

**Semcan Inc.**  
**Consolidated Financial Statements**  
**For the interim three month period ended**  
**March 31, 2008**  
**(Unaudited – Prepared by Management)**

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**Semcan Inc.**  
**Consolidated Balance Sheets**

	<b>March 31, 2008 (Unaudited)</b>	<b>December 31, 2007 (Audited)</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 214,663	\$ 3,900,223
Accounts receivable	9,252,022	5,701,504
Work in progress (Note 4)	1,776,222	1,374,996
Inventory (Note 5)	3,669,265	2,464,866
Prepaid expenses and other assets	1,007,306	659,112
<b>Total current assets</b>	<b>15,919,478</b>	<b>14,100,701</b>
<b>Goodwill and other intangible assets (Note 6)</b>	<b>13,838,780</b>	<b>11,723,615</b>
<b>Property and equipment (Note 7)</b>	<b>5,606,566</b>	<b>3,568,646</b>
	<b>\$ 35,364,824</b>	<b>\$ 29,392,962</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank indebtedness (Note 8)	\$ 2,760,000	\$ 190,000
Accounts payable and accrued liabilities	4,663,509	3,922,576
Deferred revenue	3,203,358	1,873,322
Income taxes payable	539,671	311,896
Future income taxes	938,927	938,927
Due to vendor for working capital	546,108	1,669,609
Current portion of notes payable (Note 9)	2,756,245	-
Current portion of long-term debt (Note 9)	1,497,202	1,422,055
<b>Total current liabilities</b>	<b>16,905,020</b>	<b>10,328,385</b>
<b>Notes payable (Note 9)</b>	<b>156,245</b>	<b>2,000,000</b>
<b>Long-term debt (Note 9)</b>	<b>4,623,914</b>	<b>3,867,910</b>
<b>Future income taxes</b>	<b>2,516,600</b>	<b>2,583,980</b>
<b>Minority interest</b>	<b>8,638</b>	<b>4,986</b>
	<b>24,210,417</b>	<b>18,785,261</b>
<b>Share capital (Notes 10 and 18)</b>	<b>10,169,758</b>	<b>10,169,758</b>
<b>Contributed surplus</b>	<b>627,380</b>	<b>486,203</b>
<b>Retained earnings (deficit)</b>	<b>357,269</b>	<b>(48,260)</b>
	<b>11,154,407</b>	<b>10,607,701</b>
	<b>\$ 35,364,824</b>	<b>\$ 29,392,962</b>

Approved on behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**Semcan Inc.**

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

	For the three month period ended March 31, 2008	For the three month period ended March 31, 2007
<b>Revenue</b>	<b>\$ 10,191,489</b>	\$3,221,896
<b>Cost of goods sold</b>	<b>6,771,703</b>	2,201,780
<b>Gross margin</b>	<b>3,419,786</b>	1,020,116
<b>Expenses</b>		
Selling, general and administrative	2,244,023	726,252
Gain on foreign exchange	(91,343)	(10,037)
	<b>2,152,680</b>	716,215
<b>Income before the following</b>	<b>1,267,106</b>	303,901
Interest expense	182,301	27,097
Amortization	291,430	23,314
Stock compensation expense	141,177	279,815
	<b>614,908</b>	330,226
<b>Income (loss) before income taxes and minority interest</b>	<b>652,198</b>	(26,325)
<b>Provision for (recovery of) income taxes</b>		
Current	310,000	-
Future	(66,983)	-
	<b>243,017</b>	-
Minority interest	3,652	-
<b>Net income (loss) and comprehensive income for the period</b>	<b>405,529</b>	(26,325)
Deficit, beginning of period	(48,260)	(435,928)
<b>Retained earnings (deficit), end of period</b>	<b>\$ 357,269</b>	\$ (462,253)

