

Semcan Inc.
Consolidated Financial Statements
For the interim three month period ended
March 31, 2009
(Unaudited – Prepared by Management)

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Semcan Inc.
Consolidated Balance Sheets

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 756,448	\$ 425,410
Accounts receivable	3,890,538	6,463,659
Deferred contract costs and unbilled revenue (Note 4)	3,642,691	2,443,566
Inventory (Note 5)	834,376	806,463
Prepaid expenses and other assets	245,145	264,954
Current portion of intangible assets (Note 6)	-	44,251
Current assets of discontinued operations (Note 15)	19,448,296	19,784,940
Total current assets	28,817,494	30,233,243
Goodwill and other intangible assets (Note 6)	7,945,541	8,098,090
Property and equipment (Note 7)	1,070,094	1,097,561
Long-lived assets of discontinued operations (Note 15)	12,671,282	12,854,836
	\$ 50,504,411	\$ 52,283,730
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 8)	\$ 1,270,000	\$ 1,280,000
Accounts payable and accrued liabilities	6,135,221	7,523,187
Deferred revenue	2,159,483	1,297,871
Income taxes payable	98,890	193,392
Future income taxes	1,298,421	1,518,531
Due to vendor for working capital	281,429	288,557
Current portion of notes payable (Note 9)	5,101,075	5,082,196
Current portion of long-term debt (Note 9)	1,346,003	1,596,003
Current liabilities of discontinued operations (Note 15)	20,150,310	20,934,479
Total current liabilities	37,840,832	39,714,216
Notes payable (Note 9)	2,400,237	2,357,378
Long-term debt (Note 9)	4,835	7,702
Long-term liabilities of discontinued operations (Note 15)	24,262	27,480
Future income taxes	1,496,111	1,331,575
Future income taxes of discontinued operations (Note 15)	1,269,667	1,338,237
Minority interest	2,550	509
	43,038,494	44,777,097
Shareholders' Equity	7,465,917	7,506,633
	\$ 50,504,411	\$ 52,283,730
GOING CONCERN AND LIQUIDITY RISK (Note 1)		

Approved on behalf of the Board:

Director

Director

Semcan Inc.

Consolidated Statements of Income (Loss) and Retained Earnings (Deficit)
(Unaudited)

	For the three month period ended March 31, 2009	For the three month period ended March 31, 2008
Revenue	\$ 9,340,975	\$ 5,861,266
Cost of goods sold, excluding amortization	7,172,501	4,190,994
Amortization of acquired order backlog (Note 6)	<u>44,251</u>	<u>-</u>
Total cost of sales	<u>7,216,752</u>	<u>4,190,994</u>
Gross margin	<u>2,124,223</u>	<u>1,670,272</u>
Expenses		
Selling, general and administrative	2,009,540	1,179,250
(Gain) loss on foreign exchange	<u>(30,995)</u>	<u>(34,436)</u>
	<u>1,978,545</u>	<u>1,144,814</u>
Income before the following	<u>145,678</u>	<u>525,458</u>
Interest expense	280,097	83,948
Amortization	240,984	196,662
Stock compensation expense (Note 10)	<u>128,899</u>	<u>141,177</u>
	<u>649,980</u>	<u>421,787</u>
(Loss) income before income taxes	<u>(504,302)</u>	<u>103,671</u>
Provision for (recovery of) income taxes		
Current	32,846	206,000
Future	<u>(55,574)</u>	<u>(51,137)</u>
	<u>(22,728)</u>	<u>154,863</u>
Net (loss) income from continuing operations	<u>(481,574)</u>	<u>(51,192)</u>
Income from discontinued operations before non-controlling interest	162,298	460,373
Non-controlling interest relating to discontinued operations	1,191	3,652
Income from discontinued operations (Note 15)	<u>161,107</u>	<u>456,721</u>
Recovery of provision previously recorded for loss on sale of discontinued operations	<u>102,729</u>	<u>-</u>
Net income from discontinued operations	<u>263,836</u>	<u>456,721</u>
Net (loss) income for the period	<u>(217,738)</u>	<u>405,529</u>
Other comprehensive income		
Currency translation adjustment	<u>48,123</u>	<u>-</u>
Comprehensive (loss) income for the period	<u>\$ (169,615)</u>	<u>\$ 405,529</u>

(Loss) earnings per share (Note 16)

Semcan Inc.
Consolidated Statements of Shareholders' Equity and
Accumulated Other Comprehensive Income

	Share Capital (Note 10)	Contributed Surplus (Note 10)	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2007	\$ 10,169,758	\$ 486,203	\$ (48,260)	\$ -	\$ 10,607,701
Issuance of shares	4,068,378	-	-	-	4,068,378
Stock compensation expense	6,030	593,360	-	-	599,390
Net income for the year	-	-	(8,261,780)	-	(8,261,780)
Other comprehensive income:					
Currency translation adjustment				492,944	492,944
Balance, December 31, 2008	<u>\$ 14,244,166</u>	<u>\$ 1,079,563</u>	<u>\$ (8,310,040)</u>	<u>\$ 492,944</u>	<u>\$ 7,506,633</u>
Balance, December 31, 2008	\$ 14,244,166	\$ 1,079,563	\$ (8,310,040)	\$ 492,944	\$ 7,506,633
Issuance of shares	-	-	-	-	-
Stock compensation expense	-	128,899	-	-	128,899
Expiry of warrants	(1,700,480)	1,700,480	-	-	-
Net loss for the period	-	-	(217,738)	-	(217,738)
Other comprehensive income:					
Currency translation adjustment	-	-	-	48,123	48,123
Balance, March 31, 2009	<u>\$ 12,543,686</u>	<u>\$ 2,908,942</u>	<u>\$(8,527,778)</u>	<u>\$ 541,067</u>	<u>\$ 7,465,917</u>

