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.

ESTEC SYSTEMS

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 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.

Third quarter in review

Management Discussion & Analysis

2012/2013

Edmonton – 27 May 2013.

The results for the third quarter were mixed with the Allan R. Nelson Engineering (1997) Inc. (ARN) sales being up and the Encore Electronics (Encore) sales being down.

Although the ARN sales are up, it is consuming more resources than the corresponding revenue throughout the final stages of a large contract that has been ongoing for the past year. At the conclusion of this project, those resources will again be available to direct toward other revenue generating undertakings.

Encore showed a decrease in sales through the third quarter, mainly as a result of a single large order that has since been completed. We expect sales at Encore to continue steadily through the next quarter. Since the acquisition, management continues to focus on inventory reporting, controls and costing with a view to improving financial management and directing manufacturing and sales toward more current and profitable product lines.

Selected Annual Information

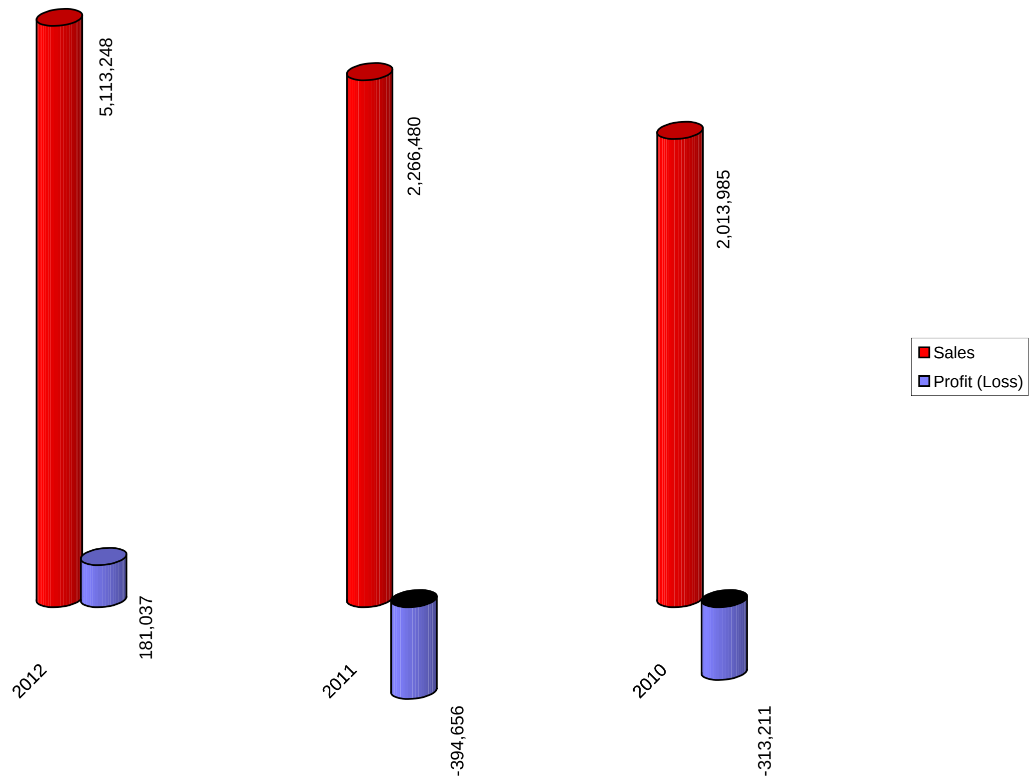
The Company has prepared financial statements that comply with IFRS applicable for periods ending on or after June 30, 2012, together with the comparative period data as at and for the year ended June 30, 2011.