**Semcan Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>For the three month period ended March 31, 2008</b>	<b>For the three month period ended March 31, 2007</b>
<b>Cash flows from operating activities</b>		
Net income (loss) for the period	\$ 405,529	\$ (26,325)
Adjustments for:		
Amortization	291,430	23,314
Future income taxes	(66,983)	-
Loss on sale of capital assets	178	-
Minority interest	3,652	-
Stock compensation expense	141,177	279,815
	<b>774,983</b>	<b>276,804</b>
Changes in working capital balances:		
Accounts receivable	(3,224,744)	197,410
Inventory	43,909	(350,178)
Prepaid expenses	(348,194)	38,098
Work in progress	220,411	-
Accounts payable	533,420	535,208
Deferred revenue	1,323,027	189,466
Due to vendor for working capital	(1,123,501)	-
Income taxes	309,669	332
Total cash flows from operations	<b>(1,491,020)</b>	<b>887,140</b>
<b>Cash flows from financing activities</b>		
Proceeds from shareholder loan	-	50,000
Proceeds from long-term borrowings - net	842,501	4,250,000
Increase in operating bank line	2,570,000	-
	<b>3,412,501</b>	<b>4,300,000</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(96,843)	(8,755)
Loan receivable	-	1,996
Business acquisitions, net of cash acquired	(5,510,244)	(5,629,583)
	<b>(5,607,087)</b>	<b>(5,636,342)</b>
<b>Decrease in Cash and equivalents during the period</b>	<b>(3,685,606)</b>	<b>(449,202)</b>
Increase in cash due to changes in foreign exchange rates	46	-
Cash and equivalents, beginning of period	<b>3,900,223</b>	<b>1,457,815</b>
<b>Cash and equivalents, end of period</b>	<b>\$ 214,663</b>	<b>\$ 1,008,613</b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 138,949	-
Taxes paid	-	-

**Non-cash transactions:**

- a. During the three months ended March 31, 2008, the Company completed two acquisitions where promissory notes were issued as consideration in addition to the cash paid on closing. In total, \$901,140 (2007 - \$nil) of promissory notes were issued to vendors (Note 3).

**As at March 31, 2008 and 2007**

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## **1. Nature of Operations**

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Semcan Inc. (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.

Semcan operates two core businesses: engineering and design, and distribution and product development. The businesses are owned by subsidiaries: Semco Systems Limited ("Semco") for the engineering and design business, and Nucleus Distribution Inc. (formerly Nucleus Financial Network Inc.) ("Nucleus") for the distribution and product development business.

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## **2. Significant Accounting Policies**

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The consolidated interim financial statements of the Company should be read in conjunction with the annual audited consolidated financial statements as these interim financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements. These consolidated interim financial statements follow the same accounting policies and methods of application as the annual consolidated financial statements for the year ended December 31, 2007, except that the Company has adopted the following Canadian Institute of Chartered Accountants ("CICA") guidelines effective January 1, 2008:

- (a) Section 1535 - Capital Disclosures. Section 1535 establishes guidelines for the disclosure of information regarding a business's capital and how it is managed. The standard requires enhanced disclosures with respect to: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.
  - (b) Section 3862 - Financial Instruments Disclosure and Section 3863 - Financial Instruments Presentation. Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.
  - (c) Section 3031 – Inventories. Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the costs to purchase and other costs incurred in bringing the inventories to their present location. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous writedowns to net realizable value when there is a subsequent increase in the value of the inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any writedowns recognized as a reduction in expenses.
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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

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## 2. Significant Accounting Policies - continued

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The standard is effective for fiscal years beginning on or after January 1, 2008. The adoption of these standards did not have a material impact on the Company's results.

The following future accounting standards are not applicable to the current period:

- (d) In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets effective for interim and annual periods relating to fiscal years beginning on or after October 1, 2008. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for the period commencing January 1, 2009. The Company is assessing the impact of the new standard on its financial statements.
- (e) In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS.

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## 3. Acquisitions

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

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 results from operations and corresponding cash flows related to EPT have been included in the Company's consolidated financial statements effective January 31, 2008.

