



**SEM CAN INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT DECEMBER 31, 2009**

DATE: APRIL 19, 2009

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Caution Regarding Forward-Looking Information and Non-GAAP Measures

Forward-Looking Information

This document contains certain forward-looking statements. These statements relate to future events or future performance and reflect management's current expectations and assumptions regarding the growth, results of operations, performance, and business prospects and opportunities of Semcan Inc. and its segments (collectively, "Semcan"). Such forward-looking statements reflect management's current beliefs and expectations and are based on information currently available to management of Semcan. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the future operating results and economic performance of Semcan are forward-looking statements. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking statements, including risks outlined under "Risk Factors". In evaluating these statements, investors should specifically consider various factors, including the risks outlined under "Risk Factors", which may cause actual events or results to differ materially from any forward-looking statement. These factors should not be considered exhaustive. Although any forward-looking statements contained in this MD&A are based on what management of Semcan considers to be reasonable assumptions based on information currently available to them, there can be no assurance that actual events or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this document, and neither Semcan nor its directors assume any obligation to update or revise them to reflect new events or circumstances. Undue reliance should not be placed on forward-looking statements.

Except as otherwise noted, the information contained herein is given as of the date of this document, based on Semcan's most recently completed financial period ended December 31, 2009.

Capitalized terms not otherwise defined in this document have the meanings set forth in Appendix - Glossary of Terms.

Non-GAAP Measures

The term "EBITDA" is a financial measure used in this document which is not a standard measure under Canadian generally accepted accounting principles. Semcan's method of calculating EBITDA may differ from the methods used by other issuers. Therefore, Semcan's measure of EBITDA, as presented in this document, may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings of Semcan determined in accordance with generally accepted accounting principles, before depreciation and amortization, interest expense, income tax expense, non-controlling interest, loss on disposal of property and equipment, and stock-based compensation expense. Management believes that EBITDA is a useful supplemental measure of cash available for debt service, working capital, capital expenditures, income taxes, and distribution.

Investors are cautioned that EBITDA, as a Non-GAAP Measure, is not an alternative to measures under GAAP and should not, on its own, be construed as an indicator of Semcan's performance or cash flows, a measure of liquidity or as a measure of actual return.

1. Basis of Presentation and Going Concern

The following is Management's Discussion and Analysis ("MD&A") of the results of operations for Semcan Inc. ("Semcan" or the "Company") for the three month and twelve month period ended December 31, 2009, and its financial position at December 31, 2009. The Company reports on its operations and financial position in accordance with Canadian generally-accepted accounting principles.

Where appropriate, comparison to results of operations for the previous year and/or quarters have also been included. It should be noted that the Company made three acquisitions during 2008 and three acquisitions during 2007. No acquisitions were made during the current year; as a result, comparatives may not always be relevant. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2009 and December 31, 2008. For additional information and details, readers are referred to the quarterly financial statements and quarterly MD&A documents for 2009, 2008 and 2007, to the Company's Management Information Circular and the Company's Annual Information Return, all of which are published separately and are available at www.sedar.com.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

At December 31, 2009, the Company has a working capital deficiency of \$9,931,560. The working capital deficiency for the continuing operations is \$6,107,440.

It will be necessary for the Company to access alternative financing, or negotiate extensions with respect to repayment of the balances owing to its lenders for the Company to be in a position to retire the current obligations in a manner acceptable to its lenders. It is not possible to predict whether the actions taken in satisfying these obligations will result in improvements to the financial condition of the Company in a manner sufficient to allow it to continue as a going concern.

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The significant doubt on the Company's ability to continue as a going concern materially affects the degree of uncertainty associated with the measurement of many amounts related to the Company in the consolidated financial statements. More specifically, it could impact the recoverability tests and fair value assumptions used in impairment testing of definite-lived intangible assets and goodwill.

There is no assurance that the Company will be able to execute these plans on a timely basis to repay the debt obligations. Due to material uncertainties related to negotiations with lenders, they cast significant doubt upon the Company's ability to continue as a going concern. As a result, there can be no assurance that expected future cash flows will be realized or will be sufficient for the Company to continue as a going concern. The Company's financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the going concern assumption become inappropriate. These adjustments could be material to the financial statements.

2. Chairman's Statement

Following the strategic review in Q4 2008, the Company has focused its efforts during 2009 on reducing the level of debt that the Company was carrying at December 31, 2008. It should be remembered that prior to

Q3 2008, the Company had been able to raise funds both in the capital markets and from its bankers to fund its acquisition strategy and to provide working capital. This came to an abrupt end in November, 2008 as the “credit crunch” took hold. Coincidentally, at that time the Company had negotiated to acquire the assets of ZMI Portec, assets that would give the Company a competitive edge in its marketplaces. The assets acquired under this transaction are industry leaders; consequently the Board felt compelled to complete this transaction even though the only financing available at that time was a high interest, short term loan (the “Westdale Loan”).

Responding to pressure from our lenders, and because of our inability to refinance promissory notes due to previous owners of the Nucleus unit, three business units were scheduled for disposal during 2009, with the intention that the proceeds would be used to pay down debt. These business units are:

- Nucleus Distribution Inc. (“Nucleus”);
- Enviro-Pro-Tech, Inc. (“EPT”); and
- Naston Limited (“Naston”)

and are classified as discontinued operations in the financial statements.

Nucleus was sold in April 2009. This transaction reduced the Company’s debt load by approximately \$6.5 million.

On August 31, 2009, the Company completed the sale of EPT to U.S. O’Neill Industries, LLC. The sale price was US\$1,575,000 after taking effect of an adjustment for book value. Cash of US\$1,375,000 received to date was used to fully repay a term bank loan, and repay a portion of the Westdale Loan.

The Company has been unable to consummate a sale of Naston, and has engaged Pcocks, Chartered Accountants to assist with the restructuring and eventual disposal or winding-up of Naston. On December 2, 2009, Naston engaged Marks Bloom, Chartered Accountants to act as nominee with respect to the presentation of a plan to Naston’s creditors under which Naston would enter into a Company Voluntary Arrangement (“CVA”). The plan was sent to creditors on December 14, 2009 and, after creditors’ meetings held on January 4, 2010 and January 18, 2010, an amended plan was approved and Naston began operating under the CVA. Under the plan, certain of Naston’s projects will be completed, the net proceeds of which will be for the benefit of the creditors. Semcan does not anticipate that it will generate further proceeds from Naston and has, in the year ended December 31, 2009, fully provided for its investment in Naston.

During the year, approximately \$2.1 million of the Westdale Loan was repaid from internal resources and the sale of EPT. The balance of the Westdale Loan was refinanced in November 2009.

The following summary table shows the progress made by the Company in reducing its indebtedness from that at December 31, 2008:

| Description | As at December 31, 2008 | As at December 31, 2009 |
|---|----------------------------|----------------------------|
| TD operating loans and term loans | \$6,621,993 | - |
| Westdale Loan | 3,000,000 | - |
| Promissory note due November 26, 2011 | - | 915,978 |
| Bridge Loan | 3,892,903 | 4,110,081 |
| Vendor Take Back – EPT | 351,216 | 315,300 |
| Vendor Take Back – Stanco Projects Ltd. | - | 518,166 |
| Nucleus notes | 2,718,423 | - |
| Other | 261,122 | 144,795 |
| | | |
| Total bank and term debt | \$16,845,657 | \$6,004,320 |

Clearly, good progress has been made in reducing our total indebtedness as we have reduced our debt by in excess of \$10.8 million in fiscal year 2009.

During 2009 the full effect of the recession was being felt on the continuing operations and manifested itself in a number of ways:

- Capital projects in the oil sands were put on hold as a result of weak oil prices;
- Flue gas desulphurization projects were put on hold pending the passing of environmental legislation relating to emission standards;
- The reduction in commodity prices caused capital projects in the mining industry to be deferred;
- Funding for water projects in the United Kingdom under the AMP4 programme came to an end prior to funds being made available under the AMP5 programme, which is scheduled to start in March 2010; and
- The State of Florida's Inland Protection Trust Fund, which funds soil remediation projects, diverted money from the Fund to other state activities.

Despite these pressures our gross revenues from continuing operations for the year were \$31.3 million (compared with \$29.3 million in 2008), our adjusted EBITDA was \$1.8 million (\$1.9 million in 2008) and our adjusted gross margins were 24.2% for 2009 (22.8% for 2008).

We entered 2009 with a backlog of \$18.7 million in confirmed projects and this has clearly contributed to the record gross revenues of \$31.3 million. At the end of the year our backlog stood at \$5.3 million. The nature of our business is such that lags exist between the proposal stage, order stage and execution stage of most projects. Consequently, I do not expect the Company to have as strong a revenue year in 2010 since our focus during the first two quarters will be on rebuilding the backlog. I am confident that this can be done in light of the economic recovery currently under way, and the significant increase in the level of customer inquiries we are receiving.

The active leads for integrated systems currently being processed total in excess of \$90 million. In addition to the systems sales leads, the Milton parts operation continues to perform consistently and the recent addition of the ZMI slaker fabrication and parts business to the Milton operation has added a key offering to Milton's products. It should be noted that this product has undergone major developments to improve its technical performance. Consequently, I remain confident that the investment in the ZMI product will prove to have been a sound strategic investment. The ZMI slaker is linked to all municipal and industrial market sectors, and used in water treatment and flue gas desulphurization applications. It allows us to differentiate our solution into all of these markets, where the application involves lime slaking. In addition, dependent on the desired treatment capacity, the quality of the lime, as well as customer preference, we may offer another differentiated solution, the Metso Vertimill, for which we are the designated systems integrator, as an alternative to the ZMI slaker. Thus, between the ZMI slaker and the Metso Vertimill slaker, we can cover all lime slaking applications in all market sectors via a technically differentiated solution.

Our gross margin has been under pressure from mid 2009 as we respond to severe price pressure in the marketplace. We are undoubtedly entering a difficult time which will require careful management of our supply base and our lenders. To date, we have had strong support from both, and we continue to work closely with them as we work to restore our financial position.

We have reviewed our cost structure and have reduced annual operating costs by approximately \$1.5 million, including \$700,000 related to the relocation of the ZMI Portec operation from Sibley, Iowa to Milton, Ontario, and \$500,000 related to public company expenses, including the closure of a downtown Toronto office.

We are currently managing our way through another tough year but I remain confident that we are up to the challenge - we have managed to retain our best people and I am grateful to them for their continuing loyalty and hard work in a very difficult environment.

