

Management Discussion & Analysis

2006/2007

Edmonton – 21 September 2007.

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.

Summary of activities

The 2007 fiscal year has seen a significant drop in revenues. During this year the Oil & Gas Drilling sector has suffered a significant drop in activity. Drilling activity in the 2007 fiscal year was down at approximately 60% of the 2006 drilling level. As we have a significant exposure to this market, we have suffered approximately a 20% drop in revenue. While we cannot predict if this drop in activity will continue into the 2008 fiscal year, there are some encouraging signs of improvement.

As of the year-end the final windup of ESTec Oilfield has been completed.

In October 2005, Farr Canada, a division of McCoy Inc (TSX:MCB) licensed the designs for the top drive we had been manufacturing in the Oilfield subsidiary. At this time Farr Canada has hired a dedicated product manager who is marketing the top drive and has established a manufacturing facility. Farr is currently producing their first units. In April the contract was amended to extend the term for an additional two years, and Farr was allowed additional time to complete their initial setup of the manufacturing facility. The delay had been caused by the shortage of construction personnel and delays in getting the manufacturing facility set up.

During the last year we have experienced a significant staff turnover. The hot labor market in Alberta makes it challenging for companies to retain employees. This has been compounded by a slowdown in the demand for our consulting services. During the year we have significantly increased wages to try to retain our employees and to recruit new talented engineers. During this year, our engineering division has seen deterioration in the sales/salary ratio to 1.70, down from 1.87 last year. Management continues to monitor the ratio and still considers it to be lower than desired.

The main challenge facing management over the next year will be recruiting and retaining staff. A second challenge will be integrating new younger employees into the company and bringing them up to speed.

Management continues to look at a number of new projects. Several projects look attractive, but would require us to partner with or acquire another company to ensure success. No commitments will be made unless the proper conditions for success are in place.

