ESTEC SYSTEMS CORP.

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

ESTEC SYSTEMS CORP.
Index to Consolidated Financial Statements
Year Ended June 30, 2011 and 2010

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KINGSTON·ROSS·PASNAK LLP

October 7, 2011
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ESTec Systems Corp.

We have audited the accompanying consolidated financial statements of ESTec Systems Corp., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of loss and deficit, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ESTec Systems Corp. as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

ESTEC SYSTEMS CORP.
Consolidated Statements of Loss and Deficit
Years Ended June 30, 2011 and 2010

	2011	2010
REVENUE	**$ 2,266,480**	$ 2,013,985
DIRECT EXPENSES	**366,641**	148,525
GROSS PROFIT *(84%; 2010 - 93%)*	**1,899,839**	1,865,460
EXPENSES		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Schedule 1)*	**1,944,246**	2,133,787
AMORTIZATION OF PROPERTY AND EQUIPMENT	**30,804**	29,299
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	**1,412**	15,585
	1,976,462	2,178,671
LOSS FROM OPERATIONS	**(76,623)**	(313,211)
OTHER INCOME (EXPENSES)		
UNREALIZED FOREIGN EXCHANGE GAIN	**752**	-
LOSS ON WRITE OFF OF DEFERRED DEVELOPMENT COSTS *(Note 7)*	**(23,633)**	-
LOSS ON IMPAIRMENT OF GOODWILL *(Note 9)*	**(75,796)**	-
TRANSACTION CLOSING COSTS	**(236,957)**	-
	(335,634)	-
LOSS BEFORE INCOME TAXES	**(412,257)**	(313,211)
INCOME TAXES (RECOVERED)		
Current *(Note 16)*	**751**	-
Future *(Note 16)*	**(18,352)**	-
	(17,601)	-
NET LOSS	**(394,656)**	(313,211)
DEFICIT - BEGINNING OF YEAR	**(1,232,672)**	(919,461)
DEFICIT - END OF YEAR	**$ (1,627,328)**	$ (1,232,672)
BASIC AND DILUTED EARNINGS PER SHARE *(Note 19)*	**$ (0.04)**	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING *(Note 13)*	**10,461,629**	10,461,629

ESTEC SYSTEMS CORP.
Consolidated Statement of Comprehensive Loss
Year Ended June 30, 2011 and 2010

	2011	2010
NET LOSS	**$ (394,656)**	$ (313,211)
CHANGES IN COMPREHENSIVE INCOME		
Gain on translating net assets of self-sustaining foreign operations	**18,767**	-
COMPREHENSIVE LOSS FOR THE YEAR	**$ (375,889)**	$ (313,211)

ESTEC SYSTEMS CORP.
Consolidated Balance Sheets
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT		
Accounts receivable *(Note 4)*	**$ 746,883**	$ 466,914
Work in progress	**3,035**	14,562
Inventory *(Note 5)*	**153,757**	-
Deposits held in trust	**192,860**	-
Prepaid expenses	**53,076**	62,701
	1,149,611	544,177
PROPERTY AND EQUIPMENT *(Note 6)*	**233,938**	112,869
DEFERRED DEVELOPMENT COSTS *(Note 7)*	**-**	23,633
INTANGIBLE ASSETS *(Note 8)*	**151,251**	-
GOODWILL *(Note 9)*	**559,632**	75,796
	$ 2,094,432	$ 756,475
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT		
Bank indebtedness *(Note 10)*	**$ 143,154**	$ 157,580
Accounts payable and accrued liabilities	**313,915**	144,980
Income taxes payable	**723**	-
Customer deposits	**-**	57,000
Callable debt due in one year *(Note 11)*	**100,000**	-
	557,792	359,560
Callable debt due thereafter *(Note 11)*	**1,391,667**	-
	1,949,459	359,560
ADVANCES FROM RELATED PARTIES *(Note 12)*	**505,427**	381,981
	2,454,886	741,541
SHAREHOLDERS' DEFICIENCY		
Share capital *(Note 13)*	**1,232,263**	1,232,263
Contributed surplus *(Note 14)*	**15,844**	15,343
Accumulated other comprehensive income *(Note 15)*	**18,767**	-
Deficit	**(1,627,328)**	(1,232,672)
	(360,454)	14,934
	$ 2,094,432	$ 756,475

ON BEHALF OF THE BOARD

"Barbara E. Fraser" *Director*

"Anthony B. Nelson" *Director*

ESTEC SYSTEMS CORP.

