

Semcan Inc.
Consolidated Financial Statements
For the interim three month period ended
March 31, 2010
(Unaudited – Prepared by Management)

Contents

Consolidated Balance Sheets	2
Consolidated Statements of Loss and Comprehensive Loss	3
Consolidated Statements of Shareholders' (Deficit) Equity and Accumulated Other Comprehensive Income	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 – 26

Semcan Inc.
Consolidated Balance Sheets (Unaudited)

March 31,
2010

December 31,
2009

Assets

Current

Cash and cash equivalents	\$	135,936	\$	260,794
Accounts receivable, net of doubtful accounts (Note 18(b))		2,036,180		2,344,502
Note receivable (Note 4(a))		101,580		105,100
Deferred contract costs and unbilled revenue (Note 5)		1,138,494		1,708,188
Inventory (Note 6)		489,656		488,968
Prepaid expenses and other assets		94,774		94,477
Currents assets of discontinued operations (Note 16)		339,872		425,344
Total current assets		4,336,492		5,427,373

Goodwill and other intangible assets (Note 7)		7,986,707		8,146,631
Property and equipment (Note 8)		490,649		528,822
Long-lived assets of discontinued operations (Note 16)		281,352		306,665

	\$	13,095,200	\$	14,409,491
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Liabilities and Shareholders' Deficit

Current

Bank indebtedness (Note 9)	\$	839,702	\$	-
Accounts payable and accrued liabilities		2,804,221		3,807,357
Deferred revenue		949,906		1,058,469
Income taxes payable		-		3,665
Future income taxes		998,549		1,209,570
Current portion of notes payable (Note 10)		5,005,176		5,022,117
Current portion of long-term debt (Note 10)		5,175		8,291
Current liabilities of discontinued operations (Note 16)		4,056,550		4,249,464
Total current liabilities		14,659,279		15,358,933

Notes payable (Note 10)		959,082		973,912
Future income taxes		1,029,326		1,071,370
		16,647,687		17,404,215

Shareholder's Deficit		(3,552,487)		(2,994,724)
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	\$	13,095,200	\$	14,409,491
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GOING CONCERN AND LIQUIDITY RISK (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 14 and 20)

Approved on behalf of the Board:

Director

Director

Semcan Inc.

Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

	For the three month period ended March 31, 2010	For the three month period ended March 31, 2009
Revenue	\$ 2,467,139	\$ 9,340,975
Cost of goods sold, excluding amortization	2,081,458	7,172,501
Amortization of acquired order backlog	-	44,251
Cost of sales	<u>2,081,458</u>	<u>7,216,752</u>
Gross margin	<u>385,681</u>	<u>2,124,223</u>
Expenses		
Selling, general and administrative	1,008,334	2,009,540
Gain on foreign exchange	(46,770)	(30,995)
	<u>961,564</u>	<u>1,978,545</u>
(Loss) income before the following	<u>(575,883)</u>	<u>145,678</u>
Interest expense	119,192	280,097
Amortization of property and equipment	42,085	80,451
Amortization of intangible assets	159,924	160,533
Stock compensation expense (Note 11)	-	128,899
	<u>321,201</u>	<u>649,980</u>
Loss before income taxes	<u>(897,084)</u>	<u>(504,302)</u>
Provision for (recovery of) income taxes		
Current	6,442	32,846
Future	(253,064)	(55,574)
	<u>(246,622)</u>	<u>(22,728)</u>
Net loss from continuing operations	<u>(650,462)</u>	<u>(481,574)</u>
(Loss) income from discontinued operations before non-controlling interest	(99,381)	162,298
Non-controlling interest relating to discontinued operations	-	1,191
(Loss) income from discontinued operations	<u>(99,381)</u>	<u>161,107</u>
Recovery of provision previously recorded for loss on sale of discontinued operations	-	102,729
Net (loss) income from discontinued operations (Note 16)	<u>(99,381)</u>	<u>263,836</u>
Net loss for the period	<u>(749,843)</u>	<u>(217,738)</u>
Other comprehensive income		
Currency translation adjustment	192,080	48,123
Comprehensive loss for the period	<u>\$ (557,763)</u>	<u>\$ (169,615)</u>

Loss per share (Note 17)

Semcan Inc.

**Consolidated Statements of Shareholders' (Deficit) Equity and
Accumulated Other Comprehensive Income (Unaudited)**

	Share Capital (Note 11)	Contributed Surplus (Note 11)	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficit)
Balance, December 31, 2008	\$ 14,244,166	\$ 1,079,563	\$ (8,310,040)	\$ 492,944	\$ 7,506,633
Cancellation of shares	(150)	-	-	-	(150)
Stock compensation expense	-	331,987	-	-	331,987
Expiry of warrants	(2,117,861)	2,162,861	-	-	45,000
Issue of warrants	102,071	-	-	-	102,071
Net loss for the year	-	-	(10,907,076)	-	(10,907,076)
Other comprehensive loss for the year:					
Currency translation adjustment	-	-	-	(73,189)	(73,189)
Balance, December 31, 2009	\$ 12,228,226	\$ 3,574,411	\$(19,217,116)	\$ 419,755	\$ (2,994,724)
Balance, December 31, 2009	\$ 12,228,226	\$ 3,574,411	\$(19,217,116)	\$ 419,755	\$ (2,994,724)
Net loss for the period	-	-	(749,843)	-	(749,843)
Other comprehensive income for the period:					
Currency translation adjustment	-	-	-	192,080	192,080
Balance, March 31, 2010	\$ 12,228,226	\$ 3,574,411	\$(19,966,959)	\$ 611,835	\$ (3,552,487)

Semcan Inc.
Consolidated Statements of Cash Flows (Unaudited)