Semcan Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the three month period ended March 31, 2009	For the three month period ended March 31, 2008
Cash flows from operating activities		
Net loss from continuing operations	\$ (481,574)	\$ (51,192)
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets other than value of acquired order backlog	240,984	196,662
Amortization of intangible assets related to acquired order backlog	44,251	-
Future income taxes	(55,574)	(51,137)
Stock compensation expense	128,899	141,177
Net change in working capital balances other than cash and cash equivalents (continuing operations) (Note 13)	745,036	(1,876,379)
	<u>622,022</u>	<u>(1,640,869)</u>
Discontinued operations	(567,009)	(1,906,236)
Cash provided by (used in) operating activities	<u>55,013</u>	<u>(3,547,105)</u>
Cash flows from financing activities		
(Repayments) proceeds from long-term borrowings – net	(191,129)	2,056,975
Loan arrangement fee capitalized to principal	-	-
Borrowings from operating bank line	(10,000)	1,520,000
Issuance of capital stock - net of issuance costs	-	-
	<u>(201,129)</u>	<u>3,576,975</u>
Discontinued operations	(627,852)	736,269
Cash provided by (used in) financing activities	<u>(828,981)</u>	<u>4,313,244</u>
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(52,984)	(52,736)
Business acquisitions - net of cash acquired	(7,984)	(10,259)
Payment of amounts due to vendors for working capital	(7,128)	-
	<u>(68,096)</u>	<u>(62,995)</u>
Discontinued operations	30,323	(4,388,704)
Cash provided by (used in) investing activities	<u>(37,773)</u>	<u>(4,451,699)</u>
Change in cash and cash equivalents during the period	(811,741)	(3,685,560)
Increase (decrease) in cash due to changes in foreign exchange rates	49,950	-
Cash and cash equivalents, beginning of period	<u>2,978,989</u>	<u>3,900,223</u>
Cash and cash equivalents, end of period	\$2,217,198	\$214,663
Cash and cash equivalents, end of period - discontinued operations	\$1,460,750	\$334,829
Cash and cash equivalents, end of period - continuing operations	\$ <u>\$756,448</u>	\$ <u>(120,166)</u>
Supplemental Cash Flow Information:		
Interest paid - continuing operations	\$ 208,582	\$ 40,559
Income taxes paid - continuing operations	113,495	-
Interest paid - discontinued operations	52,597	98,390
Income taxes paid - discontinued operations	80,723	-

Non-cash transactions:

During the three months ended March 31, 2009, the Company completed nil acquisitions (2008 – two) where promissory notes were issued as consideration in addition to the cash paid on closing. In total, \$nil (2008 - \$901,140) of promissory notes were issued to vendors.

As at March 31, 2009 and 2008

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. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. During 2008, the Company entered into various financing agreements to fund acquisitions. The Company's original plan for the acquisitions was to refinance a substantial portion of the acquisition facilities prior to or shortly after closing of the transaction with various types of long-term debt and to repay the balance with cash flow from operating activities prior to the maturity of the term bank debt and notes payable (see Note 9). In the fourth quarter of 2008, conditions in the credit markets deteriorated substantially, effectively closing the credit markets to the Company. These credit market conditions had a serious impact on the global economy, which has contributed negatively to the Company's operations in 2008 and 2009. Current weak global economic conditions make access to the credit and capital markets difficult for the Company, which may compromise the Company's ability to repay or refinance all or a portion of the acquisition loans as they come due. The Company has breached three of its financial covenants and also triggered cross-default provisions under the Company's credit agreements (see Note 9). At March 31, 2009, the Company has a working capital deficiency of \$9,023,338. The working capital deficiency for the continuing operations is \$8,321,324. Included in the continuing operation's working capital deficiency is \$6,447,078 of maturing debt and long-term debt obligations, including \$1,703,428 that is classified as current liabilities due to the covenant violations. Included in maturing debt obligations is a \$3,000,000 promissory note which is due August 12, 2009 (see Note 9) for which the Company currently does not have the ability to pay and the lender expects to be paid in full. Based on expected cash flows from operations after satisfying working capital requirements, the Company will not generate sufficient funds from operations to repay the debt obligations that will come due in 2009, and will need to generate funds from other sources to do so, or will need an extension or refinancing of the loans.

The Company's plan to improve liquidity is to use the proceeds from selling the businesses classified as discontinued operations (see Note 15) to pay down the existing debt obligations. It is anticipated that the Company's ongoing operations will be comprised solely of the businesses reported in the Engineering & Design, North America segment (see Note 12) by the end of 2009. On April 27, 2009, the Company completed the sale of Nucleus Distribution Inc. (see Note 19(a)), the terms of which resulted in the assumption by the purchaser of approximately \$6,500,000 of debt classified as current liabilities of discontinued operations at March 31, 2009.

It will be necessary for the Company to complete the remaining divestitures described in Note 15 prior to August 12, 2009, access alternative financing, or negotiate a further extension with respect to repayment of the \$3,000,000 promissory note for the Company to be in a position to retire the current obligations in a manner acceptable to its lenders. The Company currently does not have available cash flow to fund the repayment. If the \$3,000,000 promissory note is not repaid by August 12, 2009, it will have a material adverse effect on the financial position of the Company. Further, it is not possible to predict whether the actions taken in generating cash flow to repay the \$3,000,000 promissory note and other actions to generate additional cash flows to discharge other debt 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.

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that 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.

As at March 31, 2009 and 2008

1. Going Concern and Liquidity Risk - continued

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 and the sale of the businesses, 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 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. 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.

The Company operates two core businesses: engineering and design, and distribution and product development. The businesses are owned by subsidiaries: Semco Systems Limited ("Semco") for the North American engineering and design business, Stanco Systems UK Limited and its subsidiary Naston Limited for the United Kingdom engineering and design business, and Nucleus Distribution Inc. (formerly Nucleus Financial Network Inc.) ("Nucleus") for the distribution and product development business. During the fourth quarter of 2008, the Company implemented a revised strategy in response to the deterioration of the credit and equity markets and decided to divest certain of its businesses (see Note 15).