Consolidated Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Net loss	**$ (394,656)**	$ (313,211)
Items not affecting cash:		
Amortization of property and equipment	**29,620**	29,299
Loss on disposal of property and equipment	**1,412**	15,585
Loss on write off deferred development costs	**23,633**	-
Stock-based compensation	**502**	2,510
Loss on impairment of goodwill	**75,796**	-
Cumulative foreign exchange	**18,767**	-
	(244,926)	(265,817)
Changes in non-cash working capital *(Note 21)*	**(492,777)**	120,697
Cash flow used by operating activities	**(737,703)**	(145,120)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(152,101)**	(45,907)
Purchase of intangible assets	**(151,251)**	-
Purchase of goodwill	**(559,632)**	-
Cash flow used by investing activities	**(862,984)**	(45,907)
FINANCING ACTIVITIES		
Proceeds from callable debt financing	**1,500,000**	-
Repayment of callable debt	**(8,333)**	-
Advances from related parties	**123,446**	16,981
Cash flow from financing activities	**1,615,113**	16,981
INCREASE (DECREASE) IN CASH FLOW	**14,426**	(174,046)
(BANK INDEBTEDNESS) CASH - BEGINNING OF YEAR	**(157,580)**	16,466
BANK INDEBTEDNESS - END OF YEAR *(Note 10)*	**$ (143,154)**	$ (157,580)
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	**$ -**	$ -
Interest paid	**$ 21,269**	$ 8,767
Income taxes paid	**$ 28**	$ -

1. DESCRIPTION OF BUSINESS

ESTec Systems Corp. (the "Company") owns and operates an engineering consulting firm and an electronics manufacturing company. The principal operating subsidiaries of the Company are Allan R. Nelson Engineering (1997) Inc. and Encore Electronics, Inc.

The Company was incorporated under the Alberta Business Corporations Act and is traded on the TSX Venture Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. As the precise determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of financial statements includes the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of consolidation

These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries, Allan R. Nelson Engineering (1997) Inc. and Encore Electronics, Inc. All intercompany balances have been eliminated.

Revenue recognition

The Company recognizes revenues from consulting and engineering contracts when the related service is provided, in the amount as determined by the contract for services with the customer, and collectibility is reasonably assured. Customer deposits are occasionally received, and are not recognized as income until performance has been achieved.

The Company recognizes revenues from sales of products when title passes to the customer, which generally coincides with the delivery and acceptance of goods and collection is reasonably assured.

Work in progress

Costs recoverable for services provided but not yet billed are shown as work in progress. Cost is measured based on the number of hours allocated to the job multiplied by the hourly payroll rate of the professional and the actual cost of associated disbursements.

Inventory

Inventory is measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory includes all costs to purchase, convert, and bring the inventories to their present location and condition. Cost is determined using specific identification for major equipment and the weighted average cost formula for all other inventory items. Inventory valuation reserves are maintained for inventory that is slow moving or obsolete.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred development costs

Costs related to the development of new products are deferred until commercial production has begun. Upon commencement of commercial production, the related costs of the product are amortized on a straight-line basis over five years.

Indefinite-life intangible assets

Intangible assets consist mainly of costs related to customer lists, ISO manual and intellectual property. These assets are tested for impairment annually or more frequently when events or changes in circumstances indicate that an asset might be impaired. The assets are tested for impairment by comparing their carrying value to estimates of their fair value based on estimates of discounted future cash flows or other valuation methods. When the fair value is determined to be less than carrying value, the resulting impairment is reported in the income statement.

Property and equipment

Property and equipment are stated at cost or deemed cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Equipment	20%
Computer software	30%
Computer hardware	20%
Office equipment	20%
Inspection equipment	20%

The Company regularly reviews its property and equipment to eliminate obsolete items.

Impairment of property and equipment

Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess if the carrying value of the asset over its fair value. No impairment has been recorded in the current fiscal year.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Changes to the balances are recognized in income when they are expected to occur. A valuation allowance is provided to the extent that it is more likely than not that future tax assets may not be realized in the near term.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

The Company has designated its financial assets and liabilities as follows:

Financial statement item	*Classification*	*Measurement*
Cash (bank indebtedness)	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits held in trust	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Customer deposits	Other financial liabilities	Amortized cost
Advances from related parties	Other financial liabilities	Amortized cost

Transaction costs
Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception except for held for trading securities where the costs are expensed immediately.