Philip M. Jamieson
Chairman

3. Strategic Review

During Q4 2008, the board of directors reviewed the Company's strategy and financial position in light of the downturn in the global economy and tightening of credit markets. The Board set out the following broad objectives for the Company:

- i. Reduction of debt load;
- ii. Development of a competitive advantage in the Environmental Engineering business through positioning with proprietary and/or differentiating solutions. The existing business was seen as a strong systems integrator but relied on technology and products produced by suppliers;
- iii. Divestiture of the distribution segment to allow complete focus on Environmental Engineering;
- iv. To grow organically by improving the performance of the North American engineering business rather than continuing the "growth by acquisition" strategy commenced in September 2006; and
- v. Divestiture of the UK operation (Naston) and US soil remediation operation (Enviro-Pro-Tech, Inc.).

The progress made to date with respect to these objectives is as follows:

i) Reduction of the Company's debt load and divestitures:

A significant reduction in debt has been achieved through the following divestitures:

- a. **Nucleus Distribution Inc.** ("Nucleus") – Nucleus was sold for approximately \$6,500,000 to Octagon Distribution Company Limited. The total proceeds of the sale were used to reduce Company indebtedness. The transaction closed on April 27, 2009.
- b. **Enviro-Pro-Tech, Inc.** ("EPT") – On August 31, 2009, the Company completed the sale of EPT to U.S. O'Neill Industries, LLC. The sale price was US\$1,575,000 after taking effect of an adjustment for book value. The purchaser has paid cash of US\$1,375,000 and a promissory note of US\$200,000 is due May 31, 2010, subject to a potential adjustment of up to US\$100,000 relating to earnings. The net proceeds have been used to repay term bank loans and other debt.

Naston Limited ("Naston") – The Company's Board decided to pursue the sale of Naston and use the proceeds to reduce debt. The Company has been unable to consummate a sale, and Naston engaged Pcocks, Chartered Accountants to assist with the restructuring and eventual disposal or winding-up of Naston. On December 2, 2009, Naston engaged Marks Bloom, Chartered Accountants to act as nominee with respect to the presentation of a plan to Naston's creditors under which the company would enter into a Company Voluntary Arrangement ("CVA"). The plan was sent to creditors on December 14, 2009 and, after creditors' meetings held on January 4, 2010 and January 18, 2010, an amended plan was approved and Naston began operating under the CVA. Under the plan, certain of Naston's projects will be completed, the net proceeds of which will be for the benefit of the creditors. Semcan does not anticipate that it will generate further proceeds from Naston and has, in the year ended December 31, 2009, fully provided for its investment in Naston.

As required under GAAP, the results from operations and accounts of Nucleus, EPT and Naston have been classified as discontinued operations in the consolidated financial statements for the period ended December 31, 2009.

The continuing business focuses on the design, assembly and installation of turnkey bulk material handling systems to treat water, wastewater and emissions in the utility, mining, oil and gas, municipal and other industrial marketplaces. At December 31, 2009 the continuing business had a confirmed order backlog of approximately \$5,312,050, compared with \$9,126,000 at September 30, 2009. Another \$2,163,000 of confirmed orders had been delayed by customers at December 31, 2009. The current economic climate and environmental regulation uncertainties in the United States, particularly those associated with the utility market, has led customers to defer large capital build projects. The municipal water market and some of the mining sector has remained strong, but other sectors, particularly oil & gas, and flue gas desulphurization, is soft.

ii) Development of competitive advantage:

In order to acquire a competitive advantage in the environmental engineering marketplace, the Company acquired the assets of ZMI Portec on November 14, 2008. This acquisition is discussed in more detail in section 8.

4. Vision and Core Business

Following the strategic review (section 3), Semcan is focused on becoming a leading North American supplier in the design, engineering, integration and installation of engineered systems which are used by its worldwide customers to clean up water and control air emissions.

The Company's principal focus is the conceptual design, engineering, project management, and assembly and installation of complete bulk material handling systems – from the storage silos, to the conveying systems, to the computerized electronic controls. The systems are utilized internationally in a broad range of industries.

The Company's strategy is to grow its business organically and, longer term, to acquire companies at prices which are strategically and financially accretive, provided that suitable financing is available.

Semcan's Board sees the Company as a worldwide supplier of industrial processes and environmental solutions with specific emphasis on water remediation and emission control systems.

5. Key Performance Indicators

| | Year | Quarter | Quarter | Quarter | Quarter | Year | Year |
|---|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | ended Dec 31/09 | ended Dec 31/09 | ended Sept 30/09 | ended Jun 30/09 | ended Mar 31/09 | ended Dec 31/08 | ended Dec 31/07 |
| FINANCIAL PERFORMANCE (FROM CONTINUING OPERATIONS): | | | | | | | |
| Revenue (\$000s) | \$31,339 | \$5,203 | \$7,254 | \$9,541 | \$9,341 | \$29,338 | \$14,178 |
| Gross margin % (unadjusted) | 24.09% | 22.00% | 28.52% | 23.18% | 22.74% | 22.84% | 29.07% |
| Adjusted gross margin % (adjusted to remove effect of amortization of intangible assets relating to acquired order backlog) | 24.23% | 22.00% | 28.52% | 23.18% | 23.21% | 26.93% | 29.07% |
| General, administrative and selling expenses (excluding gain or loss on foreign exchange) as a % of sales | 18.62% | 13.14% | 20.04% | 17.70% | 21.51% | 20.57% | 22.80% |
| Earnings (loss) before interest, income taxes, depreciation & amortization (EBITDA) (\$000s) | \$1,771 | \$513 | \$553 | \$560 | \$145 | \$676 | \$843 |
| Adjusted EBITDA (adjusted to remove effect of amortization of intangible assets relating to acquired order backlog) (\$000s) | \$1,815 | \$513 | \$553 | \$560 | \$189 | \$1,875 | \$843 |
| Adjusted EBITDA as a percentage of Revenue | 5.79% | 9.85% | 7.62% | 5.87% | 2.03% | 6.39% | 5.95% |
| Net income (loss) from continuing operations (\$000s) | (\$235) | \$680 | (\$46) | (\$387) | (\$482) | (\$2,303) | \$388 |
| Earnings (loss) per share from continuing operations (basic) | (\$0.008) | \$0.022 | (\$0.002) | (\$0.012) | (\$0.016) | (\$0.078) | \$0.019 |
| Earnings (loss) per share from continuing operations (diluted) | (\$0.008) | \$0.022 | (\$0.002) | (\$0.012) | (\$0.016) | (\$0.078) | \$0.018 |

5. Key Performance Indicators - continued

| | Year | Quarter | Quarter | Quarter | Quarter | Year | Year |
|--|-----------------------|-----------------------|------------------------|------------------------|-----------------------|-----------------------|-----------------------|
| FINANCIAL POSITION: | ended Dec 31/09 | ended Dec 31/09 | ended Sept 30/09 | ended June 30/09 | ended Mar 31/09 | ended Dec 31/08 | ended Dec 31/07 |
| Total assets (\$000s) | \$14,444 | \$14,444 | \$20,952 | \$30,999 | \$50,504 | \$52,284 | \$28,832 |
| Working capital (\$000s) | (\$10,513) | (\$10,513) | (\$7,446) | (\$7,691) | (\$9,023) | (\$9,481) | \$7,218 |
| Unused capacity on bank lines – continuing operations (\$000s) | \$1,179 | \$1,179 | \$335 | \$157 | \$117 | \$220 | \$1,291 |
| Return on equity (annualized) | (483.48%) | (483.48%) | (208.76%) | (166.79%) | (15.75%) | (25.42%) | 6.20% |
| Cash dividends | - | - | - | - | - | - | - |
| Total shares outstanding at end of period (000s of shares) | 31,098 | 31,098 | 31,098 | 31,098 | 31,098 | 31,098 | 26,215 |
| Book value per share | (\$0.096) | (\$0.096) | (\$0.006) | \$0.00 | \$0.24 | \$0.24 | \$0.40 |

5. Key Performance Indicators - continued

Reconciliation of EBITDA and Adjusted EBITDA to Net Income (loss) from continuing operations:

| | Year | Quarter | Quarter | Quarter | Quarter | Year | Year |
|--|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | ended Dec 31/09 | ended Dec 31/09 | ended Sept 30/09 | ended Jun 30/09 | ended Mar 31/09 | ended Dec 31/08 | ended Dec 31/07 |
| All in \$000s | | | | | | | |
| Net income (loss) from continuing operations | (\$235) | \$680 | (\$46) | (\$387) | (\$482) | (\$2,303) | (\$152) |
| Add: | | | | | | | |
| Provision for (recovery of) income taxes | (\$766) | (\$905) | \$60 | \$102 | (\$23) | \$289 | (\$89) |
| Stock compensation expense | \$479 | \$154 | \$98 | \$98 | \$129 | \$599 | \$486 |
| Amortization and loss on disposal of capital assets | \$1,099 | \$226 | \$220 | \$412 | \$241 | \$748 | \$387 |
| Interest expense | \$1,194 | \$358 | \$221 | \$335 | \$280 | \$1,343 | \$211 |
| | | | | | | | |
| EBITDA | \$1,771 | \$513 | \$553 | \$560 | \$145 | \$676 | \$843 |
| | | | | | | | |
| Add: | | | | | | | |
| Amortization of intangible assets relating to acquired order backlog | \$44 | - | - | - | \$44 | \$1,199 | - |
| | | | | | | | |
| Adjusted EBITDA | \$1,815 | \$513 | \$553 | \$560 | \$189 | \$1,875 | \$843 |

Reconciliation of Adjusted Gross Margin to Gross Margin:

| | Year | Quarter | Quarter | Quarter | Quarter | Year | Year |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | ended Dec 31/09 | ended Dec 31/09 | ended Jun 30/09 | ended Jun 30/09 | ended Mar 31/09 | ended Dec 31/08 | ended Dec 31/07 |
| Net sales (\$000s) | \$31,339 | \$5,203 | \$7,254 | \$9,541 | \$9,341 | \$29,338 | \$14,178 |
| Gross margin (\$000s) | \$7,549 | \$1,144 | \$2,069 | \$2,212 | \$2,124 | \$6,701 | \$4,121 |
| Amortization of intangible assets relating to acquired order backlog (\$000s) | \$44 | - | - | - | \$44 | \$1,199 | - |
| Adjusted gross margin (\$000s) | \$7,593 | \$1,144 | \$2,069 | \$2,212 | \$2,168 | \$7,900 | \$4,121 |
| | | | | | | | |
| Gross margin % | 24.23% | 22.00% | 28.52% | 23.18% | 22.74% | 22.84% | 29.07% |
| Adjusted gross margin % | 24.09% | 22.00% | 28.52% | 23.18% | 23.21% | 26.93% | 29.07% |

6. Liquidity and Capital Resources

6.1 Working Capital and Borrowing Arrangements

6.1.1 2008 Acquisitions and Related Debt

During 2008 (prior to the Strategic Review discussed in section 3), the Company continued to pursue its strategy of building an international environmental engineering business, with activities focused on water and wastewater treatment, flue gas desulphurization and soil remediation markets. To this end, it acquired Enviro-Pro-Tech, Inc., Naston Limited and the assets of ZMI Portec. The cost of these acquisitions and related debt was as follows:

| Business or Assets Acquired | Date | Gross Purchase Price | Debt Financing (including related fees) |
|-----------------------------|-------------------|----------------------|---|
| Enviro-Pro-Tech, Inc. | January 31, 2008 | \$3,776,023 | \$351,216 |
| Naston Limited | March 31, 2008 | \$8,510,961 | \$4,310,000 |
| Assets of ZMI Portec | November 12, 2008 | US\$2,093,361 | \$3,321,256 |
| Total debt | | | \$7,982,472 |

Enviro-Pro-Tech, Inc. (“EPT”)

EPT, a company specializing in remediating soil which has been contaminated by spillage of petroleum products, was acquired on January 31, 2008. EPT, which is located in Pensacola, FL and carries out the majority of its work on projects funded by the Florida government, was to be the Company’s stepping stone into the soil remediation market. Another potential acquisition target which performs soil remediation for industrial customers was identified in September 2008; if consolidated with EPT, the combined operation would have given Semcan a considerable presence in the soil remediation market. However, the Company could not finance the acquisition from internal resources and external funds were not available. In November 2008, the Company decided to divest itself of EPT and classified it as a discontinued operation in the financial statements for the year ended December 31, 2008. The sale of EPT was closed on August 31, 2009.