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 do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual 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, 2008, except that the Company has adopted the following Canadian Institute of Chartered Accountants ("CICA") guidelines effective January 1, 2009:

The CICA issued Handbook Section 3064, "Goodwill and Intangible Assets," which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, "Financial Statement Concepts," was also amended to provide consistency with this new standard. The adoption of these standards did not have a significant impact on the Company's consolidated financial results.

In January 2009, the CICA issued Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Liabilities," which clarifies that an entity's credit risk, and that of counterparties, should be taken into account in determining the fair value of financial assets and financial liabilities. The adoption of this standard did not have a significant impact on the Company's consolidated financial results.

As at March 31, 2009 and 2008

3. Significant Accounting Policies - continued

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 this standard.

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 1602, “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.

4. Deferred contract costs and unbilled revenue

Deferred contracts costs and unbilled revenue of \$3,642,691 (December 31, 2008 - \$2,443,566) represents the value of work performed on engineering contracts for which the Company has not yet billed customers.

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

5. Inventory

Inventory is comprised of the following:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Raw materials	\$ 48,804	\$ 38,558
Finished goods	146,410	149,475
Assembly parts	<u>639,162</u>	<u>618,430</u>
	<u>\$ 834,376</u>	<u>\$ 806,463</u>

The inventory value shown above is net of a provision for obsolescence of \$295,886 (December 31, 2008 - \$290,033). The amount of inventories expensed for the period, principally from operations classified as discontinued operations, is \$3,210,693 (2008 - \$2,112,331).

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

6. Goodwill and Other Intangible Assets

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

	<u>(Unaudited) March 31, 2009</u>	<u>December 31, 2008</u>
Backlog acquired		
Acquired order backlog	\$ 1,243,000	\$ 1,243,000
Accumulated amortization	<u>(1,243,000)</u>	<u>(1,198,749)</u>
	<u>\$ -</u>	<u>\$ 44,251</u>
Goodwill	<u>\$ 2,493,745</u>	<u>\$ 2,493,745</u>
Other Intangible assets		
Customer relationships	5,263,000	5,263,000
Trademark	1,120,866	1,112,882
Accumulated amortization	<u>(932,070)</u>	<u>(771,537)</u>
	<u>5,451,796</u>	<u>5,604,345</u>
Total Goodwill and Other Intangible Assets	<u>\$ 7,945,541</u>	<u>\$ 8,098,090</u>

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

7. Property and Equipment

	Cost	Accumulated Amortization	(Unaudited) March 31, 2009 Net Book Value
Land	\$		
Building			
Leasehold improvements	56,530	7,619	48,911
Machinery and equipment	921,280	484,375	436,905
Furniture and fixtures	620,013	348,752	271,261
Automotive equipment	142,486	56,588	85,898
Computer equipment	688,629	468,918	219,711
Test lab equipment	106,018	98,610	7,408
	<u>\$ 2,534,956</u>	<u>\$ 1,464,862</u>	<u>\$ 1,070,094</u>
			December 31, 2008
	Cost	Accumulated Amortization	Net Book Value
Land	\$ -	\$ -	\$ -
Building	-	-	-
Leasehold improvements	51,141	5,114	46,027
Machinery and equipment	921,280	459,239	462,041
Furniture and fixtures	583,525	330,912	252,613
Automotive equipment	142,486	49,623	92,863
Computer equipment	678,465	441,272	237,193
Test lab equipment	105,076	98,252	6,824
	<u>\$ 2,481,973</u>	<u>\$ 1,384,412</u>	<u>\$ 1,097,561</u>

8. Bank Indebtedness

The Company's continuing operations have access to a line of credit limited to \$1,500,000 at March 31, 2009 (December 31, 2008 - \$1,500,000), on which the drawn amount is \$1,270,000 (December 31, 2008 - \$1,280,000). Amounts drawn are repayable on demand and bear interest at prime plus 0.5%. The line is secured by a general security agreement covering the Company and its Canadian and US subsidiaries, and is based on certain margin limits. The Company has a term loan with the same bank, and the Company is not in compliance with the debt service coverage covenants under the borrowing agreement which governs both the term loan and the line of credit (see Note 9(d)). As at the release date of the consolidated financial statements, the Company continues to have access to this line of credit.

The Company has outstanding letters of credit issued to customers as performance guarantees as at March 31, 2009 of C\$112,725 and US\$331,405 (December 31, 2008 - C\$ nil and US\$331,405), including US\$331,405 (December 31, 2008 - US\$331,405) guaranteed by the Export Development Corporation.

The Company's discontinued operations have access to a line of credit limited to \$1,600,000 at March 31, 2009 (December 31, 2008 - \$2,000,000), on which the drawn amount is \$1,400,000 (December 31, 2008 - \$1,340,000). Amounts drawn are repayable on demand and bear interest at prime plus 0.5%. The line is secured by a general security agreement covering Nucleus and is based on certain margin limits

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

9. Long-term Debt

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

Term Bank Debt	(Unaudited) March 31, 2009	December 31, 2008
Committed reducing term facility, due July 2010, bearing interest at prime plus 1%, repayable in monthly principal payments of \$83,333 plus interest. Secured by a General Security Agreement provided by a subsidiary of the Company. (See Note 9(d)).	\$ 1,333,333	\$ 1,583,333
Loan payable, due August 2010, bearing interest at 2.9%. Repayable in monthly payments of principal and interest of \$1,056.	17,505	20,372
Total	1,350,838	1,603,705
Less: Portion due within one year	1,346,003	1,596,003
	\$ 4,835	\$ 7,702

The Company also has the following promissory notes outstanding:

Notes Payable	(Unaudited) March 31, 2009	December 31, 2008
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 acquisition of Naston Limited (the "Naston Acquisition".) (Note 14(c)). The debenture is repayable in monthly principal payments of \$139,032 plus interest. The amounts due for January 2009 through March 2009 have not been paid (see Note 9(e)).	\$ 3,950,446	\$ 3,892,903
Promissory note owing to Westdale Construction Co. Ltd., due August 12, 2009, secured by a General Security Agreement and bearing interest at 20% per annum until May 12, 2009 and 30% per annum from May 13, 2009 until maturity. The proceeds of this loan were used to acquire proprietary assets relating to the ZMI slaker, a device used in many of the Company's engineered solutions.	3,000,000	3,000,000
Promissory note with face value of US\$300,000 owing to the previous owners of EPT, due in equal instalments on January 31, 2009 and January 31, 2010, unsecured and interest-free; issued as a result of acquisition of Enviro-Pro-Tech, Inc. (the "EPT Acquisition"). The carrying value of the note has been discounted using an interest rate of 7% per annum. The instalment due on January 31, 2009 has not been paid. As a result, the full amount of the promissory note is classified as a current liability.	370,095	351,216
Loan payable, due September 2011, bearing interest at prime plus 3%. Repayable in monthly payments of \$4,208 plus interest (Note 14(d)).	126,250	138,875
Loan payable, due August 2014, non-interest bearing. Repayable in monthly instalments of \$1,008. The carrying value of the note has been discounted using an interest rate of 7% per annum.	54,521	56,580
Total	7,501,312	7,439,574
Less: Portion due within one year	5,101,075	5,082,196
Total	\$ 2,400,237	\$ 2,357,378

As at March 31, 2009 and 2008

9. Long-term Debt - continued

- (a) Under the terms of the acquisition of Stanco Projects Ltd., the Company would be required to pay \$477,000 on July 24, 2009 upon Stanco meeting certain earnings targets. This contingent consideration will be recorded in the consolidated financial statements as additional goodwill when the contingent element is resolved.
- (b) Under the terms of the EPT Acquisition, the Company would be required to pay US\$200,000 (approximately \$252,260) in two equal instalments (January 31, 2009 and January 31, 2010) upon EPT meeting certain earnings targets. This contingent consideration will be recorded in the consolidated financial statements as additional goodwill when the contingent element is resolved. The Company and vendor have not yet determined the actual amount due as at January 31, 2009.
- (c) Under the terms of the Naston Acquisition, the Company would be required to pay £300,000 (approximately \$540,660) in two equal instalments (June 30, 2009 and June 30, 2010) upon Naston meeting certain earnings targets. This contingent consideration will be recorded in the consolidated financial statements as additional goodwill when the contingent element is resolved.
- (d) The Company is required to be in compliance with certain covenants under the terms of its borrowing agreements. These covenants include tests related to minimum tangible net worth, ability to service interest and principal charges on the debt, and funded debt compared with operating profit. At March 31, 2009, the Company was not in compliance with the debt service coverage covenants under the borrowing agreements for subsidiaries Nucleus and Semco. Nucleus was sold subsequent to year-end (see Note 19(a)) and the Company did not incur any losses as a result of the covenant breach. The Company is engaged in negotiations with the bank concerning Semco's breach. Since these negotiations were not concluded at the date of release of these consolidated financial statements, the Company has classified the total \$1,333,333 outstanding on this loan as a current liability.
- (e) 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. The lenders waived the Company's non-compliance at December 31, 2008 and have 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.

The weighted average interest rate on the Company's long-term debt and notes payable is 8.05%.

10. 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, 2009.

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

10. Share Capital - continued

(b) Issued:

	<u>Warrants</u> Number	\$	<u>Common Shares</u> Number	\$	<u>Total</u> \$
Balance, December 31, 2007	6,395,370	1,887,064	26,215,117	8,282,694	10,169,758
Issuance of common shares and warrants	2,416,575	116,199	4,833,150	3,822,179	3,938,378
Issuance of broker warrants	338,320	118,000	-	-	118,000
Issued upon exercise of warrants	(30,000)	(3,402)	30,000	15,402	12,000
Issued to employees	-	-	20,100	6,030	6,030
Balance, December 31, 2008	9,120,265	2,117,861	31,098,367	12,126,305	14,244,166
Expiry of warrants	(4,166,667)	(1,175,480)	-	-	(1,175,480)
Expiry of broker warrants	(583,333)	(525,000)	-	-	(525,000)
Balance, March 31, 2009	4,370,265	417,381	31,098,367	12,126,305	12,543,686

Stock Option Plan

A summary of the status of the Company's option plan as at March 31, 2009 and December 31, 2008 is as follows:

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,485,000	\$0.84	2,285,000	\$0.87
Granted	-	n/a	250,000	\$0.59
Exercised	-	n/a	-	n/a
Cancelled	-	n/a	(50,000)	\$1.11
Expired	-	n/a	-	n/a
Balance at end of year	2,485,000	\$0.84	2,485,000	\$0.84
Options exercisable at beginning of year	600,000	\$0.64	500,000	\$0.65
Vested during the period	-	n/a	100,000	\$0.59
Options exercisable at end of year	600,000	\$0.64	600,000	\$0.64
Weighted average fair value of options granted during the year	n/a		\$0.59	

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

10. Share Capital - continued

The following table summarizes information about stock options outstanding at March 31, 2009:

Exercise Price	Options Outstanding		Options Exercisable		Fair Value at Time of Issue	Amount Amortized to March 31, 2009 (Contributed Surplus)	Unamortized Amount at March 31, 2009
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life			
\$0.65	1,200,000	35 months	500,000	35 months	\$641,599	\$641,599	\$ -
\$1.11	1,035,000	43 months	-	43 months	943,950	534,905	409,045
\$0.59	250,000	55 months	100,000	55 months	66,120	31,958	34,162
	<u>2,485,000</u>				<u>\$1,651,669</u>	<u>\$1,208,462</u>	<u>\$443,207</u>

