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

2013/2014

Edmonton – 26 May 2014.

The third quarter covering the first three calendar months of 2014 saw significant improvement in the performance of the company. While the engineering business continues to underperform, the month by month performance has been improving. More project work is coming in, improving the bottom line significantly. If we can maintain the improvement in sales the engineering business will have a profitable fourth quarter.

In the electronics business, while sales are starting to grow again, the rate is slow. The profitability has returned to normal levels as the product mix returns to the more profitable products in our product line. With the gradual improvement in the US economy we expect continued slow growth in sales.

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 and on.

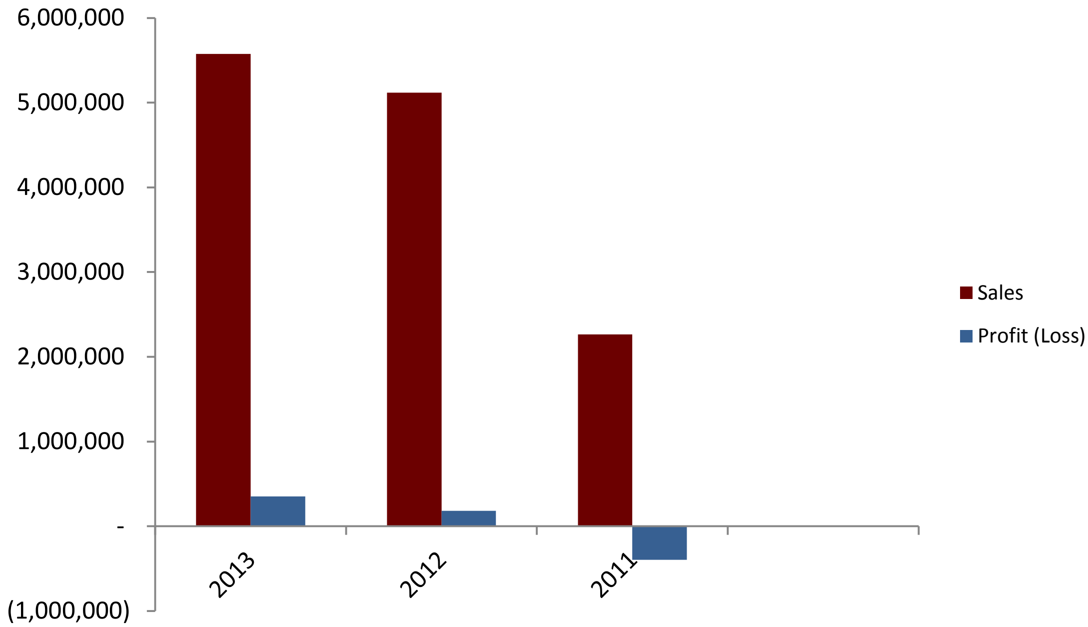
The consolidated financial statements have been prepared on a historical cost basis. The functional and presentation currency of the Company and its subsidiary, Allan R. Nelson Engineering (1997) Inc. (ARN), is the Canadian dollar. The functional currency of the Company's subsidiary, Encore Electronics 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, 2013	Year ended June 30, 2012	Year ended June 30, 2011
Total Revenues	5,576,486	5,116,088	2,266,480
Income/(Loss) from operations	324,566	260,470	(76,623)
Basic (loss) / income per share	.03	.02	(.01)
Diluted (loss) / income per share	.03	.02	(.01)
Net income / (loss)	352,414	181,037	(394,656)
Comprehensive (loss) / income	374,557	197,953	(375,889)
Basic (loss) / income per share	.03	.02	(.04)
Diluted (loss) / income per share	.03	.02	(.04)
Total Assets	2,838,026	2,515,123	2,094,432
Total long-term financial liabilities	1,657,185	1,781,344	1,897,094

Encore was the bright spot in the 2013 fiscal year. Sales continued to grow and increasing stability allowed better resource planning leading to increased profits at Encore. Engineering sales in 2013 were impacted by problems with a major project followed by a slowing of the market for machinery design services.

The acquisition of Encore represents a significant portion of the increase in sales for the 2012 fiscal year as compared to 2011 fiscal year. 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.