Comprehensive loss

Comprehensive loss consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale and changes in the fair value of the effective portion of cash flow hedging instruments.

Goodwill

Goodwill represents the excess of the purchase price paid for Encore Electronics, Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc. and Encore Electronics, Inc. Management will also review the valuation in the event of any circumstances which might have impaired the fair value.

Stock based compensation

The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in Note 18. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Earnings and loss per share

Earnings and loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings and loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

Shares provided as security for any share purchase financing agreement are excluded from the calculation for the basic earnings and loss per share. No shares were issued during 2011.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rate and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items have been translated at the rate of exchange in effect at the time of the transaction.

Foreign exchange gains and losses are included in the determination of earnings.

Foreign currency translation

The Company's foreign subsidiary is a self-sustaining foreign operation. Currency translations into Canadian dollars using the current rate method are made as follows:

a) monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date;

b) non-monetary items at rates prevailing when they are acquired;

c) revenues and expenses are translated at the exchange rate in effect on the date the items are recognized in income; and

d) exchange gains and losses are recognized as a separate component of other comprehensive income.

Statements of Cash Flows

The Company is using the indirect method in its presentation of the Statements of Cash Flows.

Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease; all other leases are accounted for as operating leases. At the time the Company enters into a capital lease, an asset is recorded with its related long-term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred.

Employee future benefits

The pension plans are defined contribution (money purchase) plans, funded wholly by contributions. Pension costs relate to current employee services and are charged to operations on a current basis.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment tax credits

The Company annually incurs costs on activities that relate to research and development of new products. The Company plans to apply for scientific research and experimental development ("SRED") income tax credits to assist in cost recovery. If successful, the Company will begin accruing these benefits using the cost reduction approach, when there is reasonable assurance that the credits will be realized.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates. The significant estimates pertain to the physical and economic lives of property and equipment, the calculation of stock compensation expenses, inventory obsolescence, valuation of goodwill and the recoverability of accounts receivable.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in accounting policies

The Company has elected to apply Handbook Section 1582, "Business combinations", prospectively to past business combinations (business combinations that occurred before the date of adoption of this section). As a result, all business combinations previously reported continue to be classified as acquisitions, and certain assets and liabilities have been not been restated in accordance with section 1582.

In the current year, the Company has adopted Handbook Section 1582, “Business combinations”, to the current year acquisition of Encore Electronics, Inc; this has the following consequences.

a) The investment retains the same classification (for example, as an acquisition, a reverse acquisition or as a pooling of interests) as in its previous financial statements.

b) At the date of adoption, the Company has recognized all its assets and liabilities that were acquired or assumed in a business combination. Any resulting change is accounted for by adjusting retained earnings unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill.

c) The Company has excluded from our opening balance sheet any item recognized under previous financial reporting standards that does not qualify for recognition as an asset or liability under accounting standards for private enterprises. Any resulting change is accounted for by adjusting retained earnings, unless the change results from an intangible asset that is reclassified as part of goodwill.

d) If an asset acquired, or liability assumed, in a past business combination was not recognized previously, the Company has recognized and measured the item in on the basis that the standards would require in the balance sheet of the acquiree.

3. ACQUISITION OF SUBSIDIARY

Effective May 1, 2011, ESTec Systems Corp. acquired all the net operating assets of Encore Electronics, Inc., a custom-engineering designs and solutions company serving the international market. The purchase was accounted for by the acquisition method. The results of the operations are included in the accounts from the effective date of acquisition. Details of the acquisition are as follows:

	$US	$CAD
ASSETS		
Cash	**$ 110,000**	**$ 104,104**
Accounts receivable	**174,607**	**172,191**
Inventory	**183,362**	**173,534**
Property and equipment	**128,126**	**121,258**
Intangible assets	**156,850**	**148,443**
Goodwill	**580,351**	**549,244**
Total assets acquired	**1,333,296**	**1,268,774**
LIABILITIES		
Accounts payable and accrued liabilities	**(14,970)**	**(14,168)**
Future income taxes	**(18,326)**	**(17,344)**
Total liabilities acquired	**(33,296)**	**(31,512)**
Cash consideration paid on acquisition	**$ 1,300,000**	**$ 1,237,262**

4. ACCOUNTS RECEIVABLE

	2011	2010
Gross accounts receivable	**$ 761,511**	$ 483,714
Allowance for doubtful accounts	**(4,410)**	(16,800)
Subtotal	**757,101**	466,914
Change in foreign exchange rates	**(10,218)**	-
Net accounts receivable	**$ 746,883**	$ 466,914

As at June 30, 2011 the carrying amount of impaired receivables totalled $4,410 (2010 - $16,800). These accounts receivable are presented net of allowance for doubtful accounts $4,410 (2010 - $16,800).

