Semcan Inc.
Consolidated Financial Statements
For the interim three month and six month period ended June 30, 2009
(Unaudited – Prepared by Management)

Contents

Notice to Reader

The management of Semcan Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

“Signed”

Philip M. Jamieson
Chairman and Chief Executive Officer

“Signed”

John Wilby
Chief Financial Officer

August 31, 2009

Semcan Inc.
Consolidated Balance Sheets

		June 30, 2009 (Unaudited)		December 31, 2008 (Audited)
Assets				
Current				
Cash and cash equivalents	**$**	**725,395**	$	425,410
Accounts receivable		**4,071,888**		6,463,659
Deferred contract costs and unbilled revenue (Note 4)		**4,042,768**		2,443,566
Inventory (Note 5)		**668,625**		806,463
Prepaid expenses and other assets		**140,235**		264,954
Current portion of intangible assets (Note 6)		**-**		44,251
Current assets of discontinued operations (Note 15)		**8,735,474**		19,784,940
Total current assets		**18,384,385**		30,233,243
Goodwill and other intangible assets (Note 6)		**8,262,007**		8,098,090
Property and equipment (Note 7)		**611,545**		1,097,561
Long-lived assets of discontinued operations (Note 15)		**3,741,337**		12,854,836
	$	**30,999,274**	$	52,283,730
Liabilities and Shareholders' Equity				
Current				
Bank indebtedness (Note 8)	**$**	**1,230,000**	$	1,280,000
Accounts payable and accrued liabilities		**6,841,380**		7,523,187
Deferred revenue		**1,700,060**		1,297,871
Income taxes payable		**198,910**		193,392
Future income taxes		**1,298,421**		1,518,531
Due to vendor for working capital		**212,751**		288,557
Current portion of long-term debt (Note 9)		**1,096,003**		1,596,003
Current portion of notes payable (Note 9)		**5,576,484**		5,082,196
Current liabilities of discontinued operations (Note 15)		**7,921,721**		20,934,479
Total current liabilities		**26,075,730**		39,714,216
Long-term debt (Note 9)		**1,786**		7,702
Notes payable (Note 9)		**2,437,908**		2,357,378
Long-term liabilities of discontinued operations (Note 15)		**18,438**		27,480
Future income taxes		**1,454,450**		1,331,575
Future income taxes of discontinued operations (Note 15)		**917,752**		1,338,237
Minority interest		**-**		509
		30,906,064		44,777,097
Shareholders' Equity		**93,210**		7,506,633
	$	**30,999,274**	$	52,283,730

GOING CONCERN AND LIQUIDITY RISK (Note 1)

Approved on behalf of the Board:

Director

Director

Semcan Inc.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	For the three month period ended June 30, 2009	For the three month period ended June 30, 2008	**For the six month period ended June 30, 2009**	For the six month period ended June 30, 2008
Revenue	**$ 9,541,261**	$ 6,129,107	**$ 18,882,236**	$ 11,990,373
Cost of sales	**7,329,503**	4,556,198	**14,502,004**	8,747,192
Amortization of acquired backlog	**-**	834,550	**44,251**	834,550
Total cost of sales	**7,329,503**	5,390,748	**14,546,255**	9,581,742
Gross margin	**2,211,758**	738,359	**4,335,981**	2,408,631
Expenses				
Selling, general and administrative	**1,689,068**	1,644,864	**3,698,608**	2,824,114
(Gain) loss on foreign exchange	**(37,169)**	33,544	**(68,164)**	(892)
	1,651,899	1,678,408	**3,630,444**	2,823,222
Income (loss) before the following:	**559,859**	(940,049)	**705,537**	(414,591)
Interest expense	**335,194**	369,594	**615,291**	453,542
Loss on disposal of capital assets	**181,838**	-	**181,838**	-
Amortization	**229,299**	87,194	**470,283**	283,856
Stock compensation expense (Note 10)	**97,701**	141,177	**226,600**	282,354
	844,032	597,965	**1,494,012**	1,019,752
Loss before income taxes	**(284,173)**	(1,538,014)	**(788,475)**	(1,434,343)
Provision for (recovery of) income taxes				
Current	**143,998**	(44,346)	**176,844**	161,654
Future	**(41,661)**	(277,035)	**(97,235)**	(328,172)
	102,337	(321,381)	**79,609**	(166,518)
Net loss from continuing operations	**(386,510)**	(1,216,633)	**(868,084)**	(1,267,825)
Income from discontinued operations before non-controlling interest	**1,650,239**	645,633	**1,812,537**	1,106,006
Non-controlling interest relating to discontinued operations	**2,078**	(7,049)	**887**	(10,701)
Income from discontinued operations (Note 15)	**1,652,317**	638,584	**1,813,424**	1,095,305
Provision for loss on sale of discontinued operations (Note 15)	**(8,651,883)**	-	**(8,549,154)**	-
Net (loss) income from discontinued operations	**(6,999,566)**	638,584	**(6,735,730)**	1,095,305
Net loss for the period	**(7,386,076)**	(578,049)	**(7,603,814)**	(172,520)
Other comprehensive income :				
Currency translation adjustments	**(84,333)**	14,053	**(36,209)**	14,053
Comprehensive loss for the period	**$ (7,470,409)**	$ (563,996)	**$ (7,640,023)**	$ (158,467)

Loss 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 loss for the year	-	-	(8,261,780)	-	(8,261,780)
Other comprehensive income:					
Currency translation adjustment				492,944	492,944
Balance, December 31, 2008	$ 14,244,166	$ 1,079,563	$ (8,310,040)	$ 492,944	$ 7,506,633