**For the three
month period
ended March
31, 2010**

For the three
month period
ended March
31, 2009

Cash flows from operating activities

Net loss from continuing operations	\$ (650,462)	\$ (481,574)
Items not affecting cash:		
Amortization of property and equipment	42,085	80,451
Amortization of intangible assets other than value of acquired order backlog	159,924	160,533
Amortization of intangible assets related to acquired order backlog	-	44,251
Future income taxes	(253,064)	(55,574)
Stock compensation expense	-	128,899
Net change in working capital balances other than cash and cash equivalents (continuing operations) (Note 12)	<u>(238,333)</u>	<u>745,036</u>
	<u>(939,850)</u>	<u>622,022</u>
Discontinued operations	<u>116,952</u>	<u>(567,009)</u>
Cash (used in) provided by operating activities	<u>(822,898)</u>	<u>55,013</u>

Cash flows from financing activities

Repayment of long-term borrowings	(34,887)	(191,129)
Notes receivable	3,520	-
Borrowings from (repayment of) bank operating loan	<u>839,702</u>	<u>(10,000)</u>
	<u>808,335</u>	<u>(201,129)</u>
Discontinued operations	<u>25,313</u>	<u>(627,852)</u>
Cash provided by (used in) financing activities	<u>833,648</u>	<u>(828,981)</u>

Cash flows from investing activities

Purchase of property, equipment and intangible assets	(3,911)	(52,984)
Business acquisitions - net of cash acquired	-	(7,984)
Payment of amounts due to vendors for working capital	<u>-</u>	<u>(7,128)</u>
	<u>(3,911)</u>	<u>(68,096)</u>
Discontinued operations	<u>-</u>	<u>30,323</u>
Cash provided by (used in) investing activities	<u>(3,911)</u>	<u>(37,773)</u>

Change in cash and cash equivalents during the period	6,839	(811,741)
Increase in cash due to changes in foreign exchange rates	-	49,950
Cash and cash equivalents, beginning of period	<u>293,031</u>	<u>2,978,989</u>

Cash and cash equivalents, end of period	299,870	2,217,198
Cash and cash equivalents, end of period - discontinued operations	<u>163,934</u>	<u>1,460,750</u>
Cash and cash equivalents, end of period - continuing operations	<u>\$ 135,936</u>	<u>\$ 756,448</u>

Supplemental Cash Flow Information:

Interest paid - continuing operations	\$ 103,500	\$ 208,582
Income taxes paid - continuing operations	34,396	113,495
Interest paid - discontinued operations	1,679	52,597
Income taxes paid - discontinued operations	-	80,723

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

1. Going Concern and Liquidity Risk

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 March 31, 2010, the Company has a working capital deficiency of \$10,322,787 (December 31, 2009 - \$9,931,560). The working capital deficiency for the continuing operations is \$6,606,109 (December 31, 2009 - \$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 lenders (see Note 10) 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. These consolidated 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 consolidated financial statements.

2. Nature of Operations

Semcan Inc. ("Semcan" or the "Company") is continued under the Canada Business Corporations Act. On February 5, 2007, the Company changed its name to Semcan Inc. (from Semco Technologies Inc.). Its common shares trade on the TSX Venture Exchange under the symbol STT.

Until April 27, 2009, the Company operated two core businesses: engineering and design, and distribution and product development. The distribution and product development segment, which was owned by subsidiary Nucleus Distribution Inc., was sold on April 27, 2009 (see Note 4(b)).

During 2009, the North American engineering and design segment was owned by subsidiaries Stanco Projects Limited (formerly Semco Systems Limited) ("Stanco"), Stanco Projects Inc. ("SPI"), ZMI Portec Inc. ("ZMI") and Enviro-Pro-Tech, Inc. ("EPT"). The sale of EPT closed on August 31, 2009 (see Note 4(a)). On January 1, 2010, the Company amalgamated with Stanco and ZMI.

The United Kingdom engineering and design business is owned by holding company Stanco Systems UK Limited ("Stanco UK") and its subsidiary Naston Limited ("Naston"). This segment is classified as discontinued operations.

The Company's core business is the North American engineering and design segment owned by Semcan and SPI.

As at March 31, 2010

3. Significant Accounting Policies

The consolidated interim financial statements of the Company should be read in conjunction with the annual audited consolidated financial statements as these interim financial statements are prepared in accordance with the requirements of Canadian generally accepted accounting principles for interim financial statements. These consolidated interim financial statements follow the same accounting policies and methods of application as the annual consolidated financial statements for the year ended December 31, 2009.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Canadian public entities will have to adopt International Financial Reporting Standards (“IFRS”) effective for fiscal years beginning on or after January 1, 2011. The Company will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ending March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of the Company will likely be significant and, as such, the Company has begun to develop its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. The Company continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. It is not the Company’s intention to adopt IFRS prior to January 1, 2011.

The CICA issued Handbook Section 1582, “Business Combinations,” which replaces Section 1581 and Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests,” which together replace Section 1600. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs will be expensed. In the existing standards these costs are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value, with changes in value charged to earnings for each period until settled. Currently, only the contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill will be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011, with prospective application. The Company is currently evaluating the impact of adopting these standards.

In January 2009, the CICA issued Handbook Section 1602, “Non-controlling Interests,” which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the IFRS guidance on consolidated and separate financial statements. The standard is effective for 2011, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard.

In January 2009, the CICA issued Handbook Section 1601, “Consolidated Financial Statements,” which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard.

On April 29, 2009, the CICA amended Section 3855, “Financial Instruments – Recognition and Measurement,” adding/amending paragraphs regarding the application of the effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The amendments are not expected to have a significant impact on the Company’s accounting for its financial instruments.

As at March 31, 2010

3. Significant Accounting Policies

In December 2009, the CICA issued EIC 175 - "Multiple Deliverable Revenue Arrangements" – replacing EIC 142 - "Revenue Arrangements with Multiple Deliverables." This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of a selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the entity's fiscal period of adoption. The Company is currently assessing the potential impact of this new standard.

4. Divestitures

(a) **Enviro-Pro-Tech, Inc.**

On August 31, 2009, the Company completed the sale of EPT to U.S. O'Neill Industries, LLC. The sale price was US\$1,675,000, subject to an adjustment for book value calculated as at the closing date. After taking effect of this adjustment, the total expected net proceeds after commissions are US\$1,345,000. The Company has received cash of US\$1,245,000 and is entitled to an additional payment of between US\$100,000 and US\$200,000 due May 31, 2010, subject to an adjustment relating to EPT's earnings. The Company has recorded US\$100,000 (C\$101,580) representing the guaranteed portion of this amount, which is classified as Note Receivable on the Company's balance sheet. The loss on the sale of EPT was \$2,301,058, which was recorded in the year ended December 31, 2009.

