Management Discussion & Analysis

2007/2008

Edmonton – 29 September 2008.

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

During the 2008 fiscal year we suffered significant setbacks. The oil & gas drilling sector functioned at below 40% of capacity for the first half of the year. As a result the design of new drilling rigs which represents a significant part of our business ceased during the first quarter. While it recovered some during the last half of the year, it is only returning to normal levels in the first quarter of the 2009 fiscal year.

The company continues to face challenges recruiting suitable staff. During the year we added additional junior engineers who are gradually coming up to standard and are starting to contribute to revenue. We also recruited an administrative manager who has instituted a sales and marketing campaign that is starting to show results as of yearend. Unfortunately we lost our engineering manager during the first quarter of the new fiscal year and are currently recruiting to replace him.

Management has engaged a mergers and acquisitions consultant to assist us to find a compatible company that we can take over. The goal is to find a company that fits in with the technical skills we have in the company but has a market different from the Oil & Gas drilling sector. During the 2008 fiscal year we investigated a number of potential matches but have not found a company at this time that passed the due diligence checks.

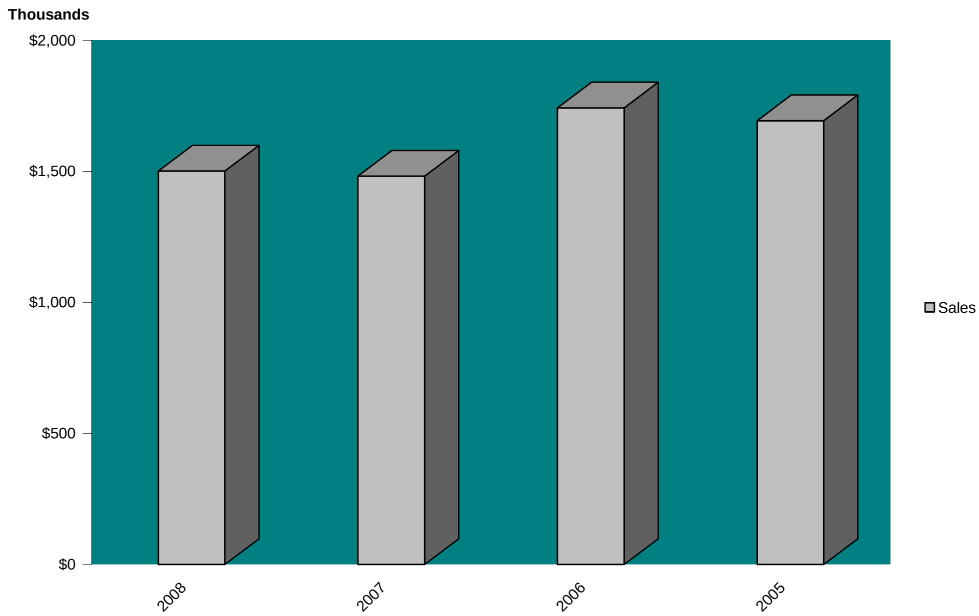
Over the next year we expect to see sales rise significantly with the improvement in the Oil & Gas drilling market. While an economic slowdown could have negative impacts on our sales, we expect the price of Oil and Gas to remain high enough to keep the exploration activity at a relatively high level.

Selected Annual Information

	Year ended June 30, 2008	Year ended June 30, 2007	Year ended June 30, 2006	Year ended June 30, 2005
Total Revenues	1,501,239	1,481,851	1,742,538	1,693,730
Income/(loss) before discontinued operations and extraordinary items	(77,992)	(28,047)	110,433	97,335
Basic income/(loss) per share	(0.01)	(0.003)	.01	.01
Diluted income/(loss) per share	(0.01)	(0.003)	.01	.01
Net income/(loss)	(77,992)	(28,047)	203,284	97,335
Basic income/(loss) per share	(0.01)	(0.003)	.02	.01
Diluted income/(loss) per share	(0.01)	(0.003)	.02	.01
Total Assets	717,839	537,409	726,360	2,181,428
Total long-term financial liabilities	373,968	326,907	335,691	1,888,123

Revenue from our engineering consulting rose steadily through the 2006 fiscal year. The end of the 2007 fiscal year and the beginning of the 2008 fiscal year, the Oil & Gas drilling sector went through a major pull back. The Oil companies radically reduced the drilling activity in an attempt to force the drilling contractors to reduce prices. This had an effect on our business which is dependant to a large extent on the activity in the Oil & Gas drilling sector. The activity in the Oil & Gas drilling sector has significantly increased toward the end of the 2008 fiscal year and the beginning of the 2009 fiscal year has returned to near normal levels. This pullback is a normal part of the business cycle for the Oil & Gas drilling sector. However for us it had a larger impact this cycle than in past cycles because the overall business activity in Alberta remained high. This high level of activity forced us to retain staffing at a higher level than we would normally have done through a downturn, i.e. had we let engineers go we would not have been able to recruit replacements when the market recovered.

ESTec Systems Annual Sales



Summary of Quarterly Results

	For the 3 months ended 30 June 2008	For the 3 months ended 31 March 2008	For the 3 months ended 31 Dec. 2007	For the 3 months ended 30 Sept. 2007
Total Revenues	372,155	410,188	375,809	343,087
Income/(loss) before discontinued operations and extraordinary items	(1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	0	0	0	(.01)
Net income/(loss)	(1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	0	0	0	(.01)

	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

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 2007/2008 fiscal year.

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 $170,000. As of the end of August this line of credit had been reduced to $155,000. Capital expenditures planned for the coming year are expected to be covered out of cash flow. However the company has engaged a mergers and acquisitions consultant to assist us in finding a suitable takeover candidate. Should a suitable candidate be found, the company may go to the market to raise a portion of the cost of the take-over.

Transactions with related parties

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

	For the twelve months ended 30 June 2008	For the twelve months ended 30 June 2007
Payment of rent to 262233 Alberta Ltd.	$ 90,000	$ 90,000
Due to directors, non-interest bearing, unsecured	$ 167,682	$ 167,996
Due to corporations controlled by directors, non-interest bearing, unsecured	$ 206,286	$ 158,911
	$ 373,968	$ 326,907
Less: current portion of due to related parties	-	-
	$ 373,968	$ 326,907

Loans payable to related parties in the amount of $373,968 (2007 - $326,907) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $1,863 (2006 - $8,808) owing to a director.

Equity Transactions

During the year 350,000 stock options were granted with an exercise price of $0.10; no options expired.

Off Balance Sheet Transactions

Top drive manufacture: The Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. provides for royalty payments to Allan R. Nelson Engineering (1997) Inc. in relation to the licensing for the manufacture and sale of the top drives based upon designs prepared by Allan R. Nelson Engineering (1997) Inc.

Farr Canada has hired a dedicated product manager who is marketing the top drive and has established a facility for manufacturing top drives. Top Drive sales typically have a long lead time. We anticipate that sales will start during the coming fiscal year.

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) consistently using contracts for authorization to initiate a job when purchase order numbers are not being used.

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 08, 2008
Anthony B. Nelson
President

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Stock Exchange Listing

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