Management Discussion & Analysis

2009/2010

Edmonton – 28 May 2010.

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.

The Business

Estec Systems Corp. is a holding company that owns Allan R. Nelson Engineering (1997) Inc. Allan R. Nelson provides design engineering & forensic engineering services to the oil and gas, mining, manufacturing, transportation and forestry industries. The largest part of Allan R. Nelson’s business is design of masts and drilling structures to API 4F.

Summary of activities

January was a distinct improvement over December, returning to a slightly positive net income. We were surprised in February by the sudden resignation of our engineering manager. The resulting disruption of work schedules resulted in a significant loss in February and a slight loss in March. At the time of writing we have hired a new engineering manager. While we believe there will be additional problems as he settles into the job we anticipate the quarter ending in June to be slightly positive, hopefully bringing this most challenging year to an end with a slight profit.

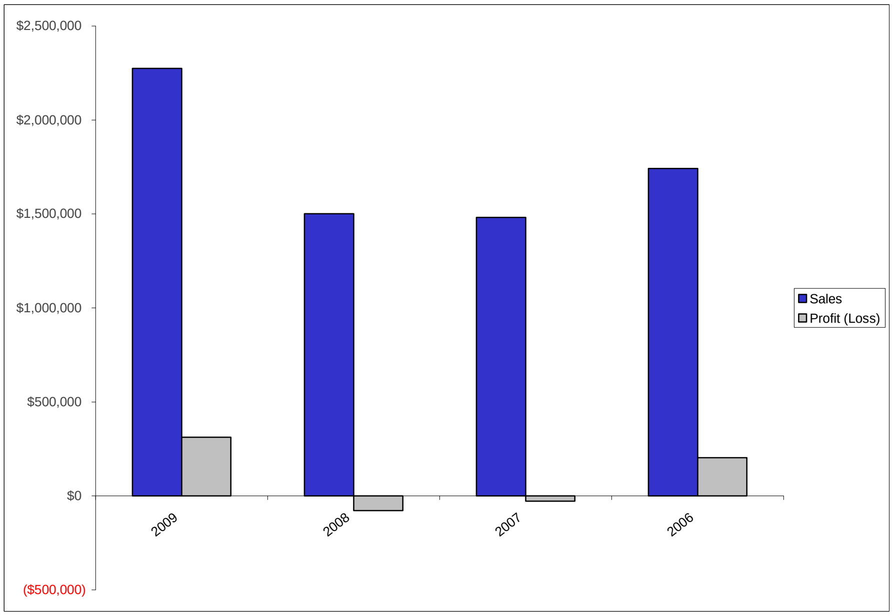
Expenses in many categories are down over this period last year. On average we have had more staff than last year resulting in higher salaries, although at the date of this report we are back to the same level of staffing as last year. Outside professional fees are up due to changes in accounting procedures. Advertising and promotion is down significantly due to the lower recruiting advertising this year. Repairs and maintenance reflects the current cycle of hardware replacements. Bank and interest charges are down because of a significant drop in our use of our line of credit.

On the mergers and acquisitions front we have identified two suitable takeover candidates and are continuing to perform due diligence investigations to assure ourselves that the correct company is selected. One candidate is in the US and the other is in Canada.

Selected Annual Information

	Year ended June 30, 2009	**Year ended June 30, 2008**	**Year ended June 30, 2007**	**Year ended June 30, 2006**
Total Revenues	2,274,494	1,501,239	1,481,851	1,742,538
Income/(loss) before discontinued operations and extraordinary items	312,330	(77,992)	(28,047)	110,433
Basic income/(loss) per share	.03	(0.01)	(0.003)	.01
Diluted income/(loss) per share	.03	(0.01)	(0.003)	.01
Net income/(loss)	312,330	(77,992)	(28,047)	203,284
Basic income/(loss) per share	.03	(0.01)	(0.003)	.02
Diluted income/(loss) per share	.03	(0.01)	(0.003)	.02
Total Assets	834,749	717,839	537,409	726,360
Total long-term financial liabilities	365,000	373,968	326,907	335,691

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. While activity in the Oil & Gas drilling sector has not significantly increased, toward the end of the 2008 fiscal year and the beginning of the 2009 fiscal year, investment in new drilling rig designs has returned to near normal levels. This pullback is a normal part of the business cycle for the Oil & Gas drilling sector. Sales in the 2009 fiscal year have been significantly improved by changes we made in the sales/marketing department.