(b) **Nucleus Distribution Inc.**

On April 27, 2009, the Company closed the sale of Nucleus to Octagon Distribution Company Limited. The total proceeds were approximately \$6,500,000, comprised of the assumption of all of Nucleus' existing debt, as well as a \$2,000,000 promissory note owed by the Company to the former owners of Ken-Co Industries Ltd. The loss on the sale of Nucleus was \$5,084,530, including a provision of \$5,176,863 recorded in the year ended December 31, 2008 and a recovery of \$92,333 recorded in the year ended December 31, 2009.

5. Deferred contract costs and unbilled revenue

Deferred contract costs and unbilled revenue of \$1,138,494 (December 31, 2009 - \$1,708,188) represents the value of work performed on engineering and design contracts for which the Company has not yet billed customers.

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

6. Inventory

Inventory is comprised of the following:

	March 31, 2010	December 31, 2009
Finished goods	\$ <u>147,752</u>	\$ <u>127,224</u>
Assembly parts	<u>341,904</u>	<u>361,744</u>
	\$ <u>489,656</u>	\$ <u>488,968</u>

The inventory value shown above is net of a provision for obsolescence of \$284,502 (December 31, 2009 - \$328,091). The amount of inventories expensed during the period ended March 31, 2010 is \$156,276. As at March 31, 2010 and December 31, 2009, all inventory is recorded at cost.

Inventory does not include deferred contract costs and unbilled revenue related to engineering and design contracts.

7. Goodwill and Other Intangible Assets

The balance of goodwill and other intangible assets is comprised of the following:

	March 31, 2010	December 31, 2009
Goodwill	\$ <u>3,184,419</u>	\$ 3,184,419
Other Intangible assets		
Customer relationships	5,263,000	5,263,000
Trademark	1,112,882	1,112,882
Accumulated amortization	<u>(1,573,594)</u>	<u>(1,413,670)</u>
	<u>4,802,288</u>	<u>4,962,212</u>
Total Goodwill and Other Intangible Assets	\$ <u>7,986,707</u>	\$ <u>8,146,631</u>

8. Property and Equipment

	Cost	Accumulated Amortization	March 31, 2010 Net Book Value
Leasehold improvements	\$ 153,494	\$ 77,925	\$ 75,569
Machinery and equipment	342,947	276,127	66,820
Furniture and fixtures	353,149	229,084	124,065
Automotive equipment	140,877	74,501	66,376
Computer equipment	775,068	617,249	157,819
	<u>\$ 1,765,535</u>	<u>\$ 1,274,886</u>	<u>\$ 490,649</u>

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

8. Property and Equipment - continued

	Cost	Accumulated Amortization	December 31, 2009 Net Book Value
Leasehold improvements	\$ 153,493	\$ 73,946	\$ 79,547
Machinery and equipment	342,947	273,391	69,556
Furniture and fixtures	465,237	282,095	183,142
Automotive equipment	140,877	69,119	71,758
Computer equipment	659,071	534,252	124,819
	<u>\$ 1,761,625</u>	<u>\$ 1,232,803</u>	<u>\$ 528,822</u>

9. Bank Indebtedness

The Company's continuing operations have access to a line of credit limited to \$1,153,132 at March 31, 2010 (December 31, 2009 - \$1,178,743), on which the drawn amount is \$839,702 (December 31, 2009 - \$nil). Amounts drawn are repayable on demand and bear interest at prime plus 3%. The line is secured by a general security agreement covering the Company and its US subsidiary, and is based on certain margin limits. The facility is governed by covenants relating to i) ability to service required principal payments and interest on debt (the "DSC Covenant"); and ii) total funded debt as a percentage of cash earnings. The Company is not in compliance with either of these covenants at March 31, 2010. At December 31, 2009, the Company was not in compliance with the DSC Covenant. The bank has not provided a waiver for the non-compliance for either period.

The Company's bank has issued outstanding letters of credit to the Company's customers to secure performance guarantees as at March 31, 2010 of \$485,499 (December 31, 2009 - \$357,795), including \$140,949 (December 31, 2009 - \$145,833) guaranteed by the Export Development Corporation. None of these letters of credit have been drawn upon.

The Company's discontinued operation does not have access to any lines of credit.

10. Long-term Debt and Notes Payable

The Company has term loans and mortgages outstanding, which are summarized below:

<u>Term Bank Debt</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Loan payable, due August 2010, bearing interest at 2.9%. Repayable in monthly payments of principal and interest of \$1,056.	<u>5,175</u>	<u>8,291</u>
Total	<u>5,175</u>	<u>8,291</u>
Less: Portion due within one year	<u>5,175</u>	<u>8,291</u>
	<u>\$ -</u>	<u>\$ -</u>

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

10. Long-term Debt and Notes Payable - continued

The Company also has the following promissory notes outstanding:

Notes Payable

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<p>Debenture owing to Philip Jamieson (Chairman & CEO), Tricaster Holdings Inc. and Combined Telecom Inc., due July 20, 2011, secured by a General Security Agreement and bearing interest at prime + 3%; issued in connection with the Naston acquisition. The debenture is repayable in monthly principal payments of \$139,032 plus interest. The required instalments of principal for January 2009 through April 2010 have not been paid. The interest applicable to January 2009 through November 2009 has not been paid; for the period December 2009 through April 2010, 62.5% of the required interest has been paid (see Notes 10(c) and 15(c)).</p>	\$ 4,118,716	\$ 4,110,081
<p>Promissory note due November 26, 2011, secured by a General Security Agreement and bearing interest at 18% per annum. Interest was first payable on January 2, 2010, and on the first day of each month thereafter until maturity. There are no required payments of principal until maturity. The Company has the right to make prepayments of principal after giving the lender 30 days' written notice of its intention to do so. A fee of \$90,000 was paid at closing. In addition, the Company issued 2,000,000 common share purchase warrants to the lender at closing, which are exercisable at \$0.10 per share until November 26, 2011 (see Note 11). A fee of \$50,000 is due to the lender if the Company has not repaid the full principal amount of the note by November 26, 2010.</p>	900,000	915,978
<p>Promissory note, unsecured, owing to the previous owners of Stanco, due July 24, 2009, unsecured and bearing interest at 6%; issued as a result of contingent consideration being earned with respect to the Stanco acquisition. The recording of this note resulted in an increase of \$477,000 in goodwill during 2009. The amount outstanding includes accrued interest, and no interest or principal has been paid.</p>	525,223	518,166
<p>Promissory note, unsecured, of US\$294,000 owing to the previous owners of EPT, due in the following instalments (in USD): \$100,000 on October 31, 2009; \$2,000 on April 30, 2010; \$77,000 on May 31, 2010; \$5,000 per month from June 30, 2010 to December 31, 2010; and \$6,667 per month from January 31, 2011 to December 31, 2011. Unsecured, bearing interest at 6% per annum, issued as a result of the acquisition of EPT. The principal instalment due on October 31, 2009 has not been paid; as a result, the full amount of the promissory note is classified as a current liability.</p>	298,645	315,300
<p>Loan payable, unsecured, due September 2011, bearing interest at prime plus 3%. Repayable in monthly payments of \$4,208 plus interest (Note 15(d)).</p>	75,750	88,375
<p>Loan payable, due August 2014, non-interest bearing, secured by a charge over a vehicle. Repayable in monthly instalments of \$1,008. The carrying value of the loan has been discounted using an interest rate of 7% per annum.</p>	45,924	48,129
Total	5,964,258	5,996,029
Less: Portion due within one year	5,005,176	5,022,117
	\$ 959,082	\$ 973,912

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

10. Long-term Debt and Notes Payable - continued

- (a) Under the terms of the purchase of Naston, the vendor was entitled to additional consideration of up to £300,000 based on the business achieving certain yearly performance targets. If these performance targets had been met, the Company was obliged to pay a total of £300,000 in equal instalments on June 30, 2009 and June 30, 2010. Naston did not achieve the targets, and the Company is not required to make payment of this additional consideration.
- (b) The Company is required to be in compliance with certain covenants under the terms of its bank borrowing agreement. These covenants include tests related to the ability to service interest and principal charges on the debt, and funded debt compared with operating profit. At March 31, 2010 and December 31, 2009, the Company was not in compliance with its covenants under the borrowing agreement (see Note 9).
- (c) As a result of cross-default provisions in the terms of the debenture owing to Philip Jamieson, Tricaster Holdings Inc. and Combined Telecom Inc., the Company has been in breach of the debenture since December 31, 2008. Subsequent to that date, the Company has not made payments of principal and interest due under the debenture, with the exception that 62.5% of the required interest has been paid from December 1, 2009 to April 30, 2010. The lenders waived the Company's non-compliance at December 31, 2008 and provided a waiver for the cross-default provision and any breach for non-payment of principal and interest for the year ending December 31, 2009. In June 2009, the lenders gave the Company notice of other technical breaches relating to Naston, and agreed to waive these breaches subject to any funds available from Naston being paid to Westdale Construction Co. Ltd. ("Westdale"), to whom the lenders had subordinated their security position, in repayment of a promissory note owing to Westdale. A total of \$1,735,000 was paid to Westdale as a result of this during 2009. The total arrears of principal and interest at March 31, 2010 are \$2,311,297, of which \$nil was paid subsequent to March 31, 2010.

The weighted average interest rate on the Company's long-term debt and notes payable is 7.29% at March 31, 2010 (December 31, 2009 – 7.31%).

11. Share Capital

(a) Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series. No preferred shares of any series have been issued or are outstanding at March 31, 2010 and December 31, 2009.

(b) Issued:

	Warrants		Common Shares		Total
	Number	\$	Number	\$	\$
Balance, December 31, 2008	9,120,265	2,117,861	31,098,367	12,126,305	14,244,166
Expiry of warrants	(8,198,612)	(1,474,861)	-	-	(1,474,861)
Expiry of broker warrants	(921,653)	(643,000)	-	-	(643,000)
Shares cancelled	-	-	(500)	(150)	(150)
Issuance of warrants (i)	2,000,000	102,071	-	-	102,071
Balance, December 31, 2009 and March 31, 2010	2,000,000	102,071	31,097,867	12,126,155	12,228,226

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

11. Share Capital - continued

- i. On November 27, 2009, the Company issued 2,000,000 common share purchase warrants to a lender (see Note 10). 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.

The fair value assigned to these warrants was \$102,071, using the following assumptions under the Black-Scholes option pricing model:

Risk-free interest rate	1.47%	Annualized volatility	271.7%
Expected life of warrants	24 months	Expected dividend yield	0.00%

Stock Option Plan

A summary of the activity of the Company's option plan during 2010 and 2009 is as follows:

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,585,000	\$0.91	2,485,000	\$0.87
Granted	-	n/a	-	n/a
Exercised	-	n/a	-	n/a
Forfeited	-	n/a	(800,000)	\$0.73
Expired	-	n/a	(100,000)	\$0.59
Balance at end of period	1,585,000	\$0.91	1,585,000	\$0.91
Options exercisable at beginning of period	500,000	\$0.65	600,000	\$0.64
Vested options forfeited during this period	-	n/a	(100,000)	\$0.59
Vested during the period	-	n/a	-	n/a
Options exercisable at end of period	500,000	\$0.65	500,000	\$0.65
Weighted average fair value of options granted during the period		n/a		n/a

The following table summarizes information about stock options outstanding at March 31, 2010:

Exercise Price	Options Outstanding		Options Exercisable		Fair Value at Time of Issue, net of Reductions due to Forfeiture	Amount Amortized to March 31, 2010 (Contributed Surplus)	Unamortized Amount at March 31, 2010
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life			
\$0.65	700,000	23 months	500,000	23 months	\$374,266	\$374,266	-
\$1.11	885,000	31 months	-	31 months	769,950	769,950	-
	<u>1,585,000</u>		<u>500,000</u>		<u>\$1,144,216</u>	<u>\$1,144,216</u>	<u>-</u>

