COMPANY PROFILE

Estec Systems Corp. is a holding company that owns 100% 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. They are located in Edmonton, Alberta.

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 Original Equipment Manufacturer (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.

CONTENTS

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 and in general economic conditions;
- the extent, duration and strength of any economic change in the markets in which the company operates;
- changes in the Oil & Gas drilling market;
- changes in the turbine 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

Year in Review

Management Discussion & Analysis

2011/2012

Edmonton – 11 October 2012.

A significant amount of ESTec Systems Corp.'s management time was spent completing the integration of Encore Electronics during the year. The focus of our efforts was spent on improving processes and optimizing inventory levels. Considerable effort has also been spent building a backlog of orders to give us some production predictability. By the end of the fiscal year we had developed a backlog that allowed us to forecast production out about three months. This was achieved by adding a salesperson and diversifying our customer base to include custom product assembly services.

Allan R. Nelson Engineering (1997) Inc. signed a major drilling rig design project about mid-year that allowed us to increase our staffing levels. This project represented about 50% of our sales for the third and fourth quarters and will continue into the second quarter of the 2013 fiscal year. During the second quarter we added an additional salesperson that has resulted in new customers.

Overall the focus in both businesses has been on growing the level of activity and trying to build a backlog of work that allows us to forecast our sales and activity further into the future.

On the administrative side we added Mark Bamford to the accounting team and in February he stepped into the CFO position. He adds significant strength to the management team.

Selected Annual Information

These consolidated financial statements of the Company for the year ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") 1, First-time Adoption of International Financial Reporting Standards.

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").

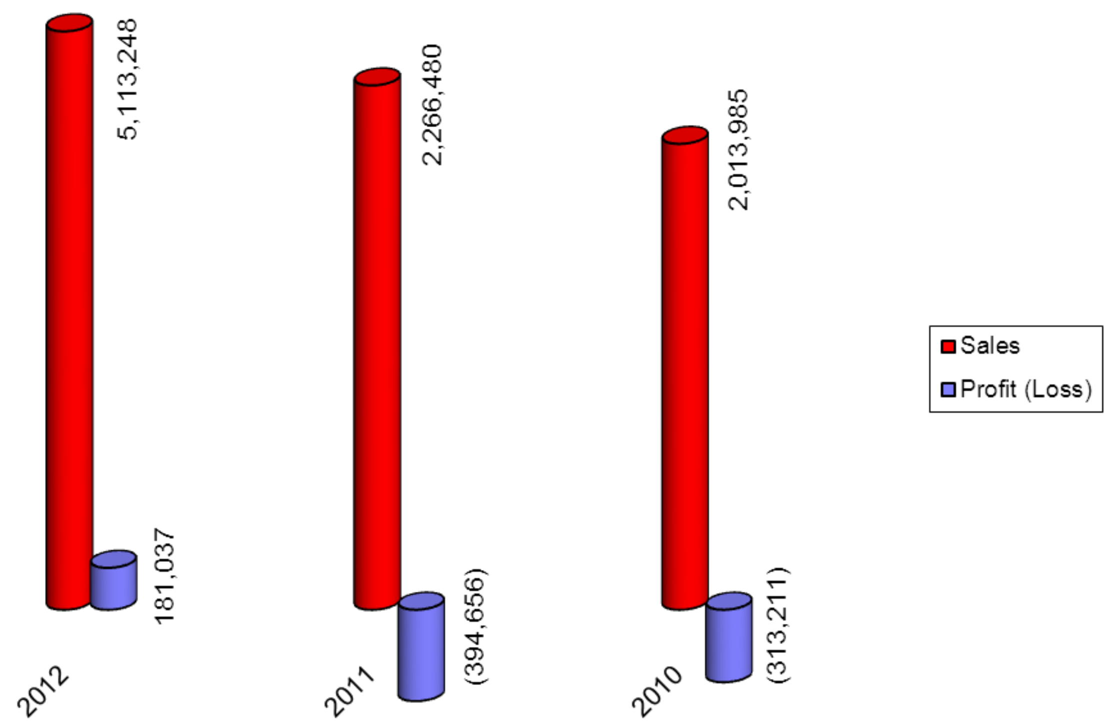
Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods ending on or after June 30, 2012, together with the comparative period data as at and for the year ended June 30, 2011.

