



**SEM CAN INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT MARCH 31, 2010**

DATE: MAY 31, 2010

Table of Contents

1.	Basis of Presentation and Going Concern.....	4
2.	Chairman’s Statement.....	4
3.	Vision and Core Business.....	6
4.	Key Performance Indicators.....	7
5.	Liquidity and Capital Resources.....	10
5.1	Working Capital and Borrowing Arrangements.....	10
5.1.1	Working Capital.....	10
5.2	Banking and other Borrowing Arrangements.....	10
5.3	Borrowing Covenants.....	11
5.4	Access to Capital.....	11
5.5	Operational Efficiency.....	11
6.	Historical Overview and Operating Segments.....	12
6.1	Engineering & Design.....	12
6.2	Distribution & Product Development.....	13
6.3	Reporting Segments.....	14
6.4	Current Organizational Structure.....	14
7.	Discussion of Results for the Quarter and Year to Date.....	15
7.1	Overall Profitability and Segment Results.....	15
7.2	Capital Expenditures and Dispositions.....	19
8.	Outlook.....	20
9.	Eight Quarter Review of Operating Results.....	22
10.	Related Party Transactions.....	22
11.	Financial Instruments and Other Instruments.....	22
12.	Critical Accounting Policies and Estimates.....	23
13.	Contractual Obligations.....	24
14.	Share Data.....	24
15.	Risks.....	25
16.	Directors.....	29
17.	Additional Information.....	29
	Appendix - GLOSSARY OF TERMS.....	30

Caution Regarding Forward-Looking Information and Non-GAAP Measures

Forward-Looking Information

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

Except as otherwise noted, the information contained herein is given as of the date of this document, based on Semcan's most recently completed financial period ended March 31, 2010.

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

Non-GAAP Measures

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

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

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

1. Basis of Presentation and Going Concern

The following is Management's Discussion and Analysis ("MD&A") of the results of operations for Semcan Inc. ("Semcan" or the "Company") for the three month period ended March 31, 2010, and its financial position at March 31, 2010. The Company reports on its operations and financial position in accordance with Canadian generally-accepted accounting principles ("GAAP").

Where appropriate, comparison to results of operations for the previous year and/or quarters have also been included. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2009 and December 31, 2008. For additional information and details, readers are referred to the quarterly financial statements and quarterly MD&A documents, the Company's Management Information Circular and the Company's Annual Information Return, all of which are published separately and are available at www.sedar.com.

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

At March 31, 2010, the Company has a working capital deficiency of \$10,322,787. The working capital deficiency for the continuing operations is \$6,606,109.

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

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

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

2. Chairman's Statement

The first quarter's results are very disappointing with gross revenues of only \$2.467 million and a negative EBITDA of \$576,000.

We entered 2010 with a backlog of \$5.3 million (2009 - \$18.7 million) in engineering projects and the nature of our business is such that there is a lag between the proposal stage, order stage and execution stage of most projects. I do not expect the Company's continuing operations to have as strong a revenue year in 2010 as that of 2009 because of the reduced backlog entering this year. One of our key objectives for 2010 is to rebuild the backlog. I am confident that this can be done in light of the economic recovery currently under way, and the significant level of customer inquiries we are processing. At the time of writing, we have quotations in excess of \$90 million under consideration by our clients and we have seen our secured backlog rise to approximately \$9 million following the successful closing of approximately \$5 million of orders in April and May 2010. There are early signs that the recovery is beginning to take effect in our markets.

Another key objective for 2010 is to improve our working capital position, which we intend to do by increasing our backlog of orders and executing those projects profitably, on time and on budget. In addition, the Company has been actively seeking out strategic alliances with like-minded organizations. On May 25, 2010 we signed a definitive agreement to merge with Group DKG Corp. ("DKG") of Toronto. DKG, a private Ontario corporation with operations in Scarborough, Ontario and Buffalo, New York, was founded to consolidate the corrosion-resistant fiberglass reinforced plastic ("FRP") industry. Examples of corrosion-resistant FRP products include: scrubber systems, ducting and ventilation systems, chimney liners and large tanks used in coal-fired power plants and tanks, vessels and piping systems used in water and sewage treatment facilities. The two companies share customer bases in mining, power generation and water treatment, and it is anticipated that the merger will drive revenue growth through a joint sales effort and expanded product and service offerings in common markets.

The proposed merger will be accomplished by having DKG amalgamate with a new wholly-owned subsidiary of Semcan. DKG's shareholders will receive, on a fully-diluted basis, common shares in Semcan representing approximately 36% of the merged company after the debt to equity conversion and prior to the closing of a new financing, both of which are described below. The value attributed to Semcan shareholders' stake in the merged company is \$0.15 per common share, a significant premium to the current market price.