Stock Compensation Expense

The following table summarizes the stock compensation expense for the periods ended March 31, 2009 and March 31, 2008:

	2009	2008
March 2007 Options	\$31,198	\$46,782
November 2007 Options	94,395	94,395
November 2008 Options	3,306	-
Expense for the period	<u>\$128,899</u>	<u>\$141,177</u>

Warrants

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

Warrants	Number Outstanding	Price per Common Share	Expiry Date
Issued on December 21, 2006	1,615,370	\$0.40	December 21, 2009
Issued on April 22, 2008	2,198,775	\$1.35	October 22, 2010
Issued on May 30, 2008	217,800	\$1.35	November 30, 2010
Total outstanding	<u>4,031,945</u>		
	Number Outstanding	Price per Unit (Common Share + ½ Warrant)	Expiry Date
Broker Warrants			
Issued on April 22, 2008	307,828	\$0.95	October 22, 2010
Issued on May 30, 2008	30,492	\$0.95	November 30, 2010
Total outstanding	<u>338,320</u>		
Grand total outstanding	<u>4,370,265</u>		

Semcan Inc.
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As at March 31, 2009 and 2008

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

	(Unaudited) For the three month period ended March 31, 2009	For the three month period ended December 31, 2008
Changes in working capital balances other than cash and cash equivalents (continuing operations):		
Accounts receivable	\$ 2,573,121	(3,225,282)
Inventory	(27,913)	(44,316)
Prepaid expenses and other assets	19,809	(561,026)
Deferred contract costs and unbilled revenue	(1,199,125)	806,478
Accounts payable and accrued liabilities	(1,387,966)	163,056
Deferred revenue	861,612	1,874,135
Income taxes	(94,502)	234,077
Due to Mequipco net		(1,123,501)
	<u>745,036</u>	<u>(1,876,379)</u>

12. Segmented Information

The Company's core businesses fall into two categories: Engineering & Design, and Distribution & Product Development. The Engineering & Design segment 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 Semco, Transfer Bulk Systems, Inc. and EPT. Since the latter has been classified as a discontinued operation held for sale (see Note 15), its results are shown as a new segment, Soil Remediation. Engineering & Design United Kingdom is comprised of the operations of Naston, which is classified as a discontinued operation held for sale (see Note 15).

The Distribution & Product Development segment derives the majority of its revenue from the sale of after-market automobile parts and precision machinery and equipment through the company's subsidiary, Nucleus. This subsidiary was sold subsequent to March 31, 2009 (see Note 19(a)).

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.

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

12. Segmented Information - continued

3 month period ended March 31, 2009	Continuing	Discontinued Operations				Corporate	Consolidated
	Operations	Engineering	Engineering	Soil	Distribution		
	Engineering	Engineering	Remediation	Development			
	& Design, North America	& Design, United Kingdom					
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	18,319,496	20,065,899	4,681,736	7,371,942	65,338	50,504,411	

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

12. Segmented Information - continued

3 month period ended March 31, 2008	Continuing	Discontinued Operations					Consolidated
	Operations	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development	Corporate	
Revenue from external customers	5,861,266	-	790,404	3,539,819	-	10,191,489	
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	804,761	-	144,190	597,636	(279,481)	1,267,106	
Amortization	192,540	-	7,215	87,731	3,944	291,430	
Interest expense	40,596	-	(37)	98,390	43,352	182,301	
Stock compensation expense and minority interest					144,829	144,829	
Segment profit (loss) before income taxes	571,625	-	137,012	411,515	(471,606)	648,546	
Income tax provision (recovery)	154,863	-	-	88,154	-	243,017	
Net income	416,762	-	137,012	323,361	(471,606)	405,529	
Property and equipment additions	53,531	-	-	42,350	962	96,843	
Goodwill and intangible assets	7,784,810	-	2,317,957	3,405,140	-	13,507,907	
Total assets	17,769,275	-	4,151,222	13,232,055	212,272	35,364,824	

The sales revenue of the Engineering and Design, North America segment includes sales of \$1,406,001 (2008 - \$103,525) in the United States by the Company's subsidiaries Transfer Bulk Systems, Inc. and ZMI Portec Inc. 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 and Design, North America segment includes assets of \$7,959,497 (2008 - \$3,717,696) in the United States owned by the Company's subsidiaries Transfer Bulk Systems, Inc. and ZMI Portec Inc. 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, 2009, the Company had accounts receivable from three customers (2008 – one customer) each of which represents greater than 10% of its total accounts receivable. The balance relating to one of these customers are included in amounts classified as discontinued operations.

During the period, the Company earned revenues from two customers (2008 – nil) which represented greater than 10% of its total revenues.

As at March 31, 2009 and 2008

13. Commitments

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

	Total	Discontinued Operations	Continuing Operations
2009	\$ 538,125	\$ 167,967	\$ 370,158
2010	644,027	200,838	443,189
2011	396,557	194,721	201,836
2012	378,501	194,721	183,780
2013	155,984	62,360	93,624
Thereafter	-	-	-
	<u>\$ 2,113,194</u>	<u>\$ 820,607</u>	<u>\$ 1,292,587</u>

The Company has the following commitments noted in Note 9:

- (i) The vendor of Stanco Projects Ltd. is entitled to additional consideration of up to \$477,000 provided that the business achieves certain yearly performance targets. If these performance targets are met, the Company will be obliged to pay a total of \$477,000 plus interest at 6% per annum on July 24, 2009.
- (ii) The vendor of Enviro-Pro-Tech, Inc. ("EPT") is entitled to additional consideration of up to US\$200,000 provided that the business achieves certain yearly performance targets. If these performance targets are met, the Company will be obliged to pay a total of US\$200,000 in equal instalments on January 31, 2009 and January 31, 2010. The determination of the amount payable on January 31, 2009 has not been completed; therefore no amount has been accrued at March 31, 2009. EPT has been classified as a discontinued operation in these consolidated financial statements (Note 15), and it is anticipated that the Company will remain liable for the contingent consideration in the event of a sale.
- (iii) The vendor of Naston Limited is entitled to additional consideration of up to £300,000 provided that the business achieves certain yearly performance targets. If these performance targets are met, the Company will be obliged to pay a total of £300,000 in equal instalments on June 30, 2009 and June 30, 2010. Naston has been classified as a discontinued operation in these consolidated financial statements (Note 15), and it is anticipated that the Company will remain liable for the contingent consideration in the event of a sale.

