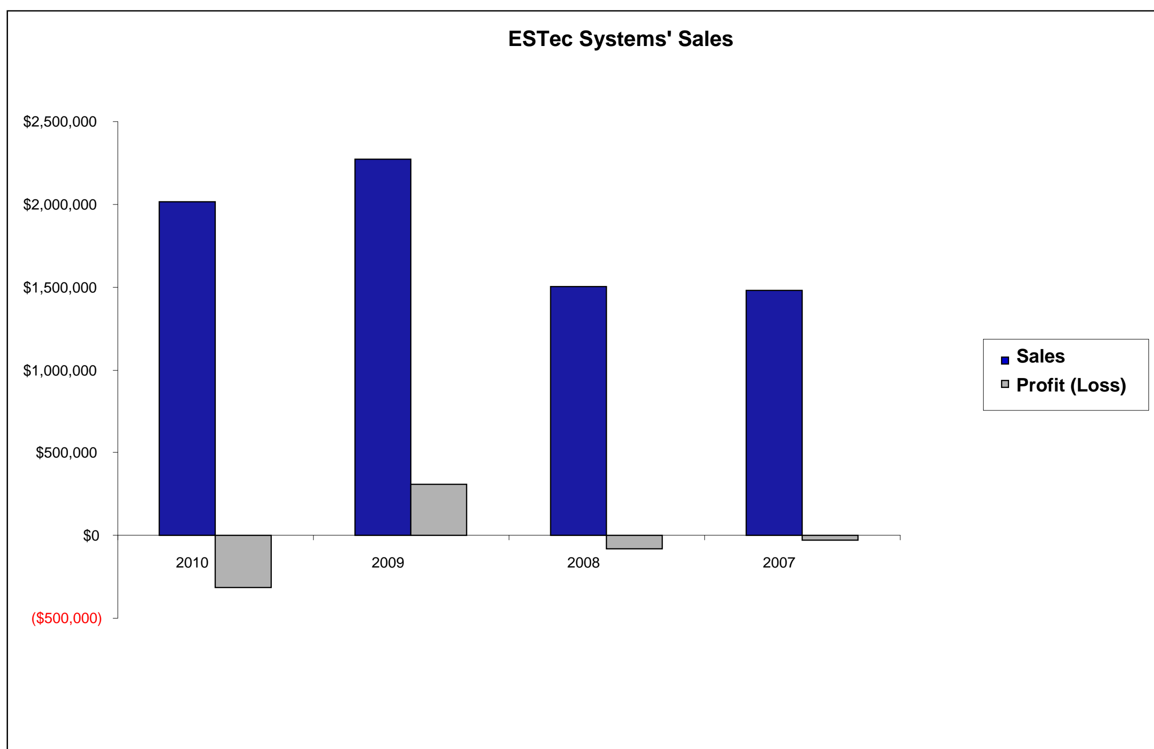
Implementation of IFRS is taking effect during the coming fiscal year, so that when we start reporting in IFRS format in the 2012 period we will be able to have comparable numbers. We do not expect the transition to have any material impact on business operations. Other than a re-organization of the sequence of reporting we do not expect there to be any effect on the financial numbers reported in the financial statement. The areas of IFRS that have the biggest impact will not apply to our business. Accordingly most of our current policies and procedures will remain in effect with no changes. Where there are choices available to the organization we have elected to continue to report in the same manner we have been reporting in the past. None of these choices would have made a material change had the company chosen to transform the way we are reporting financial information.

Selected Annual Information

	Year ended June 30, 2010	**Year ended June 30, 2009**	**Year ended June 30, 2008**	**Year ended June 30, 2007**
Total Revenues	2,013,985	2,274,494	1,501,239	1,481,851
Income/(loss) before discontinued operations and extraordinary items	(313,211)	312,330	(77,992)	(28,047)
Basic income/(loss) per share	(0.03)	.03	(0.01)	(0.003)
Diluted income/(loss) per share	(0.03)	.03	(0.01)	(0.003)
Net income/(loss)	(313,211)	312,330	(77,992)	(28,047)
Basic income/(loss) per share	(0.03)	.03	(0.01)	(0.003)
Diluted income/(loss) per share	(0.03)	.03	(0.01)	(0.003)
Total Assets	756,475	834,749	717,839	537,409
Total long-term financial liabilities	381,981	365,000	373,968	326,907

The end of the 2007 fiscal year and the beginning of the 2008 fiscal year, the Oil & Gas drilling sector went through a major pull back. The Oil companies radically reduced the drilling activity in an attempt to force the drilling contractors to reduce prices. This had an effect on our business which is dependant to a large extent on the activity in the Oil & Gas drilling sector. While activity in the Oil & Gas drilling sector has not significantly increased, toward the end of the 2008 fiscal year and the beginning of the 2009 fiscal year, investment in new drilling rig designs has returned to near normal levels. This pullback is a normal part of the business cycle for the Oil & Gas drilling sector.

Sales in the 2009 fiscal year have been significantly improved by changes we made in the sales/marketing department. 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. At this time the workload has started to rise again and we expect the 2011 fiscal year to show a significant recovery.