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 (1997) 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.

	Year ended June 30, 2012	Year ended June 30, 2011	Year ended June 30, 2010
	$	$	$
Total revenues	5,113,248	2,266,480	2,013,985
Income/(Loss) from operations	257,630	(76,623)	(313,211)
Basic income / (loss) per share	0.02	(0.01)	(0.03)
Diluted income / (loss) per share	0.02	(0.01)	(0.03)
Net income / (loss)	181,037	(394,656)	(313,211)
Comprehensive income / (loss)	197,953	(375,889)	(313,211)
Basic income / (loss) per share	0.02	(0.04)	(0.03)
Diluted income / (loss) per share	0.02	(0.04)	(0.03)
Total assets	2,415,938	2,094,432	756,475
Total long-term financial liabilities	1,781,344	1,897,094	381,981

This fiscal year is the first full year with both Allan R. Nelson Engineering (1997) Inc. and Encore Electronics Inc. While the year started off slow for both companies, by the end of the year both companies were performing well.

ESTec Systems' Sales



Discussion of Operations

	Engineering	Electronics	June 30, 2012 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

The Electronic segment was acquired on May 1, 2011, and only 2 months results were reported as at June 30, 2011 and therefore comparative information has not been presented.

Summary of Quarterly Results

	For the 3 months ended 30 June 2012	For the 3 months ended 31 March 2012	For the 3 months ended 31 Dec. 2011	For the 3 months ended 30 Sept. 2011
	$	$	$	$
Total revenues	1,703,382	1,166,673	1,284,254	958,939
Income / (Loss) from operations	355,687	(117,803)	38,824	(19,078)
Basic and diluted income per share	0.03	(.01)	0	(0)
Net (loss) / income	327,262	(128,070)	18,970	(37,125)
Comprehensive (loss) / income	279,517	(134,539)	65,428	(12,453)
Basic and diluted income per share	0.03	(.01)	0	0

	For the 3 months ended 30 June 2011	For the 3 months ended 31 March 2011	For the 3 months ended 31 Dec. 2010	For the 3 months ended 30 Sept. 2010
	$	$	$	$
Total revenues	884,497	461,745	406,038	514,200
(Loss) / income from operations	40,702	(6,355)	(138,879)	27,909
Basic and diluted income per share	0	(0)	(.02)	0
Net (loss) / income	(214,458)	(69,228)	(138,879)	27,909
Comprehensive (loss) / income	(195,691)	(69,228)	(138,879)	27,909
Basic and diluted (loss) per share	(.02)	(.01)	(.01)	0

The financial statements of the Company for the quarters ended September 30, 2011 and on have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 1, First-time Adoption of International Financial Reporting Standards.

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

The variation in sales is due to the oil & gas sector economic activity. The June 30, 2011 sales are the first quarter (2 months) 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 review 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 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 10

Capital Resources

Allan R. Nelson Engineering (1997) Inc.: The bank revolving demand facility is authorized to a total of $250,000 with interest payable at prime plus 1.50%. At March 31, 2012 $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.

Encore: The bank revolving demand facility is authorized to a total of $500,000 with interest payable at prime less .5%. At March 31, 2012 $250,000 was outstanding on this credit facility. This line of credit is secured by a letter of credit provided by Economic Development Canada ("EDC").

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:

	June 30, 2012	June 30, 2011
	($)	($)
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	322,766	338,516
	489,677	505,427
Company controlled by certain directors:		
Rent expense	158,305	101,216

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.

Fourth Quarter

The fourth quarter had no significant events. We continued the program of growing the business through additional sales on the engineering side, and trying to build a production backlog on the electronics manufacturing side.

Off Balance Sheet Transactions

Top drive manufacture: 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.