Prior to the acquisition of Stanco by the Company, Stanco purchased a performance bond of \$168,227 to secure a one-year warranty commitment expiring in January 2009 related to a municipal project. This bond is guaranteed by the former principals of Stanco.

Prior to the acquisition of Naston by the Company, Naston purchased the following performance bonds which are guaranteed by the former principal of Naston:

- (i) £67,780 (approximately \$122,153), expiring February 28, 2010; and
- (ii) €14,922 (approximately \$192,035), expiring upon the customer's operational acceptance of the facility.

Upon the purchase of Naston, the Company agreed to indemnify the former principal of Naston for any claim against the performance bonds.

As at March 31, 2009 and 2008

14. Related Party Transactions

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

- (a) The Company paid or accrued a total of \$24,999 (2008 - \$174,999) to a shareholder for services provided, comprised of \$24,999 (2008 - \$24,999) as a retainer for advisory services (including strategic and legal advice) and \$nil (2008 - \$150,000) of fees earned with respect to representation and completion of acquisitions made by the Company.
- (b) The Company paid rent of \$24,600 (2008 - \$24,600) for its corporate office at 365 Adelaide Street East, Toronto. The landlord is a company controlled by the Company's chairman.
- (c) The Company accrued interest of \$57,543 (2008 - \$nil) on a loan maturing July 20, 2011 from the Company's chairman and two companies controlled by a director (see Note 9).
- (d) The Company paid or accrued interest of \$1,984 (2008 - \$nil) on a loan maturing September 30, 2011 from a company controlled by the spouse of the Company's Chief Financial Officer (see Note 9).

15. 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 14, on November 28, 2008. The decision to sell Nucleus was made for three reasons: i) Nucleus' business does not fit with the Company's core engineering business; ii) the current state of the credit markets are such that the Company believed it prudent to reduce its debt load by the approximately \$6,500,000 being assumed by the purchaser, and iii) due to the state of the credit markets, the Company could not refinance the \$2,000,000 promissory note due to the former owners of Ken-Co Industries Ltd., which came due on February 28, 2009.

The sale of Nucleus was completed on April 27, 2009. Accordingly, its assets and liabilities have been classified as current.

(ii) Naston

The Company began pursuing the sale of this subsidiary in November 2008, and is actively working on the consummation of a sale.

Naston constitutes the Engineering & Design, United Kingdom segment in Note 12. The decision to sell Naston has been made to allow the Company to realize cash which will be used to pay down debt.

Semcan Inc.
Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

15. Discontinued Operations - continued

(iii) EPT

The Company began pursuing the sale of this subsidiary in November 2008, and listed it for sale with an agent on January 19, 2009.

As a consequence of the decision to sell EPT, its results have been reported as a separate segment in Note 12. The decision to sell EPT was made in order to generate cash to pay down debt.

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, 2009:

As at March 31, 2009	Nucleus	Naston	EPT	Total
Current assets:				
Cash and cash equivalents	\$149,266	\$1,165,600	\$145,884	\$1,460,750
Accounts receivable	2,310,348	7,061,955	844,506	10,216,809
Work in progress	-	1,495,915	879,747	2,375,662
Inventory	1,886,616	-	-	1,886,616
Prepaid expenses and other assets	385,071	159,583	57,817	581,796
Current portion of intangible assets	-	160,128	125,893	286,021
Property and equipment	2,619,967	-	-	2,619,967
Current assets of discontinued operations	<u>7,351,268</u>	<u>10,043,181</u>	<u>2,053,847</u>	<u>19,427,621</u>
Long-lived assets:				
Goodwill and other intangible assets	-	9,618,313	2,438,565	12,056,878
Property and equipment	-	425,080	189,324	614,404
Long-lived assets of discontinued operations	<u>-</u>	<u>10,043,393</u>	<u>2,627,889</u>	<u>12,671,282</u>
Current liabilities:				
Bank indebtedness	1,400,000	-	-	1,400,000
Accounts payable and accrued liabilities	1,251,217	8,699,922	155,475	10,106,614
Deferred revenue	-	3,439,509	7,421	3,446,930
Income taxes payable	246,308	93,597	132,654	472,559
Future income taxes	-	151,235	-	151,235
Due to vendor for working capital	-	-	100,864	100,864
Current portion of notes payable	2,155,000	-	18,449	2,173,449
Long-term debt	2,298,659	-	-	2,298,659
Current liabilities of discontinued operations	<u>7,351,184</u>	<u>12,384,263</u>	<u>414,863</u>	<u>20,150,310</u>
Long term liabilities:				
Notes payable	-	-	24,262	24,262
Long-term liabilities of discontinued operations	<u>-</u>	<u>-</u>	<u>24,262</u>	<u>24,262</u>
Future income taxes of discontinued operations	<u>84</u>	<u>968,429</u>	<u>301,154</u>	<u>1,269,667</u>
Net assets of discontinued operations	<u>\$ -</u>	<u>\$6,733,882</u>	<u>\$3,941,457</u>	<u>\$10,675,339</u>

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As at March 31, 2009 and 2008

15. Discontinued Operations - continued

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, 2008:

As at December 31, 2008	Nucleus	Naston	EPT	Total
Current assets:				
Cash and cash equivalents	\$105,719	\$1,934,713	\$513,147	\$2,553,579
Accounts receivable	1,732,600	5,620,211	538,555	7,891,366
Work in progress	-	1,637,669	1,184,444	2,822,113
Inventory	2,827,454	-	-	2,827,454
Prepaid expenses and other assets	393,571	55,134	185,511	634,216
Current portion of intangible assets	-	253,034	163,661	416,695
Property and equipment	2,639,517	-	-	2,639,517
Current assets of discontinued operations	7,698,861	9,500,761	2,585,318	19,784,940
Long-lived assets:				
Goodwill and other intangible assets	-	9,709,941	2,454,551	12,164,492
Property and equipment	-	486,711	203,633	690,344
Long-lived assets of discontinued operations	-	10,196,652	2,658,184	12,854,836
Current liabilities:				
Bank indebtedness	1,340,000	-	-	1,340,000
Accounts payable and accrued liabilities	975,386	10,738,964	786,407	12,500,757
Deferred revenue	-	1,223,271	4,798	1,228,069
Income taxes payable	246,308	-	199,147	445,455
Future income taxes	-	153,929	-	153,929
Due to vendor for working capital	-	-	111,371	111,371
Current portion of notes payable	2,718,423	-	17,815	2,736,238
Long-term debt	2,418,660	-	-	2,418,660
Current liabilities of discontinued operations	7,698,777	12,116,164	1,119,538	20,934,479
Long term liabilities:				
Notes payable	-	-	27,480	27,480
Long-term liabilities of discontinued operations	-	-	27,480	27,480
Future income taxes of discontinued operations	84	1,020,099	318,054	1,338,237
Net assets of discontinued operations	\$ -	\$6,561,150	\$3,778,430	\$10,339,580

Semcan Inc.
Notes to Consolidated Financial Statements

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15. 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, 2009 and March 31, 2008:

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
(Loss) income from discontinued operations	18,634	73,739	171,463	263,836
For the 3 months ended March 31, 2008	Nucleus	Naston	EPT	Total
Revenue	3,539,819	-	790,404	4,330,223
Income (loss) before income taxes	411,515	-	137,012	548,527
Provision for (recovery of) income taxes				
Current	104,000	-	-	104,000
Future	(15,846)	-	-	(15,846)
	88,154	-	-	88,154
Income from discontinued operations before non-controlling interest	323,361	-	137,012	460,373
Non-controlling interest	3,652	-	-	3,652
Income from discontinued operations	319,709	-	137,012	456,721

As at March 31, 2009 and 2008

15. Discontinued Operations - continued

The Company's discontinued operations have term loans and mortgages outstanding, which are summarized below:

Term Bank Debt	March 31, 2009	December 31, 2008
Committed reducing term facility, bearing interest at prime plus 1%, repayable in monthly principal payments of \$12,500 plus interest. This facility is due in March 2012 and is secured by land and buildings at 1070 Heritage Road, Burlington, Ontario, 1150 Heritage Road, Burlington, Ontario and 96 Queen Street, Langton, Ontario (see Note 9(d)).	\$ 962,830	\$ 1,000,330
Committed reducing term facility, bearing interest at prime plus 1%, repayable in monthly principal payments of \$6,667 plus interest. This facility is due in January 2013 and is secured by land and buildings at 5220 General Road, Mississauga, Ontario (see Note 9(d)).	1,106,662	1,126,663
Committed reducing term facility, due March 2010, bearing interest at prime plus 1%, repayable in monthly principal payments of \$20,833 plus interest. Secured by a general security agreement provided by a subsidiary of the Company (see Note 9(d)).	229,167	291,667
	\$ 2,298,659	\$ 2,418,660

The Company's discontinued operations also have the following outstanding notes payable:

Notes Payable	March 31, 2009	December 31, 2008
Promissory notes owing to the previous owners of Ken-Co Industries Ltd. ("Ken-Co"), due February 28, 2009, secured by the non-voting shares of Nucleus and bearing interest at 6%; issued as a result of the Ken-Co acquisition. Under the terms of the sale of Nucleus (see Note 19(a)), this obligation was assumed and paid by the purchaser.	\$ 2,000,000	\$ 2,000,000
Promissory notes owing to 600 Group Equipment Limited, due January 31, 2009, unsecured and interest-free; issued as a result of the purchase of certain assets. The carrying value of the notes has been discounted using an interest rate of 7% per annum.	155,000	718,423
Automobile loan due September 22, 2011, secured, bearing interest at 7% per annum, repayable in monthly instalments of principal and interest of US\$1,319.	42,711	45,295
Total	2,197,711	2,763,718
Less: Portion due within one year	2,173,449	2,736,238
	\$ 24,262	\$ 27,480

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16. (Loss) Earnings Per Share

The calculation of basic (loss) earnings 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, 2009	March 31, 2008
Weighted average number of shares used in basic earnings per share	30,731,444	23,132,333
Dilutive potential of Standard Warrants	-	980,574
Dilutive potential of Broker Warrants	-	171,717
Dilutive potential of options	-	53,030
Weighted average number of shares used in dilutive earnings per share	30,731,444	24,337,654
Net income (loss) for the period from continuing operations	\$ (481,574)	\$ (51,192)
Net income (loss) for the period from discontinued operations	\$ 263,836	456,721
Net income (loss) for the period	\$ (217,738)	\$ 405,529
Earnings (loss) per share – Basic		
Continuing operations	\$ (0.016)	\$ (0.002)
Discontinued operations	\$ 0.009	\$ 0.020
Earnings (loss)	\$ (0.007)	0.018
Earnings (loss) per share – Diluted		
Continuing operations	\$ (0.016)	\$ (0.002)
Discontinued operations	\$ 0.009	\$ 0.019
Earnings (loss)	\$ (0.007)	\$ 0.017

17. 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.

As at March 31, 2009 and 2008

17. 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, 2009 is \$95,447 (2008 - \$16,938).