5. INVENTORY

	2011	2010
Raw materials	**$ 35,464**	$ -
Work in progress	**37,271**	-
Finished goods	**86,714**	-
Subtotal	**159,449**	-
Change in foreign exchange rates	**(5,692)**	-
	$ 153,757	$ -

The amount of inventories recognized as an expense during the period is $288,876 (2010 -$nil). There were no write downs of inventories in the period (2010 - $nil) nor were any writedowns recorded in previous periods reversed back into net earnings. No inventory is pledged as security for liabilities.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	**2011 Net book value**
Equipment	$ 128,126	$ 2,135	**$ 125,991**
Computer software	144,111	99,149	**44,962**
Computer hardware	66,001	31,256	**34,745**
Equipment	55,912	32,190	**23,722**
Office equipment	27,859	19,978	**7,881**
Inspection equipment	7,949	6,814	**1,135**
Change in foreign exchange	(4,574)	(76)	**(4,498)**
	$ 425,384	$ 191,446	**$ 233,938**

Amortization provided for in the current year totalled $30,804; (2010 - $29,299)

	Cost	Accumulated amortization	2010 Net book value
Computer hardware	$ 62,873	$ 23,783	$ 39,090
Computer software	122,493	87,667	34,826
Equipment	55,912	26,261	29,651
Office equipment	26,169	18,331	7,838
Inspection equipment	8,694	7,230	1,464
	$ 276,141	$ 163,272	$ 112,869

7. DEFERRED DEVELOPMENT COSTS

Deferred development costs consisted of work in progress incurred to develop a new top drive designed to conform to the current American Petroleum Institute's standards. The manufacturing and distribution rights for this top drive were licensed to a third party under a 15 year licensing agreement. As commercial production is no longer continuing, the balance was written off in the year.

8. INTANGIBLE ASSETS

	2011	2010
ISO manual	**$ 22,000**	$ -
Intellectual property	**104,850**	-
Customer list	**30,000**	-
	156,850	-
Change in foreign exchange	**(5,599)**	-
	$ 151,251	$ -

9. GOODWILL

	2011	2010
Goodwill, at cost	**$ 133,150**	$ 133,150
Acquisition of Encore Electronics, Inc.	**549,244**	-
Change in foreign exchange rate	**10,388**	-
Accumulated amortization (prior to 2002)	**(57,354)**	(57,354)
Loss on impairment of goodwill	**(75,796)**	-
	$ 559,632	$ 75,796

It was determined that an impairment existed as at June 30, 2011 on the goodwill of Allan R. Nelson (1997) Engineering Inc. due to recurring operating losses; an impairment loss of the full net book value of the goodwill of $75,796 has been recorded as a charge to the statement of comprehensive loss as an other expense. No impairment existed in the value of the Encore Electronics, Inc. goodwill as at June 30, 2011.

10. CASH AND BANK INDEBTEDNESS

Cash and bank indebtedness is comprised of the following:

	2011	2010
Cash in the bank	**$ 118,762**	$ 27,892
Cheques written in excess of bank balance	**(101,916)**	(115,472)
Net cash (deficit)	**16,846**	(87,580)
Bank operating line	**(160,000)**	(70,000)
Bank indebtedness	**$ (143,154)**	$ (157,580)

The bank revolving demand facility is authorized to a total of $250,000 with interest payable at prime plus 1.50%. At June 30, 2011 $160,000 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.

11. CALLABLE DEBT

	2011	2010
Demand loan bearing interest at prime plus 1.50% per annum, repayable in monthly payments of $8,333 plus interest. The loan matures May 3, 2026 and is secured with a general security agreement constituting a first ranking interest in all personal property, guarantees and postponement of claims by related parties and director.	**$ 1,491,667**	$ -
Principal due in one year	**(100,000)**	-
	$ 1,391,667	$ -

Principal repayment terms are approximately:

2012	$ 100,000
2013	100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	991,667
	$ 1,491,667

12. RELATED PARTY TRANSACTIONS AND BALANCES

		2011		2010
Company controlled by certain directors				
Rent expense	$	**101,216**	$	90,000
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		**338,516**		215,070
	$	**505,427**	$	381,981

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.