Naston Limited (“Naston”)

Naston was acquired to give the Company an international presence in the industrial and municipal water and wastewater treatment markets. Naston has an excellent reputation for providing custom designed water treatment systems in the United Kingdom, Europe, Africa and the Middle East.

During 2008, Naston undertook a fixed price contract to build a new water treatment plant for Universal Beverages Ltd., a 50/50 joint venture operation between Scottish & Newcastle Breweries (which is part of the Heineken group) and the Q Group. The contract value was approximately £6,300,000 and should have generated contribution margin of approximately £680,000. The project was fraught with problems from the start, with the result that a loss of approximately £882,000 (including legal costs) was provided for in the 2008 accounts.

In November 2008, the Company decided to divest itself of Naston and classified it as a discontinued operation in the financial statements for the year ended December 31, 2008.

Assets of ZMI Portec

In November 2008, the Company acquired the assets of ZMI Portec out of a court-administered bankruptcy. The primary assets acquired are the designs to a line of lime slakers, a piece of equipment integral to many of the systems designed and installed by Semcan. The purchase of the assets was considered a strategic necessity by the Company due to the proprietary nature of the assets, and also because at the time of the acquisition, Semcan had approximately US\$9 million of orders in progress dependent upon the ZMI slaker.

Had Semcan not acquired these assets, they would have been acquired by one of the Company's competitors. Semcan could not risk non-performance on the projects in progress, and also sought to have exclusive rights to the ZMI product as it is specified in many bid requests.

The acquisition of these assets put a major strain on the Company's working capital as the purchase was financed with a short term, high-interest loan. Traditional sources of finance were not available at the time of acquisition.

Management expects that the assets acquired will continue to give the Company a competitive edge in the water and wastewater treatment, as well as flue gas desulphurization marketplaces.

6.1.2 2009 Progress in Reducing Debt

The Company's priority during 2009 was to improve liquidity and pay down debt, particularly the \$2,000,000 promissory note due to the former owners of Ken-Co Industries Limited which matured on February 28, 2009 (the "Ken-Co Loan"), and the \$3,000,000 Westdale Loan maturing May 12, 2009, which was incurred to purchase the ZMI assets. The progress on these efforts during the year was as follows:

- i. Responsibility for repayment of the Ken-Co Loan was assumed by the purchaser of Nucleus. The sale of Nucleus closed on April 27, 2009, and the Company has no further obligation under this loan;
- ii. During the year, the Company paid the Westdale Loan down to \$915,000. On November 27, 2009, the Company closed a financing under which it borrowed \$900,000 from a shareholder who is neither an officer nor a director. The terms of the financing allow for repayment of the loan over a two year period. A balloon payment of \$900,000 is required at the end of the term, and earlier repayment is permitted; however, if the Company has not fully repaid the loan after the first year, a fee of \$50,000 is payable to the lender. The interest rate is 18% per annum, and the loan is secured by a general security agreement. An arrangement fee of \$90,000 was paid at closing, and 2,000,000 common share purchase warrants exercisable at \$0.10 for a period of two years were issued to the lender at closing. On November 27, 2009, the proceeds of the new loan, together with \$15,000 from the Company's working capital, were used to fully repay the balance owing on the Westdale Loan; and
- iii. The term loan owing to Toronto-Dominion Bank was fully repaid on August 31, 2009 from the proceeds of the sale of EPT.

The Company's progress in reducing its debt during the year is summarized as follows:

| Description | As at December 31, 2008 | As at December 31, 2009 |
|---|----------------------------|----------------------------|
| TD operating loans and term loans | \$6,621,993 | - |
| Westdale Loan | 3,000,000 | - |
| Promissory note due November 26, 2011 | - | 915,978 |
| Bridge Loan | 3,892,903 | 4,110,081 |
| Vendor Take Back – EPT | 351,216 | 315,300 |
| Vendor Take Back – Stanco Projects Ltd. | - | 518,166 |
| Nucleus notes | 2,718,423 | - |
| Other | 261,122 | 144,795 |
| | | |
| Total bank and term debt | \$16,845,657 | \$6,004,320 |

Going forward, the Company is a North American-based environmental engineering concern conducting business in Canada, the US, South America and, on an opportunistic basis, the rest of the world. The Company is headquartered in Canada with offices in Richmond, BC and Milton, Ontario, and direct salespeople in Canada, the US, and a network of sales agents in Canada, the US and Chile. The Company operates under trade names Stanco Projects, Semco Systems and ZMI Portec.

6.1.3 Working Capital

The Company's working capital deficiency was \$9,931,560 at December 31, 2009. This balance includes \$1,058,469 of deferred revenue and \$1,209,570 of future income tax liabilities. The Company's focus for 2010 is to improve the working capital position through profitable operations.

It should be noted that the discontinued operation's working capital position includes Naston's liabilities recorded at full value of \$4,249,464. Under the terms of the Company Voluntary Arrangement ("CVA") entered into by Naston on January 18, 2010, Naston's creditors have agreed to be paid their pro-rata share of the net cash generated by Naston until mid-2012. The total estimated cash generated during this period, based on a best-case scenario, is approximately £600,000 (\$1,105,080).

6.2 Banking and other Borrowing Arrangements

The Company's debt falls into the following categories:

- i. Bank operating loan. The Company has access to a maximum of \$1,500,000 under its revolving line (subject to levels of accounts receivable and outstanding letters of credit), of which \$nil was drawn at December 31, 2009. The purpose of this line is to finance day to day requirements for working capital, principally accounts receivable and work in progress.
- ii. Vendor take-back promissory notes. These notes assist the Company in completing acquisitions, and are also used to motivate former owners to keep the acquired businesses performing at anticipated profitability levels. Certain vendor take-back notes are payable in full only if the acquired company

meets certain earnings targets; for notes with this feature the contingent portion is recorded as a liability when the conditions for payment have been met.

- iii. Loan of \$4,310,000 from related parties (the “Bridge Loan”), incurred in order to close the purchase of Naston. This loan was made on commercial terms, and was intended to be a short-term loan maturing on July 20, 2008. Effective July 20, 2008, the Company converted the loan into a three year term loan. The interest rate on the loan is prime + 3% per annum (currently 5.25%). The outstanding amount of this loan at December 31, 2009 is \$4,110,081, including unpaid interest for the period January 1, 2009 to December 31, 2009. The Company has not made any of the required principal instalments since December 31, 2008.
- iv. Loan of \$915,978 (including accrued interest), due on November 26, 2011, which was incurred to refinance a portion of the Westdale Loan (see section 6.1.2(ii)).

Existing long-term debt and notes payable are considered to be desirable sources of funding and it is anticipated that they will remain part of the Company’s financial structure until maturity.

6.3 Borrowing Covenants

Bank Covenants:

As at December 31, 2009, the Company was not in compliance with one of the covenants governing its bank borrowing agreement. The Company was not in compliance with the same covenant for the quarters ended December 31, 2008 and March 31, 2009, and received waivers from the bank for the breach in these periods. The Company has not received a waiver from the bank with respect to the breach at December 31, 2009. The borrowings under this loan facility were \$nil at December 31, 2009.

Breaches in Payment under Debt Obligations:

The Company has breached the terms of the Bridge Loan (see 6.2(iii)), the outstanding balance of which was \$4,110,081 at December 31, 2009. The arrears amount to required principal and interest on this loan from January 1, 2009 to date, which totals \$1,885,565 at December 31, 2009. The Company is negotiating with the lenders on an amicable basis to resolve the situation.

Under the terms of a promissory note due to the former owners of Stanco Projects Ltd., the Company was obliged to make a payment of \$477,000 plus accrued interest on July 24, 2009. The Company has not made this payment. As a result, the Company has classified the full amount owing under this note of \$518,166 as a current liability.

During the year, the Company renegotiated the terms of a promissory note due to the former owners of Enviro-Pro-Tech, Inc. (“EPT”), and agreed that the total due would be US\$300,000, comprised of the US\$300,000 portion guaranteed under the original terms and US\$ nil for contingent amount due based on EPT’s earnings. Under the revised terms, the Company was obliged to make a principal payment of US\$100,000 on October 31, 2009. The Company has not made this payment. As a result, the Company has classified the full amount owing under this note of C\$315,300 as a current liability.

6.4 Access to Capital

The Company has funded its growth to date through equity issues and term debt. Access to traditional sources of capital is not available to the Company at present due to its current financial position. The Company does not intend to make any acquisitions over the next four quarters, and would only consider making acquisitions if it had access to additional capital which would allow it to finance such transactions conservatively.

6.5 Operational Efficiency

Since the Company shrank the breadth of its operations during 2009 (see section 3), it sees the following as areas where operational improvements can be made:

- i. Make use of the combined strength of similar operational units to better serve customers. The Company's Richmond office will take the lead on project management and engineering of large and/or complex integrated projects, while the Milton operation will focus on product management, aftermarket/parts, logistics, and execution of less complex projects.
- ii. Reduce administration costs by centralizing accounting functions.
- iii. Reduce corporate costs.

7. Historical Overview and Operating Segments

Semcan was incorporated on August 25, 2000, and trades on the TSX Venture Exchange under the symbol “STT.” Following the change of control in September 2006, a strategic review of the business was undertaken, and the Board articulated a strategy that has seen Semcan develop two core business units, Engineering & Design, and Distribution & Product Development. In light of the current economic market conditions, the Board has refined the Company’s strategy to concentrate on the Engineering & Design business based in North America (see section 3).