The acquisition was accounted for by the purchase method and the preliminary purchase price allocation is as follows:

*Net assets acquired:*

Non-cash working capital	\$ 815,180
Property and equipment	161,771
Goodwill	<u>2,317,957</u>
Net assets acquired	<u>\$ 3,294,908</u>

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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**As at March 31, 2008 and 2007**

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**3. Acquisitions - continued**

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Consideration was comprised of:

Cash paid, net of cash acquired of \$147,581	\$ 2,993,768
US\$500,000 promissory note to the vendor, of which	
US\$200,000 is contingent (i)	301,140
Due to vendor for working capital adjustment (ii)	-
	<u>\$ 3,294,908</u>

- (i) The vendors are entitled to up to US\$500,000 of consideration over and above the cash paid at closing. This is evidenced by a promissory note for a total of US\$500,000, which includes both a committed portion (US\$300,000) and the contingent portion (US\$200,000). The contingent portion will be earned provided that the business achieves certain performance targets during the first two years of operation subsequent to the closing date. This note, which is interest-free and unsecured, is repayable in two equal instalments on January 31, 2009 and January 31, 2010. In accordance with Canadian GAAP, the contingent amount is not recorded until the contingent element has been resolved.
- (ii) The terms of the purchase agreement required a minimum of US\$750,000 of working capital to be on hand at closing. The agreement requires that an assessment be made on April 30, 2008 as to whether the business can be effectively managed with US\$600,000 of working capital. If it is determined that the business can operate effectively with US\$600,000 of working capital, a payment of US\$150,000 is due to the vendor. The final determination of the working capital is outstanding; the Company will account for this portion of the transaction once the determination is complete.

**(b) Acquisition of certain assets of 600 Group Equipment Limited**

On January 31, 2008, the Company completed the purchase of certain assets of 600 Group Equipment Limited ("600"), a distributor of machine tools based in Mississauga, Ontario.

The preliminary purchase price allocation is as follows:

<i>Net assets acquired:</i>	
Inventory	\$ 1,248,308
Land and building	1,752,910
Furniture and fixtures	105,000
	<u>\$ 3,106,218</u>

Consideration was comprised of:

Cash paid	\$ 2,506,218
Promissory note to the vendor	600,000
	<u>\$ 3,106,218</u>

The promissory note is unsecured, interest-free, and is repayable in full on January 31, 2009.

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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

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#### 4. Work in Progress

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Work in progress of \$1,776,222 represents the value of work performed on engineering contracts for which the Company has not yet billed customers.

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#### 5. Inventory

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Inventory is comprised of the following:

	<b>March 31, 2008</b>	December 31, 2007
Raw materials	\$ 206,496	\$ 270,213
Work in progress	38,049	37,598
Finished goods	3,296,470	2,035,375
Parts and supplies	128,250	121,680
	<u>\$ 3,669,265</u>	<u>\$ 2,464,866</u>

Inventory does not include work in progress related to engineering and design contracts.

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#### 6. Goodwill and Other Intangible Assets

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

	<b>(Unaudited) March 31, 2008</b>	December 31, 2007
Goodwill	\$ 5,981,150	\$ 3,652,935
Other intangible assets	8,522,000	8,522,000
Less: Amortization of other intangible assets	<u>(664,370)</u>	<u>(451,320)</u>
Total goodwill and other intangible assets	<u>\$ 13,838,780</u>	<u>\$ 11,723,615</u>

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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

**7. Property and Equipment**

				(Unaudited) March 31, 2008
	Cost	Accumulated Amortization		Net Book Value
Land	\$ 1,780,410	\$ -	\$	1,780,410
Building	2,956,573	74,370		2,882,203
Machinery and equipment	753,433	434,712		318,721
Furniture and fixtures	568,821	306,734		262,087
Automotive equipment	228,443	74,310		154,133
Computer equipment	594,898	393,988		200,910
Test lab equipment	105,076	96,974		8,102
	<u>\$ 6,987,654</u>	<u>\$ 1,381,088</u>	<u>\$</u>	<u>5,606,566</u>