The terms of the merger require, among other things, that approximately \$3.1 million of the Bridge Loan be converted to equity at a price of \$0.20 per share prior to the close of the transaction. After the conversion of debt and consummation of the merger, Semcan's shareholders will hold approximately 64% of the merged company.

Contemporaneous with the closing of the merger, Semcan plans to close a financing under which a minimum of \$2 million of new equity at a price of \$0.15 per common share will be raised by way of a short form prospectus. The proceeds of the new capital raise will be used for working capital purposes. The transactions are expected to close on 30th June 2010 and are subject to regulatory and shareholder approval, completion of due diligence and closing the \$2 million financing.

The merger with DKG is an important step for the Company. After the closing, the Company will have significantly improved its balance sheet and working capital position. Our product and services offering to existing and new customers will be significantly enhanced. In addition, our management team will be strengthened by the addition of David Deacon, who will assume the role of CEO of Semcan, and Jonathan Aune, who joins us as Vice President, Corporate Affairs.

I am grateful to our staff, suppliers and financial partners for their continued support. I am confident that this quarter is the nadir from an EBITDA perspective, and that the closing of the DKG transaction will prove to be a new beginning for us.

Philip M. Jamieson
Chairman and CEO

3. Vision and Core Business

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

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

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

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

4. Key Performance Indicators

	Quarter	Year	Quarter	Quarter	Quarter	Quarter	Year
	ended Mar 31/10	ended Dec 31/09	ended Dec 31/09	ended Sept 30/09	ended Jun 30/09	ended Mar 31/09	ended Dec 31/08
FINANCIAL PERFORMANCE (FROM CONTINUING OPERATIONS):							
Revenue (\$000s)	\$2,467	\$31,339	\$5,203	\$7,254	\$9,541	\$9,341	\$29,338
Gross margin % (unadjusted)	15.63%	24.09%	22.00%	28.52%	23.18%	22.74%	22.84%
Adjusted gross margin % (adjusted to remove effect of amortization of intangible assets relating to acquired order backlog)	15.63%	24.23%	22.00%	28.52%	23.18%	23.21%	26.93%
General, administrative and selling expenses (excluding gain or loss on foreign exchange) as a % of sales	40.87%	18.62%	13.14%	20.04%	17.70%	21.51%	20.57%
Earnings (loss) before interest, income taxes, depreciation & amortization (EBITDA) (\$000s)	(\$576)	\$1,771	\$513	\$553	\$560	\$145	\$676
Adjusted EBITDA (adjusted to remove effect of amortization of intangible assets relating to acquired order backlog) (\$000s)	(\$576)	\$1,815	\$513	\$553	\$560	\$189	\$1,875
Adjusted EBITDA as a percentage of Revenue	(23.34%)	5.79%	9.85%	7.62%	5.87%	2.03%	6.39%
Net income (loss) from continuing operations (\$000s)	(\$650)	(\$235)	\$680	(\$46)	(\$387)	(\$482)	(\$2,303)
Earnings (loss) per share from continuing operations (basic)	(\$0.021)	(\$0.008)	\$0.022	(\$0.002)	(\$0.012)	(\$0.016)	(\$0.078)
Earnings (loss) per share from continuing operations (diluted)	(\$0.021)	(\$0.008)	\$0.022	(\$0.002)	(\$0.012)	(\$0.016)	(\$0.078)

4. Key Performance Indicators - continued

	Quarter	Year	Quarter	Quarter	Quarter	Quarter	Year
FINANCIAL POSITION:	ended Mar 31/10	ended Dec 31/09	ended Dec 31/09	ended Sept 30/09	ended June 30/09	ended Mar 31/09	ended Dec 31/08
Total assets (\$000s)	\$13,095	\$14,444	\$14,444	\$20,952	\$30,999	\$50,504	\$52,284
Working capital (\$000s)	(\$10,323)	(\$9,932)	(\$9,932)	(\$7,446)	(\$7,691)	(\$9,023)	(\$9,481)
Unused capacity on bank lines – continuing operations (\$000s)	\$313	\$1,179	\$1,179	\$335	\$157	\$117	\$220
Return on equity (annualized)	(91.62%)	(483.48%)	(483.48%)	(208.76%)	(166.79%)	(15.75%)	(25.42%)
Cash dividends	-	-	-	-	-	-	-
Total shares outstanding at end of period (000s of shares)	31,098	31,098	31,098	31,098	31,098	31,098	31,098
Book value per share	(\$0.114)	(\$0.096)	(\$0.096)	(\$0.006)	\$0.00	\$0.24	\$0.24

