



## **QUARTERLY REPORT – Q2 2010**

Second Quarter Report for the period ended June 30, 2010

## **CIRCA ENTERPRISES INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **AS AT AND FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2010**

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Circa Enterprises Inc. ("**Circa**" or the "**Company**") has been prepared taking into consideration information available to August 11, 2010 and should be read in conjunction with the audited consolidated financial statements of the Company as at and for the three and six month periods ended June 30, 2010. References in this MD&A to the Company's financial position or results of operations are presented on a consolidated basis and include the accounts of the Company and its wholly-owned subsidiaries, Circa Telecom (USA), Inc. ("**Circa USA**") and Circa Metals Inc. ("**Circa Metals**"). The Company and such wholly-owned subsidiaries are sometimes hereinafter referred to as the "**Circa Group**". The consolidated financial statements of the Company (and the financial information presented in this MD&A) have been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**") and are reported in Canadian dollars. Additional information, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **FORWARD-LOOKING STATEMENTS**

Certain information set out in this MD&A constitutes forward looking information, including: (i) expectations concerning the amount of capital expenditures anticipated in 2010 and the funding of such capital expenditures (as set out under the heading "Consolidated Balance Sheets"); (ii) expectations concerning the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan (as set out under the heading "Changes in Accounting Policies ó IFRS Conversion Project"); (iii) expectations concerning the continued refinement of operations in 2010 and consideration of initiatives to increase topline sales (as set out under the heading "Outlook"); (iv) expectations concerning improvements in the markets for products distributed by members of the Circa Group in 2010 (as set out under the heading "Outlook"); and (v) expectations concerning the Company's positioning to benefit from any increase in residential and commercial construction activity (as set out under the heading "Outlook").

Readers should review the cautionary statement respecting forward-looking information that appears below.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and, in some cases, information received from or disseminated by third parties, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements.

In respect of expectations concerning the amount of capital expenditures anticipated in 2010 and the funding of such capital expenditures, those risks, uncertainties and factors include, but are not limited to, such things as the necessity to incur capital spending if other outsourcing alternatives are more economical, the ability to control capital spending in line with management's estimates and the ability to generate cash flow or utilize bank financing for capital expenditures. In respect of expectations

concerning the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan, those risks, uncertainties and factors include, but are not limited to, such things as the availability of required expertise expected to assist with the transition to IFRS, management's training in IFRS and the ability of the accounting staff to implement the changes in accordance with the prescribed timelines. In respect of expectations concerning the continued refinement of operations in 2010 and consideration of initiatives to increase topline sales, those risks, uncertainties and factors include, but are not limited to, such things as the intensification of competition within the product markets, the continuation or intensification (or both) of the current economic slowdown, which has affected both commercial and residential construction, the emergence of new technologies and the ability of the Company's employees to improve operations. In respect of expectations concerning improvements in the markets for products distributed by members of the Circa Group in 2010, those risks, uncertainties and factors include, but are not limited to, such things as the intensification of competition within the product markets, the continuation or intensification (or both) of the current economic slowdown and the emergence of new technologies. In respect of expectations concerning the Company's positioning to benefit from any increase in residential and commercial construction activity, those risks, uncertainties and factors include, but are not limited to, such things as the ability of the Company to maintain its current staff and operating performance if sales increase. In respect of expectations concerning the focus of sales and marketing efforts in 2010, those risks, uncertainties and factors include, but are not limited to, such things as the ability of the sales personnel to carry out those efforts and management's assessment of the need to continue to pursue these efforts. **Accordingly, readers should not place undue reliance upon forward-looking information contained herein.**

Forward-looking information respecting:

- (i) the amount of capital expenditures anticipated in 2010 and the funding of such capital expenditures, is based upon management's estimate of the anticipated volume of business, required capital resources and anticipated cash flows in 2010;
- (ii) the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan is based upon the expected time to complete each phase, the expected timing of the training and work required to complete the analysis and the availability of external resources required to assist with the transition;
- (iii) the continued refinement of operations in 2010 and consideration of initiatives to increase topline sales, is based upon management's assessment of the product markets, the current economic slowdown and management's expectations of the ability of the Company's employees to improve operations;
- (iv) improvements in the markets for products distributed by members of the Circa Group in 2010, is based upon management's assessment of the product markets; and
- (v) the Company's positioning to benefit from any increase in residential and commercial construction activity, is based upon the ability of the Company to retain customers and management's assessment of the recovery of the economy.