				December 31, 2007
	Cost	Accumulated Amortization		Net Book Value
Land	\$ 1,012,500	\$ -	\$	1,012,500
Building	1,907,500	50,620		1,856,880
Machinery and equipment	662,820	413,777		249,043
Furniture and fixtures	458,206	293,551		164,655
Automotive equipment	181,956	57,779		124,177
Computer equipment	524,376	371,513		152,863
Test lab equipment	105,076	96,548		8,528
	<u>\$ 4,852,434</u>	<u>\$ 1,283,788</u>	<u>\$</u>	<u>3,568,646</u>

**8. Bank Indebtedness**

The Company has access to various revolving lines of credit to a maximum of \$3,830,608 at March 31, 2008 (2007 - \$1,500,000), on which the drawn amount is \$2,760,000 at March 31, 2008 (2007 - \$1,220,000). Amounts drawn are repayable on demand and bear interest at prime plus 0.5%. The lines are secured by general security agreements provided by certain subsidiaries of the Company, and are based on certain margin limits.

The Company has US\$221,338 of outstanding letters of credit issued to customers as performance guarantees as at March 31, 2008 (2007 - \$nil). A term deposit of \$269,776 included within cash and cash equivalents is pledged to one of the Company's banks to support these letters of credit. In addition, the Company has US\$421,614 of other letters of credit outstanding, which are guaranteed by the Export Development Corporation.

**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

**9. Long-term Debt**

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

<b>Term Bank Debt</b>	<b>(Unaudited)</b> <b>March 31,</b> <b>2008</b>	December 31, 2007
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, ON, 1150 Heritage Road, Burlington, ON and 96 Queen Street, Langton, ON.	<b>\$ 2,087,500</b>	\$ 2,125,000
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, ON.	<b>1,186,666</b>	-
Committed reducing term facility due July 2010 bearing interest at prime plus 1%, repayable in monthly principal payments of \$83,333 plus interest. Secured by a general security agreement provided by a subsidiary of the Company.	<b>2,333,333</b>	2,583,333
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.	<b>479,167</b>	541,667
Loan payable, due August 2010, bearing interest at 2.9%. Repayable in monthly payments of principal and interest of \$1,056.	<b>29,263</b>	32,430
Loan payable, due September 2008, non-interest bearing. Repayable in monthly instalments of \$837.	<b>5,187</b>	7,535
Total	<b>6,121,116</b>	5,289,965
Less: Portion due within one year	<b>1,497,202</b>	1,422,055
	<b>\$ 4,623,914</b>	<b>\$ 3,867,910</b>

**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**As at March 31, 2008 and 2007**

**9. Long-term Debt - continued**

The Company also has the following promissory notes outstanding:

<b>Notes Payable</b>	<b>(Unaudited)</b> <b>March 31,</b> <b>2008</b>	<b>December 31,</b> <b>2007</b>
	<u>          </u>	<u>          </u>
Promissory notes owing to the previous owners of 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.	\$ 2,000,000	\$ 2,000,000
Promissory note owing to 600 Group Equipment Limited, due January 31, 2009, unsecured and interest-free; issued as a result of the purchase of certain assets (Note 3(b))	600,000	-
Promissory note of US\$300,000 owing to the previous owners of Enviro-Pro-Tech, Inc., due in equal instalments on January 31, 2009 and January 31, 2010, unsecured and interest-free; issued as a result of the EPT acquisition (Note 3(a)).	<u>312,490</u>	<u>-</u>
Total	<b>2,912,490</b>	2,000,000
Less: Portion due within one year	<u>2,756,245</u>	<u>-</u>
Total	<b>\$ <u>156,245</u></b>	<b>\$ <u>2,000,000</u></b>

Under the terms of the Stanco acquisition, the Company will be required to pay \$900,000 in two equal instalments (July 24, 2008 and July 24, 2009) upon Stanco meeting certain earnings targets. This contingent consideration will be recorded in the financial statements as additional goodwill when the contingent element is resolved.

Under the terms of the EPT acquisition, the Company will be required to pay US\$200,000 in two equal instalments (January 31, 2009 and January 31, 2010) upon EPT meeting certain earnings targets. This contingent consideration will be recorded in the financial statements as additional goodwill when the contingent element is resolved.