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

11. Share Capital - continued

Stock Compensation Expense

The following table summarizes the stock compensation expense for the periods ended March 31, 2010 and 2009:

	2010	2009
March 2007 Options	-	\$31,198
November 2007 Options	-	94,395
November 2008 Options	-	3,306
	-	\$128,899
	2010	2009
Stock compensation expense relates to:		
Employees	-	\$128,899
Non-employees	-	-
	-	\$128,899

Warrants

The terms of the Company's warrants are as follows:

	Number Outstanding	Price per Common Share	Expiry Date
Warrants			
Issued on November 27, 2009	2,000,000	\$0.10	November 27, 2011
Total outstanding	2,000,000		

The Company has agreed to issue 500,000 warrants exercisable at \$0.10 per share until August 11, 2010 (see Note 14). These warrants were issued on May 13, 2010.

12. Net Change in Working Capital Balances Other than Cash and Cash Equivalents

	For the three month period ended March 31, 2010	For the three month period ended March 31, 2009
Changes in working capital balances other than cash and cash equivalents (continuing operations):		
Accounts receivable	\$ 308,322	\$ 2,573,121
Inventory	(688)	(27,913)
Prepaid expenses and other assets	(297)	19,809
Deferred contract costs and unbilled revenue	569,694	(1,199,125)
Accounts payable and accrued liabilities	(1,003,136)	(1,387,966)
Deferred revenue	(108,563)	861,612
Income taxes payable	(3,665)	(94,502)
	(238,333)	745,036

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

13. Segmented Information

The Company's core business is Engineering & Design, which derives the majority of its revenue from system design and provision of equipment for bulk materials handling systems used primarily in water treatment and emission control applications. This segment has operations in North America and the United Kingdom, and segmented information is given for each of these markets. Engineering & Design North America includes the operations of Stanco, SPI and EPT. EPT's results are shown as a separate segment, Soil Remediation. EPT was sold on August 31, 2009 (see Note 4(a)).

Engineering & Design United Kingdom is comprised of the operations of Naston, which is classified as a discontinued operation held for sale (see Note 16).

Another segment, Distribution & Product Development, derives the majority of its revenue from the sale of after-market automobile parts and precision machinery and equipment. This segment was sold on April 27, 2009 (see Note 4(b)).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company eliminates intersegment revenues and expenses. Segment profit (loss) is measured prior to the consideration of amortization, interest, minority interest and stock compensation expense.

3 month period ended March 31, 2010	Continuing Operations		Discontinued Operations			Corporate	Consolidated
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development			
Revenue from external customers	2,467,139	205,250	-	-	-	2,672,389	
Segment loss before amortization, interest, income taxes and stock compensation expense	(433,255)	(97,702)	-	-	(142,628)	(673,585)	
Amortization:							
Amortization of intangible assets	159,924	-	-	-	-	159,924	
Other amortization	42,085	-	-	-	-	42,085	
Interest expense	19,489	1,679	-	-	99,703	120,871	
Stock compensation expense	-	-	-	-	-	-	
Segment loss before income taxes	(654,753)	(99,381)	-	-	(242,331)	(996,465)	
Income tax provision (recovery)	(35,601)	-	-	-	-	(35,601)	
Net income (loss)	(619,152)	(99,381)	-	-	(242,331)	(960,864)	
Property and equipment additions	3,911	-	-	-	-	3,911	
Goodwill and intangible assets	7,986,707	-	-	-	-	7,986,707	
Total assets	12,473,976	621,224	-	-	-	13,095,200	

Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

13. Segmented Information - continued

3 month period ended March 31, 2009	Continuing Operations		Discontinued Operations			Corporate	Consolidated
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development			
Revenue from external customers	9,340,975	5,300,235	1,309,605	4,203,044	-	20,153,859	
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	769,841	319,713	331,836	(31,509)	(579,912)	809,969	
Amortization:							
Amortization of intangible asset relating to acquired order backlog	44,251	92,906	37,768	-	-	174,925	
Other amortization	236,742	122,220	38,227	-	4,242	401,431	
Interest expense	196,032	2,148	1,213	51,384	84,065	334,842	
Stock compensation expense					128,899	128,899	
Segment profit (loss) before income taxes	292,816	102,439	254,628	(82,893)	(797,118)	(230,128)	
Income tax provision (recovery)	(22,728)	28,700	83,163	13	-	89,148	
Net income before provision for loss on sale of discontinued operations	315,544	73,739	171,465	(82,906)	(797,118)	(319,276)	
Non-controlling interest	-	-	-	1,191	-	1,191	
Recovery of loss previously recorded on sale of discontinued operations	-	-	-	102,729	-	102,729	
Net income (loss)	315,544	73,739	171,465	18,632	(797,118)	(217,738)	
Property and equipment additions	52,984	(22,243)	963	1,125	-	32,829	
Goodwill and intangible assets	7,945,541	9,618,313	2,438,565	-	-	20,002,419	
Total assets	18,319,495	20,086,574	4,681,736	7,351,268	65,338	50,504,411	

The sales revenue of the Engineering & Design North America segment includes sales of \$991,851 (2009 - \$1,406,001) in the United States. All of the revenues of the Soil Remediation segment are United States-based. All of the revenues of Engineering & Design, United Kingdom are United Kingdom-based. All other revenues are Canadian-based.

The total assets of the Engineering & Design North America segment includes assets of \$178,401 (2009 - \$7,959,497) in the United States owned by the Company's subsidiaries SPI and, in 2009, ZMI. All of the assets of the Soil Remediation segment are United States-based. All of the assets of the Engineering & Design, United Kingdom segment are United Kingdom-based. All other assets are Canadian-based.

At March 31, 2010, the Company had accounts receivable from two customers (2009 – three customers) each of which represents greater than 10% of its total accounts receivable.

During the period ended March 31, 2010, the Company earned revenues from three customers (2009 – two customers) which represented greater than 10% of its total revenues.