Included in trade accounts payable is $4,183 (2010 - $1,945) owing to directors.

13. SHARE CAPITAL

Authorized:
200,000,000 Common shares without par value

	2011			2010		
	Number of Shares		**Stated Capital**	Number of Shares		Stated Capital
Balance - end of year	**10,461,629**	**$**	**1,232,363**	10,461,629	$	1,232,363

14. CONTRIBUTED SURPLUS

The Company uses the fair value based method to account for stock based compensation. Fair values are determined using the Black Scholes Model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, is credited to capital stock.

		2011		2010
Opening contributed surplus	$	**15,343**	$	12,833
Fair value of options granted - recorded as compensation expense		**501**		2,510
	$	**15,844**	$	15,343

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2011	2010
Gains on translating net assets of self-sustaining foreign operations, net of tax	**$ 18,767**	$ -

16. INCOME TAXES

As at June 30, 2011, the Company and its subsidiaries have $809,400 in non-capital losses and $873,241 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes, within the limitations prescribed by the Income Tax Act. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

2014	**$ 229,412**
2015	**2,155**
2027	**85**
2028	**40,475**
2029	**79,661**
2030	**216,912**
2031	**240,700**
	$ 809,400

The potential benefit of $202,350 (2010 - $142,175) of these non-capital losses has not been recorded in these consolidated financial statements as there is uncertainty when this benefit will be used. Non-capital losses of $267,408 expired in the year.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of June 30, 2011 are as follows:

	2011	2010
Future income tax assets		
Non-capital losses	**$ 148,261**	$ 142,175
Capital losses	**186,317**	152,817
Property and equipment	**14,380**	-
Cumulative eligible capital	**2,880**	-
Valuation allowance	**(313,224)**	(258,143)
	38,614	36,849
Future income tax liabilities		
Work in progress	**3,646**	3,646
Property and equipment	**-**	11,609
Deferred development costs	**34,968**	5,908
Goodwill	**-**	15,686
	38,614	36,849
Net future tax assets (liabilities)	**$ -**	$ -

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16. INCOME TAXES *(continued)*

The components of income tax expense are as follows:

	2011	2010
Tax expense at the statutory rate of 27.25% (2010 - 28.5%)	**$ (107,462)**	$ (89,265)
Non-capital losses (applied against income) carried forward	**65,379**	61,820
Impairment of goodwill not deductible	**20,655**	-
Change in work in progress	**3,147**	12,307
Amortization claimed in excess of capital cost allowance and cumulative eligible capital deductions	**7,925**	8,063
Non-deductible expenses	**9,999**	2,633
Accounting loss on disposal of capital assets	**385**	4,442
Charitable donations	**(28)**	-
	$ -	$ -

17. PENSION PLAN

	2011	2010
Employer contributions expensed during the current year	**$ 24,234**	$ 27,058
Estimated value of the plan	**123,291**	54,205
Total active members	**10**	10

Pension costs related to current services are charged to operations on current basis and are calculated as a percentage of employees' earnings. The pension plan is a defined contribution plan and is funded wholly by contributions from the employer and employees. The plan inception date was October 1, 2009. The Company's contribution to the plan on behalf of key management employees totalled $8,140.

18. STOCK OPTION PLAN

The Company has a stock option plan that provides for the issuance of stock options to employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. Options granted to Directors vest immediately. Options granted to employees vest over a four year period, with 25% of options vesting on each anniversary of the date the options were granted. Outstanding stock options will expire over a period ending no later than July 24, 2014. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

The Company makes options available to all employees, directors and officers in tiered levels based on salary compensation and performance. As options expire or are exercised, new options are issued.

	Shares	**Weighted Average Exercise Price 2011**	Number	Weighted Average Exercise Price 2010
Beginning of year	**835,000**	**$ 0.10**	600,000	$ 0.10
Granted	**-**	**-**	270,000	0.10
Cancelled or expired	**(275,000)**	**0.10**	(35,000)	0.10
Outstanding at end of year	**560,000**	**$ 0.10**	**835,000**	$ 0.10

At the end of the year there were 560,000 options, with an exercise price of $0.10 and weighted average remaining contractual life of 2.22 years, outstanding.