The Company is required to be in compliance with certain covenants under the terms of its borrowing agreements. These covenants include tests related to minimum tangible net worth, ability to service interest and principal charges on the debt, and funded debt compared with operating profit. At March 31, 2008 the Company was in compliance with these covenants.

**10. Share Capital**

(a) Authorized:  
 Unlimited number of Common shares.

Unlimited number of preferred shares, issuable in series. No preferred shares of any series have been issued or are outstanding at March 31, 2008.

**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

**10. Share Capital - continued**

(b) Issued:

	<u>Warrants</u>		<u>Common Shares</u>		<u>Total</u>
	Number	\$	Number	\$	\$
Balance, December 31, 2006	1,657,870	188,001	15,815,740	2,137,769	2,325,770
Issued in conjunction with the acquisition of Nucleus	-	-	942,433	282,730	282,730
Issued upon exercise of warrants on May 11, 2007	(12,500)	(1,417)	12,500	6,417	5,000
Issued in conjunction with the acquisition of Stanco	-	-	1,111,111	738,789	738,789
Issued between July 23, 2007 and August 23, 2007	4,166,667	1,175,480	8,333,333	5,116,989	6,292,469
Issuance of broker warrants	583,333	525,000	-	-	525,000
<b>Balance, December 31, 2007 and March 31, 2008</b>	<b>6,395,370</b>	<b>1,887,064</b>	<b>26,215,117</b>	<b>8,282,694</b>	<b>10,169,758</b>

A summary of the status of the Company's option plan as of March 31, 2008 and December 31, 2007 is as follows:

	<b>(Unaudited)</b>		<u>December 31, 2007</u>	
	<u>March 31, 2007</u>			
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,285,000	\$0.87	nil	n/a
Granted	nil	n/a	2,285,000	\$0.87
Exercised	nil	n/a	nil	n/a
Cancelled	nil	n/a	nil	n/a
Expired	nil	n/a	nil	n/a
<b>Balance at end of period</b>	<b>2,285,000</b>	<b>\$0.87</b>	2,285,000	\$0.87
<b>Options exercisable at end of period</b>	<b>500,000</b>	<b>\$0.65</b>	500,000	\$0.65
<b>Weighted average fair value of options granted during the year</b>	<b>n/a</b>		\$0.69	

**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

As at March 31, 2008 and 2007

**10. Share Capital - continued**

The following table summarizes information about stock options outstanding at March 31, 2008:

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
\$0.65	1,200,000	4-5 years	500,000	4 years
\$1.11	1,085,000	5 years	nil	5 years

**Warrants**

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

	Number Outstanding	Price per Common Share	Expiry Date
<b>Standard Warrants</b>			
Issued on December 21, 2006	1,645,370	\$0.40	December 21, 2008
Issued on July 23, 2007	2,960,300	\$1.25	January 23, 2009
Issued on August 15, 2007	1,150,750	\$1.25	February 15, 2009
Issued on August 23, 2007	55,617	\$1.25	February 23, 2009
Total outstanding	<u>5,812,037</u>		
	Number Outstanding	Price per Unit (Common Share + 1/2 Standard Warrant)	Expiry Date
<b>Broker Warrants</b>			
Issued on July 23, 2007	414,442	\$0.90	January 23, 2009
Issued on August 15, 2007	161,105	\$0.90	February 15, 2009
Issued on August 23, 2007	7,786	\$0.90	February 23, 2009
Total outstanding	<u>583,333</u>		
Grand total outstanding	<u><u>6,395,370</u></u>		

**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**As at March 31, 2008 and 2007**

**11. Segmented Information**

The Company's core businesses fall into two categories: Engineering and Design, and Distribution and Product Development. The Engineering and 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. The Distribution and Product Development segment derives the majority of its revenue from the sale of precision machinery and equipment and after-market components through its extensive North American distribution network.

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, income taxes, minority interest and stock compensation expense.