Although Circa believes that the assumptions underlying such forward looking statements are reasonable, and information received or disseminated by third parties is reliable, it can give no assurance that the expectations reflected in such forward-looking statements will prove to have been correct. **Circa does not assume responsibility for the accuracy and completeness of the forward-**

**looking statements and such forward-looking statements should not be taken as guarantees of future outcomes.** Subject to applicable securities laws, the Company does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. The forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement.

## GENERAL AND OVERVIEW

Circa's operations consist of two distinct business lines – the first being surge protection and related products, sold primarily to the United States market (through Circa Telecom (USA) Inc., a wholly-owned subsidiary of the Company) and the second being metal fabrication and electrical product sales (through Circa Metals). The surge protection business consists of the design, manufacture, marketing and sale of surge protection products, which provide primary protection to telephone systems and data transmission equipment against voltage surges. Demand for these products is driven primarily by the installation of telecommunications infrastructure, which, in turn, is strongly influenced by commercial construction activity. Circa Metals provides custom metal fabrication services to the Company and arms-length third parties and supplies fabricated enclosures, pole line hardware and other products to the Canadian electrical industry through its Hydel Enterprises ("**Hydel**") operation.

In Q2 2010, Circa recorded net income of \$0.5 million, compared to a loss of \$0.3 million in Q2 2009. The Company's sales in the quarter were down slightly at \$6.8 million in Q2 2010 compared to Q2 2009 sales of \$6.9 million. The Company's restructuring activities in 2009 enabled the Company to improve its operating results, by significantly lowering expenses and reducing the cost structure of the business. The Q2 2010 results are improved as the Q2 2009 results also included restructuring costs of \$0.4 million and a foreign currency loss of \$0.2 million. In Q2 2010, there were no restructuring costs and the company recorded a small foreign currency gain of \$14,000 in the quarter.

### Second Quarter Selected Financial Information (\$000's except per share figures)

The following table sets out selected financial information for the Company for the second quarter of the years indicated.

	Q2 2010	Q2 2009	Q2 2008
Sales	6,817	6,885	8,805
Net earnings (loss)	502	(338)	(157)
Basic and diluted (loss) earnings per share	0.05	(0.04)	(0.02)
Total assets	11,992	14,222	17,073
Long-term liabilities	12	181	42

The overall sales volumes of the Company in Q2 2010 were relatively consistent with sales in Q2 2009. Sales in the telecom division were weaker as a result of the Canadian / U.S. dollar exchange rate – the Canadian / U.S. dollar exchange rate was lower in Q2 2010 compared to Q2 2009, causing revenues and margins in the telecom division to decrease compared to the prior year. Sales in the Circa Metals division were up slightly in Q2 2010 compared to Q2 2009. As sales in the Hydel product lines increased, the custom metals sales declined slightly compared to Q2 2009, resulting in higher sales for the Metals division.

## Sales and Net Earnings (\$000's except per share figures)

The following table sets out selected sales and net earnings (loss) information for the periods indicated.