	Share Capital (Note 10)	Contributed Surplus (Note 10)	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2008	$ 14,244,166	$ 1,079,563	$ (8,310,040)	$ 492,944	$ 7,506,633
Issuance of shares	-	-	-	-	-
Stock compensation expense	-	226,600	-	-	226,600
Expiry of warrants	(1,700,480)	1,700,480	-	-	-
Net loss for the period	-	-	(7,603,814)	-	(7,603,814)
Other comprehensive income:					
Currency translation adjustment	-	-	-	(36,209)	(36,209)
Balance, June 30, 2009	**$ 12,543,686**	**$ 3,006,643**	**$(15,913,854)**	**$ 456,735**	**$ 93,210**

Semcan Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the three month period ended June 30, 2009	For the three month period ended June 30, 2008	**For the six month period ended June 30, 2009**	For the six month period ended June 30, 2008
Cash flows from operating activities				
Net loss from continuing operations	**$(386,510)**	$(1,216,633)	**$ (868,084)**	$(1,267,825)
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets other than value of acquired order backlog	**411,137**	87,194	**652,121**	283,856
Amortization of intangible assets related to acquired order backlog	**-**	834,550	**44,251**	834,550
Future income taxes	**(41,661)**	(277,035)	**(97,235)**	(328,172)
Stock compensation expense	**97,701**	141,177	**226,600**	282,354
Net change in working capital balances other than cash and cash equivalents (continuing operations) (Note 11)	**(113,275)**	3,185,510	**675,307**	2,432,631
	(32,608)	2,754,763	**632,960**	2,237,394
Discontinued operations	**1,057,449**	(1,173,493)	**(156,981)**	(2,273,294)
Cash provided by (used in) operating activities	**1,024,841**	1,581,270	**475,979**	(35,900)
Cash flows from financing activities				
(Repayment of) proceeds from long-term borrowings – net	**(216,969)**	4,110,594	**(408,098)**	6,167,569
Loan arrangement fee capitalized to principal	**-**	(200,000)	**-**	(200,000)
Borrowings from operating bank line	**(40,000)**	(840,000)	**(50,000)**	680,000
Payment of amounts due to vendor for working capital	**-**	(31,747)	**-**	(1,155,248)
Issuance of capital stock - net of issuance costs	**-**	4,056,378	**-**	4,056,378
	(256,969)	7,095,225	**(458,098)**	9,548,699
Discontinued operations	**(443,223)**	66,569	**(447,651)**	502,492
Cash provided by (used in) financing activities	**(700,192)**	7,161,794	**(905,749)**	10,051,191
Cash flows from investing activities				
Purchase of property, equipment and intangible assets	**207,947**	(32,255)	**154,963**	(84,991)
Business acquisitions - net of cash acquired	**-**	(15,000)	**(7,983)**	(126,059)
Payment of amounts due to vendors for working capital	**(68,678)**	-	**(75,806)**	-
	139,269	(47,255)	**71,174**	(211,050)
Discontinued operations	**(97,814)**	(4,674,944)	**(88,166)**	(9,484,950)
Cash provided by (used in) investing activities	**41,455**	(4,722,199)	**(16,992)**	(9,696,000)
Change in cash and cash equivalents during the period	**366,104**	4,020,865	**(446,762)**	319,291

Continued on next page.

	For the three month period ended June 30, 2009	For the three month period ended June 30, 2008	For the six month period ended June 30, 2009	For the six month period ended June 30, 2008
Change in cash and cash equivalents during the period	**366,104**	4,020,865	**(446,762)**	319,291
Increase (decrease) in cash due to changes in foreign exchange rates	**(95,506)**	(14,577)	**(44,431)**	1,437
Cash and cash equivalents, beginning of period	**2,217,198**	214,663	**2,978,989**	3,900,223
Cash and cash equivalents, end of period	**2,487,796**	4,220,951	**2,487,796**	4,220,951
Cash and cash equivalents, end of period - discontinued operations	**1,762,401**	3,672,888	**1,762,401**	3,672,888
Cash and cash equivalents, end of period - continuing operations	**$ 725,395**	$ 548,063	**$ 725,395**	$ 548,063
Supplemental Cash Flow Information:				
Interest paid - continuing operations	**$ 398,328**	$ 364,482	**606,910**	$ 405,041
Income taxes paid - continuing operations	**44,325**	200,326	**157,820**	200,326
Interest paid - discontinued operations	**57,236**	76,110	**109,833**	174,500
Income taxes paid - discontinued operations	**150,973**	13,000	**231,696**	13,000

Non-cash transactions:
During the six months ended June 30, 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.

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. While the Company is currently in compliance with the financial covenants governing its bank borrowings, it has breached them in the two immediately-preceding quarters, and has also triggered cross-default provisions under another credit agreement (see Note 9). At June 30, 2009, the Company has a working capital deficiency of $7,691,345. The working capital deficiency for the continuing operations is $8,505,098. Included in the continuing operation's working capital deficiency is $6,672,487 of maturing debt and long-term debt obligations. Included in maturing debt obligations is a $3,000,000 promissory note (the "Westdale Loan") which is due November 12, 2009 (see Notes 9 and 19(a)), of which the Company has repaid $1,500,000 subsequent to June 30, 2009, but currently does not have the ability to pay the balance. 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 Notes 15 and 19(b)) 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.

It will be necessary for the Company to complete the remaining divestitures described in Note 15 prior to November 12, 2009, access alternative financing, or negotiate a further extension with respect to repayment of the balance owing on the Westdale Loan 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 total repayments called for under the various agreements and support the working capital needed for ongoing operations. If the balance owing on the Westdale Loan is not repaid by November 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 fully repay the Westdale Loan 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.