<b>Quarter ended March 31, 2008</b>	<b>Engineering &amp; Design</b>	<b>Distribution &amp; Product Development</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue from external customers	\$ 6,651,669	\$ 3,539,820	\$ -	\$ 10,191,489
Segment profit (loss) before amortization, interest, taxes and stock compensation expense	\$ 948,950	\$ 597,637	\$ (279,481)	\$ 1,267,106
Amortization	\$ 199,755	\$ 87,731	\$ 3,944	\$ 291,430
Interest expense			\$ 182,301	\$ 182,301
Stock compensation expense and minority interest			\$ 144,829	\$ 144,829
Segment profit (loss) before income taxes	\$ 749,195	\$ 509,906	\$ (610,555)	\$ 648,546
Income tax provision				\$ 243,017
Net income for the period				\$ 405,529
Property and equipment additions	\$ 53,531	\$ 42,350	\$ 962	\$ 96,843
Goodwill and intangible assets	\$ 10,433,640	\$ 3,405,140	\$ -	\$ 13,838,780
Total assets	\$ 21,920,497	\$ 13,232,055	\$ 212,272	\$ 35,364,824
<b>Quarter ended March 31, 2007</b>	<b>Engineering &amp; Design</b>	<b>Distribution &amp; Product Development</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue from external customers	\$ 2,114,789	\$ 1,101,680	\$ 5,427	\$ 3,221,896
Segment profit (loss) before amortization, interest, taxes and stock compensation expense	\$ 211,529	\$ 235,635	\$ (143,263)	\$ 303,901
Amortization	\$ 10,698	\$ 12,616	\$ -	\$ 23,314
Interest expense	\$ 2,690	\$ 24,407	\$ -	\$ 27,097
Stock compensation expense and minority interest			\$ 279,815	\$ 279,815
Segment profit (loss) before income taxes	\$ 198,141	\$ 198,612	\$ (423,078)	\$ (26,325)
Income tax expense				\$ -
Net loss for the period				\$ (26,325)
Property and equipment additions	\$ 8,755	\$ -	\$ -	\$ 8,755
Goodwill and intangible assets	\$ -	\$ 2,349,707	\$ -	\$ 2,349,707
Total assets	\$ 2,592,866	\$ 9,589,809	\$ 119,183	\$ 12,304,858

**As at March 31, 2008 and 2007**

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## **11. Segmented Information - continued**

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The sales revenue of the Engineering and Design segment includes sales of \$893,929 (2007 - \$566,770) in the United States by the Company's subsidiary, Transfer Bulk Systems, Inc. All other sales are Canadian-based.

The total assets of the Engineering and Design segment includes assets of \$4,485,240 (2007 - \$nil) in the United States owned by the Company's subsidiaries Transfer Bulk Systems, Inc. and Enviro-Pro-Tech, Inc. All other assets are Canadian-based.

At December 31, 2007, the Company had an amount receivable from one customer (2007 – none) which represents greater than 10% of its total accounts receivable.

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## **12. Commitments**

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

2009	\$	576,388
2010		527,189
2011		285,836
2012		267,780
2013		100,624
Thereafter		-

As noted in Note 9, the vendors of Stanco Projects Ltd. are entitled to additional consideration of up to \$900,000 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 \$900,000 plus interest at 6% per annum in equal instalments of principal and interest on July 24, 2008 and July 24, 2009.

As noted in Note 9, the vendors of Enviro-Pro-Tech, Inc. are entitled to additional consideration of up to US\$200,000 provided that the business achieves certain yearly performance targets. If these performance targets are met, the Company will be obliged to pay a total of US\$200,000 in equal instalments on January 31, 2009 and January 31, 2010.

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

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## **13. Related Party Transactions**

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Related party transactions during the period were:

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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
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**As at March 31, 2008 and 2007**

**13. Related Party Transactions - continued**

- (a) During the quarter, the Company paid or accrued a total of \$175,000 owing to a shareholder for services provided, comprised of \$25,000 (2007 - \$16,666) as a retainer for advisory services (including strategic and legal advice) and \$150,000 of fees earned with respect to representation and completion of the Company's acquisition of Enviro-Pro-Tech, Inc. and certain assets of 600 Group Equipment Limited. The fees paid approximate fair value based on market rates for such services.
- (b) During the quarter, the Company paid rent of \$24,600 (2007 - \$nil) for its corporate office at 365 Adelaide Street East, Toronto. The landlord is a company controlled by the Company's chairman. The terms of this lease reflect market rates, which were confirmed by an independent real estate consultant at the inception of the lease.