This agreement 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.

Changes in Accounting Policies including Initial Adoption

IFRS 1 – First-time adoption of international financial reporting standards
The Company's financial statements for the year ended June 30, 2012 are the first annual financial statements that the Company has prepared in accordance with International Financial Reporting Standards ("IFRS").

Accordingly, the Company has prepared financial statements which comply with IFRS for periods ending on or after June 30, 2012, together with the comparative period data as at and for the year ended June 30, 2011. This note explains the principal adjustments made by the Company in restating its previously published Canadian GAAP financial statements as at and for the year ended June 30, 2011.

Elected Exemptions from full retrospective application
In preparing these financial statements in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company has applied the following optional exemptions for full retrospective applications of IFRS:

> 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 IAS 21 The Effects of Changes in Foreign Exchange Rates and has eliminated cumulative translation differences that existed at the date of transition to IFRS. If a foreign operation is disposed of subsequent to adoption the translation differences that arose before July1, 2010 will not affect the gain or loss on disposal.

Mandatory exemptions to retrospective application
In preparing these financial statements in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company has applied the following mandatory exemptions for full retrospective applications of IFRS:

> Estimates
>
> In accordance with IFRS 1, the Company's estimates in accordance with IFRS at the date of transition are consistent with those made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

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 9 Financial Instruments: Classification and Measurement

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 2011. 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.

Financial Instruments

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

	2012		2011	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Loans and Receivables				
Trade and other receivables	1,236,128	1,231,615	746,883	746,883
Financial Liabilities				
Bank indebtedness	155,340	153,340	143,154	143,154
Trade and other payables	480,803	450,260	313,915	313,912
Advances from related parties	489,677	489,677	505,427	505,427
Callable debt	1,391,667	1,391,667	1,491,667	1,491,667

Fair value

The fair value of the amounts due from related parties 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.

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 $167,511 in trade and other receivables from its largest customer as at June 30, 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.

At June 30, 2012 the Company's exposure to foreign currency risk are as follows:

	June 30, 2012	June 30, 2011
Reporting Rate ($US - $CAD)	**1.018**	0.964
	$US	
Cash and cash equivalents	**84,712**	70,503
Trade and other receivables	**589,696**	286,230
Trade and other payables	**209,662**	72,132

For each % change in rate, based on the monetary assets and liabilities held at year end, the Company's net earnings would be impacted by approximately $4,732 (2011 - $2,744).

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 June 30, 2012. A change of 0.25% in the Canadian prime rate would result 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	$ 155,340	$ 480,801	$ 100,000	$ 736,141
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.

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, 2012, 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 is based on profit. The concern is that earnings may be inflated in one year at the expense of another year. This has been recognized as a potential weakness and management is investigating additional controls to mitigate the weakness.

During the year all the non-clerical accounting functions were moved to head-office.

Management has expended a large amount of resources allocated to inventory improvement at Encore. It is not possible to properly allocate inventory costs to cost of sales. Over the next year we expect to continue to work on this.

Minor weaknesses in HR practices, invoice preparation practices and computer data security had 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.

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.

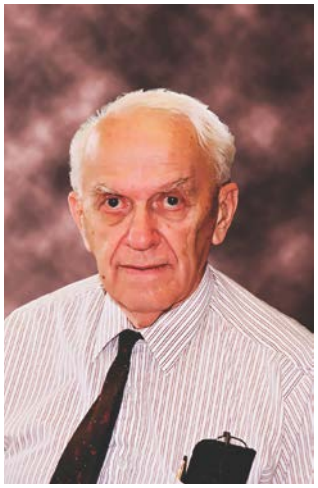
On Behalf of the Board of Directors – October 11, 2012
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

Anthony B. Nelson
Director
President and Chief Executive Officer

H. Margaret Nelson
Director



Allan R. Nelson
Director

David E. Wright
Director

Barbara E. Fraser
Director

Mark Bamford, B. Comm., CMA, CRM
Chief Financial Officer

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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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