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

14. Commitments

The Company's minimum commitments, principally under leases for its premises, are as follows:

	Total	Discontinued Operations	Continuing Operations
2010	\$ 370,255	\$ 63,148	\$ 307,107
2011	285,130	83,294	201,836
2012	267,074	83,294	183,780
2013	128,330	34,706	93,624
2014	-	-	-
Thereafter	-	-	-
	<u>\$ 1,050,789</u>	<u>\$ 264,442</u>	<u>\$ 786,347</u>

The Company has the following commitments noted in Note 10:

- (a) Under the terms of the purchase of Naston, the vendor was entitled to additional consideration of up to £300,000 based on the business achieving certain yearly performance targets. If these performance targets had been met, the Company was obliged to pay a total of £300,000 in equal instalments on June 30, 2009 and June 30, 2010. Naston did not achieve the targets, and the Company is not required to make payment of this additional consideration.
- (b) Under the terms of an agreement to extend the maturity date of a promissory note repaid during 2009, 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. These warrants were issued on May 13, 2010.

15. Related Party Transactions

Related party transactions during the period ended March 31, 2010 and 2009 were:

- (a) The Company paid or accrued a total of \$26,100 (2009 - \$24,999) to a shareholder for advisory services, including strategic and legal advice.
- (b) The Company paid rent of \$nil (2009 - \$24,600) 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 accrued or paid interest of \$53,144 (2009 - \$57,543) on a loan maturing July 20, 2011 from the Company's chairman and two companies controlled by a significant shareholder (see Note 10).
- (d) The Company paid or accrued interest of \$1,090 (2009 - \$1,984) on a loan maturing September 30, 2011 from a company controlled by the spouse of the Company's Chief Financial Officer (see Note 10).

These transactions are in the normal course of operations and are measured at their exchange amounts, which are the amounts established and agreed to by the related parties.

As at March 31, 2010

16. Discontinued Operations

In November 2008, the Company decided to pursue the sale of certain of its operating businesses in order to focus its efforts on the core environmental engineering business and also to reduce its debt load. The assets, liabilities and operations of these businesses are classified as discontinued operations in these consolidated financial statements. The businesses so identified and the related circumstances are as follows:

(i) Nucleus

The Company announced the sale of this subsidiary, which constitutes the Distribution & Product Development segment in Note 13, on November 28, 2008. The sale of Nucleus was completed on April 27, 2009 (see Note 4(b)).

(ii) EPT

The Company began pursuing the sale of this subsidiary in November 2008. EPT's results are reported as a separate segment, Soil Remediation, in Note 13. The sale of EPT was completed on August 31, 2009 (see Note 4(a)).

(iii) Naston

The Company began pursuing the sale of this subsidiary in November 2008. Naston constitutes the Engineering & Design, United Kingdom segment in Note 13. Naston's prospects have declined since the decision was made and, on January 18, 2010, the creditors of Naston approved a proposal under which Naston entered into a Company Voluntary Arrangement ("CVA"). Under the terms of the CVA, Naston will continue to operate at a level sufficient to complete existing projects and support completed projects for which amounts remain due to Naston under retention provisions of the underlying contracts with customers. The net cash generated from Naston's operations will be paid over to the joint supervisors of the CVA, who have the responsibility to release the funds to creditors in satisfaction of the creditors' claims. It is anticipated that Naston will continue to operate on this basis until 2012.

The customer which advised Naston of the potential claim for remediation on a completed project (see Note 20(a)) has made an application to the UK courts to have Naston's CVA overturned or suspended in an effort to improve the customer's position with respect to any insurance proceeds arising from the claim. The preliminary hearing on this matter, originally scheduled for May 18, 2010, has been rescheduled to a date some time after July 20, 2010.

The Company provided for its investment in Naston during the year ended December 31, 2009.

The following chart shows the details of the amounts shown in the assets and liabilities of discontinued operations on the consolidated balance sheet as at March 31, 2010:

As at March 31, 2010	Nucleus	Naston	EPT	Total
Current assets:				
Cash and cash equivalents	-	\$ 163,934	-	\$ 163,934
Deferred contract costs and unbilled revenue	-	171,421	-	171,421
Prepaid expenses and other assets	-	4,517	-	4,517
Current assets of discontinued operations	-	339,872	-	339,872
Long-lived assets:				
Deferred contract costs and unbilled revenue	-	260,945	-	260,945
Property and equipment	-	20,407	-	20,407
Long-lived assets of discontinued operations	-	281,352	-	281,352
Current liabilities:				
Accounts payable and accrued liabilities (i)	-	3,767,487	-	3,767,487
Deferred revenue	-	289,063	-	289,063
Current liabilities of discontinued operations	-	4,056,550	-	4,056,550
Net assets of discontinued operations	-	\$(3,435,326)	-	\$(3,435,326)

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

16. Discontinued Operations - continued

- (i) The accounts payable and accrued liabilities balance of \$3,767,487 represents the full amount of agreed claims from creditors. Under the CVA, it is likely that less than this amount will actually be paid to creditors.

The following chart shows the details of the amounts shown in the assets and liabilities of discontinued operations on the consolidated balance sheet as at December 31, 2009:

As at December 31, 2009	Nucleus	Naston	EPT	Total
Current assets:				
Cash and cash equivalents	-	\$ 32,237	-	\$ 32,237
Accounts receivable	-	181,730	-	181,730
Deferred contract costs and unbilled revenue	-	173,548	-	173,548
Prepaid expenses and other assets	-	37,829	-	37,829
Current assets of discontinued operations	-	425,344	-	425,344
Long-lived assets:				
Deferred contract costs and unbilled revenue	-	286,258	-	286,258
Property and equipment	-	20,407	-	20,407
Long-lived assets of discontinued operations	-	306,665	-	306,665
Current liabilities:				
Accounts payable and accrued liabilities	-	3,893,176	-	3,893,176
Deferred revenue	-	356,288	-	356,288
Income taxes payable	-	-	-	-
Current liabilities of discontinued operations	-	4,249,464	-	4,249,464
Net assets of discontinued operations	-	\$(3,517,455)	-	\$(3,517,455)