**14. Earnings (Loss) Per Share**

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

	<b>3 months ended March 31, 2008</b>	3 months ended March 31, 2007
Weighted average number of shares used in basic earnings per share	<u>23,132,333</u>	<u>16,119,413</u>
Dilutive potential of Standard Warrants	980,574	-
Dilutive potential of Broker Warrants	53,030	-
Dilutive potential of options	<u>171,717</u>	-
Weighted average number of shares used in dilutive earnings per share	<u>24,337,654</u>	<u>16,119,413</u>
Net income (loss) for the period	\$ 405,529	\$ (26,325)
Earnings (loss) per share:		
Basic	\$ 0.018	\$ (0.002)
Diluted	\$ 0.017	\$ (0.002)

**15. 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.

**As at March 31, 2008 and 2007**

**15. 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 the financial asset represents the maximum credit exposure; and
- ii. In the Engineering & Design segment, from the possibility that a customer might cancel a contract which the Company has started work on. 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, bank accounts 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 work in progress to accounts receivable as quickly as possible.

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.

Accounts receivable are non-interest bearing and are due within periods of 30 to 60 days, although Engineering & Design contracts occasionally allow the customer to hold back 10% of the contract value for one year after the completion of the contract. At March 31, 2008, the Company's accounts receivable was as follows:

Gross accounts receivable	\$ 9,295,762
Allowance for doubtful accounts	<u>44,240</u>
Net accounts receivable	<u>9,251,522</u>
Portion aged over 90 days	<b>1,170,000</b>
Portion of over 90 days accounts for which the vendor of Stanco remains responsible. If uncollectible, this amount reduces the amount due to the vendor for working capital.	<u>288,000</u>
Net exposure to over 90 days accounts	<u>\$ 882,000</u>

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

**As at March 31, 2008 and 2007**

**15. 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 always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

A summary of the maturities of the Company's obligations is as follows:

<b>All in \$000s</b>	<b>During 2008</b>	<b>During 2009</b>	<b>During 2010</b>	<b>During 2011</b>	<b>During 2012</b>	<b>During 2013</b>	<b>Total</b>
Bank indebtedness	\$2,760	-	-	-	-	-	\$2,760
Accounts payable and accrued liabilities	4,663	-	-	-	-	-	4,663
Income taxes payable	540	-	-	-	-	-	540
Due to vendor for working capital	546	-	-	-	-	-	546
Notes payable	-	2,756	156	-	-	-	2,912
Long- term debt	1,124	1,492	863	230	1,605	807	6,121
<b>Total</b>	<b>\$9,633</b>	<b>\$4,248</b>	<b>\$1,019</b>	<b>\$230</b>	<b>\$1,605</b>	<b>\$807</b>	<b>\$17,542</b>

The Company currently has a working capital deficiency of \$985,542, including the impact of \$2,756,000 of notes payable maturing in early 2009 which are now classified as current liabilities. The Company intends to take steps to strengthen its working capital position over the balance of the year.

The Company's strategy includes the use of long-term debt and vendor take-back promissory notes in its capital structure, assuming an appropriate cost of capital. As existing debt approaches maturity, the Company will either replace it with new debt, convert it into equity, or refinance it, depending on the state of the capital markets at the time.

The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

(c) Market risk

(i) Foreign exchange risk

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

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**Semcan Inc.**  
**Notes to Consolidated Financial Statements**  
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**As at March 31, 2008 and 2007**

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**15. Financial Risk Management - continued**

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At March 31, 2008 the Company's financial statements included the Canadian equivalent of the following US dollar denominated balances:

Cash and cash equivalents	\$ 59,020
Accounts receivable	<u>2,972,512</u>
Total assets	<u>3,031,532</u>
Accounts payable	974,726
Notes payable	<u>300,000</u>
Total liabilities	<u>1,274,726</u>
Net exposure to US dollars	\$ <u>1,756,806</u>

If these balances had remained consistent throughout the period, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have decreased (increased) earnings from operations for the period by \$176,000.