Summary of Quarterly Results

	For the 3 months ended 31 March 2010	For the 3 months ended 31 Dec. 2009	For the 3 months ended 30 Sept. 2009	For the 3 months ended 30 June 2009
Total Revenues	$ 448,210	$ 496,125	$ 625,140	$ 610,879
Income/(loss) before extraordinary items	(69,988)	(75,911)	87,003	163,694
Basic and diluted income / (loss) per share	(.01)	(.01)	.01	$.02
Net income/(loss)	(69,988)	(75,911)	87,003	163,694
Basic and diluted income / (loss) per share	(.01)	(.01)	.01	.02

	For the 3 months ended 31 March 2009	For the 3 months ended 31 Dec. 2008	For the 3 months ended 30 Sept. 2008	For the 3 months ended 30 June 2008
Total Revenues	$ 622,114	$ 530,496	$ 511,005	$ 372,155
Income/(loss) before discontinued operations and extraordinary items	43,071	43,177	62,388	(1,213)
Basic and diluted income / (loss) per share	0	0	.01	0
Net income/(loss)	43,071	43,177	62,388	(1,213)
Basic and diluted income / (loss) per share	0	0	.01	0

The variation in sales is due to the oil & gas sector economic activity. The engineering revenues have been significantly impacted by the slowdown in drilling activity during the 2007/2008 fiscal year. The 2008 and 2009 sales have been significantly improved by changes in our sales/marketing department. However, December

2009 has shown some impact from the slower economy with a number of longer term projects being put on hold by the clients. March 2010 reflects disruption caused by the loss of our engineering manager.

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 March, this line of credit has been drawn to $95,000. Capital expenditures planned for the coming year are expected to be covered out of operating cash flow and leveraging existing assets. However the company has engaged a mergers and acquisitions consultant to assist us in finding a suitable takeover candidate. 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 nine months ended 31 March 2010	For the nine months ended 31 March 2009
Payment of rent to Altomar Property Management Ltd. (formerly 262233 Alberta Ltd.)	$ 67,500	$ 67,500
Due to directors, non-interest bearing, unsecured	$ 166,911	167,393
Due to corporations controlled by directors, non-interest bearing, unsecured	$ 198,893	206,286
	$ 365,804	$ 373,679

Loans payable to related parties in the amount of $365,804 (2009 - $373,679) 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 $6,731 (2009 - $ 4,541) owing to a director.

Equity Transactions

No equity transactions took place during the quarter ended March 31, 2010.

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 when the economy starts to show signs of growth for the oil & gas drilling sector.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and advances from related parties.

<u>Fair value</u>
The carrying amount of the Company's cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these instruments.

The fair value of the advances due to related parties are less than 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.

<u>Credit risk</u>
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.

The Company is subject to a concentration of credit risk with respect to $ 249,284 in accounts receivable from the Company's three largest customers at March 31, 2010.

<u>Interest rate risk</u>
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 is exposed to interest rate risk primarily through its floating interest rate operating line. At March 31, 2010 the operating line was drawn to $95,000 and fluctuations in interest rate would not materially affect the operating results of the Company.

<u>Market risk</u>

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.

Future Accounting Standards

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

a) Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards ("IFRS") is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS. Management recognizes the new accounting policies, and has investigated their impact on the company financial statements. The transition to IFRS on June 30, 2012 is expected to proceed smoothly.

b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidations ("Section 1601"), and Section 1602, Non-Controlling Interests ("Section 1602"). These sections replace the former Section 1581, Business Combinations, and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. Management has evaluated these changes and has determined that there should be no problems implementing them.

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 31, 2010, pursuant to the requirements of Multilateral Instrument 52-109. Management has concluded that weaknesses exist in the segregation of duties.

Management continues to review procedures to minimize these weaknesses as much as possible.

Other MD&A Requirements

Additional information relating to ESTec Systems and its subsidiaries can be found on SEDAR at www.sedar.com. Press releases announcing activities of the company will be posted on our web site www.estec.com.

On Behalf of the Board of Directors – May 28, 2010

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

Solicitors

Ogilvie and Co.
1400 Metropolitan Place
10303 Jasper Avenue
Edmonton, Alberta
T5J 3N6

Ph. (780) 421 1818
Fax (780) 429 4453

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

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