7.1 Engineering & Design

The platform for the Engineering & Design unit is **Stanco Projects Limited** (formerly Semco Systems Limited) (“**SPL**”), which designs, integrates, and installs turn-key bulk material handling systems. SPL, which commenced operations in 1970, is headquartered in Milton, Ontario. Engineering and assembly are carried out at the Company’s 27,740 square foot facility in Milton. There are approximately 26 salaried employees in Milton divided between management, engineering, project management, assembly, sales and administration.

On July 24, 2007, the Company completed the purchase of all of the outstanding shares of **Stanco Projects Ltd. (“Stanco”)**. Stanco carries on the business of designing, sourcing and installing high quality systems for a wide variety of industrial, municipal and commercial clients. These systems include bulk chemical handling equipment, particularly in respect of water and wastewater treatment chemicals, municipal water storage tanks and aluminium geodesic dome structures. Founded in 1978, Stanco operates from its headquarters in Richmond, British Columbia, but works on projects worldwide. It has 37 employees, including 2 installation teams. Stanco has a long history of high quality and profitable operations. After the acquisition, Stanco was wound up into SPL and operates as a division of SPL.

The combined entity, referred to here as “SPL” specializes in designing cost-effective, customized storage, handling and conveying systems for dry and liquid materials. SPL uses the trade names “Semco Systems,” “Stanco Projects,” and “Transfer Bulk Systems.” Most of SPL’s work comes from North America and South America, in the following market sectors:

- Cleanup of water used in the Alberta oil sands extraction activities.
- Flue gas desulphurization. SPL is heavily involved in the design and installation of chemical reagent systems used to clean stack emissions from coal-fired power plants, most of which are located in the United States.
- Municipal water and wastewater treatment applications. This encompasses municipal water storage tanks, treatment of potable water and cleanup of municipal waste water.
- Reagent addition systems and tailings pond cleanup, for the mining industry.

SPL’s principal focus is the design, assembly, installation and support of turn-key bulk material handling systems — from the storage silos, to the conveying equipment, to the electronic controls. These systems are custom-designed to meet the unique needs of each customer, and range in value from \$50,000 to \$7,500,000. Delivery time for a complete system ranges from three to eighteen months.

In these systems, chemical reagents such as lime, soda ash, trona, polymer or carbon are used to treat the water or emissions. The Company typically acts as a subcontractor to a large engineering firm responsible for the entire project. The Company's value proposition to the engineering firm is to provide an integrated solution, including some or all of the following: engineering and design, sourcing of equipment, project management, installation, commissioning and system documentation.

In addition to the applications noted above, the Company has built systems to transfer food products such as flour, sugar, salt and milk powder. It has also designed systems to handle petrochemical products in pellet, powder and resin forms; and fillers such as calcium carbonate and soda ash.

The Company's customers include major engineering firms, energy companies, construction firms, government agencies, and manufacturers in the food, steel and chemical industries. The majority of its revenues are derived from the sale of systems equipment, with the remainder coming from the sale of parts. A large percentage of its sales are generated through RFPs, referrals, and repeat business from existing customers.

The Company's prospects are promising given the expected growth of government regulation relating to use of water and cleanup of the environment. In particular, the pending restriction of access to fresh groundwater for oil sands producers means that producers will have to clean and re-use contaminated water previously produced in their processes. As well, the continued reliance in the United States on coal-fired electrical generation plants, and expected tightening of regulations concerning the emissions from them, provides an ongoing opportunity to participate in designing and installing new systems, as well as upgrading existing systems, to remove the harmful contaminants from these plants' emissions.

On January 31, 2008, the Company acquired the business of **Enviro-Pro-Tech, Inc.** ("EPT") by acquiring all of the outstanding shares. EPT provides soil and water testing and remediation services from its operational headquarters in Pensacola, Florida. Much of its work comes from cleaning up contaminated sites previously used as petroleum service stations. EPT is licensed to do work for the state governments of Florida and Alabama.

On April 23, 2008, the Company completed the acquisition of all of the outstanding shares of **Naston Limited** ("Naston"). Based in Weybridge, Surrey, England, Naston carried on the business of engineering and contracting services specializing in water and waste water treatment systems, sewage treatment package plants and solutions for sustainability and water re-use. Naston has suffered a significant decline in its business since late 2008. On January 18, 2010, Naston's creditors approved a plan under a Company Voluntary Arrangement ("CVA") under which certain of Naston's contracts would be completed over a three year period, with the net cash generated being paid to the creditors in satisfaction of amounts owing by Naston.

Late in 2008 the Company was forced to revisit its strategy in response to the downturn in the global economy (see section 3). This review led to a decision to focus on the North American engineering business and work toward a divestiture of EPT and Naston in order to pay down debt taken on as a result of acquisitions made in 2008. The sale of EPT was closed on August 31, 2009.

7.2 Distribution & Product Development

The platform for the Distribution & Product Development unit is **Nucleus Distribution Inc.** (formerly Nucleus Financial Network Inc.) ("Nucleus"), which owns the **Ken-Co Industries** divisions ("Ken-Co") and **Forward600 Precision Tools & Machinery** ("Forward600"). Both of these organizations are distributors of products; Forward600 distributes precision tools to industry, while Ken-Co distributes products to the after-market auto parts market.

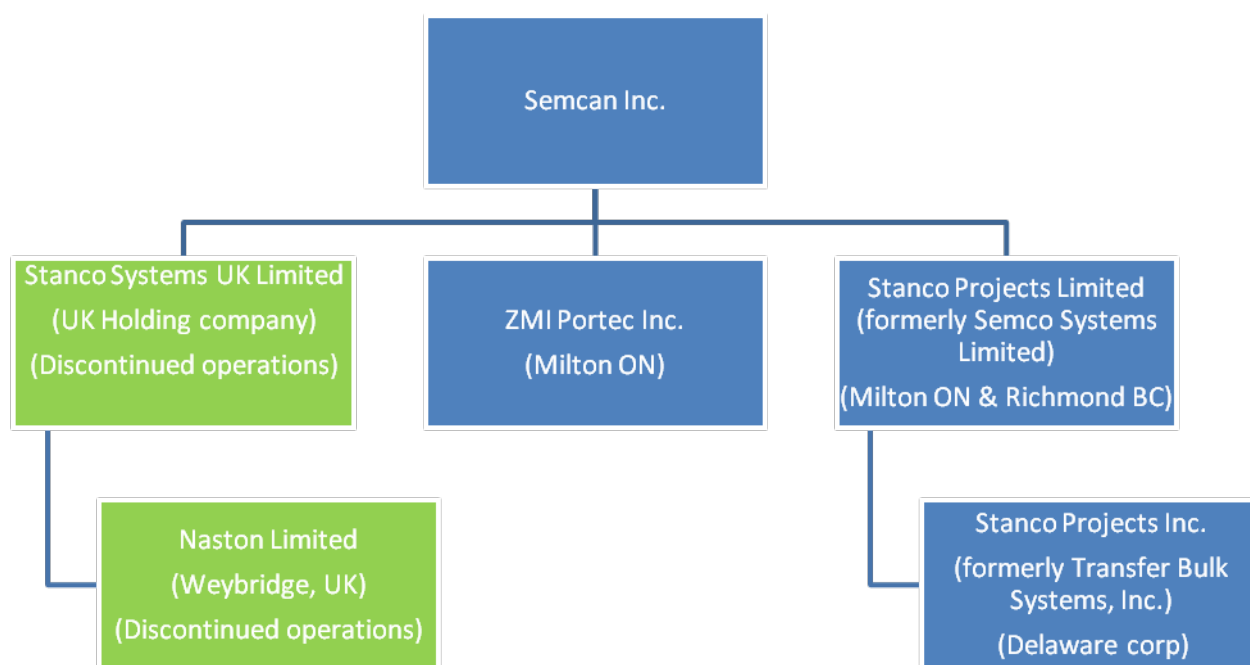
The Company disposed of this unit on April 27, 2009.

7.3 Reporting Segments

Semcan reports on four segments: Engineering & Design – North America; Engineering & Design – United Kingdom; Soil Remediation; and Distribution & Product Development, as outlined in the “Segmented Information” note to the financial statements.

7.4 Current Organizational Structure

The Company’s corporate structure at December 31, 2009 is as follows:



On January 1, 2010, Semcan Inc. amalgamated with ZMI Portec Inc. and Stanco Projects Limited. This was done to improve the group’s tax position, and also to simplify its structure and reduce ongoing reporting and audit costs. The Company continues to trade as Semcan Inc., operating as Stanco Projects, Semco Systems and ZMI Portec.

8. Acquisition of ZMI Slaker Technology

In order to acquire a competitive advantage in the environmental engineering marketplace, the Company acquired the assets of ZMI Portec on November 14, 2008. This acquisition became possible when The Conveyor Company, owner of the assets of a division known as ZMI Portec, filed for voluntary bankruptcy. The assets purchased included inventory, accounts receivable, equipment, and designs for a line of lime slakers, which the Company uses in many of its engineered solutions. The Company continued the manufacture of the slakers for a six month trial period in Sibley, Iowa, in premises leased from the former owner.

While the timing of this acquisition was undesirable, the acquisition of this technology was considered essential to protect the Company's backlog and to prevent a major competitor from acquiring the product line. The slaker is a fundamental part of the engineered systems built by the Company and is extensively specified by many of the large engineering houses in the flue gas desulphurization and water treatment markets. Control of this device gives Semcan a significant competitive advantage in these markets.

The Company relocated the ZMI operation to its facility in Milton, Ontario during June 2009. The slakers are now fabricated using local suppliers to avoid the heavy overhead of a manufacturing operation. Parts orders are handled by the Company's sales staff in Milton. The consolidation of the operation to Milton has resulted in savings of approximately \$700,000 per year.

9. Discussion of Results for the Year to Date

9.1 Overall Profitability and Segment Results

The results for the period ended December 31, 2009 include the following results of operating units:

| | |
|--------------------------------|------------------------------|
| Stanco Projects Limited | Full Period |
| ZMI Portec Inc. | Full Period |
| Naston Limited | Full Period |
| Nucleus – Forward600 division | January 1/09 to April 27/09 |
| Nucleus – Ken-Co division | January 1/09 to April 27/09 |
| TEC Automotive Industries Inc. | January 1/09 to April 27/09 |
| Enviro-Pro-Tech, Inc. | January 1/09 to August 31/09 |

The following operating units are classified as discontinued operations in the consolidated financial statements for the period ended December 31, 2009:

Distribution & Product Development:

Nucleus – Forward600 division
Nucleus – Ken-Co division
TEC Automotive Industries Inc.

Soil Remediation:

Enviro-Pro-Tech, Inc.