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: Stanco Projects Limited (formerly Semco Systems Limited) ("Stanco") 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). The sale of Nucleus closed on April 27, 2009.

3. Significant Accounting Policies

The unaudited interim consolidated financial statements of the Company should be read in conjunction with the annual audited consolidated financial statements as these unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements. These unaudited interim consolidated 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.

3. Significant Accounting Policies - continued

<u>Future accounting changes</u>

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 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.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to adopt the amendments recently issued by the IASB to International Financial Reporting Standard 7, "Financial Instruments: Disclosures" ("IFRS 7"), in March 2009. These amendments are applicable to publicly accountable enterprises and those private enterprises, co-operative business enterprises, rate regulated enterprises and not-for-profit organizations that choose to apply Section 3862. The amendments were made to enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments.

3. Significant Accounting Policies - continued

The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for preparers, and consistent with IFRS 7, the CICA decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. The Company will apply these amendments for its 2009 annual consolidated financial statements. The impact of the amendments to the fair value measurement and liquidity risk disclosure requirements of the Company are not expected to be significant.

4. Deferred contract costs and unbilled revenue

Deferred contracts costs and unbilled revenue of $4,042,768 (December 31, 2008 - $2,443,566) represents the value of work performed on engineering contracts for which the Company has not yet billed customers.

5. Inventory

Inventory is comprised of the following:

	June 30, 2009	December 31, 2008
Raw materials	**$ 67,516**	$ 38,558
Finished goods	**135,032**	149,475
Assembly parts	**466,077**	618,430
	$ 668,625	$ 806,463

The inventory value shown above is net of a provision for obsolescence of $307,791 (December 31, 2008 - $290,033). The amount of inventories expensed for the period, principally from operations classified as discontinued operations, is $3,897,995 (2008 - $4,845,943).

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:

	(Unaudited) June 30, 2009	December 31, 2008
Backlog acquired		
Acquired order backlog	**$ 1,243,000**	$ 1,243,000
Accumulated amortization	**(1,243,000)**	(1,198,749)
Current portion of intangible assets	**$ -**	**$** 44,251
Goodwill		
Balance at beginning of period	**$ 2,493,745**	$ 2,045,486
Addition relating to Stanco Projects (Note 9)	**477,000**	448,259
Balance at end of period	**2,970,745**	2,493,745
Other Intangible assets		
Customer relationships	**5,263,000**	5,263,000
Trademark	**1,120,866**	1,112,882
Accumulated amortization	**(1,092,604)**	(771,537)
	5,291,262	5,604,345
Total Goodwill and Other Intangible Assets	**$ 8,262,007**	$ 8,098,090

7. Property and Equipment

		Cost		Accumulated Amortization		(Unaudited) June 30, 2009 Net Book Value
Leasehold improvements	$	**56,530**	$	**10,225**	$	**46,305**
Machinery and equipment		**699,232**		**621,252**		**77,980**
Furniture and fixtures		**634,114**		**390,030**		**244,084**
Automotive equipment		**142,486**		**63,552**		**78,934**
Computer equipment		**688,629**		**531,428**		**157,201**
Test lab equipment		**106,018**		**98,977**		**7,041**
	$	**2,327,009**	$	**1,715,464**	$	**611,545**

		Cost		Accumulated Amortization		December 31, 2008 Net Book Value
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
	$	2,481,973	$	1,384,412	$	1,097,561

8. Bank Indebtedness

The Company has access to a line of credit from a chartered bank limited to $1,387,275 at June 30, 2009 (December 31, 2008 - $1,500,000), on which the drawn amount is $1,230,000 (December 31, 2008 - $1,280,000). 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 Canadian and US subsidiaries, 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; and ii) total funded debt as a percentage of cash earnings. The Company is in compliance with these covenants at June 30, 2009. It was not in compliance at December 31, 2008 and March 31, 2009, and the bank waived the Company's non-compliance for those periods.

The Company has outstanding letters of credit issued to customers as performance guarantees as at June 30, 2009 of C$112,725 and US$58,546 (December 31, 2008 – C$ nil and US$331,405), including US$58,546 (December 31, 2008 - US$331,405) guaranteed by the Export Development Corporation.

9. Long-term Debt

The Company has the following term loans outstanding:

Term Bank Debt		**(Unaudited) June 30, 2009**		December 31, 2008
Committed reducing term facility, due July 24, 2010, bearing interest at prime plus 3.5%, repayable in monthly principal payments of $83,333 plus interest. Secured by a General Security Agreement provided by a subsidiary of the Company. (See Note 9(c)).	**$**	**1,083,333**	$	1,583,333
Loan payable, due August 2010, bearing interest at 2.9%. Repayable in monthly payments of principal and interest of $1,056.		**14,456**		20,372
Total		**1,097,789**		1,603,705
Less: Portion due within one year		**1,096,003**		1,596,003
	$	**1,786**	$	7,702

The Company also has the following promissory notes outstanding:

Notes Payable		**(Unaudited) June 30, 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".) The debenture is repayable in monthly principal payments of $139,032 plus interest. The amounts due for January 2009 through June 2009 have not been paid (see Note 9(d)).	**$**	**4,002,836**	$	3,892,903
Promissory note owing to Westdale Construction Co. Ltd., due November 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. Subsequent to June 30, 2009, the Company negotiated an extension which provides for repayment in minimum instalments of principal of $1,000,000 by August 12, 2009; $500,000 by August 22, 2009; $500,000 by September 12, 2009; and $1,000,000 by November 12, 2009. (see Note 19(a)). The payments due in August 2009 were paid on the due dates. 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, originally 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 Company has renegotiated the terms of this note as part of the sale of EPT (see Note 19(b)). The revised terms call for payment of principal between October 2009 and December 2011, and interest at 6% per annum.		**341,766**		351,216