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	6,817	5,271	6,420	6,978	6,885	6,019	8,193	8,744
Net earnings (loss) before after tax impairment charge and foreign currency translation gain/loss	488	37	(99)	166	(94)	(688)	(425)	(205)
After tax impairment charge	-	-	-	-	-	-	(1,170)	-
Foreign currency translation gain (loss)	14	35	(62)	(251)	(244)	41	547	19
Net earnings (loss)	502	72	(161)	(85)	(338)	(647)	(1,648)	(186)
Basic and diluted earnings (loss) per share	0.05	0.01	(0.02)	(0.01)	(0.04)	(0.06)	(0.17)	(0.02)

## CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

### Sales

Product sales, primarily in the surge protection and Hydrel businesses, have historically tended to peak in the summer months with the commercial construction cycle, while sales under supply agreements and custom fabrication sales can occur throughout the year. Stronger sales are generally expected in the second and third quarters of the year as evidenced by sales patterns over the past several years.

Sales for the three month period ended June 30, 2010 were slightly lower at \$6.8 million in Q2 2010, compared to \$6.9 million in Q2 2009. Sales in the surge protection business decreased as a result of the Canadian / U.S. dollar exchange rate; however the Circa Metals business generated higher sales, as a result of an increase in the Hydrel brand product line sales.

Sales in the surge protection division were down 10% to \$2.9 million in Q2 2010 compared to \$3.2 million in Q2 2009. This decline is attributable to the Canadian / U.S. dollar exchange rate as the Company's U.S. sales improved slightly compared to the prior year, however the U.S. dollar weakened, resulting in Canadian dollar denominated sales to be lower than Q2 2009. Sales of surge protection products in Canada improved marginally in Q2 2010 over Q2 2009.

Sales generated by Circa Metals increased to \$3.9 million for the quarter compared to \$3.7 million in Q2 2009. The increase in this segment was mainly attributable to strong sales and demand for the Hydrel brand products. Sales of custom metal products were lower than the prior year; however they showed a slight improvement over the Q1 2010 sales.

The geographic sales market ratio between Canada and the United States changed from Q2 2009 to Q2 2010. In Q2 2010, 62% of sales were made to Canadian customers as compared to 58% in Q2 2009. The change in the ratio was due to lower sales in the United States in the telecom division and was magnified as a result of the weaker U.S. dollar.

## Second Quarter Sales by Geographic Market (\$000's)

The following table sets out additional information relating to sales by geographic market for the second quarter in the years indicated.

	Q2 2010	%	Q2 2009	%	Q2 2008	%
United States	2,577	38	2,908	42	4,297	49
Canada	4,240	62	3,977	58	4,508	51
	6,817	100	6,885	100	8,805	100

### Gross Profit

The Company's gross profit was consistent at \$1.7 million in Q2 2010 compared to Q2 2009. Gross profit, defined as sales less cost of sales, remained consistent compared to the prior year. The improvement in the Company's operations was offset by the stronger Canadian dollar.

During 2009, the Company took various steps to reduce its labour, materials and overhead costs. This was achieved by consolidating operations, the negotiation of reduced purchasing costs for certain key raw materials, changes in production methods and the rationalization of certain labour costs. In addition, cost savings were realized as a result of steps taken in prior years to outsource the manufacture of low margin products and components to offshore suppliers in both the surge protection and Circa Metals businesses. These changes which largely took place in Q2 and Q3 2009 have resulted in an improvement in gross profit in the first and second quarters of 2010 when compared to previous quarters.

### Expenses

The Company's operating expenses decreased from Q2 2009 to Q2 2010 as a result of the Company's cost cutting initiatives and restructuring activities in 2009. Those restructuring activities have significantly reduced the cost structure of the Company and resulted in much lower expenses and improved operating results.

Selling, general and administrative expenses, net of depreciation and amortization and restructuring costs, totaled \$0.9 million in Q2 2010, compared to \$1.2 million in Q2 2009. These costs decreased significantly as a result of permanent staffing reductions, facility integration and a reduction in discretionary marketing and sales expenses spending.

The \$14,000 foreign currency translation gain realized in Q2 2010 was the result of the strengthening of the Canadian dollar relative to the U.S. dollar.

### Net Earnings

Circa reported net earnings in Q2 2010 of \$0.5 million, compared to a net loss of \$0.3 million in Q2 2009. The Company was able to generate higher gross margins in Q2 2010 than in Q2 2009 despite lower sales activity. The Company achieved this by continuing to eliminate unprofitable products through price increases and reducing labour and overhead costs through its 2009 restructuring activities.