Engineering & Design – UK:

Naston Limited

The following chart shows the Company's operating results for the twelve months ended December 31, 2009, with the operating results of the discontinued operations presented in the same way as those of the continuing operations.

| | Full Year 2009 | | |
|---|----------------------------------|------------------------------------|-----------------------|
| | Continuing Operations | Discontinued Operations | Total |
| Revenue | \$31,339,014 | \$22,532,727 | \$53,871,741 |
| Cost of goods sold | 23,745,697 | 17,265,695 | 41,011,392 |
| Amortization of acquired backlog | 44,251 | 253,034 | 297,285 |
| Total cost of sales | 23,789,948 | 17,518,729 | 41,308,677 |
| Gross margin | 7,549,066 | 5,013,998 | 12,563,064 |
| Unadjusted GM % | 24.09% | 22.25% | 23.32% |
| Adjusted GM % | 24.23% | 23.38% | 23.87% |
| Expenses | | | |
| Selling, general and administrative | 5,836,012 | 5,059,855 | 10,895,867 |
| (Loss) gain on foreign exchange | (57,698) | 32,963 | (24,735) |
| | 5,778,314 | 5,092,818 | 10,871,132 |
| Income (loss) before other items | 1,770,752 | (78,820) | 1,691,932 |
| Other items | | | |
| Interest expense | 1,194,619 | 106,154 | 1,300,773 |
| Loss (gain) on disposal of capital assets | 190,255 | (313,657) | (123,402) |
| Amortization | 907,746 | 711,575 | 1,619,321 |
| Stock compensation expense | 478,907 | 0 | 478,907 |
| | 2,771,527 | 504,072 | 3,275,599 |
| Loss before income taxes | (1,000,775) | (582,892) | (1,583,667) |
| Provision for (recovery of) income taxes | | | |
| Current | 12,921 | (441,640) | (428,719) |
| Future | (779,040) | (173,473) | (952,513) |
| | (766,119) | (615,113) | (1,381,232) |
| (Loss) income from operations | (234,656) | 32,221 | (202,435) |
| Non-controlling Interest | 0 | (887) | (887) |
| Loss on sale of discontinued operations | 0 | 2,208,725 | 2,208,725 |
| Provision for loss on sale of discontinued operations | 0 | 8,496,803 | 8,496,803 |
| Net loss for the period | (\$234,656) | (\$10,672,420) | (\$10,907,076) |
| Adjusted EBITDA: | | | |
| Income before other items | \$1,770,752 | (\$78,820) | \$1,691,932 |
| Add: Amortization of acquired backlog | 44,251 | 253,034 | 297,285 |
| Adjusted EBITDA | \$1,815,003 | \$174,214 | \$1,989,217 |

The following chart shows the Company's performance for the twelve months ended December 31, 2008, with the results of the discontinued operations presented in the same way as those of the continuing operations.

| | Full Year 2008 | | |
|---|----------------------------------|------------------------------------|----------------------|
| | Continuing Operations | Discontinued Operations | Total |
| Revenue | \$29,338,241 | \$54,604,561 | \$83,942,802 |
| Cost of goods sold | 21,438,115 | 44,654,918 | 66,093,033 |
| Amortization of acquired backlog | 1,198,749 | 771,113 | 1,969,862 |
| Total cost of sales | 22,636,864 | 45,426,031 | 68,062,895 |
| Gross margin | 6,701,377 | 9,178,530 | 15,879,907 |
| Unadjusted GM % | 22.84% | 16.81% | 18.92% |
| Adjusted GM % | 26.93% | 18.22% | 21.26% |
| Expenses | | | |
| Selling, general and administrative | 6,034,004 | 9,029,839 | 15,063,843 |
| (Loss) gain on foreign exchange | (8,794) | 30,395 | 21,601 |
| | 6,025,210 | 9,060,234 | 15,085,444 |
| Income before other items | 676,167 | 118,296 | 794,463 |
| Other items | | | |
| Interest expense | 1,343,077 | 316,493 | 1,659,570 |
| Loss on disposal of capital assets | - | 220,577 | 220,577 |
| Amortization | 748,276 | 604,473 | 1,352,749 |
| Stock compensation expense | 599,390 | - | 599,390 |
| | 2,690,743 | 1,141,543 | 3,832,286 |
| Loss before income taxes | (2,014,576) | (1,023,247) | (3,037,823) |
| Provision for (recovery of) income taxes | | | |
| Current | 103,783 | 130,677 | 234,460 |
| Future | 184,217 | (366,615) | (182,398) |
| | 288,000 | (235,938) | 52,062 |
| Loss from operations | (\$2,302,575) | (\$787,309) | (\$3,090,884) |
| Non-controlling Interest | - | 4,967 | 4,967 |
| Provision for loss on sale of discontinued operations | - | (5,176,863) | (5,176,863) |
| Loss for the year | (\$2,302,575) | (\$5,959,205) | (\$8,261,780) |
| <u>Adjusted EBITDA:</u> | | | |
| Income before other items | \$676,167 | \$118,296 | \$794,463 |
| Add: Amortization of acquired backlog | 1,198,749 | 771,113 | 1,969,862 |
| Adjusted EBITDA | \$1,874,916 | \$889,409 | \$2,764,325 |

The Company generated Adjusted EBITDA (earnings before interest, tax, depreciation and amortization, non-controlling interest and stock-based compensation expense) from continuing operations of \$1,815,003 for the period, compared with \$1,874,916 for the same period in 2008. Adjusted EBITDA from discontinued operations was \$174,214 compared with \$889,409 for the same period in 2008. Total Adjusted EBITDA was \$1,989,217 compared with \$2,764,325 for the same period in 2008.

The Company recognized charges in the period of \$297,285 (\$44,251 from continuing operations and \$253,034 from discontinued operations) for the amortization of intangible assets relating to acquired order backlogs. Under GAAP, the expected profits from orders held by the target company at the time of acquisition must be recognized by the acquirer as part of the assets purchased, and be amortized over the period they will be earned.

Management's focus is on EBITDA from continuing operations as the key measure of profitability. The principal expenses not considered in EBITDA are:

- Stock compensation expense of \$478,907. The Company is committed to retaining key staff, particularly in skilled engineering roles, and uses options to do so. A total of 1,585,000 options are currently outstanding. The fair value of all issued stock options has been fully amortized at December 31, 2009.
- Amortization (excluding amortization of intangible assets relating to acquired order backlogs) of \$907,746. This amount includes \$642,143 related to the amortization of other intangible assets. The remaining \$265,603 is depreciation of fixed assets.
- Gains or losses on sale of capital assets. During the period, there was a loss of \$190,255 on the sale of assets, principally related to the move of ZMI Portec from Sibley, Iowa to Milton, Ontario. Redundant assets were liquidated in Sibley prior to the move.
- Interest expense and loan arrangement fees of \$1,194,619 are primarily related to bank debt, vendor take-back promissory notes and promissory notes related to acquisitions made in prior years.

Management's view of the period's results for the continuing operations is as follows:

- i. Revenues of \$31.3 million were in line with expectations for the period. In the comparable period in 2008, revenues were \$29.3 million.
- ii. Adjusted gross margin of 24.23% is below the margins experienced in the past, but is realistic based on the current business environment. Competition is strong, and it appears that some of the Company's competitors are presenting very low margin bids to secure work.
- iii. Selling, general & administration ("SG&A") costs represent 18.62% of revenue from continuing operations, and 20.23% of total revenue. Our expected ratio has been 18% - 20% of revenue based on the combined continuing and discontinued operation. Since the continuing operations will soon bear all of these costs, action has been taken to reduce corporate costs to reflect the smaller go-forward operation and to keep the SG&A% of gross revenues in line. The SG&A expenses for the period include \$1,341,771 of costs related to the public holding company.
- iv. Adjusted EBITDA of \$1,815,003 is 5.79% of revenue, a disappointing performance reflecting lower than expected margins. A reasonable objective for this ratio, after corporate costs, is 8%.

Adjustment to Carrying Value of Discontinued Operations:

Management worked on selling EPT and Naston throughout 2009 and, closed the sale of EPT on August 31, 2009. The Company has found that potential purchasers are scarce and market values are low. Naston is now unsalable as it has entered into an arrangement with its creditors, and the Company does not expect to realize any recovery of its investment.

In Q2 2009, the Company recorded provisions against the carrying value of the discontinued operations, and adjusted them further during Q3 and Q4 as more information became available. The loss on sale of discontinued operations and provisions against the carrying value of Naston booked during the year ended December 31, 2009 totals \$10,705,528, calculated as follows:

| | Nucleus | Naston | EPT | Total |
|--|------------|-------------|-------------|--------------|
| Carrying cost of investment | (92,333) | \$8,496,803 | \$3,776,023 | \$12,180,493 |
| Estimated net realizable value | - | - | 1,474,965 | 1,474,965 |
| Loss or provision recorded | (\$92,333) | \$8,496,803 | \$2,301,058 | \$10,705,528 |
| Discontinued Operations balances written down: | | | | |
| Goodwill | - | \$6,319,728 | \$1,789,753 | \$8,109,481 |
| Current portion of intangible assets | - | - | 163,661 | 163,661 |
| Long term portion of intangible assets | - | 3,023,701 | 580,805 | 3,604,506 |
| Future income taxes | - | (846,626) | (234,061) | (1,080,687) |
| Other | (92,333) | - | 900 | (91,433) |
| | (\$92,333) | \$8,496,803 | \$2,301,058 | \$10,705,528 |

Segment performance for the year is set out in Note 14 to the financial statements. The revenue, adjusted gross margin and adjusted EBITDA of each segment for this period was as follows:

| Segment | 2009 Revenue | 2009 Adjusted Gross Margin % | 2009 Segment Adjusted EBITDA | 2008 Segment Adjusted EBITDA |
|--------------------------------------|--------------|------------------------------|------------------------------|------------------------------|
| Engineering & Design, North America | \$31,338,333 | 24.23% | \$3,156,093 | 3,566,451 |
| Engineering & Design, United Kingdom | 14,539,681 | 15.95% | (198,834) | (838,676) |
| Soil Remediation | 3,159,787 | 50.04% | 365,801 | 684,188 |
| Distribution & Product Development | 4,833,259 | 28.28% | 7,247 | 1,043,897 |
| Corporate | 681 | n/a | (1,341,090) | (1,691,535) |
| Total Semcan Inc. | \$53,871,741 | 23.87% | 1,989,217 | 2,764,325 |

9.2 Capital Expenditures and Dispositions

Expenditures on property, equipment and intangible assets for the year ended December 31, 2009 were as follows:

| | | | |
|-----------------------|-----------|-------------------------|-------|
| Continuing operations | \$117,594 | Discontinued operations | \$nil |
|-----------------------|-----------|-------------------------|-------|

10. Discussion of Results for the Fourth Quarter

10.1 Overall Profitability and Segment Results

The following chart shows the Company's performance for the quarter ended December 31, 2009, with the results of the discontinued operations presented in the same way as those of the continuing operations.