4. Key Performance Indicators - continued

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

	Quarter	Year	Quarter	Quarter	Quarter	Quarter	Year
	ended Mar 31/10	ended Dec 31/09	ended Dec 31/09	ended Sept 30/09	ended Jun 30/09	ended Mar 31/09	ended Dec 31/08
All in \$000s							
Net income (loss) from continuing operations	(\$650)	(\$235)	\$680	(\$46)	(\$387)	(\$482)	(\$2,303)
Add:							
Provision for (recovery of) income taxes	(\$247)	(\$766)	(\$905)	\$60	\$102	(\$23)	\$289
Stock compensation expense	-	\$479	\$154	\$98	\$98	\$129	\$599
Amortization and loss on disposal of capital assets	\$202	\$1,099	\$226	\$220	\$412	\$241	\$748
Interest expense	\$119	\$1,194	\$358	\$221	\$335	\$280	\$1,343
EBITDA	(\$576)	\$1,771	\$513	\$553	\$560	\$145	\$676
Add:							
Amortization of intangible assets relating to acquired order backlog	-	\$44	-	-	-	\$44	\$1,199
Adjusted EBITDA	(\$576)	\$1,815	\$513	\$553	\$560	\$189	\$1,875

Reconciliation of Adjusted Gross Margin to Gross Margin:

	Quarter	Year	Quarter	Quarter	Quarter	Quarter	Year
	ended Mar 31/10	ended Dec 31/09	ended Dec 31/09	ended Jun 30/09	ended Jun 30/09	ended Mar 31/09	ended Dec 31/08
Net sales (\$000s)	\$2,467	\$31,339	\$5,203	\$7,254	\$9,541	\$9,341	\$29,338
Gross margin (\$000s)	\$386	\$7,549	\$1,144	\$2,069	\$2,212	\$2,124	\$6,701
Amortization of intangible assets relating to acquired order backlog (\$000s)	-	\$44	-	-	-	\$44	\$1,199
Adjusted gross margin (\$000s)	\$386	\$7,593	\$1,144	\$2,069	\$2,212	\$2,168	\$7,900
Gross margin %	15.63%	24.23%	22.00%	28.52%	23.18%	22.74%	22.84%
Adjusted gross margin %	15.63%	24.09%	22.00%	28.52%	23.18%	23.21%	26.93%

5. Liquidity and Capital Resources

5.1 Working Capital and Borrowing Arrangements

5.1.1 Working Capital

The Company's working capital deficiency was \$10,322,787 at March 31, 2010. This balance includes \$949,906 of deferred revenue and \$998,549 of future income tax liabilities. The Company's focus for 2010 is to improve the working capital position through profitable operations. As well, the Company is in discussions with current and potential lenders with respect to a restructuring of the Company's debt to reduce the working capital deficiency.

It should be noted that the discontinued operation's working capital position includes Naston's liabilities recorded at full value of \$4,056,550. Under the terms of the Company Voluntary Arrangement ("CVA") entered into by Naston on January 18, 2010, Naston's creditors have agreed to be paid their pro-rata share of the net cash generated by Naston until mid-2012. The total estimated cash generated during this period, based on a best-case scenario, is approximately £600,000 (approximately \$925,320).

5.2 Banking and other Borrowing Arrangements

The Company's debt falls into the following categories:

- i. Bank operating loan. The Company has access to a maximum of \$1,500,000 under its revolving line (subject to levels of accounts receivable and outstanding letters of credit), of which \$839,702 was drawn at March 31, 2010. The purpose of this line is to finance day to day requirements for working capital, principally accounts receivable and work in progress.
- ii. Vendor take-back promissory notes. These notes assist the Company in completing acquisitions, and are also used to motivate former owners to keep the acquired businesses performing at anticipated profitability levels. Certain vendor take-back notes are payable in full only if the acquired company meets certain earnings targets; for notes with this feature the contingent portion is recorded as a liability when the conditions for payment have been met.
- iii. Loan of \$4,310,000 from related parties (the "Bridge Loan"), incurred in order to close the purchase of Naston. This loan was made on commercial terms, and was intended to be a short-term loan maturing on July 20, 2008. Effective July 20, 2008, the Company converted the loan into a three year term loan. The interest rate on the loan is prime + 3% per annum (currently 5.25%). The outstanding amount of this loan at March 31, 2010 is \$4,118,716, including unpaid interest for the period January 1, 2009 to March 31, 2010. The Company has not made any of the required principal instalments since December 31, 2008.
- iv. Loan of \$900,000 due in a balloon payment on November 26, 2011.

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

5.3 Borrowing Covenants

Bank Covenants:

The Company's operating loan facility is governed by covenants relating to i) ability to service required principal payments and interest on debt (the "DSC Covenant"); and ii) total funded debt as a percentage of cash earnings (the "Funded Debt Covenant"). The Company is not in compliance with either covenant at March 31, 2010. At December 31, 2009, the Company was not in compliance with the DSC Covenant. The bank has not provided a waiver for the non-compliance for either period.