(ii) Interest rate risk

The Company's revolving bank debt and term debt includes floating rate loans and fixed rate notes payable which arose from business acquisitions. The Company's position at March 31, 2008 is as follows:

Floating rate term loans	\$ 6,086,666
Floating rate operating loans	<u>2,760,000</u>
Total floating rate debt	<u>8,846,666</u>
Fixed rate loans and notes payable	<u>2,029,263</u>
Interest-free loans and notes payable	<u>917,677</u>
Total term debt and operating loans	\$ <u>11,793,606</u>

If these balances had remained consistent throughout the period, an increase (decrease) of one percentage point in the interest rate (for example, a change in the prime lending rate from 5.25% to 6.25%) would have resulted in \$22,000 decrease (increase) in the earnings from operations of the Company for this period. This analysis assumes that all other variables, such as the amounts outstanding, remain constant.

(d) Fair value of financial instruments

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

- (i) For cash, accounts receivable, accounts payable and accrued liabilities carrying amounts approximate fair value due to their short-term maturity;
- (ii) The fair value of notes payable approximate their carrying value as their effective interest rates approximate current market rates.

**As at March 31, 2008 and 2007**

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## **16. Capital Management**

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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 maintains 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 facility, 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 is working toward a centralized cash management structure. At present, cash management is performed at the subsidiary level, with cash balances of operating divisions consolidated daily.

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.

The terms of the Company's credit facilities include customary positive and negative covenants that can be categorized as externally imposed capital requirements. As at March 31, 2008, the Company was in compliance with its obligations under the credit facilities.

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## **17. Financial Instruments**

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The estimated fair values of financial instruments as at March 31, 2008 and December 31, 2007 are based on relevant market prices and information available at those dates. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate the fair values of these financial instruments due to the short maturity of these instruments. The carrying values of the Company's long-term debt and notes payable approximate fair values since their terms are based on market interest rates and maturities.

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## **18. Subsequent Events**

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### **(a) Acquisition of Naston Limited and Related Financing**

On April 23, 2008, the Company announced that it had completed the acquisition of all of the outstanding shares of Naston Ltd. ("Naston") for a purchase price of £5,200,000 (approximately Cdn\$10,200,000). A total of £900,000 (Cdn\$1,765,385) of the purchase price was paid on May 22, 2008 from excess cash on hand at Naston, resulting in a net purchase price of £4,300,000 (Cdn\$8,434,615). Of this amount, £4,000,000 (Cdn\$7,846,154) was paid in cash at closing. The balance of £300,000 (Cdn\$588,461) is payable in two equal instalments on April 23, 2009 and April 23, 2010 subject to the achievement of certain earnings targets.

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**As at March 31, 2008 and 2007**

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## **18. Subsequent Events - continued**

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On April 15, 2008, the Company announced that it had arranged a loan of \$4,000,000 from certain directors and shareholders to assist with the acquisition of Naston. The non arm's-length financing is based on commercial terms and is intended to act as a bridge loan to provide the balance of funds required to complete the acquisition of Naston Limited. The Company intends to retire the bridge loan upon completion of borrowing arrangements with a UK-based bank or the issue of additional equity; failing which the Company has the right to convert the bridge loan to a three-year term loan. The bridge loan is being extended by a director, and two companies which are controlled by another director.

On April 22, 2008, the Company closed the first tranche of a private placement and issued 4,397,550 units (comprising 4,397,550 common shares and 2,198,775 warrants exercisable for 18 months at \$1.35 per share) for gross proceeds of \$4,177,673, or \$0.95 per unit. The proceeds of the private placement were used to fund the purchase of Naston Ltd.

Based in Weybridge, Surrey, England, Naston carries 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 been in business for thirty years and enjoys long-term operating contracts with some of the major publicly traded water utility companies in the United Kingdom.

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## **19. Comparatives**

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Certain comparatives have been reclassified to conform to the current year presentation.