| | Quarter ended December 31, 2009 | | |
|---|--|------------------------------------|---------------|
| | Continuing Operations | Discontinued Operations | Total |
| Revenue | \$5,202,332 | (\$832,089) | \$4,370,243 |
| Cost of goods sold | 4,058,021 | 445,502 | 4,503,523 |
| Amortization of acquired backlog | 0 | 0 | 0 |
| Total cost of sales | 4,058,021 | 445,502 | 4,503,523 |
| Gross margin | 1,144,311 | (1,277,591) | (133,280) |
| Unadjusted GM % | 22.00% | -153.54% | -3.05% |
| Adjusted GM % | 22.00% | -153.54% | -3.05% |
| Expenses | | | |
| Selling, general and administrative | 683,829 | 636,216 | 1,320,045 |
| (Loss) gain on foreign exchange | (52,153) | 642 | (51,511) |
| | 631,676 | 636,858 | 1,268,534 |
| Income (loss) before other items | 512,635 | (1,914,449) | (1,401,814) |
| Other items | | | |
| Interest expense | 357,885 | (4,454) | 353,431 |
| Loss on disposal of capital assets | 2,349 | 0 | 2,349 |
| Amortization | 223,927 | 279,108 | 503,035 |
| Stock compensation expense | 154,756 | 0 | 154,756 |
| | 738,917 | 274,654 | 1,013,571 |
| Loss before income taxes | (226,282) | (2,189,103) | (2,415,385) |
| Provision for (recovery of) income taxes | | | |
| Current | (265,900) | (508,420) | (774,320) |
| Future | (640,144) | (25,656) | (665,800) |
| | (906,044) | (534,076) | (1,440,120) |
| Loss from operations | 679,762 | (1,655,027) | (975,265) |
| Loss (recovery) on sale of discontinued operations | 0 | (290,975) | (290,975) |
| Provision for loss on sale of discontinued operations | 0 | 2,322,883 | 2,322,883 |
| Net loss for the period | \$679,762 | (\$3,686,935) | (\$3,007,173) |
| <u>Adjusted EBITDA:</u> | | | |
| Income before other items | \$512,635 | (\$1,914,449) | (\$1,401,814) |
| Add: Amortization of acquired backlog | 0 | 0 | 0 |
| Adjusted EBITDA | \$512,635 | (\$1,914,449) | (\$1,401,814) |

The following chart shows the Company's performance for the quarter ended December 31, 2008, with the results of the discontinued operations presented in the same way as those of the continuing operations.

| | Quarter Ended December 31, 2008 | | |
|---|--|------------------------------------|----------------------|
| | Continuing Operations | Discontinued Operations | Total |
| Revenue | \$11,102,952 | \$18,230,945 | \$29,333,897 |
| Cost of goods sold | 8,183,765 | 16,663,276 | 24,847,041 |
| Amortization of acquired backlog | 131,385 | 33,979 | 165,364 |
| Total cost of sales | 8,315,150 | 16,697,255 | 25,012,405 |
| Gross margin | 2,787,802 | 1,533,690 | 4,321,492 |
| Unadjusted GM % | 25.11% | 8.41% | 14.73% |
| Adjusted GM % | 26.29% | 8.60% | 15.30% |
| Expenses | | | |
| Selling, general and administrative | 1,434,843 | 2,947,030 | 4,381,873 |
| (Loss) gain on foreign exchange | (5,869) | 110,760 | 104,891 |
| | 1,428,974 | 3,057,790 | 4,486,764 |
| Income (loss) before other items | 1,358,828 | (1,524,100) | (165,272) |
| Other items | | | |
| Interest expense | 598,878 | 40,567 | 639,445 |
| Loss on disposal of capital assets | - | 17,523 | 17,523 |
| Amortization | 261,501 | (352,253) | (90,752) |
| Stock compensation expense | 175,859 | - | 175,859 |
| | 1,036,238 | (294,163) | 742,075 |
| Income (loss) before income taxes | 322,590 | (1,229,937) | (907,347) |
| Provision for (recovery of) income taxes | | | |
| Current | (119,708) | (327,718) | (447,426) |
| Future | 627,243 | 32,984 | 660,227 |
| | 507,535 | (294,734) | 212,801 |
| Loss from operations | (\$184,944) | (\$935,203) | (\$1,120,147) |
| Non-controlling Interest | - | 339 | 339 |
| Provision for loss on sale of discontinued operations | - | (5,176,863) | (5,176,863) |
| Loss for the year | (\$184,944) | (\$6,111,727) | (\$6,296,671) |
| Adjusted EBITDA: | | | |
| Income before other items | \$1,358,828 | (\$1,524,100) | (\$165,272) |
| Add: Amortization of acquired backlog | 131,385 | 33,979 | 165,364 |
| Adjusted EBITDA | \$1,490,213 | (\$1,490,121) | \$92 |

The Company generated Adjusted EBITDA (earnings before interest, tax, depreciation and amortization, non-controlling interest and stock-based compensation expense) from continuing operations of \$512,635 for the period, compared with \$1,490,213 for the same period in 2008. Adjusted EBITDA from discontinued operations was (\$1,914,449) compared with (\$1,490,121) for the same period in 2008. Total Adjusted EBITDA was (\$1,401,814) compared with \$92 for the same period in 2008.

Management's focus is on EBITDA from continuing operations as the key measure of profitability. The principal expenses not considered in EBITDA are:

- Stock compensation expense of \$154,756.
- Amortization (excluding amortization of intangible assets relating to acquired order backlogs) of \$223,927. This amount includes \$160,533 related to the amortization of other intangible assets. The remaining \$63,394 is depreciation of fixed assets.
- Gains or losses on sale of capital assets. During the period, there was a loss of \$2,349 on the sale of assets.
- Interest expense and loan arrangement fees of \$357,885 are primarily related to bank debt, vendor take-back promissory notes and promissory notes related to acquisitions made in prior years.

Management's view of the period's results for the continuing operations is as follows:

- i. Revenues of \$5.2 million were in line with expectations for the period. In the comparable period in 2008, revenues were \$11.1 million, which was well beyond expectations.
- ii. Adjusted gross margin of 22.00% were below expectations and reflect the competitiveness in our sector. Margins are expected to be soft heading into 2010.
- iii. Selling, general & administration ("SG&A") costs represent 13.14% of revenue from continuing operations, and 30.21% of total revenue. This statistic was skewed during this quarter as a result of revenue reversals suffered by Naston as a result of its inability to complete contracts. Our expected ratio has been 18% - 20% of revenue based on the combined continuing and discontinued operation. Since the continuing operations will soon bear all of these costs, corporate costs have been reduced to reflect the smaller go-forward operation. The SG&A expenses for the period include \$155,564 of costs related to the public holding company.
- iv. Adjusted EBITDA of \$512,635 is 9.85% of revenue, above our objective of 8%.

The negative revenue and EBITDA from the discontinued operations is due to the following:

- i. As a consequence of its weak financial position, Naston was forced to forgo completion of certain of its active projects in progress during the quarter. This led to a reversal of revenues and work in progress previously booked on the assumption that the company would be in a position to complete the projects and become entitled to collect remaining amounts outstanding on the contracts.
- ii. During Q4, the Company reclassified \$489,211 of inventory returns made by Nucleus which had been booked as revenues during Q1.

The revenue, adjusted gross margin and adjusted EBITDA of each segment for the quarter was as follows:

| Segment | Q4 2009 Revenue | Q4 2009 Adjusted Gross Margin % | Q4 2009 Segment Adjusted EBITDA | Q4 2008 Segment Adjusted EBITDA |
|--------------------------------------|--------------------|--|--|--|
| Engineering & Design, North America | \$5,201,651 | 21.99% | \$668,199 | 1,670,892 |
| Engineering & Design, United Kingdom | (342,878) | (355.79%) | (1,856,777) | (1,599,137) |
| Soil Remediation | - | - | - | 108,865 |
| Distribution & Product Development | (489,211) | (11.79%) | (57,672) | 151 |
| Corporate | 681 | 100.00% | (155,564) | (180,679) |
| Total Semcan Inc. | \$4,370,243 | (3.05%) | (1,401,814) | 92 |

10.2 Capital Expenditures and Dispositions

Expenditures on property, equipment and intangible assets for the three months ended December 31, 2009 were as follows:

| | | | |
|-----------------------|---------|-------------------------|-------|
| Continuing operations | \$5,614 | Discontinued operations | \$nil |
|-----------------------|---------|-------------------------|-------|

11. Outlook

The Company's continuing operations closed the year with an order backlog of approximately \$5,312,050, compared with a backlog of \$18,740,400 at December 31, 2008. Another \$2,163,000 of confirmed orders had been delayed by customers at December 31, 2009. The volume of responses to inquiries and requests for quotations remains high, but closing sales was difficult during 2009 due to strong competition and the fragile state of the economic recovery. In some cases, customers are having the Company complete the engineering portion of projects and deferring the capital build. We continue to believe that the long term outlook remains strong, based in large part on government regulation which is expected to drive increasingly strict environmental standards in the Company's key areas of activity.

The specific areas of activity and market drivers for **continuing operations** are as follows:

| Area of Activity | Market Segment | Regulatory Driver/Expected Result | Deadlines | Current Situation |
|----------------------------------|--|--|--|--|
| Industrial waste water treatment | Oil sands – Alberta Mining -North and South America | In the Oil Sands market, restriction in availability of fresh water from Athabasca River. Oil producers will be forced to reclaim water from lakes of contaminated water in order to continue production. In the Mining market, reagent systems are required to support product extraction (e.g. gold, copper, molybdenum, nickel) as well as treatment of the generated waste water to meet environmental regulations. | In the Oil Sands market, it is very likely that no new freshwater will be available for oil sands production, as early as 2012, based on total projects under consideration. | Activity has slowed considerably in 2009 with oil prices moving between US\$50 and US\$75 per barrel in recent quarters. Analysts suggest that new projects are economic with oil at greater than US\$70 per barrel. However, oil producers are awaiting sustained, multi-quarter higher oil pricing before committing to large capital expenditures. Activity has also slowed in the mining market in 2009, due to a drop in many raw metals prices associated with reduced demand. However, certain metals (e.g. gold) with ongoing high value continue to attract investment and capital expenditures. As other commodity prices climb back with economic growth post-recession, expect mining companies to review capital budgets and release investment for additional mining projects and upgrades. |

| Area of Activity | Market Segment | Regulatory Driver/Expected Result | Deadlines | Current Situation |
|--|----------------|---|---------------------|--|
| Flue gas desulphurization | USA | Clean Air Interstate Rule/Clear Skies are forcing the retrofit of at least 150 coal-fired power plants. In addition, the relative abundance of coal in the US means that coal will continue to be used as fuel to produce electricity for many years. | Not yet determined. | The Obama administration has targeted control of greenhouse gases as a key initiative. However, U.S. federal regulations for environmental controls are in process of being updated, with expectations for additional regulatory tightening of standards along with cap-and-trade programs to be implemented in 2010. Many power plant owners are awaiting the outcome of these new rules before committing to large expenditures for environmental compliance. Combined with less attractive financing access along with a general economic slowdown reducing power demand, projects have been delayed, and competition for work on projects which are moving ahead is fierce. Once updated federal standards have been promulgated, significant capital expenditures are expected in this market as power plant owners update pollution control equipment to meet new regulations. |
| Municipal drinking water and waste water treatment | Canada and US | Continuing requirement for clean drinking water as well as treatment of municipal waste water to meet environmental regulations. | Ongoing | Continuing demand from this traditional market, as population grows and environmental regulations tighten. |