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

16. Discontinued Operations - continued

The following balances relating to the results of operations of the discontinued operations have been segregated and presented separately as discontinued in the consolidated statements of (loss) income and comprehensive (loss) income for the 3 months ended March 31, 2010 and March 31, 2009:

For the period ended March 31, 2010	Nucleus	Naston	EPT	Total
Revenue	-	\$205,250	-	\$205,250
Income (loss) before income taxes	-	\$(99,381)	-	\$(99,381)
Provision for (recovery of) income taxes				
Current	-	-	-	-
Future	-	-	-	-
Loss from discontinued operations	-	\$(99,381)	-	\$(99,381)
For the 3 months ended March 31, 2009	Nucleus	Naston	EPT	Total
Revenue	4,203,044	5,300,235	1,309,605	10,812,884
Income (loss) before income taxes	(82,891)	102,439	254,626	274,174
Provision for (recovery of) income taxes				
Current	13	80,370	100,063	180,446
Future	-	(51,670)	(16,900)	(68,570)
	13	28,700	83,163	111,876
Income (loss) from discontinued operations before non-controlling interest	(82,904)	73,739	171,463	162,298
Non-controlling interest	1,191	-	-	1,191
(Loss) income from discontinued operations	(84,095)	73,739	171,463	161,107
Recovery of provision previously recorded for loss on sale of discontinued operations	102,729	-	-	102,729
Income from discontinued operations	18,634	73,739	171,463	263,836

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

17. Loss Per Share

The calculation of basic loss per share is based on the weighted average number of shares outstanding. The number of shares for the diluted earnings per share was calculated as follows:

	March 31, 2010	March 31, 2009
Weighted average number of shares: basic and diluted	31,097,867	30,731,444
Net loss for the period from continuing operations	\$ (650,462)	\$ (481,574)
Net (loss) income for the period from discontinued operations	\$ (99,381)	263,836
Net loss for the period	\$ (749,843)	\$ (217,738)
Earnings (loss) per share – Basic		
Continuing operations	\$ (0.021)	\$ (0.016)
Discontinued operations	\$ (0.003)	\$ 0.009
Loss	\$ (0.024)	\$ (0.007)
Earnings (loss) per share – Diluted		
Continuing operations	\$ (0.021)	\$ (0.016)
Discontinued operations	\$ (0.003)	\$ 0.009
Loss	\$ (0.024)	\$ (0.007)

18. Financial Risk Management

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. This risk arises from the following sources:

- i. The Company's accounts receivable. The carrying amount of this financial asset represents the maximum credit exposure; and
- ii. In the Engineering & Design segment, from the possibility that a customer might cancel a contract on which the Company has started work. The amount of work performed or goods provided which have not been paid for at the time of cancellation represents the maximum credit exposure.

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

18. Financial Risk Management - continued

To minimize the risk related to accounts receivable, the Company has adopted a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. When available, the Company reviews credit bureau ratings and financial information for each new customer. The majority of the Company's customers have been long-standing customers of the operating divisions and those divisions have suffered minimal losses from bad debts in the past.

In the Engineering & Design segment, the Company invoices customers regularly to convert deferred contract costs and unbilled revenue to accounts receivable as quickly as possible, based on the terms of the contracts.

The Company establishes an allowance for doubtful accounts which represents its estimate of incurred losses in respect of trade receivables. This allowance relates to individual account exposures. The allowance for doubtful accounts at March 31, 2010 is \$10,865 (December 31, 2009 - \$308,769).

Accounts receivable are non-interest bearing and are due within periods of 30 to 60 days, although Engineering & Design contracts occasionally allow the customer to hold back 10% of the contract value for one year after the completion of the contract. At March 31, 2010, the Company's accounts receivable were as follows:

Gross accounts receivable, including holdbacks of \$179,700	\$	2,047,045
Allowance for doubtful accounts		10,865
Net accounts receivable	\$	<u>2,036,180</u>

To minimize the risk related to contract cancellation, the Company negotiates progress payments from customers based on the achievement of milestones, and requests payment for major components prior to the shipping of the components. In addition, most contracts contain specific contract cancellation provisions which protect the Company in the event that a customer cancels a project.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has defaulted on repayment of certain of its debt obligations (see Note 10). The Company has a plan in place to address liquidity risks, which is disclosed in Note 1 of the consolidated financial statements.

A summary of the maturities of the Company's obligations relating to ongoing operations is as follows:

All in \$000s	During 2010	During 2011	During 2012	During 2013	Total
<u>Continuing Operations:</u>					
Bank indebtedness	\$840	-	-	-	\$840
Accounts payable and accrued liabilities	2,804	-	-	-	2,804
Notes payable	5,005	937	12	10	5,964
Long- term debt	5	-	-	-	5
Total for continuing operations	\$8,654	\$937	\$12	\$10	\$9,613

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

18. Financial Risk Management - continued

A summary of the maturities of the Company's obligations relating to discontinued operations is as follows:

All in \$000s	During 2010	During 2011	During 2012	Total
<u>Discontinued Operations:</u>				
	Under the terms of Naston's CVA, the net amount payable to creditors from the operation of the CVA is payable over 3 years.			
Accounts payable and accrued liabilities				\$3,767
Total for discontinued operations				\$3,767

The Company's continuing operations have a working capital deficiency of \$6,606,109. The Company's current liabilities for continuing operations include the following balances which do not represent an immediate cash requirement:

- (a) Deferred revenue of \$949,906; and
- (b) Future income tax liabilities of \$998,549.

The Company is working to improve this situation by sourcing additional funding and renegotiating the terms of existing debt.

- (d) Market risk
 - (i) Foreign exchange risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company markets services and products in both Canada and the United States, and sources inputs both from Canada and the United States. It is often possible to hedge the Company's position by sourcing products used in US dollar-denominated contracts from US suppliers. On a net basis, the Company is typically a net accumulator of US dollars. To date, the Company has not entered into any currency hedging transactions, but will consider doing so if significant losses on foreign exchange fluctuations are foreseen.