Selling, general and administrative expenses were significantly lower in Q2 2010 compared to Q2 2009. This is largely attributable to reduced payroll, travel and selling expenses that were part of the 2009 restructuring activities. These reductions have enabled the Company to achieve profitability even in a period of lower sales compared to the prior year.

### **Outstanding Share Information**

The following table sets out information concerning the authorized and outstanding shares of the Company as at the date hereof.

#### Authorized

Unlimited number of voting common shares  
 Unlimited number of first preferred shares, issuable in series  
 Unlimited number of second preferred shares, issuable in series

#### Issued and Outstanding

9,588,650 common shares

Under the Share Acquisition Plan approved by the shareholders (the "**Acquisition Plan**"), each director of the Company is entitled to purchase common shares utilizing all or a portion of the annual retainer otherwise payable to the director. Common shares acquired by a director under the Acquisition Plan could be issued from the treasury of the Company or purchased in the market by the administrator appointed under the Acquisition Plan. On the initial adoption of this plan, 100,000 common shares were reserved for issuance under the Acquisition Plan and all 100,000 shares were issued.

At the Annual and Special Meeting of Shareholders in June 2010, the Acquisition Plan was amended to allow for an additional 200,000 common shares to be authorized for distribution. No shares have been issued under the Acquisition Plan in 2010.

Under the Amended and Restated Stock Option Plan approved by the shareholders (the "**Option Plan**"), the Company may grant options to its officers, directors, employees and consultants. Options granted under the Option Plan have a maximum term of ten years, with vesting terms and conditions determined by the board of directors at the time of grant. The price at which common shares may be acquired upon the exercise of options granted under the Option Plan may not be less than the market price of the common shares at the date of grant. At March 31, 2010, 958,865 common shares remained reserved under the Option Plan. No options were granted during the three or six month periods ended June 30, 2010 and no options were outstanding as at June 30, 2010.

### **CONSOLIDATED BALANCE SHEETS**

At June 30, 2010, the Company's working capital, defined as current assets less current liabilities, stood at \$5.1 million. The increase in net working capital from the December 31, 2009 balance of \$4.3 million was primarily the result of an increase in accounts receivable combined with a decrease in bank indebtedness and accounts payable.

The increase in accounts receivable at June 30, 2010 compared to December 31, 2009 is a result of increased sales during the quarter compared to Q4 2009 combined with a slower payment cycle. Some

of the Company's large customers began to extend their payment terms and cycles in 2010, resulting in a higher accounts receivable balance.

The Company's working capital also increased due to lower bank indebtedness and accounts payable compared to December 31, 2009. The decrease in accounts payable is the result of faster vendors' payments as the Company is required to pay earlier than it had been paying in the prior year. The decrease in the bank debt (operating line of credit) of the Company is the result of generating positive cash from operations during the three and six month periods ended June 30, 2010.

Circa maintains access to capital through its line of credit, which is available to meet short term operating and capital requirements. In addition, the Company relies upon cash from its operating activities in order to meet its obligations and fund working capital and investment objectives. At times, the Company has relied upon its operating line of credit to fund its operating losses and meet its obligations as they become due.

In 2010, the Company plans on investing \$154,000 in capital expenditures related to property, plant and equipment. It is expected that these expenditures will be funded with operating cash flow.

### **Contractual Obligations (\$000's)**

At June 30, 2010, the Company had entered into contractual obligations as detailed below.

	Payments Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Operating Leases	745	3,536	1,959	326	6,566

In Q2 2010, the Company incurred capital expenditures of \$36,000 (2009 ó \$7,000) and had \$13,000 of outstanding commitments to purchase property, plant and equipment.