The specific areas of activity and market drivers for **discontinued operations** are as follows:

| Area of Activity | Market Segment | Regulatory Driver/Expected Result | Deadlines | Current Situation |
|-----------------------|----------------|---|-----------|--|
| Waste water treatment | United Kingdom | Increased cost of disposing of contaminated water, and increased cost of purchasing clean water from the utilities. | Ongoing. | New funding for water projects under AMP5 program starts in 2010. Volume of order inquiries is very low. |

At December 31, 2009, the Company's order backlog for the continuing business was approximately:

| Area of Activity | | Value |
|---------------------------------|----|-----------|
| Flue gas desulphurization | \$ | 759,600 |
| Mining and oil sands | | 2,050,300 |
| Municipal water – North America | | 2,331,200 |
| Industrial conveying systems | | 170,950 |
| TOTAL | \$ | 5,312,050 |

Another \$2,163,000 of confirmed orders had been delayed by customers at December 31, 2009.

At December 31, 2009, the Company's order backlog for the discontinued operations was approximately:

| Area of Activity | | Value |
|--|----|-----------|
| Waste water treatment – United Kingdom | \$ | 1,382,600 |
| TOTAL | \$ | 1,382,600 |

12. Eight Quarter Review of Operating Results

| | 2009 | 2009 | 2009 | 2009 | 2008 | 2008 | 2008 | 2008 |
|--|---------------|-------------|---------------|-------------|---------------|---------------|-------------|-------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue before discontinued operations | \$5,202,332 | \$7,254,446 | \$9,541,261 | \$9,340,975 | \$11,102,952 | \$6,244,916 | \$6,129,107 | \$5,861,266 |
| Gross profit before discontinued operations | \$1,144,311 | \$2,068,774 | \$2,211,758 | \$2,124,223 | \$2,787,802 | \$1,504,944 | \$738,359 | \$1,670,272 |
| Gross profit % before discontinued operations | 22.00% | 28.52% | 23.18% | 22.74% | 25.11% | 24.10% | 12.05% | 28.50% |
| Net income (loss) before discontinued operations | 679,762 | (\$46,334) | (\$386,510) | (\$481,574) | (\$184,944) | (\$1,082,381) | (\$984,058) | (\$51,192) |
| Per share (basic) | \$0.022 | (\$0.002) | (\$0.012) | (\$0.016) | (\$0.006) | (\$0.039) | (\$0.037) | (\$0.002) |
| Per share (diluted) | \$0.022 | (\$0.002) | (\$0.012) | (\$0.016) | (\$0.006) | (\$0.039) | (\$0.037) | (\$0.002) |
| Net income (loss) | (\$3,007,173) | (\$296,089) | (\$7,386,076) | (\$217,738) | (\$6,297,349) | (\$1,791,911) | (\$578,049) | \$405,529 |
| Per share (basic) | (\$0.097) | (\$0.010) | (\$0.238) | (\$0.007) | (\$0.213) | (\$0.065) | (\$0.022) | \$0.018 |
| Per share (diluted) | (\$0.097) | (\$0.010) | (\$0.238) | (\$0.007) | (\$0.213) | (\$0.065) | (\$0.022) | \$0.017 |

13. Related Party Transactions

Related party transactions during the year ended December 31, 2009 were:

- (a) The Company paid or accrued a total of \$100,020 (2008 - \$542,596) to a shareholder for services provided, comprised of \$100,020 (2008 - \$99,996) as a retainer for advisory services (including strategic and legal advice) and \$nil (2008 - \$442,600) of fees earned with respect to representation and completion of acquisitions made by the Company.
- (b) The Company paid rent of \$104,820 (2008 - \$98,400) for a corporate office at 365 Adelaide Street East, Toronto. The landlord is a company controlled by the Company's chairman. The landlord released the Company from this lease as of December 31, 2009.
- (c) The Company paid or accrued interest of \$217,178 (2008 - \$219,635) on a loan from the Company's chairman and two companies controlled by a significant shareholder.
- (d) The Company paid or accrued interest of \$6,330 (2008 - \$2,607) on a loan maturing September 30, 2011 from a company controlled by the spouse of the Company's Chief Financial Officer.

14. Financial Instruments and Other Instruments

To date, the Company has not entered into any derivatives or financial instruments aside from day-to-day cash balances, accounts receivable, accounts payable, bank borrowings and term debt.

The Company faces exchange risk with respect to US dollar- and UK pound-denominated financial assets and liabilities. To date, the Company has not engaged in hedging through forward contracts to mitigate risk from fluctuations in the exchange rate between the US dollar, UK pound and the Canadian dollar. As the Company enters into future orders with international customers, it may use financial instruments to mitigate exchange risk. The Company intends to use these instruments in a non-speculative manner, and a policy will be developed and approved by the Board prior to implementation.

The Company's debt is comprised of both fixed rate (primarily promissory notes held by vendors of acquired businesses) and floating rate (bank operating loan and the Bridge Loan). The Company views the overall profile of its debt structure to be advantageous given the current trend in interest rates and does not intend to use financial instruments to convert any of the outstanding debt to fixed rate or variable rate.

Details of the Company's financial risk management approach are given in Note 19 to the financial statements.

15. Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in notes 1 and 3 to the 2009 audited annual consolidated financial statements.

Significant areas for which estimates are employed include:

- i) contract accounting and revenue recognition;
- ii) impairment analyses of goodwill and other intangible assets;
- iii) going concern assumption;
- iv) allowance for doubtful accounts; and
- v) the useful lives of property, plant and equipment and intangible assets.

The Company evaluates its estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from those estimates and assumptions.

International Financial Reporting Standards

In 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises will be required to adopt International Financial Reporting Standards (“IFRS”) for interim and annual reporting purposes, beginning on or after January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

The Company began planning the transition from current Canadian GAAP to IFRS in 2009. The initiative is led by a senior finance member who will provide overall project governance, management and support. Financial reporting staff will be involved in the implementation of changes to systems and practices in order to report in accordance with IFRS.

Quarterly reports to the Audit Committee regarding the status of the transition were started during Q4 2009. The Audit Committee will play a more active and increasing role in the project during 2010.

The project plan consists of three phases: the initial assessment, detailed assessment and design, and implementation.

The Company has completed the initial assessment phase. After completing a high-level review of the major differences between current Canadian GAAP and IFRS, the Company has determined that the area of accounting differences with the highest potential to impact its business are accounting for revenue recognition on systems integration projects, as well as initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS. Other changes relate more to enhanced disclosures under IFRS.

The Company is currently in the process of completing the detailed assessment and design phase, which is primarily focused on completing a comprehensive analysis of the impact of the IFRS differences identified in the initial assessment phase.

During the implementation phase, the Company will implement the identified changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting.

16. Contractual Obligations

At December 31, 2009, the Company had the following commitments under operating leases requiring minimum payments and principal repayment obligations under long-term debt and notes payable:

| | Operating Leases | Principal | Total |
|-------------------------|------------------|-------------|-------------|
| Continuing operations | \$888,716 | \$6,004,320 | \$6,893,036 |
| Discontinued operations | 318,282 | - | 318,282 |
| Total | \$1,206,998 | \$6,004,320 | \$7,211,318 |

At December 31, 2009, the Company had contractual obligations to complete projects that were in progress. The remaining revenue to be earned on these contracts by continuing operations is approximately \$5,312,050. The remaining revenue to be earned on these contracts by discontinued operations is approximately \$1,382,600.

17. Share Data

Semcan Inc. is authorized to issue an unlimited number of common shares. Common shares of the Company trade on the TSX Venture Exchange under the symbol "STT." At the date of this report, the Company had 31,097,867 (December 31, 2008 - 31,058,267) common shares issued and outstanding. The Company is also authorized to issue an unlimited number of preferred shares, issuable in series. At the date of this report, no preferred shares have been issued.

The Company has paid no dividends on its common shares. The payment of dividends in the future will be dependent upon the financial condition, capital requirements, earnings and such other factors, as the board of directors may deem relevant.

On March 7, 2007 the Company introduced a stock option plan and granted options on 1,200,000 Common Shares to directors and officers of the company and its operating subsidiaries, of which 500,000 have been cancelled. The options are exercisable for a period of five years after vesting at an exercise price of \$0.65 per share. On November 1, 2007, the Company issued options on a further 1,085,000 Common Shares to employees of the Company and its operating subsidiaries, of which 200,000 have been cancelled. The options are exercisable for a period of five years after vesting at an exercise price of \$1.11 per share. On November 3, 2008, the Company issued options on a further 250,000 Common Shares to employees of the Company and its operating subsidiaries, of which 250,000 have been cancelled. The options are exercisable for a period of five years after vesting at an exercise price of \$0.59 per share.

Options granted to directors vest immediately, whereas options granted to management vest over a period of two to three years depending on level of management, and subject to the achievement of performance targets.

Common Shares and Warrants issued and outstanding at December 31, 2009:

| | Warrants | | Common Shares | | Total |
|--|------------------|------------------|-------------------|-------------------|-------------------|
| | Number | \$ | Number | \$ | \$ |
| Balance at December 31, 2007 | 6,395,370 | 1,887,064 | 26,215,117 | 8,282,694 | 10,169,758 |
| Issued upon exercise of warrants | (30,000) | (3,402) | 30,000 | 15,402 | 12,000 |
| Issued as a result of private placement | 2,754,895 | 234,199 | 4,833,150 | 3,822,179 | 4,056,378 |
| Issued to employees | - | - | 20,100 | 6,030 | 6,030 |
| Balance at December 31, 2008 | 9,120,265 | 2,117,861 | 31,098,367 | 12,126,305 | 14,244,166 |
| Expiry of warrants (i) | (8,198,612) | (1,474,861) | - | - | (1,474,861) |
| Expiry of broker warrants (i) | (921,653) | (643,000) | - | - | (643,000) |
| Cancellation of shares issued to employees | - | - | (500) | (150) | (150) |
| Warrants issued to lender (ii) | 2,000,000 | 102,071 | - | - | 102,071 |
| Balance at December 31, 2009 | 2,000,000 | 102,071 | 31,097,867 | 12,126,155 | 12,228,226 |

(i) The value associated with the expired warrants was transferred to contributed surplus.