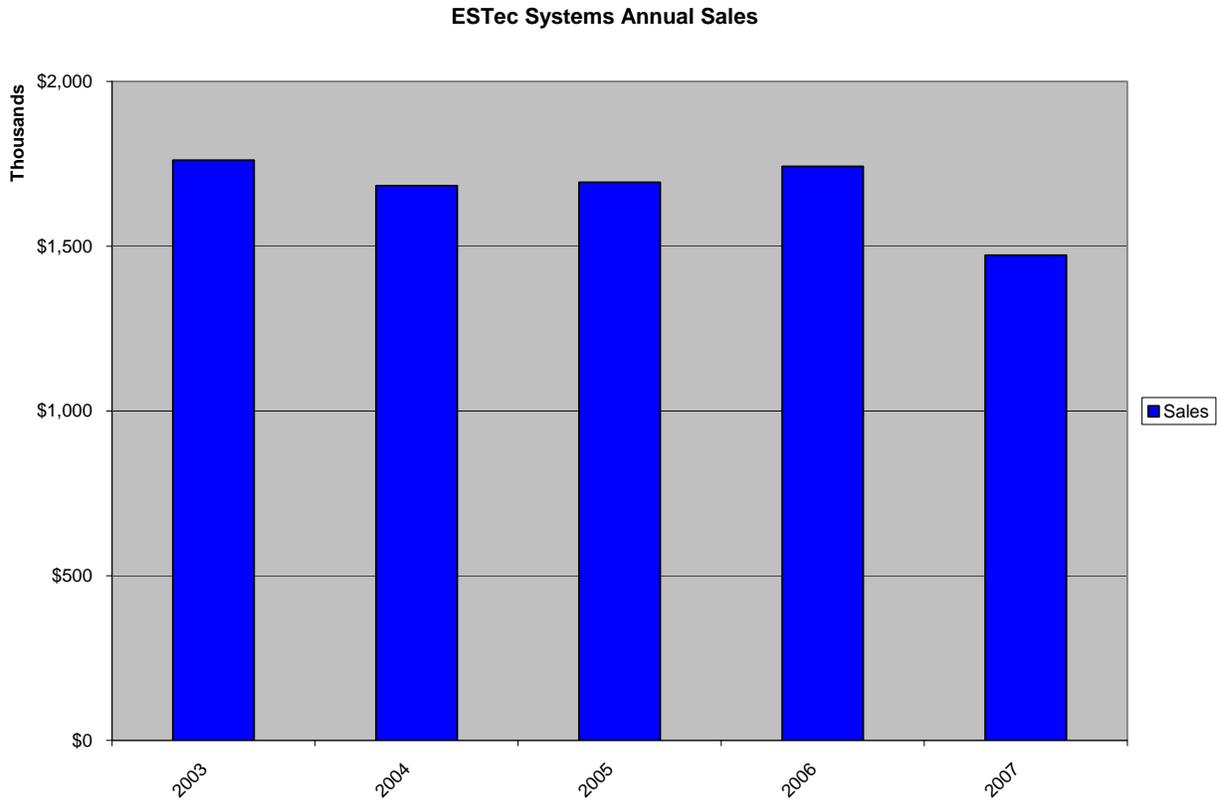
Selected Annual Information

	Year ended June 30, 2007	Year ended June 30, 2006	Year ended June 30, 2005	Year ended June 30, 2004
Total Revenues	1,481,851	1,742,538	1,693,730	1,684,287
Income/(loss) before discontinued operations and extraordinary items	(28,047)	110,433	97,335	236,948
Basic income/(loss) per share	0	.01	.01	.02
Diluted income/(loss) per share	0	.01	.01	.02
Net income/(loss)	(28,047)	203,284	97,335	(43,147)
Basic income/(loss) per share	(0.01)	.02	.01	0
Diluted income/(loss) per share	(0.01)	.02	.01	0
Total Assets	537,409	726,360	2,181,428	2,209,777
Total long-term financial liabilities	326,907	335,691	1,888,123	1,995,425

The June 2007 year-end shows a substantial drop in revenues. The 2006/2007 winter drilling season saw oil and gas drilling activity fall to about 60% of normal. This had an immediate and significant impact on our engineering revenues. Several large rig design projects have been put on hold until the market picks up and the steady flow of smaller jobs has dropped off considerably. Our backlog of scheduled work is largely gone. Since year-end activities have been picking up and while our first

quarter of the 2007/2008 fiscal year will be better than the fourth quarter, it will not be as good as the first quarter of last year.

Over three of the past four years, revenue from our engineering consulting has risen steadily through the 2006 fiscal year. Profitability of the engineering consulting has risen slightly over those years. The Assets and Liabilities of 2004 through 2005 include the discontinued operations, which forms the majority of the variation from year to year.



Summary of Quarterly Results

	For the 3 months ended 30 June 2007	For the 3 months ended 31 March 2007	For the 3 months ended 31 Dec. 2006	For the 3 months ended 30 Sept. 2006
Total Revenues	273,714	319,663	437,448	451,026
Income/(loss) before discontinued operations and extraordinary items	(74,062)	(30,103)	(3,675)	79,793
Basic and diluted income / (loss) per share	(.01)	0	0	.01
Net income/(loss)	(74,062)	(30,103)	(3,675)	79,793
Basic and diluted income / (loss) per share	(.01)	0	0	.01

	For the 3 months ended 30 June 2006	For the 3 months ended 31 March 2006	For the 3 months ended 31 Dec. 2005	For the 3 months ended 30 Sept. 2005
Total Revenues	330,412	372,806	658,097	381,223
Income/(loss) before discontinued operations and extraordinary items	(32,880)	(476)	145,736	(1,947)
Basic and diluted income / (loss) per share	0	0	.01	0
Net income/(loss)	113,854	(1,548)	99,745	(8,767)
Basic and diluted income / (loss) per share	.01	0	.01	0

The variation in sales is due to the general economic activity. The engineering revenues have been significantly impacted by the slow down in drilling activity during the 2007 fiscal year. December 2005 saw an extraordinary billing as a large project reached completion.