ESTec Systems' Sales



Discussion of Operations

March 31, 2014

	Engineering	Electronics	Total
Revenue	1,540,714	2,486,470	4,027,184
Direct expenses	(545,736)	(1,390,156)	(1,935,892)
Expenses	(1,098,288)	(1,014,552)	(2,112,840)
Amortization	(11,237)	(12,927)	(24,164)
Interest expense	(42,968)	-	(42,968)
Income (loss) from operations	(157,515)	68,835	(88,680)
Other income (expenses)	58,238	-	58,238
Income (loss) before income taxes	(99,277)	68,835	(30,442)
Income tax expense	-	(18,877)	(18,877)
Net income (loss)	(99,277)	49,958	(49,319)
Identifiable assets	713,377	1,970,017	2,683,394
Identifiable liabilities	1,127,250	1,359,556	2,486,806

Discussion of Operations *(continued)*

June 30, 2013

	Engineering	Electronics	Total
	$	$	($)
Revenue	2,397,536	3,178,949	5,576,485
Direct expenses	(922,493)	(1,231,660)	(2,154,153)
Expenses	(1,474,510)	(1,458,652)	(2,933,162)
Amortization	(14,450)	(19,982)	(34,432)
Valuation allowance for intangible assets	(15,653)	-	(15,653)
Interest expense	(75,781)	(33,147)	(108,928)
Loss on disposal of property and equipment	(5,350)	(242)	(5,592)
Income (loss) from operations	(110,701)	435,266	324,565
Other income (expenses)	65,213	(24,105)	41,108
Income (loss) before income taxes	(45,488)	411,161	365,673
Income taxes	-	(13,259)	(13,259)
Net income (loss)	(45,488)	397,902	352,414
Identifiable assets	875,598	1,962,428	2,838,026
Identifiable liabilities	1,624,971	999,995	2,624,966

Engineering sales are down from last year, reflecting a slowing of the rig design market. Electronics sales are up from last year reflecting a better sales management program and a gradual improvement in the US economy.

Change in employee costs are a reflection of changes in the way costs are allocated to Direct Expenses as well as a reduced productivity in the engineering business. Lease rentals are up reflecting a change in the market rates for space. Consulting and professional fees are related to the nature of the work performed during the period.

Office Supplies and maintenance are up significantly because of the change in product and project mix during the period. Increased insurance costs reflect changes in the insurance market. Repairs and maintenance costs are up mainly due to IT repairs. Advertising is up to reflect the increased economic activity that we feel we should be able to turn into sales. Travel is up reflecting the requirements of the projects active in this period. Telephone and Fax charges are related to the nature of the projects active during the period.

Interest and bank charges are down significantly reflecting a change in the structure of our bank financing. Training, public company compliance and dues, memberships and taxes reflect timing differences. Bad Debts reflect a recovery on an account written off last year.

Summary of Quarterly Results

	For the 3 months ended 31 March 2014	For the 3 months ended 31 Dec. 2013	For the 3 months ended 30 Sept. 2013	For the 3 months ended 30 June 2013
	$	$	$	$
Total revenues	1,418,900	1,330,547	1,277,737	1,434,943
Income / (loss) from operations	59,889	(78,286)	(70,283)	21,770
Basic and diluted income per share	.01	(.01)	(0.1)	0.0
Net (loss) / income	105,695	(43,499)	(111,515)	51,042
Comprehensive (loss) / income	130,063	(27,186)	(119,492)	68,306
Basic and diluted income per share	.01	0.0	(0.1)	.01

	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	0.0	.02	.03

The variation in sales is partially due to economic activity and partially due to an improved sales and marketing effort. The September and December quarters had been impacted by a pull-back in the drilling rig design market, and the December quarter by a reorganization at a major client for the electronics manufacturing. This quarter saw the electronics business return to normal profitability and while the engineering business started the quarter down it began to recover as the quarter progressed.

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 (see liquidity risk on page 10).

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 has been negotiated to cover the cash requirements to purchase Encore Electronics Inc. Debt repayment is scheduled over 15 years to be repaid from the operating profits of Encore Electronics Inc.

Management is currently reviewing an opportunity to take advantage of rate differences between different financing options. It may be possible to reduce the short term cash requirements for funding the repayment. This is unlikely to have a material impact before our yearend at the end of June.

Capital Resources

ARN and ESTec: The bank revolving demand facility #1 is authorized to a total of $275,000 CAD with interest payable at prime plus 1.50%. At March 31, 2014 $145,000 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 credit facility.

During this quarter the bank increased the authorized line of credit from $250,000 to $275,000.

Encore: The bank revolving demand facility #2 is authorized to a total of $300,000 USD with interest payable at prime plus 2.60%. At March 31, 2014 $nil was outstanding on this credit facility. A general security agreement and limited guarantees from directors and related parties in the amounts of $300,000 have been pledged as collateral for the credit facility.