The Engineering & Design United Kingdom segment markets services and products in both the United Kingdom and other countries, and sources inputs primarily from the United Kingdom. Most of its revenues and inputs are denominated in pounds sterling; hence it normally has a natural hedge against fluctuations in exchange rates. This segment also generates some revenue in US dollars and Euros; to date, the Company has not entered into any currency hedging transactions for contracts denominated in these currencies.

At March 31, 2010, the Company's consolidated financial statements include the Canadian dollar equivalent of the following US dollar-denominated financial instrument balances:

Semcan Inc.
Notes to Consolidated Financial Statements (Unaudited)

As at March 31, 2010

18. Financial Risk Management - continued

Cash	\$ 480,590
Note receivable	100,000
Accounts receivable	<u>1,021,439</u>
Total assets	<u>1,602,029</u>
Accounts payable and accrued liabilities	812,329
Notes payable	<u>298,645</u>
Total liabilities	<u>1,110,974</u>
Net exposure to US dollars	\$ <u>491,055</u>

If these balances had remained consistent throughout the period, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) earnings for the period by \$49,101.

At March 31, 2010, the Company's financial statements included the Canadian equivalent of the following pounds Sterling-denominated financial instrument balances:

Cash	\$ 163,934
Accounts receivable	<u>-</u>
Total assets	<u>163,934</u>
Accounts payable	<u>3,767,487</u>
Total liabilities	<u>3,767,487</u>
Net exposure to pounds Sterling	\$ <u>(3,603,553)</u>

If these balances had remained consistent throughout the period, a 10% strengthening (weakening) of the Canadian dollar against pounds Sterling would have increased (decreased) earnings for the period by \$360,323.

(ii) Interest rate risk

The Company's revolving bank debt and term debt from continuing operations includes floating rate loans and fixed rate notes payable which arose from business acquisitions. The Company's position at March 31, 2010 is as follows:

Floating rate term loans	\$ 4,194,466
Floating rate operating loans	<u>839,702</u>
Total floating rate debt	<u>5,034,168</u>
Fixed-rate loans and notes payable	<u>1,729,043</u>
Interest-free loans and notes payable	<u>45,924</u>
Total term debt and operating loans	\$ <u>6,809,135</u>

If these balances had remained consistent throughout the period, an increase (decrease) of one percentage point in the interest rate (for example, a change in the prime lending rate from 2.25% to 3.25%) would decrease (increase) earnings for the period by \$50,341. This analysis assumes that all other variables, such as the amounts outstanding, remain constant.

There were no changes to credit risk, liquidity risk or market risk for the periods ended March 31, 2010 and December 31, 2009.

As at March 31, 2010

18. Financial Risk Management - continued

(e) Fair value of financial instruments

The fair values of the financial assets and financial liabilities are determined as follows:

- (i) For cash and cash equivalents, accounts receivable, note receivable, accounts payable and accrued liabilities, carrying amounts approximate fair value due to their short-term maturities;
 - (ii) The fair value of long-term debt and notes payable approximate their carrying values because they bear interest at floating rates, or due to the short maturity of the fixed rate loans.
-

19. Capital Management

The Company's objective is to maintain access to diverse and cost-effective sources of capital with which to finance its operations and its growth program. The Company seeks to maintain a balanced and flexible capital structure composed of the following elements:

- (i) Permanent equity to fund long-term assets and refinance vendor take-back notes upon their maturity;
- (ii) Term bank debt to fund property and equipment and business acquisitions. Term loans used to fund acquisitions are typically amortized over three years;
- (iii) Vendor take-back notes, which are important strategically as they focus vendors on performance of the acquired business over the initial one to two-year period;
- (iv) Revolving credit facilities, used to finance day-to-day working capital needs.

The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company will balance its overall capital structure through equity issues, issuance of debt, repayment of debt or by undertaking other activities as deemed appropriate in the specific circumstances. Current market conditions preclude further issues of equity, and the Company has suspended its acquisition program. At present, the Company's financing is structured such that a disproportionate amount of short-term debt is financing long-term assets. The Company is working to correct this situation, which has placed strain on working capital, through refinancing of short-term obligations (see Note 1).

The terms of the Company's credit facilities include customary positive and negative covenants that can be categorized as externally imposed capital requirements. As at March 31, 2010 and December 31, 2009, the Company was not in compliance with its covenants under the bank credit agreement (see Note 9).

There were no changes to capital management for the periods ended March 31, 2010 and December 31, 2009.

20. Contingencies

The Company is party to various claims and proceedings arising in the normal course of business. Management does not expect the disposition of these matters to have a material adverse effect on the Company's results of operations or financial condition, aside from the following matters relating to Naston:

a) Potential liability to Naston customer

The Company's subsidiary, Naston, has been advised by a customer that it may be liable for remediation costs related to a project completed by Naston in 2007. These costs cannot currently be quantified with any degree of certainty. Naston's position is that it designed its portion of the plant according to the specification furnished by the customer, and installed equipment appropriate in the circumstances.

As at March 31, 2010

20. Contingencies - continued

The likely amount of the liability, if any, cannot be reasonably ascertained due to the highly technical nature of the dispute and the fact that the matter has not yet been subject to the dispute resolution process in the underlying contract.

Under the terms of its purchase of Naston, the Company obtained an indemnity from the former owners of Naston for any liability relating to the replacement of equipment and potential litigation with respect to this project.

b) Legal proceedings related to purchase of Naston

The Company's subsidiary, Stanco Systems UK Limited, has started legal proceedings against the former owners of Naston with respect to misrepresentation of Naston's prospects and inaccurate information provided by the former owners to the Company prior to the closing of the purchase of Naston. These proceedings are in the early stages and the likely outcome is unknown at present.

21. Subsequent Events

On May 25, 2010, the Company signed a binding agreement to merge with Group DKG Corp., a privately-held company engaged in the manufacture of fibreglass reinforced plastic. Under the terms of the agreement, Group DKG Corp. will be amalgamated with a newly-incorporated subsidiary of Semcan and will continue to operate as a subsidiary of Semcan.

The transaction is expected to close on June 30, 2010 and is subject to regulatory and shareholder approval, completion of due diligence, and closing of an equity offering.

22. Comparative Figures

Certain prior year comparative figures have been reclassified to conform to the current period's consolidated financial statement presentation.