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, 2009, the Company's accounts receivable were as follows:

Gross accounts receivable, including holdbacks of \$326,612	\$ 3,985,985
Allowance for doubtful accounts	\$ <u>95,447</u>
Net accounts receivable	\$ <u>3,890,538</u>
Portion over 90 days	\$ 1,018,221
Portion over 90 days for which the vendor of Stanco remains responsible. If uncollectible, this amount reduces the amount due to the vendor for working capital.	\$ <u>201,541</u>
Net exposure to over-90 days accounts receivable	\$ <u>816,680</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's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation. In the current year, the Company has defaulted on repayment of certain of its debt obligations (see Note 11). The Company has a plan in place to address liquidity risks, which is disclosed in Note 1 of the consolidated financial statements.

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17. Financial Risk Management - continued

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

All in \$000s	During 2009	During 2010	During 2011	During 2012	During 2013	Total
<u>Continuing Operations:</u>						
Bank indebtedness	\$1,270	-	-	-	-	\$1,270
Accounts payable and accrued liabilities	6,135	-	-	-	-	6,135
Income taxes payable	99	-	-	-	-	99
Due to vendor for working capital	281	-	-	-	-	281
Notes payable	5,101	1,731	651	12	6	7,501
Long- term debt	1,346	5	-	-	-	1,351
Total for continuing operations	\$14,232	\$1,736	\$651	\$12	\$6	\$16,637

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

All in \$000s	Gross During 2009	Assumed by Purchaser of Nucleus (see Note 19(a))	Net During 2009	During 2010	Total
<u>Discontinued Operations:</u>					
Bank indebtedness	\$1,400	\$1,400	-	-	\$1,400
Accounts payable and accrued liabilities	10,107	1,251	8,856	-	10,107
Income taxes payable	473	246	227	-	473
Due to vendor for working capital	101	-	101	-	101
Current portion of notes payable	2,173	2,155	18	-	2,173
Long-term portion of notes payable	-	-	-	24	24
Current portion of long-term debt	459	459	-	-	459
Long-term portion of long- term debt	1,839	1,839	-	-	1,839
Total for discontinued operations	\$16,552	\$7,350	\$9,202	\$24	\$16,576

As at March 31, 2009 and 2008

17. Financial Risk Management - continued

The Company currently has a working capital deficiency of \$9,023,338. The Company's current liabilities for continuing operations include the following balances which do not represent an immediate cash requirement:

- (a) Deferred revenue of \$2,159,483; and
- (b) Future income tax liabilities of \$1,298,421.

The Company is working to improve this situation through the following initiatives:

- (a) Sale of Naston Limited and Enviro-Pro-Tech, Inc. (see Note 15); and
- (b) Seeking to refinance the \$3,000,000 demand loan due on August 12, 2009 owing to Westdale Construction Co. Ltd.

(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. Two of the Company's segments (Engineering & Design North America and Distribution & Product Development) market services and products in both Canada and the United States, and source 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, these segments are typically net accumulators 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, 2009 the Company's consolidated financial statements include the Canadian dollar equivalent of the following US dollar-denominated financial instrument balances:

Cash and cash equivalents	\$ 1,268,916
Accounts receivable	<u>4,020,633</u>
Total assets	<u>5,289,549</u>
Accounts payable and accrued liabilities	4,524,028
Notes payable	<u>149,232</u>
Total liabilities	<u>4,673,260</u>
Net exposure to US dollars	\$ <u>616,289</u>

If these balances had remained consistent throughout the year, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have decreased (increased) earnings for the year by \$61,623.

As at March 31, 2009 and 2008

17. Financial Risk Management - continued

At March 31, 2009 the Company's financial statements included the Canadian equivalent of the following pounds Sterling-denominated financial instrument balances:

Cash and cash equivalents	\$ 1,165,600
Accounts receivable	<u>7,061,955</u>
Total assets	<u>8,227,555</u>
Accounts payable	<u>8,699,922</u>
Total liabilities	<u>8,699,922</u>
Net exposure to pounds Sterling	<u>\$ (472,367)</u>

If these balances had remained consistent throughout the year, a 10% strengthening (weakening) of the Canadian dollar against pounds Sterling would have decreased (increased) earnings for the year by \$47,237.

(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, 2009 is as follows:

Floating rate term loans	\$ 5,410,029
Floating rate operating loans	<u>1,270,000</u>
Total floating rate debt	<u>6,680,029</u>
Fixed-rate loans and notes payable	<u>3,017,505</u>
Interest-free loans and notes payable	<u>424,616</u>
Total term debt and operating loans	<u>\$ 10,122,150</u>

If these balances had remained consistent throughout the year, an increase (decrease) of one percentage point in the interest rate (for example, a change in the prime lending rate from 3.50% to 4.50%) would decreased (increased) earnings for the year by \$16,700. This analysis assumes that all other variables, such as the amounts outstanding, remain constant.

(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, 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. The fair value of the fixed-rate promissory note owing to Westdale Construction Co. Ltd. approximates its carrying value. The fair value of the promissory note owing to the former owner of EPT approximates its carrying value due to its short maturity.

As at March 31, 2009 and 2008

18. 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 will occasionally use these facilities to help complete acquisitions, with the permission of the lender.

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 divestitures and refinancing of short-term obligations (see Notes 1 and 19).

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, 2009, the Company was not in compliance with its obligations under the bank credit facilities (see Note 9).

19. Subsequent Events

a) Closing of Sale of Nucleus Distribution Inc.

On April 27, 2009, the Company closed the sale of Nucleus. 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 \$5,176,863.

b) Loan from Westdale Construction Co. Ltd. ("Westdale")

On April 30, 2009, the Company signed an agreement with Westdale which provides a 3 month extension of the maturity date the \$3,000,000 loan from Westdale to August 12, 2009 in exchange for a \$50,000 fee, interest payable at 30% per annum for the extended period, and agreement by the Company that any cash available in Semcan Inc. is paid on a monthly basis toward the outstanding principal and interest of the promissory note.

20. Comparative Figures

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