The borrowings under this loan facility were \$839,702 at March 31, 2010.

Breaches in Payment under Debt Obligations:

The Company has breached the terms of the Bridge Loan (see 5.2(iii)), the outstanding balance of which was \$4,118,716 at March 31, 2010. The arrears relate to required principal instalments and interest on this loan from January 1, 2009 to date, which total \$2,311,297 at March 31, 2010. The Company is negotiating with the lenders on an amicable basis to resolve the situation.

Under the terms of a promissory note due to the former owners of Stanco Projects Ltd., the Company was obliged to make a payment of \$477,000 plus accrued interest on July 24, 2009. The Company has not made this payment. As a result, the Company has classified the full amount owing under this note of \$525,223 as a current liability.

Under the terms of a promissory note due to the former owners of Enviro-Pro-Tech, Inc. ("EPT"), the Company was obliged to make a principal payment of US\$100,000 on October 31, 2009. The Company has not made this payment. As a result, the Company has classified the full amount owing under this note of C\$298,645 as a current liability.

5.4 Access to Capital

The Company has funded its growth to date through equity issues and term debt. Access to traditional sources of capital is not available to the Company at present due to its current financial position.

5.5 Operational Efficiency

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

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

6. Historical Overview and Operating Segments

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

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

6.1 Engineering & Design

The platform for the Engineering & Design unit is operating unit **Stanco Projects (“SP”)**, which designs, integrates, and installs turn-key bulk material handling systems. SP, which commenced operations in 1970, is headquartered in Milton, Ontario. Engineering, project management and assembly are carried out at two locations:

1. A 27,740 square foot facility in Milton. There are approximately 22 salaried employees in Milton divided between management, engineering, project management, assembly, sales and administration.
2. A 26,325 square foot facility in Richmond, BC. The Company acquired this business on July 24, 2007, when it completed the purchase of all of the outstanding shares of **Stanco Projects Ltd.** (“Stanco”), which had been founded in 1978. The Richmond location has 35 employees, including 2 installation teams.

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

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

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

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

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

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

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

On January 31, 2008, the Company acquired the business of **Enviro-Pro-Tech, Inc.** ("EPT") by acquiring all of the outstanding shares. EPT provides soil and water testing and remediation services from its operational headquarters in Pensacola, Florida. Much of its work comes from cleaning up contaminated sites previously used as petroleum service stations. EPT is licensed to do work for the state governments of Florida and Alabama. The sale of EPT was closed on August 31, 2009 as part of the Company's efforts to sell assets in order to pay down debt.

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

6.2 Distribution & Product Development

The platform for the Distribution & Product Development unit was **Nucleus Distribution Inc.** (formerly Nucleus Financial Network Inc.) ("Nucleus"), which owned the **Ken-Co Industries** divisions and **Forward600 Precision Tools & Machinery**.

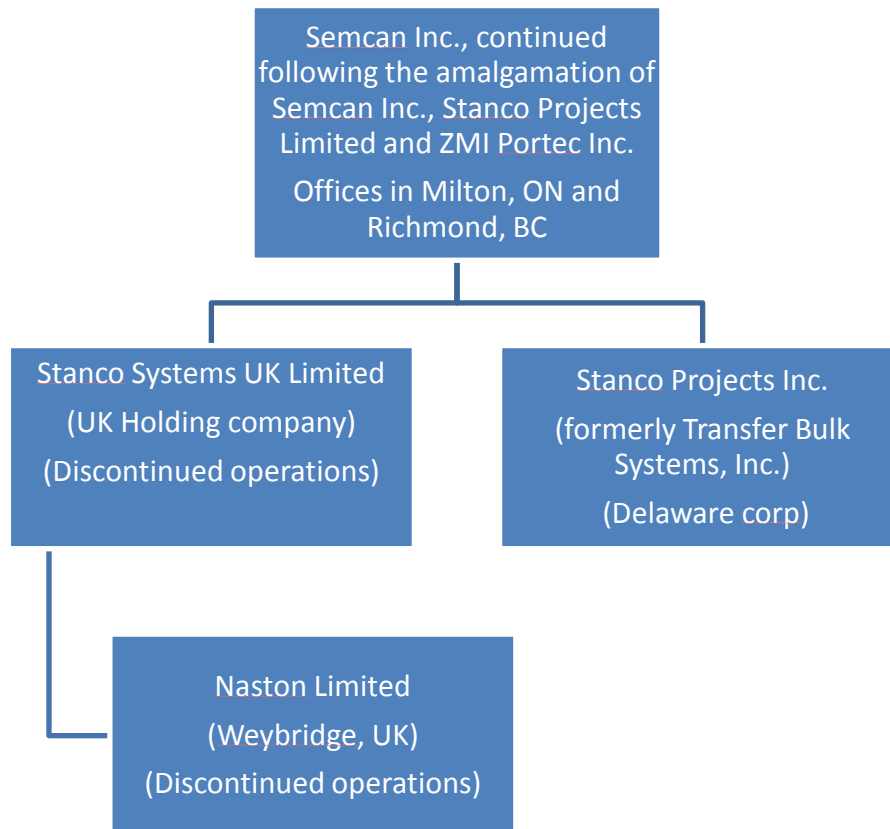
The Company disposed of this unit on April 27, 2009.