9. Long-term Debt - continued

Notes Payable (continued)		**(Unaudited) June 30, 2009**		December 31, 2008
Loan payable, due September 2011, bearing interest at prime plus 3%. Repayable in monthly payments of $4,208 plus interest (Note 14(d)).	**$**	**113,625**	$	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.		**52,427**		56,580
Promissory note 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 $477,000 in goodwill. The amount outstanding includes accrued interest, and no interest or principal has been paid before or after June 30, 2009.		**503,738**		-
Total		**8,014,392**		7,439,574
Less: Portion due within one year		**5,576,484**		5,082,196
Total	**$**	**2,437,908**	$	2,357,378

(a) Under the terms of the EPT Acquisition, the Company was required to pay US$200,000 (approximately $232,600) in two equal instalments (January 31, 2009 and January 31, 2010) upon EPT meeting certain earnings targets. The Company renegotiated these terms as part of the sale of EPT (see Note 19(b)), and the vendor agreed to waive this requirement.

(b) Under the terms of the Naston Acquisition, the Company would be required to pay £300,000 (approximately $573,660) 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.

(c) 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 ability to service interest and principal charges on the debt, and funded debt compared with operating profit. At June 30, 2009, the Company was in compliance with the covenants under the borrowing agreement. The Company was not in compliance as at December 31, 2008 and March 31, 2009, and the bank waived the Company's non-compliance for these periods.

(d) 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 total arrears of principal and interest at June 30, 2009 are $944,125, none of which was paid subsequent to June 30, 2009.

The weighted average interest rate on the Company's long-term debt and notes payable is 13.47%.

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 June 30, 2009.

(b) Issued:

	Warrants		Common Shares		Total
	Number	$	Number	$	$
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, June 30, 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 June 30, 2009 and December 31, 2008 is as follows:

	June 30, 2009		December 31, 2008	
	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	**(250,000)**	**$0.64**	(50,000)	$1.11
Expired	**-**	**n/a**	-	n/a
Balance at end of year	**2,235,000**	**$0.86**	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
Vested options cancelled during the period	**(200,000)**	**$0.65**		n/a
Options exercisable at end of year	**400,000**	**$0.64**	600,000	$0.64
Weighted average fair value of options granted during the year	**n/a**		$0.59	

10. Share Capital - continued

The following table summarizes information about stock options outstanding at June 30, 2009:

	Options Outstanding		Options Exercisable				
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life	Fair Value at Time of Issue	Amount Amortized to June 30, 2009 (Contributed Surplus)	Unamortized Amount at June 30, 2009
$0.65	1,000,000	32 months	300,000	32 months	$641,599	$641,599	$ -
$1.11	1,035,000	40 months	-	40 months	943,950	629,300	314,650
$0.59	200,000	52 months	100,000	52 months	66,120	35,264	30,856
	2,235,000		400,000		$1,651,669	$1,306,163	$345,506

Stock Compensation Expense

The following table summarizes the stock compensation expense for the six month periods ended June 30, 2009 and June 30, 2008:

	2009	2008
March 2007 Options	**$31,198**	$93,564
November 2007 Options	**188,790**	188,790
November 2008 Options	**6,612**	-
Expense for the period	**$226,600**	$282,354

Warrants

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

	Number Outstanding	Price per Common Share	Expiry Date
Warrants			
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, 2009
Issued on May 30, 2008	217,800	$1.35	November 30, 2009
Total outstanding	4,031,945		

	Number Outstanding	Price per Unit (Common Share + ½ Warrant)	Expiry Date
Broker Warrants			
Issued on April 22, 2008	307,828	$0.95	October 22, 2009
Issued on May 30, 2008	30,492	$0.95	November 30, 2009
Total outstanding	338,320		
Grand total outstanding	4,370,265		

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

	(Unaudited) For the three month period ended June 30, 2009	(Unaudited) For the three month period ended June 30, 2008	**(Unaudited) For the six month period ended June 30, 2009**	(Unaudited) For the six month period ended June 30, 2008
Changes in working capital balances other than cash and cash equivalents (continuing operations):				
Accounts receivable	**(330,616)**	2,006,903	**2,286,052**	(1,218,380)
Inventory	**165,751**	10,705	**137,838**	(33,611)
Prepaid expenses and other assets	**104,910**	359,109	**124,719**	(201,917)
Deferred contract costs and unbilled revenue	**(400,077)**	134,593	**(1,599,202)**	941,071
Accounts payable and accrued liabilities	**706,160**	893,653	**(681,807)**	1,056,709
Deferred revenue	**(459,423)**	27,066	**402,189**	1,901,201
Income taxes	**100,020**	(246,519)	**5,518**	(12,442)
	(113,275)	3,185,510	**675,307**	2,432,631

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 Stanco, 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 on April 27, 2009.

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.