### **CONSOLIDATED STATEMENTS OF CASH FLOWS**

The net inflow from operating activities for Q2 2010 was \$0.2 million, compared to a cash outflow of \$0.2 million in Q2 2009. This increased operating cash inflow was attributable to positive earnings generated from operating activities due to improved operating margins compared to the prior year, offset by a reduction in non-cash working capital.

In Q2 2010, inventory decreased by \$0.2 million compared to the year ended December 31, 2009. The decrease resulted from steady sales activity and lower production levels as the Company scaled back its production. Accounts receivable balances increased \$0.4 million from December 31, 2009 over the six month period ended June 30, 2010 as sales activity in Q2 2010 increased compared to Q4 2009 levels.

The Company maintains access to a credit facility of up to \$6.0 million, which is subject to borrowing base requirements and reporting and general covenants that may act to restrict the amount the Company can borrow at any given time. At June 30, 2010, the amount available under this facility was approximately \$5.6 million, of which \$2.5 million was drawn.

There were no financing activities undertaken in the three or six month periods ended June 30, 2010.

The net outflow of funds for investing activities was the result of the purchase of property, plant and equipment along with an addition to intangible assets, related to patents. The cash outflow from these activities was \$50,000 for the six month period ended June 30, 2010.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no outstanding off-balance sheet arrangements.

## **RELATED PARTY TRANSACTIONS**

The Company did not undertake any material related party transactions during the three or six month period ended June 30, 2010.

## **CHANGES IN ACCOUNTING POLICIES**

### **Future changes**

#### *Business Combinations, Section 1582*

CICA Handbook Section 1582 will replace Section 1581, Business Combinations and provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are also to be expensed.

#### *Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602*

CICA Handbook Sections 1601 and 1602 will replace Section 1600, Consolidated Financial Statements. Section 1601, Consolidated Financial Statements carries forward guidance from Section 1600, with the exception of non-controlling interests which are addressed in a separate section. Section 1602, Non-controlling Interests is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 "Consolidated and Separate Financial Statement". This standard requires the Company to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions.

#### *International Financial Reporting Standards ("IFRS")*

Canadian publicly traded companies will be required to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. Financial statements for all interim periods reported in 2011 shall be prepared on an IFRS basis, with comparative data on an IFRS basis, including an opening balance sheet, as at January 1, 2010. Management has completed Phase 1 (Preliminary Impact Assessment), of its three phase IFRS conversion project and has begun Phase 2 (Detailed Analysis).

The Company does not expect to derecognize amounts previously recorded as impairment charges, nor does it expect to change the manner in which it will measure and recognize property, plant and

equipment, deferred charges and intangible assets. The Company does anticipate a significant increase in financial statement disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather the required information.

### *IFRS Conversion Project*

The Company's IFRS conversion consists of three phases: Preliminary Impact Assessment, Detailed Analysis and Implementation.

*Phase One: Preliminary Impact Assessment*, which involved project planning and identification of differences between GAAP and IFRS, has been completed. The assessment identified the following areas of accounting differences that are expected to have the greatest effect on the Company based on existing IFRS, being: impairment of assets; componentization of property, plant and equipment; foreign subsidiary currency translation; first time adoption and deferred taxes.

- a) Impairment of assets ó Under IFRS, determining impairment of assets is a one-step approach for testing and measuring asset impairment, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from GAAP, which features a two-step process whereby undiscounted future cash flows are first used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IFRS, with the exception of goodwill, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This differs from GAAP, which prohibits the reversal of previously recognized impairment losses. The Company has not determined whether this will affect previously recorded impairment losses.
- b) Property, plant and equipment ó IFRS and GAAP contain the same basic principles of accounting for property, plant and equipment; however, differences in application exist. The Company expects there may be changes in accounting as IFRS requires the Company to allocate the amount initially recognized in respect of property, plant and equipment to its significant parts and to depreciate each such part separately. This method of componentization may result in an increase in the number of component parts and a change in the amount of depreciation expense.
- c) Foreign subsidiary currency translation ó IFRS requires that when the results of a foreign operation are converted from a functional currency into a different presentation currency, assets and liabilities be translated at the closing rate on the reporting date; income and expenses be translated at exchange rates at the dates of transactions and all resulting differences be recognized in other comprehensive income. Under GAAP, the Company uses the temporal method for its foreign subsidiary in which all monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historic exchange rates. Revenue and expense items, excluding depreciation and amortization, are translated at the average rate of exchange for the period. This method may change the translation adjustment.