6.3 Reporting Segments

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

6.4 Current Organizational Structure

The Company’s corporate structure at March 31, 2010 is as follows:



7. Discussion of Results for the Quarter and Year to Date

7.1 Overall Profitability and Segment Results

The following operating units are classified as discontinued operations in the consolidated financial statements for the period ended March 31, 2010:

Engineering & Design – UK:

Naston Limited

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

Distribution & Product Development:

Nucleus Distribution Inc.

Soil Remediation:

Enviro-Pro-Tech, Inc.

Engineering & Design – UK:

Naston Limited

The following chart shows the Company's operating results for the three months ended March 31, 2010, with the operating results of the discontinued operations presented in the same way as those of the continuing operations.

	Quarter ended March 31, 2010		
	Continuing Operations	Discontinued Operations	Total
Revenue	\$2,467,139	205,250	\$2,672,389
Cost of sales	2,081,458	176,948	2,258,406
Gross margin	385,681	28,302	413,983
GM %	15.63%	13.79%	15.49%
Expenses			
Selling, general and administrative	1,008,334	126,041	1,134,375
(Loss) gain on foreign exchange	(46,770)	(37)	(46,807)
	961,564	126,004	1,087,568
Loss before other items	(575,883)	(97,702)	(673,585)
Other items			
Interest expense	119,192	1,679	120,871
Amortization of property and equipment	42,085	0	42,085
Amortization of intangible assets	159,924	0	159,924
Loss on disposal of property and equipment	0	0	0
Stock compensation expense	0	0	0
	321,201	1,679	322,880
Loss before income taxes	(897,084)	(99,381)	(996,465)
Provision for (recovery of) income taxes			
Current	6,442	0	6,442
Future	(253,064)	0	(253,064)
	(246,622)	0	(246,622)
Net loss for the period	(\$650,462)	(\$99,381)	(\$749,843)
<u>Adjusted EBITDA:</u>			
Loss before other items	(\$575,883)	(\$97,702)	(\$673,585)
Add: Amortization of acquired backlog	0	0	0
Adjusted EBITDA	(\$575,883)	(\$97,702)	(\$673,585)

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

	Quarter ended March 31, 2009		
	Continuing Operations	Discontinued Operations	Total
Revenue	\$9,340,975	\$10,812,884	\$20,153,859
Cost of goods sold	7,172,501	8,223,989	15,396,490
Amortization of acquired backlog	44,251	130,674	174,925
Total cost of sales	7,216,752	8,354,663	15,571,415
Gross margin	2,124,223	2,458,221	4,582,444
Unadjusted GM %	22.74%	22.73%	22.74%
Adjusted GM %	23.21%	23.94%	23.60%
Expenses			
Selling, general and administrative	2,009,540	1,990,710	4,000,250
Gain on foreign exchange	(30,995)	(21,855)	(52,850)
	1,978,545	1,968,855	3,947,400
Income before other items	145,678	489,366	635,044
Other items			
Interest Expense	280,097	54,745	334,842
Loss on disposal of capital assets	-	(9,373)	(9,373)
Amortization of property and equipment	80,451	62,206	142,657
Amortization of intangible assets	160,533	107,614	268,147
Stock compensation expense	128,899	-	128,899
	649,980	215,192	865,172
(Loss) income before income taxes	(504,302)	274,174	(230,128)
Provision for (recovery of) income taxes			
Current	32,846	180,446	213,292
Future	(55,574)	(68,570)	(124,144)
	(22,728)	111,876	89,148
(Loss) income from operations	(481,574)	162,298	(319,276)
Non-controlling Interest	-	(1,191)	(1,191)
Recovery of provision previously recorded for loss on sale of discontinued operations	-	102,729	102,729
(Loss) income for the period	(\$481,574)	\$263,836	(\$217,738)
Adjusted EBITDA:			
Income before other items	\$145,678	\$489,366	\$635,044
Add: Amortization of acquired backlog	44,251	130,674	174,925
Adjusted EBITDA	\$189,929	\$620,040	\$809,969

The Company generated Adjusted EBITDA (earnings before interest, tax, depreciation and amortization, non-controlling interest and stock-based compensation expense) from continuing operations of (\$575,883) for the period, compared with \$189,929 for the same period in 2009. Adjusted EBITDA from discontinued operations was (\$97,702) compared with \$620,040 for the same period in 2009. Total Adjusted EBITDA was (\$673,585) compared with \$809,969 for the same period in 2009.