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. (ARN), is the Canadian dollar. The functional currency of the Company's subsidiary, Encore Electronics Inc. (Encore), 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 are 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 (loss) / income per share	.02	(.01)	(.03)
Diluted (loss) / income per share	.02	(.01)	(.03)
Net income / (loss)	181,037	(394,656)	(313,211)
Comprehensive (loss) / income	197,953	(375,889)	(313,211)
Basic (loss) / income per share	.02	(.04)	(.03)
Diluted (loss) / income per share	.02	(.04)	(.03)
Total Assets	2,415,938	2,094,432	756,475
Total long-term financial liabilities	1,781,344	1,897,094	381,981

The acquisition of Encore represents a significant portion of the increase in sales for the 2012 fiscal year as compared to 2011 and 2010 fiscal years. 2012 saw sales increase in the engineering division with a return to profitability. However these gains were partially offset by the costs of integrating Encore into our operations. Staff turnover in 2011 and continued slowing of economic activity resulted in lower sales for the engineering services in 2011.

ESTec Systems' Sales



Discussion of Operations

March 31st, 2013

	Engineering	Electronics	Total ($)
Revenue	1,801,855	2,339,688	4,141,543
Direct expenses	(720,587)	(871,237)	(1,591,824)
Expenses	(1,043,420)	(1,161,417)	(2,204,837)
Amortization	(22,114)	(14,923)	(37,037)
Loss on disposal of property and equipment	(4,810)	(240)	(5,050)
Income (loss) from operations	10,924	291,871	302,795
Other income (expenses)	449	-	449
Income (loss) before income taxes	11,373	291,871	303,244
Income tax expense	-	(1,872)	(1,872)
Net income (loss)	11,373	289,999	301,372
Identifiable assets	713,334	1,700,874	2,414,208

Sales are up from last year, reflecting some economic recovery and a couple of significant projects that ended during the second quarter. Our wage cost is down significantly from this quarter last year, partially reflecting better cost allocation to direct expenses. On an overall basis repairs and maintenance cost and supplies are down from last year; however this is a timing difference and we expect expenses to be only a bit lower than last year. Insurance costs are up, partly reflecting the higher business levels over last year and partially related to a slight increase in the cost of insurance. Supplies and Maintenance are down over last year, reflecting a difference in the incidence of problems requiring maintenance. While training costs are down, it represents a timing difference. We expect by yearend that training costs will be the same or greater than they were last year. Courier & freight are down this quarter over last year; this reflects a difference in the project mix from last year. Dues, Memberships and Business taxes reflect a significant increase in the taxes that we are obligated to pay. Travel costs are up significantly over last year, also reflecting a difference in the project mix. Finally, the variance in the consulting fees represents a difference in audit cost accrual through the year as compared to last year. The increase in interest expense year over year is due to a full year of the cost of placing the revolving credit facility for Encore Electronics. This expense will reduce during the fourth quarter as a result of successfully renegotiating the revolving line with our bankers. (see Schedule 1, page 26 of Financial Statements)

Summary of Quarterly Results

	For the 3 months ended 31 March 2013	For the 3 months ended 31 Dec. 2012	For the 3 months ended 30 Sept. 2012	For the 3 months ended 30 June 2012
	$	$	$	$
Total revenues	1,406,209	1,352,841	1,382,493	1,703,382
Income / (loss) from operations	89,575	(26,051)	239,271	248,028
Basic and diluted income per share	.01	0	0.02	0.03
Net (loss) / income	70,547	29,153	201,672	327,262
Comprehensive (loss) / income	78,002	31,917	196,332	279,517
Basic and diluted income per share	.01	0	.02	.03

	For the 3 months ended 31 March 2012	For the 3 months ended 31 Dec. 2011	For the 3 months ended 30 Sept. 2011	For the 3 months ended 30 June 2011
	$	$	$	$
Total revenues	1,166,673	1,284,254	958,939	461,745
Income / (loss) from operations	(58,559)	89,008	(20,847)	(6,355)
Basic and diluted income per share	(.01)	0	(0)	(0)
Net (loss) / income	(128,070)	18,970	(37,125)	(69,228)
Comprehensive (loss) / income	(134,539)	65,428	(12,453)	(69,228)
Basic and diluted income per share	(.01)	0	(0)	(.01)

The variation in sales is partially due to economic activity and partially due to an improved sales and marketing effort. 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 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 Allan R. Nelson Engineering (1997) Inc. 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 companies have 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 was negotiated to purchase Encore Electronics Inc. Debt repayment is scheduled over 15 years and is being repaid from the cash flow of Encore Electronics Inc. We would like to repay the debt faster than the agreed amortization schedule.