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:

	Mar. 31, 2014	June 30, 2013
	($)	($)
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	298,607	298,607
	465,518	465,518
Amounts within trade accounts payable:		
Due to directors	8,626	8,363
Due to corporations controlled by certain directors	54,591	47,250
Company controlled by certain directors:		
Rent expense (to a company controlled by certain directors	126,246	161,447
Compensation paid to Executives of the Company	307,770	573,338
Compensation paid to independent directors of the Company	3,000	4,000

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

While the third quarter had no significant events, the engineering business started to recover from a slowdown in activity. A major rig design project finally started after many months of delays. The electronics business' sales started to recover from a reorganization at a major customer.

Equity Transactions

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

During the quarter no options expired. The remaining 235,000 options will expire in July of 2014.

Changes in Accounting Policy

The Company's financial statements for the quarter ended 31 March 2014 are prepared in accordance with International Financial Reporting Standards ("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.

a) IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instrument and Disclosure

IAS 32 and IFRS 7 were amended to implement new disclosure requirements of the International Accounting Standard Board's ("IASB") publication on *Offsetting Financial Assets and Financial Liabilities*. The amendments to the standard are effective for annual periods beginning on or after January 1, 2013. The Company is in 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.

b) 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.

c) IFRS 13 Fair Value Measurement

IFRS 13 establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures in one comprehensive source. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company intends to adopt IFRS 13 prospectively in its financial statements for its fiscal period beginning on July 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

d) 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, 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 financial instruments consist of cash, trade and other receivables, bank indebtedness, trade and other payables, callable debt, and advances from related parties.

	March 2014		June 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and Receivables				
Cash	377,089	377,089	394,034	394,034
Trade and other receivables	984,615	984,615	1,092,914	1,092,914
Financial Liabilities				
Bank indebtedness	145,000	145,000	195,000	195,000
Trade and other payables	613,145	613,145	613,397	613,397
Advances from related parties	465,518	465,518	465,518	465,518
Callable debt	1,216,667	1,216,667	1,291,667	1,291,667

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.

Financial Instruments *(continued)*

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 28.5% in trade and other receivables from its largest customer as at March 31, 2014.

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 31, 2014 the Company's exposure to foreign currency risk are as follows:

	March 31, 2014	June 30, 2013
Reporting Rate ($US - $CAD)	1.1055	1.052
Cash and cash equivalents	348,574	382,460
Trade and other receivables	398,775	396,917
Trade and other payables	185,372	314,622

For each 1% change in rate, based on the monetary assets and liabilities held at March 31, 2014, the Company's net earnings would be impacted by approximately $5,620 (June 2013 - $4,648).

Financial Instruments *(continued)*

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 31, 2014. A change of 0.25% in the Canadian prime rate would result in an increase or decrease in the interest expense by approximately $3,404 (June 2013 - $3,716) 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
2014	145,000	613,145	25,000	783,145
2015	-	-	100,000	100,000
2016	-	-	100,000	100,000
2017	-	-	100,000	100,000
2018	-	-	100,000	100,000
Thereafter	-	-	791,667	791,667

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, 2014, pursuant to the requirements of Multilateral Instrument 52-109.

Encore does not have documentation regarding when items are received. The accounting system does not properly record the received date. The receipt date is identified based on the date the packing slip is scanned and entered into the accounting records. This could have cut off implications if scanning is delayed. 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.

In Encore, inventory costs do not accurately reflect an allocation of the overhead costs. While it does not have an impact on the overall financial performance of the company, it underestimates the cost associated with inventory items produced by the company. While it is recognized as a weakness, management has no plans to change in the short term.

Dual signatures are printed on cheques issued by the system. 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 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 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.

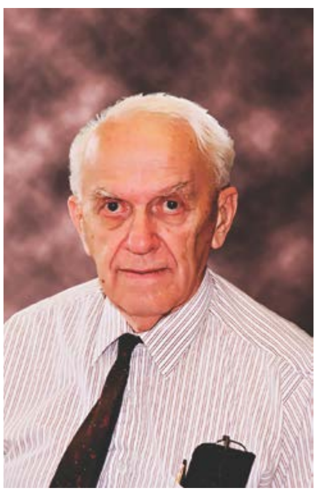
On Behalf of the Board of Directors – 26 May 2014
Anthony B. Nelson
President

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
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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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