19. DILUTED LOSS PER SHARE

Options to purchase 560,000 common shares that were outstanding as of June 30, 2011 were not included in the computation of diluted earnings per share, since the effect of these options was anti-dilutive.

20. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, deposits held in trust, customer deposits and advances from related parties.

Fair Value

The Company's carrying value of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of the advances from related parties are less than carrying value, as the amounts are non-interest bearing. As the advances have no terms of repayment, are not marketable, and do not have terms and conditions typical of arm's length transactions, the fair value cannot be calculated with any degree of certainty, therefore, fair value has not been estimated.

The fair value of cash and 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.

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk through trade receivables and work in progress. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

Management believes that credit risk is mitigated in the insurance claim work they perform, due to insurance companies being required to sequester funds when a claim is pending. Credit risk is mitigated in other segments of their business by progress billing, limiting work for overdue clients, and occasionally requiring deposits.

Concentration of credit risk arises from exposure to a single customer or to groups of customers having similar characteristics such as industry or geographic area in which the customers operate. The Company is subject to a concentration of credit risk as 26% of its accounts receivable is owed from one customer at June 30, 2011 (10% at June 30, 2010). Concentration of credit risk is mitigated by having concentrations with credit worthy customers.

(continues)

20. FINANCIAL INSTRUMENTS *(continued)*

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company does not enter into derivative financing contracts for speculative purposes. The Company is exposed to interest rate risk primarily through its floating interest rate operating line.

The Company borrows funds at floating interest rates. The bank indebtedness bears interest at rates of 8% and prime plus 1.5%, respectively. For each expected 0.25% increase in rate in the upcoming year, the Company's net earnings would decrease approximately $2,197. This analysis was prepared assuming the amount of the liabilities outstanding at the end of the year was outstanding the whole year. A 25 basis point increase is used when reporting interest rate risk, which represents management's assessment of the possible changes in interest rate. Based on the amount of the operating line at June 30, 2011, fluctuations in the interest rate would not materially affect the operating results of the Company.

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 cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Based on the monetary assets and liabilities held at year end, a non-exceptional change in the $US - $CAD foreign exchange would not materially impact the Company's net earnings.

(continues)

20. FINANCIAL INSTRUMENTS *(continued)*

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due, or can only do so at excessive cost. The Company's growth is financed through a combination of cash flows from operations and borrowings under the existing credit facilities. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure the Company has financing sources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company establishes budgets and cash estimates to ensure it has the necessary funds to fulfil its obligations.

The following monetary liabilities are current in nature, and therefore mature in less than one year:

$ 101,916	Cheques written in excess of bank balance
$ 100,000	Current portion of callable debt
$ 160,000	Bank operating line
$ 452,758	Advances from related parties
$ 404,882	Accounts payable and accrued liabilities
$1,219,556	Total

Long term monetary liabilities of $1,391,667 consists of the long term portion of callable debt.

Market risk

The Company is exposed to market risk through its reliance on the oil industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business.

The Company is exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids. Commodity prices are affected by many factors including supply, demand and the Canadian to U.S. dollar exchange rate. The Company had no financial hedges or price commodity contracts in place at year end.

21. CHANGES IN NON-CASH WORKING CAPITAL

	2011	2010
Accounts receivable	**$ (279,969)**	$ 45,424
Inventory	**(153,757)**	-
Deposits held in trust	**(192,859)**	-
Prepaid expenses	**9,625**	(2,162)
Work in progress	**11,527**	43,202
Accounts payable and accrued liabilities	**168,933**	866
Customer deposits	**(57,000)**	57,000
Deferred charges	**-**	(23,633)
Income taxes	**723**	-
	$ (492,777)	$ 120,697

22. CAPITAL DISCLOSURES

The Company's objectives in managing capital are:

i. to safeguard its ability to operate as a going concern, and
ii. to maintain a strong financial position, and
iii. to maintain a low cost of debt

Protecting the ability to pay current and future liabilities includes maintaining a prudent base of capital, ensuring adequate liquidity and financial flexibility and satisfying internally determined capital guidelines based on risk management.