- d) First-time adoption of IFRS provides a framework for the first time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from other GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS. The Company has not completed an analysis of the first time adoption of IFRS and the exemptions that will be applicable to the Company.
- e) Deferred taxes under IFRS requires that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities that arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside the statement of earnings.

The affect on the Company of accounting for the tax consequences of transactions and other events under IFRS versus GAAP cannot be determined at this time as many of the changes will depend on the accounting policy decisions made under other standards.

*Phase Two: Detailed Analysis*, involves more detailed analysis of the impact of each IFRS standard. This includes analyzing the impact of differences, preparing position papers, drafting either pro-forma or mock financial statements and identifying the effect of IFRS on systems and processes. The Company is currently completing the activities noted and expects to complete the phase by September 30, 2010.

The Company plans to use internal human resources to complete much of the detailed work involved in Phase Two and training for key personnel involved has been largely completed in the implementation of IFRS. In addition, management expects to engage an external accounting firm to assist with this phase.

*Phase Three: Implementation*, involves the preparation of an opening balance sheet as at January 1, 2010 and comparative financial statements for the interim and annual periods in 2011, beginning with the three month period ended March 31, 2011.

The Company will continue to analyze the impact of IFRS on its accounting policies and internal controls, including its information systems and human resources.

## **RISKS AND UNCERTAINTIES**

Ongoing business risks and uncertainties that may have an effect on the Company's business include the following.

### **Foreign Currency Exchange**

Circa is exposed to foreign currency risk due to its export of Canadian manufactured goods. The timing of foreign exchange rate fluctuations can have a significant effect on Circa's operating results, the effect and magnitude of which depend on the product mix of sales and materials purchased. During the three month period ended June 30, 2010, the Canadian/U.S. dollar exchange rate fluctuated between \$0.93 and \$1.00 as compared to an average of \$0.86 in the same three month period in 2009.

Movement in the U.S. dollar can affect sales reported in Canadian dollars and resulting gross profits. As well, Circa must translate the accounts of Circa USA to Canadian dollars for financial reporting purposes. The significant non-monetary foreign currency translation gains and losses recorded in 2007, 2008 and 2009 illustrate the exposure to this particular risk.

### **Economic Climate**

Circa's surge protection business in the U.S. is substantially driven by economic conditions and any downturn in the U.S. economy has historically represented a business risk for Circa. The ongoing weakness in the U.S. economy is an example of a situation having a significant negative effect on Circa's marketing and sales efforts. Continued weakness in the North American economy in general, the U.S. residential and commercial construction sectors in particular and the impact of changing lending rates affecting construction activity are expected to have an adverse effect on sales of surge protection equipment to U.S. markets and that effect may be material.

### **Additional Capital Requirements**

Circa may be required to raise additional capital in the future to fund operations or acquisitions. The availability of future borrowings and access to capital markets depends on prevailing market conditions and the acceptability of financing terms offered to Circa. There can be no assurance that future borrowings or equity financing will be available to Circa, or available on acceptable terms, in amounts sufficient to fund its needs.

### **Customer Concentration and Customer Credit**

The wide range of customers that purchase products from members of the Circa Group has helped to mitigate the Circa Group's exposure to any one customer or small group of customers. The top five customers of the Circa Group accounted for 53% of consolidated sales in the second quarter of 2010. Economic weakness may adversely affect the financial condition of certain Circa Group customers, which, in turn, could create uncertainty with respect to the collection of receivables.