12. Segmented Information - continued

6 month period ended June 30, 2009	Continuing Operations	Discontinued Operations				
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development	Corporate	Consolidated
Revenue from external customers	18,882,236	13,856,346	2,433,857	5,322,470	-	40,494,909
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	1,605,074	1,959,863	474,007	64,919	(855,286)	3,248,577
Amortization:						
Amortization of intangible asset relating to acquired order backlog	44,251	182,269	75,536	-	-	302,056
Loss on disposal of capital assets	181,838	(9,968)	-	-	-	171,870
Other amortization	461,799	262,005	66,533	-	8,484	798,821
Interest expense	471,962	5,230	4,149	100,454	143,329	725,124
Stock compensation expense					226,600	226,600
Segment profit (loss) before income taxes	445,224	1,520,327	327,789	(35,535)	(1,233,699)	1,024,106
Income tax provision (recovery)	79,609	(142,041)	142,072	13	-	79,653
Net income before provision for loss on sale of discontinued operations	365,615	1,662,368	185,717	(35,548)	(1,233,699)	944,453
Non-controlling interest	-	-	-	(887)	-	(887)
(Provision for) recovery of loss on sale of discontinued operations	-	(6,318,142)	(2,265,673)	34,661	-	(8,549,154)
Net income (loss)	365,615	(4,655,774)	(2,079,956)	-	(1,233,699)	(7,603,814)
Property and equipment additions	73,076	-	963	-	-	74,039
Goodwill and intangible assets	8,262,007	3,208,543	-	-	-	11,470,550
Total assets	18,456,834	10,420,984	2,055,827	-	65,629	30,999,274

12. Segmented Information - continued

6 month period ended June 30, 2008	Continuing Operations	Discontinued Operations				
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development	Corporate	Consolidated
Revenue from external customers	11,990,373	11,489,087	3,374,431	7,763,644	-	34,617,535
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	1,355,482	1,292,382	433,441	883,388	(935,523)	3,029,170
Amortization						
Amortization of intangible asset relating to acquired order backlog	834,550	411,567	62,947	-	-	1,309,064
Other amortization	275,330	193,026	60,689	188,605	8,526	726,176
Interest expense	105,924	(34,697)	597	200,326	347,618	619,768
Stock compensation expense and minority interest					282,354	282,354
Segment profit (loss) before income taxes	139,678	722,486	309,208	494,457	(1,574,021)	91,808
Income tax provision (recovery)	(166,518)	204,351	130,586	85,208	-	253,627
Net income before provision for loss on sale of discontinued operations	306,196	518,135	178,622	409,249	(1,574,021)	(161,819)
Non-controlling interest				10,701		10,701
Net income (loss)	306,196	518,135	178,622	398,548	(1,574,021)	(172,520)
Property and equipment additions	124,117	253,883	20,321	1,869,086	13,857	2,281,264
Goodwill and intangible assets	7,672,578	9,460,714	2,721,871	3,369,740	-	23,224,903
Total assets	15,215,028	25,194,521	4,793,332	14,673,376	198,687	60,074,944

12. Segmented Information - continued

3 month period ended June 30, 2009	Continuing Operations	Discontinued Operations				
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development	Corporate	Consolidated
Revenue from external customers	9,541,261	8,556,111	1,124,252	1,119,426	-	20,341,050
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	835,233	1,640,150	142,171	96,428	(275,374)	2,438,608
Amortization:						
Amortization of intangible asset relating to acquired order backlog	-	89,363	37,768	-	-	127,131
Loss on disposal of capital assets	181,838	(595)	-	-	-	181,243
Other amortization	225,057	130,412	28,306	-	4,242	388,017
Interest expense	275,930	3,082	2,936	49,070	59,264	390,282
Stock compensation expense					97,701	97,701
Segment profit (loss) before income taxes	152,408	1,417,888	73,161	47,358	(436,581)	1,254,234
Income tax provision (recovery)	102,337	(170,741)	58,909	-	-	(9,495)
Net income before provision for loss on sale of discontinued operations	50,071	1,588,629	14,252	47,358	(436,581)	1,263,729
Non-controlling interest	-	-	-	(2,078)	-	(2,078)
Provision for loss on sale of discontinued operations	-	(6,318,142)	(2,265,673)	(68,068)	-	(8,651,883)
Net income (loss)	50,071	(4,729,513)	(2,251,421)	(18,632)	(436,581)	(7,386,076)
Property and equipment additions	20,092	-	-	-	-	20,092
Goodwill and intangible assets	8,262,007	3,208,543	-	-	-	11,470,550
Total assets	18,456,834	10,420,984	2,055,827	-	65,629	30,999,274

12. Segmented Information - continued

3 month period ended June 30, 2008	Continuing Operations	Discontinued Operations				
	Engineering & Design, North America	Engineering & Design, United Kingdom	Soil Remediation	Distribution & Product Development	Corporate	Consolidated
Revenue from external customers	6,129,107	11,489,087	2,584,027	4,223,825	-	24,426,046
Segment profit (loss) before amortization, interest, income taxes and stock compensation expense	550,721	1,292,382	289,251	285,752	(656,042)	1,762,064
Amortization						
Amortization of intangible asset relating to acquired order backlog	834,550	411,567	62,947	-	-	1,309,064
Other amortization	82,790	193,026	53,474	100,874	4,582	434,746
Interest expense	65,328	(34,697)	634	101,936	304,266	437,467
Stock compensation expense					141,177	141,177
Segment profit (loss) before income taxes	(431,947)	722,486	172,196	82,942	(1,106,067)	(560,390)
Income tax provision (recovery)	(321,381)	204,351	130,586	(2,946)	-	10,610
Net income before provision for loss on sale of discontinued operations	(110,566)	518,135	41,610	85,888	(1,106,067)	(571,000)
Non-controlling interest				7,049		7,049
(Provision for) recovery of loss on sale of discontinued operations	-	-	-	-	-	-
Net income (loss)	(110,566)	518,135	41,610	78,839	(1,106,067)	(578,049)
Property and equipment additions	70,586	253,883	20,321	1,826,736	12,895	2,184,421
Goodwill and intangible assets	7,672,578	9,460,714	2,721,871	3,369,740	-	23,224,903
Total assets	15,215,028	25,194,521	4,793,332	14,673,376	198,687	60,074,944

The sales revenue of the Engineering and Design, North America segment includes sales of $1,790,302 (2008 - $177,357) 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 $1,479,318 (2008 - $93,061) 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 June 30, 2009, the Company had accounts receivable from one customer (2008 – one customer) which represents greater than 10% of its total accounts receivable. The balance relating to this one customer is 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.