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 had been drawn to \$80,000. As of the end of August this line of credit had been extended to \$95,000. Capital expenditures planned for the coming year are expected to be covered out of cash flow.

Off Balance Sheet Transactions

ESTec Oilfield subsidiary wrap up: During the year, management completed the last hurdles toward winding up the Oilfield subsidiary. As of year-end, we have completed the legal winding up of the company.

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. As of the ESTec year-end Farr has established a facility for manufacturing top drives and has started producing their first units.

It is expected that this license could generate substantial royalties over the next five years. This will allow Nelson to recover the cost of developing the technology and contribute to the profitability of the company.

During the year Allan R. Nelson Engineering (1997) Inc. received a Canadian Patent 2,436,296 for Service Rig with Torque Carrier. On July 17, 2007 they received another Canadian Patent 2,413,825 for a Telescoping Rig with Torque Carrier.

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 2007	For the twelve months ended 30 June 2006
Payment of rent to 262233 Alberta Ltd.	\$ 90,000	\$ 90,000
Due to directors, non-interest bearing, unsecured	\$ 167,996	\$ 168,780
Due to corporations controlled by directors, non-interest bearing, unsecured	\$ 158,911	\$ 199,380
	\$ 326,907	\$ 368,160
Less: current portion of due to related parties	-	32,469
	\$ 326,907	\$ 335,691

The long-term portion of the loans payable to related parties in the amount of \$326,907 (2006 - \$335,691) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year.

Included in trade accounts payable is \$8,808 (2006 - \$10,748) owing to a director.

Equity Transactions

During the year 210,000 options with an exercise price of \$0.30 expired and 65,000 options with an exercise price of \$0.21 expired.

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, pursuant to the requirements of Multilateral Instrument 52-109. Management has concluded that weaknesses exist in

- a) segregation of duties surrounding the recording of cash receipts, deposits and handling of incoming cheques,
- b) lack of documented review of the bank reconciliation, and
- c) allocation of invoice numbers.

While these weaknesses have the potential to result in a material misstatement of financial information, management has determined, and the board agrees, that taking into account the present stage of the company's development, and the best interest of its shareholders, the company does not have sufficient size to warrant hiring additional staff to cover these weaknesses. To mitigate the impact of the weakness and to endure financial reporting, management has concluded that it needs to assign specific control monitoring responsibilities among senior executives to mitigate the weaknesses.

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 10, 2007
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

H. Margaret Nelson, Director, CFO

Allan R. Nelson, Director

Anthony B. Nelson, President, Director

David E. Wright, Director

Barbara E. Fraser, Director

Head Office

2nd Floor, 17510 - 102 Avenue
Edmonton, Alberta
T5S 1K2

Ph. (780) 483 7120

Fax (780) 489 9557

Web <http://www.estec.com>

E-mail investor@estec.com

Solicitors

Ogilvie and Co.

1400 Metropolitan Place

10303 Jasper Avenue

Edmonton, Alberta

T5J 3N6

Ph. (780) 421 1818

Fax (780) 429 4453

Bankers

Toronto Dominion Bank
16317 – 111 Avenue
Edmonton, Alberta
T5M 2S2

Ph. (780) 448 8570

ATB Financial
Calgary Trail at Whitemud
4234 Calgary Trail
Edmonton, Alberta
T6J 6Y8

Ph. (780) 427 4899

Auditors

Kingston Ross Pasnak LLP
2900 Bell Tower
10104 – 103 Avenue
Edmonton, Alberta
T5J 0H8

Ph. (780) 424-3000

Share Transfer Agent

Computershare Investor Services, Inc.
510 Burrard Street
Vancouver, British Columbia
V6C 3B9

Stock Exchange Listing

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