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

- Stock compensation expense of \$nil (2009 - \$128,899). The fair value of all issued stock options was fully amortized at December 31, 2009.
- Amortization of \$202,009 (2009 - \$240,984). This amount includes \$159,924 (2009 - \$160,533) related to the amortization of other intangible assets. The remaining \$42,085 (2009 - \$80,451) is depreciation of property and equipment.
- Gains or losses on sale of capital assets.
- Interest expense and loan arrangement fees of \$119,192 (2009 - \$280,097) are primarily related to bank debt, vendor take-back promissory notes and promissory notes related to acquisitions made in prior years.

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

- i. Revenues of \$2.5 million were below expectations for the period. This reflects the Company's reduced backlog, since a smaller population of projects, compared with the previous year, is now driving the Company's revenue, and many of these projects are nearing completion. As noted elsewhere in this report, the Company's focus is on rebuilding the order backlog to both provide a secure source of future revenues, and also to reduce the volatility of revenues since it is desirable to have many projects in progress at different stages of completion.
- ii. Adjusted gross margin of 15.63% is below expectations, and is the result of low revenues. The Company has approximately \$823,000 of fixed costs classified as cost of sales; hence margins are vulnerable at low revenue levels. Also, in the current business environment, competition is strong, and it appears that some of the Company's competitors are presenting very low margin bids to secure work.
- iii. Selling, general & administration ("SG&A") costs represent 40.9% of revenue from continuing operations, and 42.45% of total revenue. Our expected ratio has been 18% - 20% of revenue based on the combined continuing and discontinued operation. The ratio for this period is very high due to the low revenues. The SG&A expenses for the period include \$142,628 of costs related to the public holding company.
- iv. Adjusted EBITDA of (\$575,883) is disappointing but not unexpected given the expected distribution of revenues through 2010 and the reality that our backlog going into 2010 was only \$5.3 million.

Segment performance for the year is set out in Note 13 to the financial statements. The revenue, adjusted gross margin and adjusted EBITDA of each segment for this period was as follows:

Segment	Q1 2010 Revenue	Q1 2010 Adjusted Gross Margin %	Q1 2010 Segment Adjusted EBITDA	Q1 2009 Segment Adjusted EBITDA
Engineering & Design, North America	\$2,467,139	15.63%	(\$433,255)	\$769,841
Engineering & Design, United Kingdom	205,250	13.79%	(97,702)	319,713
Soil Remediation	n/a	n/a	n/a	331,836
Distribution & Product Development	n/a	n/a	n/a	(31,509)
Corporate	-	n/a	(142,628)	(579,912)
Total Semcan Inc.	\$2,672,389	15.49%	(673,575)	809,969

7.2 Capital Expenditures and Dispositions

Expenditures on property, equipment and intangible assets for the period ended March 31, 2010 were as follows:

Continuing operations	\$3,911	Discontinued operations	\$nil
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8. Outlook

The Company's continuing operations closed the quarter with an order backlog of approximately \$4,546,170, compared with a backlog of \$5,312,050 at December 31, 2009. Another \$2,180,850 of confirmed orders had been delayed by customers at March 31, 2010.

The financial crisis of 2008/2009 significantly impacted many market sectors, given the difficulty in securing project financing, the reduction in demand for commodities and utilities, and significant reduction in commodity pricing impacting the economics/viability of projects. This, combined with uncertainty in future U.S. air emissions regulations, conspired to reduce the number of available project opportunities as well as reduced backlog.

However, in late 2009 and continuing in 2010, an improvement in industrial market demand has occurred with the rise in commodity pricing and gradual rebound in the economy. This has been directly seen with an increase in the level of inquiries, as well as the Company securing a number of orders. The current volume of requests for quotations is high, but closing sales continues to be difficult or delayed due to strong competition, the fragile state of the economic recovery, and customers reviewing all project options before committing to purchase. In some cases, customers are having the Company complete the engineering portion of projects and deferring the capital build. Nevertheless, we continue to believe that the long term outlook remains strong, based on the ongoing need to upgrade aging infrastructure, the rebound in commodity pricing, and ever tightening environmental regulations in the Company's areas of activity.