See also liquidity risk on page 9.

Capital Resources

ARN: The bank revolving demand facility is authorized to a total of $250,000 with interest payable at prime plus 1.50%. At March 31, 2013 $170,000 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 0.5%. At March 31, 2013 $nil 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:

	March 31, 2013	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	299,516	322,766
	466,427	489,677
Company controlled by certain directors:		
Rent expense	120,330	158,305

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.

Third Quarter

The second quarter saw ARN enter the final phase of a large project. Towards the end of the project we encountered a number of issues that significantly increased our cost for the project, however the project remains profitable. Some of these issues continued to impact our productivity through the third quarter. We continued the program of growing the business through additional sales on the engineering side, and trying to increase the size of the production backlog on the electronics manufacturing side.

Equity Transactions

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

During the quarter 325,000 options expired, leaving us with 235,000 options which will expire in July of 2014.

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.

<u>IFRS 9 Financial Instruments: Classification and Measurement</u>

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, however the IASB has deferred the effective date to January 2015. 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: <u>IFRS 10 Consolidated Financial Statements</u>, <u>IFRS 11 Joint Arrangements</u>, <u>IFRS 12 Disclosure of Interests in Other Entities</u>, <u>IAS 27 Separate Financial Statements</u>, <u>IFRS 13 Fair Value Measurement</u>, and amended <u>IAS 28 Investments in Associates and Joint Ventures</u>. 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 financial instruments consist of cash, trade and other receivables, bank indebtedness, trade and other payables, callable debt, and advances from related parties.

	March 2013		June 30, 2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Loans and Receivables				
Cash	**141,744**	**141,744**	-	-
Trade and other receivables	**1,090,650**	**1,090,650**	1,236,128	1,231,615
Financial Liabilities				
Bank indebtedness	**-**	**-**	155,340	155,340
Trade and other payables	**428,836**	**428,836**	480,804	480,804
Callable debt	**1,316,667**	**1,316,667**	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 cash (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 20% in trade and other receivables from its largest customer as at March 31, 2013.

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 March 31st, 2013 the Company's exposure to foreign currency risk are as follows:

	March 31 , 2013	June 30, 2012
Reporting Rate ($US - $CAD)	**1.016**	1.018
Cash and cash equivalents	**317,499**	84,712
Trade and other receivables	**362,854**	589,696
Trade and other payables	**172,573**	239,662

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 $8,666 (June 30, 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 March 31st, 2013. A change of .25% in the Canadian prime rate would result an increase or decrease in the interest expense by approximately $3,290 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	$ -	$ 428,836	$ 25,000	$ 453,836
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 March 31st, 2013, 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.

Management continues to expend resources upgrading the inventory and cost of goods sold reporting at Encore.

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. HR record keeping processes at Encore have been improved; however it will be some time before proper records are 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.

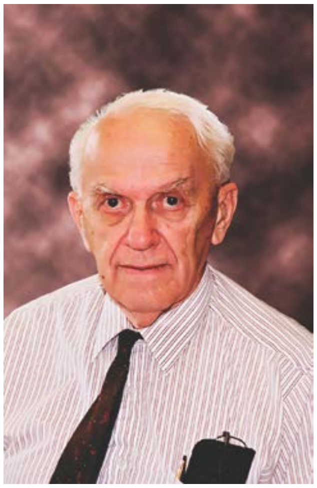
On Behalf of the Board of Directors – May 27, 2013
Anthony B. Nelson
President

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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