13. Commitments

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

	Total	Discontinued Operations	Continuing Operations
2009	$ 367,459	$ 110,311	$ 257,148
2010	654,789	200,838	453,951
2011	396,557	194.721	201,836
2012	378,501	194.721	183,780
2013	155,984	62,360	93,624
Thereafter	-	-	-
	$ 1,953,290	$ 762,951	$ 1,190,339

The Company has the following commitments noted in Note 9:

(i) Under the terms of the EPT Acquisition, the Company was required to pay US$200,000 (approximately $232,600) in two equal instalments (January 31, 2009 and January 31, 2010) upon EPT meeting certain earnings targets. The Company renegotiated these terms as part of the sale of EPT (see Note 19(b)), and the vendor agreed to waive this requirement. EPT has been classified as a discontinued operation in these consolidated financial statements (Note 15).

(ii) 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. The determination of the amount payable on June 30, 2009 has not been completed; therefore no amount has been accrued at June 30, 2009. Naston has been classified as a discontinued operation in these consolidated financial statements (Note 15).

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) €114,922 (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.

14. Related Party Transactions

Related party transactions during the six months ended June 30, 2009 were:

(a) The Company paid or accrued a total of $50,010 (2008 - $407,998) to a shareholder for services provided, comprised of $50,010 (2008 - $49,998) as a retainer for advisory services (including strategic and legal advice) and $nil (2008 - $358,000) of fees earned with respect to representation and completion of acquisitions made by the Company.

(b) The Company paid rent of $52,410 (2008 - $49,200) 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 $109,932 (2008 - $60,857) on a loan maturing July 20, 2011 from the Company's chairman and two companies controlled by a significant shareholder (see Note 9).

(d) The Company paid or accrued interest of $3,600 (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) <u>Nucleus</u>

The Company announced the sale of this subsidiary, which constitutes the Distribution & Product Development segment in Note 12, 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.

(ii) <u>Naston</u>

The Company began pursuing the sale of this subsidiary in November 2008.

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.

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.

On August 31, 2009, the Company closed the sale of EPT (see Note 19(b)).

Adjustment to Carrying Value of Discontinued Operations

As a consequence of listing these businesses for sale, the Company has entered into negotiations with potential purchasers. These negotiations have highlighted the softness in prices for businesses and the significant advantage purchasers have in current market conditions. The Company has therefore considered the carrying value of each business compared with the likely net realizable value. In the case of EPT, the net realizable value is based on the Company's estimated net proceeds from the sale of EPT, which closed on August 31, 2009 (see 19(b)). In the case of Naston, the Company has considered the protracted period during which it has been seeking a buyer, and the decline in Naston's order backlog to date.

The Company has recorded a provision against the net asset value during the six months ended June 30, 2009 as follows:

	Nucleus	Naston	EPT	Total
Net asset value prior to write-down	$-	$8,343,141	$3,859,573	$12,202,714
Estimated net realizable value	34,660	2,025,000	1,593,900	3,653,560
Provision recorded	($34,660)	$6,318,141	$2,265,673	$8,549,154
Discontinued Operations balances written down:				
Goodwill	$-	$6,318,141	$1,873,746	$8,191,887
Current portion of intangible assets	-	-	88,125	88,125
Long term portion of intangible assets			548,833	548,833
Property and equipment	-	-	39,222	39,222
Future income taxes	-	-	(284,253)	(284,253)
Other	(34,660)	-	-	(34,660)
Current assets of discontinued operations	($34,660)	$6,318,141	$2,265,673	$8,549,154

Continuity of Goodwill and Long-term Other Intangible Assets of Discontinued Operations:

	Nucleus	Naston	EPT	Total
Balance at beginning of period	-	$9,709,941	$2,454,551	$12,164,492
Additions during the period	-	-	-	-
Amortization of intangible assets during period	-	(183,257)	(31,972)	(215,229)
Write-downs during the period - Goodwill	-	(6,318,141)	(1,873,746)	(8,191,887)
Write-downs during the period – Intangible assets	-	-	(548,833)	(548,833)
Balance at end of period	-	$3,208,543	-	$3,208,543

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 June 30, 2009:

As at June 30, 2009	Nucleus	Naston	EPT	Total
Current assets:				
Cash and cash equivalents	-	$1,176,619	$585,782	$1,762,401
Accounts receivable	-	2,810,461	285,406	3,095,867
Work in progress	-	2,168,858	1,023,757	3,192,615
Inventory	-	-	-	-
Prepaid expenses and other assets	-	95,986	38,086	134,072
Income taxes recoverable	-	479,754	-	479,754
Current portion of intangible assets	-	70,765	-	70,765
Current assets of discontinued operations	-	6,802,443	1,933,031	8,735,474
Long-lived assets:				
Goodwill and other intangible assets	-	3,208,543	-	3,208,543
Property and equipment	-	409,998	122,796	532,794
Long-lived assets of discontinued operations	-	3,618,541	122,796	3,741,337
Current liabilities:				
Bank indebtedness	-	-	-	-
Accounts payable and accrued liabilities	-	6,239,637	253,775	6,493,412
Deferred revenue	-	676,588	-	676,588
Income taxes payable	-	562,007	172,703	734,710
Future income taxes	-	-	-	-
Due to vendor for working capital	-	-	-	-
Current portion of notes payable	-	-	17,011	17,011
Long-term debt	-	-	-	-
Current liabilities of discontinued operations	-	7,478,232	443,489	7,921,721
Long term liabilities:				
Notes payable	-	-	18,438	18,438
Long-term liabilities of discontinued operations	-	-	18,438	18,438
Future income taxes of discontinued operations	-	917,752	-	917,752
Net assets of discontinued operations	-	$2,025,000	$1,593,900	$3,618,900