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

Area of Activity	Market Segment	Regulatory Driver/Expected Result
Industrial waste water treatment	Oil sands	Restriction in availability of fresh water for use in production.
	Mining	Reagent systems are required to support product extraction as well as treatment of the generated waste water to meet environmental regulations.
Current Situation	<p>Oil sands projects are typically economically viable at oil prices of \$60 per barrel. The sustained, multi-quarter higher price per barrel since bottoming in early 2009 has renewed interest in oil sands projects, with a number of projects now in updated design and construction. The Company is a leader in the supply of dry bulk reagent systems to treat contaminated water resulting from the production process, and it is anticipated that further project work will be secured in 2010/2011.</p> <p>Raw metal prices appear to have bottomed out and, with an increase in physical demand, particularly from China, the rest of Asia, and North America through the economic recovery, pricing is expected to continue to climb and to drive further commitments in mining projects, including expansion and new builds.</p>	

Area of Activity	Market Segment	Regulatory Driver/Expected Result
Flue gas desulphurization	Canada and US	Clean Air Interstate Rule/Clear Skies are forcing the retrofit of at least 150 coal-fired power plants. In addition, the relative abundance of coal in the US means that coal will continue to be used as fuel to produce electricity for many years.
Current Situation	The Obama administration has targeted control of greenhouse gases as a key initiative. However, U.S. federal regulations for environmental controls are in the process of being updated, with expectations for additional regulatory tightening of standards along with cap-and-trade programs to be implemented in 2010. Many power plant owners are waiting for the enactment of new rules before committing to large expenditures for environmental compliance. This, combined with tightened access to financing and reduced power demand due to the economic slowdown in the U.S., has led to project delays. Competition for work on projects which <i>are</i> moving ahead is fierce. Once updated federal standards have been promulgated, significant capital expenditures are expected in this market as power plant owners update pollution control equipment to meet new regulations.	
Municipal drinking water and waste water treatment	Canada and US	Continuing requirement for clean drinking water as well as treatment of municipal waste water to meet environmental regulations.
Current Situation	Global population continues to grow, and the growth rate is currently estimated at over 1%/year (or over 70 million people per year). With this increase in population, and considering our fixed natural resources, such as fresh water, as well as our aging infrastructure, there will be continued and growing emphasis on replacement, expansion and upgrades of municipal water and wastewater treatment facilities. Combined with continued regulatory tightening, this presents an ongoing growth opportunity in environmental solutions, such as the dry bulk materials storage and handling systems which the Company provides into this market.	

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

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

At March 31, 2010, the Company's order backlog for the continuing business was approximately:

Area of Activity	Value
Industrial	\$ 2,815,775
Municipal	1,730,395
TOTAL	\$ 4,546,170

Another \$2,180,850 of confirmed orders had been delayed by customers at March 31, 2010.

At March 31, 2010, the Company's order backlog for the discontinued operations was approximately:

Area of Activity	Value
Waste water treatment – United Kingdom	\$ 1,097,405
TOTAL	\$ 1,097,405

9. Eight Quarter Review of Operating Results

	2010	2009	2009	2009	2009	2008	2008	2008
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue before discontinued operations	\$2,467,139	\$5,202,332	\$7,254,446	\$9,541,261	\$9,340,975	\$11,102,952	\$6,244,916	\$6,129,107
Gross profit before discontinued operations	\$385,681	\$1,144,311	\$2,068,774	\$2,211,758	\$2,124,223	\$2,787,802	\$1,504,944	\$738,359
Gross profit % before discontinued operations	15.63%	22.00%	28.52%	23.18%	22.74%	25.11%	24.10%	12.05%
Net income (loss) before discontinued operations	(\$650,462)	\$679,762	(\$46,334)	(\$386,510)	(\$481,574)	(\$184,944)	(\$1,082,381)	(\$984,058)
Per share (basic)	(\$0.021)	\$0.022	(\$0.002)	(\$0.012)	(\$0.016)	(\$0.006)	(\$0.039)	(\$0.037)
Per share (diluted)	(\$0.021)	\$0.022	(\$0.002)	(\$0.012)	(\$0.016)	(\$0.006)	(\$0.039)	(\$0.037)
Net income (loss)	(\$749,843)	(\$3,007,173)	(\$296,089)	(\$7,386,076)	(\$217,738)	(\$6,297,349)	(\$1,791,911)	(\$578,049)
Per share (basic)	(\$0.024)	(\$0.097)	(\$0.010)	(\$0.238)	(\$0.007)	(\$0.213)	(\$0.065)	(\$0.022)
Per share (diluted)	(\$0.024)	(\$0.097)	(\$0.010)	(\$0.238)	(\$0.007)	(\$0.213)	(\$0.065)	(\$0.022)

10. Related Party Transactions

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

- The Company paid or accrued a total of \$26,100 (2009 - \$24,999) to a shareholder for advisory services, including strategic and legal advice.
- The Company paid rent of \$nil (2009 - \$24,600) for a corporate office at 365 Adelaide Street East, Toronto. The landlord is a company controlled by the Company's chairman. The landlord released the Company from this lease as of December 31, 2009.
- The Company paid or accrued interest of \$53,144 (2009 - \$57,543) on a loan from the Company's chairman and two companies controlled by a significant shareholder.
- The Company paid or accrued interest of \$1,090 (2009 - \$1,984) on a loan maturing September 30, 2011 from a company controlled by the spouse of the Company's Chief Financial Officer.