Capital is comprised of the Company's share capital, bank indebtedness and callable debt. As at June 30, 2011, the Company's share capital was $1,232,263 (2010 - $1,232,263), bank indebtedness was $160,000 (2010 - $157,580) and callable debt was $1,491,667 (2010 - $nil).

The Company is not subject to any external capital requirements.

23. FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting standards which will affect the Company's financial statements in subsequent fiscal years.

Convergence with International Financial Reporting Standards (IFRS)

The Company prepares its financial statements in accordance with Canadian GAAP as defined by Canada's Accounting Standards Board (AcSB). The AcSB has announced its intention to converge Canadian GAAP with international financial reporting standards (IFRS). Effective January 1, 2011 as a Canadian publicly accountable enterprise, the Company will be required to apply IFRS as the basis for financial reporting for interim and year end financial statements. This change is part of a worldwide shift to IFRS intended to facilitate global capital flows and to bring greater clarity and consistency to financial reporting in the global marketplace.

The Company has completed this conversion process.

Consolidated Financial Statements and Non-controlling Interests

The CICA has issued Handbook Sections 1601, “Consolidated Financial Statements” and 1602, “Non-controlling Interests” which together supercede Section 1600 “Consolidated Financial Statements” and apply prospectively to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The principal changes are those reflecting changes in the new Section 1582 "Business Combinations" and the recognition of non-controlling interest at fair value in the equity section of the balance sheet. The Company has not yet determined the effect, if any, that the adoption of this new standard will have on its financial statements.

Multiple Deliverable Revenue Arrangements

The Emerging Issues Committee issued EIC-175 in December 2009 which addresses how arrangements involving multiple deliverables are measured and allocated to the separate units of accounting based on their selling prices. This accounting pronouncement requires increased qualitative and quantitative disclosures about revenue arrangements, significant judgments made in application and eliminates the residual method of allocating arrangement consideration. EIC-175 should be applied prospectively to revenue arrangements with multiple deliverables entered into or materially modified for fiscal years beginning on or after January 1, 2011 with early adoption permitted. Management is evaluating the effect of adopting this policy.

24. SEGMENTED INFORMATION

The two reportable segments of the Company are as follows:

Allan R. Nelson Engineering (1997) Inc. provides design and forensic engineering services to the oil and gas, mining, manufacturing, transportation and forestry industries.

Encore Electronics, Inc. focuses on manufacturing electronic instrumentation. This division has one major customer whose sales represents 48% of the division's total sales and 11% of the Company's sales.

There are no inter-segment sales. All operations are located in Canada and the United States of America.

	Electronics	Engineering	**2011**
Revenue	$ 422,616	$ 1,843,864	**$ 2,266,480**
Direct costs	(304,618)	(62,023)	**(366,641)**
Expenses	(93,249)	(1,831,141)	**(1,924,390)**
Interest expense	(347)	(20,920)	**(21,267)**
Amortization	(877)	(29,928)	**(30,805)**
Loss from operations	23,525	(100,148)	**(76,623)**
Other income (expenses)	(256,673)	(78,961)	**(335,634)**
Loss before income taxes	(233,148)	(179,109)	**(412,257)**
Income taxes (recovered)	(17,601)	-	**(17,601)**
Net loss	$ (215,548)	$ (179,109)	**$ (394,657)**
Identifiable assets	$ 1,522,991	$ 571,441	**$ 2,094,432**

ESTEC SYSTEMS CORP.

Consolidated Schedules of Selling, General and Administrative Expenses ***(Schedule 1)***

Years Ended June 30, 2011 and 2010

	2011	2010
Salaries and benefits	**$ 1,463,024**	$ 1,539,640
Professional fees	**86,038**	107,273
Rent *(Note 12)*	**94,486**	90,000
Advertising and promotion	**56,494**	58,330
Insurance	**48,226**	52,617
Repairs and maintenance	**43,465**	61,198
Supplies and maintenance	**35,833**	32,774
Travel	**33,339**	34,755
Public company compliance	**24,380**	11,895
Technology and telecommunication	**23,062**	20,996
Bank charges and interest	**21,269**	8,767
Training	**9,162**	16,596
Dues, memberships and business taxes	**7,516**	6,183
Courier and freight	**3,281**	1,637
Business tax	**2,677**	-
Stock based compensation *(Note 18)*	**502**	2,510
Bad debts (recovery)	**(8,508)**	88,616
	$ 1,944,246	$ 2,133,787