(ii) On November 27, 2009, the Company issued 2,000,000 common share purchase warrants to a lender. Each warrant entitles the holder to acquire a common share at an exercise price of \$0.10 per share between November 27, 2009 and November 27, 2011.

Under the terms of an agreement to extend the maturity date of the Westdale Loan, the Company has agreed to issue to the lender 500,000 common share purchase warrants exercisable at \$0.10 per share until August 11, 2010.

18. Risks

Going Concern

Readers are referred to section 1, which addresses the Company's current financial position.

The Company is currently not in compliance with one of the financial covenants governing its bank operating facility. The Company breached the same covenant for the quarter ended December 31, 2008, and the bank provided a waiver for this non-compliance. The bank has not provided a waiver with respect to the non-compliance at December 31, 2009.

At December 31, 2009, the Company has a working capital deficiency of \$9,931,560. The working capital deficiency for the continuing operations is \$6,107,440.

It will be necessary for the Company to access alternative financing, or negotiate extensions with respect to repayment of the balances owing on the Bridge Loan and the two promissory notes owing to the previous owners of Stanco and EPT, for the Company to be in a position to retire the current obligations in a manner

acceptable to its lenders. It is not possible to predict whether the actions taken in satisfying these obligations will result in improvements to the financial condition of the Company in a sufficient manner to allow it to continue as a going concern.

There is no assurance that the Company will be able to execute these plans on a timely basis to repay the debt obligations. Due to material uncertainties related to negotiations with lenders, they cast significant doubt upon the Company's ability to continue as a going concern. As a result, there can be no assurance that expected future cash flows will be realized or will be sufficient for the Company to continue as a going concern. The Company's financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the going concern assumption become inappropriate. These adjustments could be material to the financial statements.

Investment risk

Our strategy has included investing in successful companies operating high quality businesses that generate sustainable cash flows. There is risk that we could invest in a business that fails to meet our performance expectations over the medium to long term. We believe we mitigate this risk through the application of our investment criteria and our disciplined investment process. By investing in companies with a history of profitability and market prominence, we reduce the risk of future losses.

In all cases, we must be convinced of management's competence and character before investing. Our policy is to contract with existing management for a two- to three-year period to help us through the transition and be physically present in the event that operating or financial issues come to light which were not apparent during the due diligence examination. We typically finance a portion of the acquisition with a vendor take-back promissory note, the maturity of which coincides with the conclusion of the management contract.

We conduct business, legal, and financial due diligence investigations on all our acquisitions, and the purchase and sale agreements pursuant to which we make our investment in a target company generally contain customary representations and warranties with respect to the applicable business and related indemnities from the vendors regarding corporate matters, taxes, litigation, operations, employee matters, and financial statements, among others. However, there can be no assurance that we will uncover all risks associated with the investment in our due diligence investigations or that the representations and warranties given by such vendors will adequately protect against such risks or of recovery by us in the event of a breach of a representation and warranty.

From time to time, we may wish to divest of a business that is not meeting our performance expectations. This may result in losses from the disposal or wind-up of that business operation.

Business Valuations

When we were acquiring businesses, we sought to invest in excellent private businesses at prices that were accretive to shareholders. Market conditions, competitive factors, and the availability of suitable investments will have an impact on the prices at which we are able to acquire additional cash flows, should we acquire additional businesses in the future.

Condition of Capital Markets

The condition of the capital markets was a risk to Semcan when it was growing through acquisition. The Company's has revised its strategy in light of current conditions and is not as dependant on new equity to sustain growth. However, the Company may look to the capital markets for equity to provide working capital.

Currency Risk

The Company's segments sell goods and services and purchase goods and services in Canadian dollars, US dollars, UK pounds and Euros. Since the Company reports its results in Canadian dollars, it is exposed to changes in the value of the other currencies relative to that of the Canadian dollar.

Dependence on Key Personnel

The success of Semcan and of each of its segments depends on their respective senior management teams and other key employees, including their ability to retain and attract skilled management and employees. The loss of the services of key personnel could have a material adverse effect on the business, financial condition, results of operations or future prospects of Semcan and its segments. Semcan and its segments may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that Semcan will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on Semcan's business, financial condition, results of operations, and future prospects.

General Economic Factors

Semcan's business and the business of each of our segments is subject to changes in general economic conditions including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence.

Environmental Legislation

Environmental matters are subject to regulation under a variety of international, federal, provincial, territorial, state and municipal laws relating to health and safety and the environment. Management believes that the segments are in material compliance with applicable environmental legislations; however, regulation is subject to change and, accordingly, it is impossible to predict the costs of compliance with new laws or the effects that changes would have on the segments or their future operations.

Labour

The success of the Company depends on the ability of the segments to maintain their respective productivity and profitability. The productivity and profitability of the segments may be limited by their ability to employ, train and retain the skilled personnel necessary to meet their respective requirements. None of the segments can be certain that they will be able to maintain the adequate skilled labour force necessary to operate efficiently and to support their growth strategies.

Furthermore, none of the segments can be certain that their labour expenses will not increase as a result of shortage in the supply of these skilled personnel. Labour shortages or increased labour costs could impair the ability of a segment to maintain or grow its respective business.

Interest Rate Risk

The interest charges under Semcan's operating lines of credit and certain other loans are based on the prime lending rate. Increases in rates could negatively impact our operating results.

Regulation

Semcan and its segments are subject to a variety of international, federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Semcan's and its segments' business, financial condition, results of operations and cash flows. Although such

expenditures historically have not been material, such laws and regulations are subject to change. Accordingly, it is impossible for Semcan or the segments to predict the cost or impact of such laws and regulations on their respective future operations.

Competition

There can be no assurance that Semcan and the segments will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations, and cash flows.

Potential Unknown Liabilities

In connection with its acquisitions, there may be unknown liabilities assumed by Semcan through its interests in the segments for which Semcan may not be indemnified by the prior owner. The discovery of any material liabilities could have a material adverse effect on the business, financial condition, results of operations, and future prospects of Semcan. The Company endeavours to mitigate this risk through a rigorous due diligence process.

Potential Future Developments

Management of the Company, in the ordinary course of business, regularly explores potential strategic opportunities and transactions. The public announcement of any of these or similar strategic opportunities or transactions might have a significant effect on the price of the Company's securities. The Company's policy is not to publicly disclose the pursuit of a potential strategic opportunity or transaction unless and until a definitive binding agreement is reached or management is confident that the transaction will be completed. There can be no assurance that investors who buy or sell securities of the Company are doing so at a time when the Company is not pursuing a particular strategic opportunity or transaction, which, when announced, would have a significant effect on the price of the Company's securities.

19. Directors

Ian L.T. Conn
Dallas, Texas

George Enns
Toronto, Ontario

Randy Fowle
Waterloo, Ontario

Philip Jamieson
Guelph, Ontario

Ronald F. O'Hearn
Toronto, Ontario

David Snowden
Toronto, Ontario

Remy Stachowiak
Vancouver, BC

20. Additional Information

Additional information regarding Semcan Inc. is available on SEDAR at www.sedar.com. Further information about the Company's operations can be viewed at www.semcan.com, which links to other company websites.

The Company's auditors have not reviewed this document.

Appendix - GLOSSARY OF TERMS

In this document, the following terms shall have the meanings set forth below, unless otherwise indicated or the context otherwise requires:

“**Adjusted EBITDA**” means earnings before income taxes, depreciation and amortization of property and equipment and all intangible assets, non-controlling interest, loss on disposal of property and equipment, and stock-based compensation expense;

“**Bridge Loan**” means a loan received on April 21, 2008 from Philip Jamieson, Tricaster Holdings Inc. and Combined Telecom Inc.;

“**Company**” means Semcan Inc., a corporation continued under the Canada Business Corporations Act, as well as its subsidiaries;

“**CVA**” means the Company Voluntary Arrangement proposed by Naston to its creditors on December 14, 2009 which, after creditors’ meetings on January 4, 2010 and January 18, 2010, was amended and approved by a majority of the creditors;

“**EBITDA**” means earnings before income taxes, depreciation and amortization of property and equipment and all intangible assets except for intangible assets related to acquired order backlogs, non-controlling interest, loss on disposal of property and equipment, and stock-based compensation expense;

“**EPT**” means Enviro-Pro-Tech, Inc., a corporation established under the laws of the State of Florida;

“**Forward Division**” and “**Forward600**” means the following operating division of Nucleus Distribution Inc.: Forward600 Precision Tools & Machinery;

“**GAAP**” means, at any time, Canadian generally accepted accounting principles, including those set out in the Handbook of the Canadian Institute of Chartered Accountants, applied on a consistent basis;

“**Ken-Co Divisions**” means the following operating divisions of Nucleus Distribution Inc.: Ken-Co, F.M.S.I., EFI, Perm-O-Seal, Paris Custom Tubing, and TEC Automotive Industries Inc.;

“**Ken-Co Loan**” means the \$2,000,000 promissory note which matured on February 28, 2009 relating to the Company’s purchase of Ken-Co Industries Ltd.;

“**Normalized EBITDA**” means EBITDA (earnings before income taxes, depreciation and amortization), as adjusted for income and expenses which will not be incurred by the target company post-acquisition;

“**Nucleus**” means Nucleus Distribution Inc. (formerly Nucleus Financial Network Inc.), a corporation established under the laws of the Province of Ontario;

“**Segment EBITDA**” means segment income plus amortization booked by that segment;

“**Semcan**” means the Company and its segments, collectively;

“**Semco**” means Semco Systems Limited, a corporation established under the laws of the Province of Ontario, and its operating divisions, which trade as Semco Systems. Stanco Projects and Walter Equipment. On June 4, 2009, the name of this corporation was changed to Stanco Projects Limited;

“**SPI**” means Stanco Projects Inc. (formerly Transfer Bulk Systems, Inc.), a corporation established under the laws of the State of Delaware;

“**SPL**” means Stanco Projects Limited (formerly known as Semco Systems Limited), a corporation established under the laws of the Province of Ontario. On June 4, 2009, the name of this corporation was changed to Stanco Projects Limited;

“**Stanco**” means the operating division of SPL, which carries on business as Stanco Projects;

“**TBS**” means Transfer Bulk Systems, Inc., a corporation established under the laws of the State of Delaware, the name of which was changed to Stanco Projects Inc. on August 26, 2009;

“**TSX Venture**” means the Toronto Venture Exchange;

“**Westdale Loan**” means a \$3,000,000 loan received on November 12, 2008 from Westdale Construction Co. Ltd.; and

“**ZMI**” and “**ZMI Portec**” means the former assets of The Conveyor Company purchased by the Company on November 14, 2008. These assets are being operated by the Company to produce slakers, a key component of its engineered systems.