11. Financial Instruments and Other Instruments

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

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

The Company's debt is comprised of both fixed rate and floating rate loans. The Company views the overall profile of its debt structure to be advantageous given the current trend in interest rates and does not intend to use financial instruments to convert any of the outstanding debt to fixed rate or variable rate.

Details of the Company's financial risk management approach are given in Note 18 to the financial statements.

12. Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in notes 1 and 3 to the March 31, 2010 interim consolidated financial statements and the December 31, 2009 audited annual consolidated financial statements.

Significant areas for which estimates are employed include:

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

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

International Financial Reporting Standards

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

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

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

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

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

Under IAS 11, Construction Contracts, each construction contract is assessed at the balance sheet date. When the outcome of the contract can be reliably estimated, revenues and costs are recognized based on the percentage of completion method. Costs incurred which relate to future activities are recognized as assets only if it is probable that they will be recovered. While this is essentially the method currently used by the Company, it is anticipated that additional review and documentation will be required to support revenues recognized, particularly for projects at early stages.

The enhanced disclosures as they relate to construction projects include: i) the amount of contract revenue recognized in the period; ii) the value of project retentions; and iii) the excess of costs over billings (or vice versa) designated as due from (to) customers.

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

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

13. Contractual Obligations

At March 31, 2010, the Company had the following commitments under operating leases requiring minimum payments and principal repayment obligations under long-term debt and notes payable:

	Operating Leases	Principal	Total
Continuing operations	\$786,347	\$5,969,433	\$6,755,780
Discontinued operations	264,442	-	264,442
Total	\$1,050,789	\$5,969,433	\$7,020,222

At March 31, 2010, the Company had contractual obligations to complete projects that were in progress. The remaining revenue to be earned on these contracts by continuing operations is approximately \$4,546,170. The remaining revenue to be earned on these contracts by discontinued operations is approximately \$1,097,405.

14. Share Data

Semcan Inc. is authorized to issue an unlimited number of common shares. The Company's common shares trade on the TSX Venture Exchange under the symbol "STT." At the date of this report, the Company had 31,097,867 (December 31, 2009 - 31,097,867) common shares issued and outstanding. The Company is also authorized to issue an unlimited number of preferred shares, issuable in series. At the date of this report, no preferred shares have been issued.

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

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

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

Common Shares and Warrants issued and outstanding at March 31, 2010:

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

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

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

Under the terms of an agreement to extend the maturity date of the Westdale Loan, the Company has agreed to issue to the lender 500,000 common share purchase warrants exercisable at \$0.10 per share until August 11, 2010. These warrants were issued on May 13, 2010.

15. Risks

Going Concern

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

The Company is currently not in compliance with the financial covenants governing its bank operating facility, and it was not in compliance with one of the covenants at December 31, 2009. The bank has not provided a waiver with respect to the non-compliance at March 31, 2010 and December 31, 2009.

At March 31, 2010, the Company has a working capital deficiency of \$10,322,787. The working capital deficiency for the continuing operations is \$6,606,109.

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

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

Investment risk

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

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

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

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

Business Valuations

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

Condition of Capital Markets

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

Currency Risk

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

Dependence on Key Personnel

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

General Economic Factors

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

Environmental Legislation

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

Labour

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

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

Interest Rate Risk

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

Regulation

Semcan and its segments are subject to a variety of international, federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Semcan's and its segments' business, financial condition, results of operations and cash flows. Although such expenditures historically have not been material, such laws and regulations are subject to change. Accordingly, it is impossible for Semcan or the segments to predict the cost or impact of such laws and regulations on their respective future operations.

Competition

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

Potential Unknown Liabilities

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

Potential Future Developments

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

16. Directors

Ian L.T. Conn
Dallas, Texas

George Enns
Toronto, Ontario

Randy Fowle
Waterloo, Ontario

Philip Jamieson
Guelph, Ontario

Ronald F. O'Hearn
Toronto, Ontario

David Snowden
Toronto, Ontario

Remy Stachowiak
Vancouver, BC

17. Additional Information

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

The Company's auditors have not reviewed this document.

Appendix - GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**SP**” means the North American engineering and design business operated by Semcan Inc. under the trade names “Semco Systems,” “Stanco Projects,” “Transfer Bulk Systems,” and “ZMI Portec.”

“**Stanco**” means the Stanco Projects Ltd., which was acquired by the Company on July 24, 2007;

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

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

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

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