Summary of Quarterly Results

	For the 3 months ended 30 June 2010	For the 3 months ended 31 March 2010	For the 3 months ended 31 Dec. 2009	For the 3 months ended 30 Sept. 2009
Total Revenues	$ 444,510	$ 448,210	$ 496,125	$ 625,140
Income/(loss) before discontinued operations and extraordinary items	(254,315)	(69,988)	(75,911)	87,003
Basic and diluted income / (loss) per share	(.03)	(.01)	(.01)	.01
Net income/(loss)	(254,315)	(69,988)	(75,911)	87,003
Basic and diluted income / (loss) per share	(.03)	(.01)	(.01)	.01

	For the 3 months ended 30 June 2009	For the 3 months ended 31 March 2009	For the 3 months ended 31 Dec. 2008	For the 3 months ended 30 Sept. 2008
Total Revenues	$ 610,879	622,114	530,496	511,005
Income/(loss) before discontinued operations and extraordinary items	$ 163,694	43,071	43,177	62,388
Basic and diluted income / (loss) per share	$ .02	0	0	.01
Net income/(loss)	$ 163,694	43,071	43,177	62,388
Basic and diluted income / (loss) per share	$ .02	0	0	.01

The variation in sales is due to the oil & gas sector economic activity. The engineering revenues have been significantly impacted by the slow down in drilling activity during the 2008 fiscal year. The 2008 and 2009 sales have been significantly improved by changes in our sales/marketing department.

Liquidity

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. Management believes it has appropriately managed the company's credit risk.

Capital Resources

The company has a $250,000.00 line of credit available for any emergent capital outlays or other cash flow requirements. As of the end of June, this line of credit has been drawn to $70,000. Capital expenditures planned for the coming year are expected to be covered out of operating cash flow and leveraging existing assets. However the company has engaged a mergers and acquisitions consultant to assist us in finding a suitable takeover candidate. Should a suitable candidate be found, the company may go to the market to raise a portion of the cost of the take-over.

Transactions with related parties

During the year the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were at market prices, are as follows:

	For the twelve months ended 30 June 2010	For the twelve months ended 30 June 2009
Payment of rent to 262233 Alberta Ltd.	$ 90,000	$ 90,000
Advances from directors, non-interest bearing, unsecured	$ 166,911	$ 166,911
Advances from corporations controlled by directors, non-interest bearing, unsecured	$ 215,070	$ 198,089
	$ 381,981	$ 365,000

Advances from related parties in the amount of $381,981 (2009 - $365,000) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $1,945 (2009 - $3,005) owing to a director.

Equity Transactions

During the year 270,000 stock options were granted to employees and directors of the company with an exercise price of $0.10.

During the year 35,000 stock options were cancelled with an exercise price of $0.10.

Off Balance Sheet Transactions

Top drive manufacture: The Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. provides 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.

Farr Canada has hired a dedicated product manager who is marketing the top drive and has established a facility for manufacturing top drives. Top Drive sales typically have a long lead time. We anticipate that sales will start when the economy starts to show signs of growth for the oil & gas drilling sector.

Financial Instruments

The Company's financial instruments consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and advances from related parties.

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

The fair value of the advances due to related parties are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty. Therefore fair value has not been estimated.

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.

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

Credit risk

The Company is exposed to credit risk through trade receivables and work in progress. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

Management believes that credit risk is mitigated in the insurance claim work they perform, due to insurance companies being required to sequester funds when a claim is pending. Credit risk is mitigated in other segments of their business by progress billing, limiting work for overdue clients, and occasionally requiring deposits.

The Company is subject to a concentration of credit risk with respect to $48,837 (10%) in accounts receivable from the Company's largest customer at June 30, 2010. Concentration of credit risk is mitigated by having concentrations with credit worthy customers.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company does not enter into derivative financing contracts for speculative purposes. The Company is exposed to interest rate risk primarily through its floating interest rate operating line. At June 30, 2010 the operating line was drawn to $70,000 and therefore fluctuations in interest rate would not materially affect the operating results of the Company.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's growth is financed through a combination of cash flows from operations and borrowings under the existing credit facilities. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure the Company has financing sources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company establishes budgets and cash estimates to ensure it has the necessary funds to fulfill its obligations.

The following monetary liabilities are current in nature, and therefore mature in less than one year:

$115,472	Cheques written in excess of bank balance
$ 70,000	Bank operating line
$144,978	Accounts payable and accrued liabilities
$330,450	Total

Long term monetary liabilities of $381,981 consist of advances from related parties with no terms of repayment. Therefore, the effective maturity date is undetermined. The parties have waived their right to payment in the current fiscal year.

Market risk
The Company is exposed to market risk through its reliance on the oil industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business.

Future Accounting Standards

The Canadian Institute of Chartered Accountants (CICA) has issued several new accounting standards which will affect the Company's financial statements in subsequent fiscal years.

a) Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards ("IFRS") is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS. Management recognizes the new accounting policies, and has investigated their impact on the company financial statements. The transition to IFRS on June 30, 2012 is expected to proceed smoothly.

b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidations ("Section 1601"), and Section 1602, Non-Controlling Interests ("Section 1602"). These sections replace the former Section 1581, Business Combinations, and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. Management is currently evaluating the impact of the adoption of these sections.

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 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 June 30, 2010, 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.

Minor weaknesses in HR practices, invoice preparation practices and computer data security have been identified by management. Management is currently reviewing procedures to minimize these 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 – September 17, 2010
Anthony B. Nelson
President

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Stock Exchange Listing

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