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

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 6 months ended June 30, 2009 and June 30, 2008:

For the 6 months ended June 30, 2009	**Nucleus**	**Naston**	**EPT**	**Total**
Revenue	5,322,470	13,856,346	2,433,857	21,612,673
Income (loss) before income taxes	(35,535)	1,520,327	327,789	1,812,581
Provision for (recovery of) income taxes				
Current	13	(39,694)	175,872	136,191
Future	-	(102,347)	(33,800)	(136,147)
	13	(142,041)	142,072	44
Income (loss) from discontinued operations before non-controlling interest	(35,548)	1,662,368	185,717	1,812,537
Non-controlling interest	887	-	-	887
Income (loss) from discontinued operations	(34,661)	1,662,368	185,717	1,813,424
Recovery of (provision for) loss on sale of discontinued operations	34,661	(6,318,142)	(2,265,673)	(8,549,154)
Income (loss) from discontinued operations	-	(4,655,774)	(2,079,956)	(6,735,730)

For the 6 months ended June 30, 2008	Nucleus	Naston	EPT	Total
Revenue	7,763,644	11,489,087	3,374,431	22,627,162
Income (loss) before income taxes	494,457	722,486	309,208	1,526,151
Provision for (recovery of) income taxes				
Current	116,900	364,185	163,467	644,552
Future	(31,692)	(159,834)	(32,881)	(224,407)
	85,208	204,351	130,586	420,145
Income from discontinued operations before non-controlling interest	409,249	518,135	178,622	1,106,006
Non-controlling interest	(10,701)	-	-	(10,701)
Income from discontinued operations	398,548	518,135	178,622	1,095,305

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 June 30, 2009 and June 30, 2008:

For the 3 months ended June 30, 2009	**Nucleus**	**Naston**	**EPT**	**Total**
Revenue	1,119,426	8,556,111	1,124,252	10,799,789
Income (loss) before income taxes	47,358	1,417,888	73,161	1,538,407
Provision for (recovery of) income taxes				
Current	-	(120,064)	75,809	(44,255)
Future	-	(50,677)	(16,900)	(67,577)
	-	(170,741)	58,909	(111,832)
Income (loss) from discontinued operations before non-controlling interest	47,358	1,588,629	14,252	1,650,239
Non-controlling interest	2,078	-	-	2,078
Income (loss) from discontinued operations	49,436	1,588,629	14,252	1,652,317
Provision for loss on sale of discontinued operations	(68,068)	(6,318,142)	(2,265,673)	(8,651,883)
Income (loss) from discontinued operations	(18,632)	(4,729,513)	(2,251,421)	(6,999,566)

For the 3 months ended June 30, 2008	Nucleus	Naston	EPT	Total
Revenue	4,223,825	11,489,087	2,584,027	18,296,939
Income (loss) before income taxes	82,942	722,486	172,196	977,624
Provision for (recovery of) income taxes				
Current	12,900	364,185	163,467	540,552
Future	(15,846)	(159,834)	(32,881)	(208,561)
	(2,946)	204,351	130,586	331,991
Income from discontinued operations before non-controlling interest	85,888	518,135	41,610	645,633
Non-controlling interest	(7,049)	-	-	(7,049)
Income from discontinued operations	78,839	518,135	41,610	638,584

15. Discontinued Operations - continued

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

Term Bank Debt		**June 30, 2009**		December 31, 2008
Committed reducing term facility, bearing interest at prime plus 1%, repayable in monthly principal payments of $12,500 plus interest. This facility is due in March 2012 and is secured by land and buildings at 1070 Heritage Road, Burlington, Ontario, 1150 Heritage Road, Burlington, Ontario and 96 Queen Street, Langton, Ontario.	**$**	**-**	$	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.		**-**		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.		**-**		291,667
	$	**-**	$	2,418,660

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

Notes Payable		**June 30, 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, this obligation was assumed and paid by the purchaser.	**$**	**-**	$	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.		**-**		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.		**35,449**		45,295
Total		**35,449**		2,763,718
Less: Portion due within one year		**17,011**		2,736,238
	$	**18,438**	$	27,480

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:

		3 months ended June 30, 2009	3 months ended June 30, 2008	**6 months ended June 30, 2009**	6 months ended June 30, 2008
Weighted average number of shares used in basic earnings per share		**31,075,611**	26,356,659	**31,075,611**	26,356,659
Dilutive potential of Standard Warrants		**-**	973,790	**-**	973,790
Dilutive potential of Broker Warrants		**-**	168,367	**-**	168,367
Dilutive potential of options		**-**	47,619	**-**	47,619
Weighted average number of shares used in dilutive earnings per share		**31,075,611**	27,546,435	**31,075,611**	27,546,435
Net income (loss) for the period from continuing operations	$	**(386,510)**	(1,216,633)	**(868,084)**	(1,267,825)
Net income (loss) for the period from discontinued operations	$	**(6,999,566)**	638,584	**(6,735,730)**	1,095,305
Net income (loss) for the period	$	**(7,386,076)**	(578,049)	**(7,603,814)**	(172,520)
Earnings (loss) per share – Basic					
Continuing operations	$	**(0.012)**	(0.046)	**(0.028)**	(0.048)
Discontinued operations	$	**(0.225)**	0.024	**(0.217)**	0.042
Earnings (loss)	$	**(0.238)**	(0.022)	**(0.245)**	(0.007)
Earnings (loss) per share – Diluted					
Continuing operations	$	**(0.012)**	(0.046)	**(0.028)**	(0.048)
Discontinued operations	$	**(0.225)**	0.023	**(0.217)**	0.040
Earnings (loss)	$	**(0.238)**	(0.022)	**(0.245)**	(0.007)

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.

17. Financial Risk Management - continued

(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. 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.

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 June 30, 2009 is $11,077 (2008 - $54,979).

Accounts receivable are non-interest bearing and are due within periods of 30 to 60 days, although some contracts allow the customer to hold back 10% of the contract value for one year after the completion of the contract. At June 30, 2009, the Company's accounts receivable were as follows:

Gross accounts receivable, including holdbacks of $262,915	$	**4,082,965**
Allowance for doubtful accounts		**11,077**
Net accounts receivable	$	**4,071,888**
Portion over 90 days	$	**563,455**
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.		**164,998**
Net exposure to over-90 days accounts receivable	$	**398,457**

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.

17. Financial Risk Management - continued

(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 9). The Company has a plan in place to address liquidity risks, which is disclosed in Note 1 of the unaudited interim consolidated financial statements.

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
Continuing Operations:						
Bank indebtedness	**$1,230**	**$-**	**$-**	**$-**	**$-**	**$1,230**
Accounts payable and accrued liabilities	**6,841**	**-**	**-**	**-**	**-**	**6,841**
Income taxes payable	**199**	**-**	**-**	**-**	**-**	**199**
Due to vendor for working capital	**213**	**-**	**-**	**-**	**-**	**213**
Notes payable	**4,540**	**1,902**	**1,550**	**12**	**10**	**8,014**
Long- term debt	**1,090**	**8**	**-**	**-**	**-**	**1,098**
Total for continuing operations	**$14,113**	**$1,910**	**$1,550**	**$12**	**$10**	**$17,595**

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

All in $000s	During 2009	During 2010	Total
Discontinued Operations:			
Bank indebtedness	**$-**	**$-**	**$-**
Accounts payable and accrued liabilities	**6,493**	**-**	**6,493**
Income taxes payable	**735**	**-**	**735**
Due to vendor for working capital	**-**	**-**	**-**
Notes payable	**9**	**26**	**35**
Long- term debt	**-**	**-**	**-**
Total for discontinued operations	**$7,237**	**$26**	**$7,263**

17. Financial Risk Management - continued

The Company currently has a working capital deficiency of $7,691,345. The Company's current liabilities for continuing operations include the following balances which do not represent an immediate cash requirement:

(a) Deferred revenue of $1,700,060; 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);
(b) Seeking to refinance the balance owing on the demand loan due on November 12, 2009 to Westdale Construction Co. Ltd. (see Note 19(a)); and
(c) Source additional funding to improve working capital.

(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 Engineering & Design North America segment 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, this segment 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 June 30, 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	$ **1,382,523**
Accounts receivable	**2,178,642**
Total assets	**3,561,165**
Accounts payable and accrued liabilities	**3,759,635**
Notes payable	**377,215**
Total liabilities	**4,136,850**
Net exposure to US dollars	$ **(576,685)**

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 $57,563.

17. Financial Risk Management - continued

At June 30, 2009 the Company's financial statements included the Canadian equivalent of the following pounds Sterling-denominated financial instrument balances:

Cash and cash equivalents	$ 1,176,619
Accounts receivable	2,810,461
Total assets	3,987,080
Accounts payable	6,239,637
Total liabilities	6,239,637
Net exposure to pounds Sterling	$ (2,252,557)

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 $225,235.

(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 June 30, 2009 is as follows:

Floating rate term loans	$ 5,199,794
Floating rate operating loans	1,230,000
Total floating rate debt	6,429,794
Fixed-rate loans and notes payable	3,518,194
Interest-free loans and notes payable	394,193
Total term debt and operating loans	$ 10,342,181

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 2.25% to 3.25%) would decreased (increased) earnings for the year by $32,149. 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.

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 June 30, 2009, the Company was in compliance with its obligations under the bank credit facilities (see Note 9(c)).

19. Subsequent Events

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

On August 11, 2009, the Company signed an agreement with Westdale which provides a 3 month extension of the maturity date of the $3,000,000 loan from August 12, 2009 to November 12, 2009 in exchange for a $25,000 fee, the issue to the lender of 500,000 common share purchase warrants exercisable at $0.08 for one year, 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. The note is payable in minimum instalments of principal of $1,000,000 by August 12, 2009; $500,000 by August 22, 2009; $500,000 by September 12, 2009; and $1,000,000 by November 12, 2009. The payments due in August 2009 have been made.

b) Agreement to Sell Enviro-Pro-Tech, Inc. ("EPT")

On August 31, 2009, the Company completed the sale of EPT to U.S. O'Neill Industries, LLC. The sale price was US$1,675,000, subject to an adjustment for book value to be calculated within thirty days. The purchaser paid $1,375,000 at closing and issued promissory notes of $300,000, of which $100,000 is due October 31, 2009 and $200,000 is due May 31, 2010, subject to potential partial adjustments relating to staff turnover, bad debts and earnings. The net proceeds have been used to repay $916,667 of term bank loans and improve the Company's working capital position.

19. Subsequent Events - continued

c) Change of Name of Transfer Bulk Systems, Inc. ("TBS")

On August 26, 2009, the name of the Company's Delaware subsidiary, TBS, was changed to Stanco Projects Inc. This change was made to unify the Company's branding under the Stanco Projects name across North America.

20. Comparative Figures

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