### **Raw Materials**

The prices of raw materials, in particular plastic, steel and copper, represent a significant portion of the manufacturing costs incurred by members of the Circa Group. There is considerable volatility in the price of these products, which is outside the control of the Company and its subsidiaries. Significant price volatility or raw materials disruptions or shortages would be detrimental to the operations of the Circa Group, and the effect could be material.

### **Product Market**

Sales of surge protection equipment and related devices continue to be a significant contributor to overall consolidated sales and net earnings. Electrical codes in Canada and the United States require the use of the types of products supplied by the Company and its subsidiaries and, while other forms of communication transmission, such as voice over internet, wireless and fiber optic cable, may not require the installation of surge protection equipment. Changes in building codes or the widespread adoption of forms of communication transmission that do not entail the use of surge protection equipment could materially adversely affect the volumes of surge protection products sold by members of the Circa Group and could materially adversely affect the financial condition, liquidity and results of operations of the Company.

Although many applications continue to rely upon copper-based solutions, a significant shift to communication transmission systems that do not use copper infrastructure could have a material adverse effect on the business of the Company.

### **Reliance on Telecommunications Industry**

The Company's core surge protection business is dependent on the North American telecommunications industry and sales are influenced by economic and other factors affecting that industry. In particular, demand for telecom products is driven primarily by the installation of telecommunications infrastructure, which in turn is strongly influenced by commercial construction activity. Accordingly, the strength of the North American economy, job growth, the level of consumer confidence, availability of consumer credit, fluctuations in interest rates, demographics and migration of populations all have an indirect affect on the Company's operations. The ongoing economic slowdown has had, and the continuation or intensification of that slowdown will have, an adverse effect on commercial building activity, particularly in the United States. Any sustained slowdown in commercial building activity will adversely affect the Company's business, financial condition, liquidity and results of operations and the effect may be material.

### **Competition**

The markets for products manufactured and distributed by members of the Circa Group is highly competitive, and a number of competitors in those markets have longer operating histories, greater name recognition, larger customer bases and greater financial, technical, engineering, product development and marketing resources than members of the Circa Group. These resources may allow them to respond more quickly than members of the Circa Group to new or emerging technologies and to changes in customer requirements. It also allows them to devote greater resources to the development, promotion and sale of their products. An inability to compete with other suppliers in the markets in which members of the Circa Group are active will adversely affect the Company's business, financial condition, liquidity and results of operations and the effect may be material.

### **Reliance on Manufacturing Facilities**

Members of the Circa Group manufacture a significant percentage of the products sold by them at facilities owned by the Company and Circa Metals. The manufacturing operations of Circa Group members use certain equipment, which, if damaged or otherwise rendered inoperable or unavailable, could result in a material disruption in those operations. Any interruption of operations at a manufacturing facility could have a material adverse effect on Circa's consolidated financial condition, liquidity and results of operations.

Members of the Circa Group utilize certain contract manufacturers in China to manufacture products. While Circa maintains contact with alternative manufacturers in China that could produce products for members of the Circa Group, if any of the current contract manufacturers were rendered inoperable or otherwise became unable to supply Circa with product, this could represent a significant disruption to product availability and could disrupt relationships between members of the Circa Group and their customers and have an adverse affect on the Circa Group's reputation as a reliable supplier.

Further risks are disclosed in the Company's Annual Information Form which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

The Company's efforts in 2009 to combat the recession and achieve profitability are paying off with improved operating results as the Company posted its second straight quarter of positive earnings. The Company's overall sales continue to be lower than the levels achieved in the preceding years (2006 through 2008), particularly in the surge protection business. Management believes this is due to the ongoing weakness of the North American economy and lower construction activity. Although the economy has shown some indications of recovery in 2010, the Company continues to face challenges growing the top line sales and market share for its products. Management expects to continue to refine and improve the Company's operations in 2010 and has focused its efforts on initiatives to increase topline sales.

Management believes the market for the products distributed by members of the Circa Group will improve and the Company expects to benefit from any increase in residential and commercial construction activity in the North American economy in 2010. The Company continues to seek and evaluate opportunities for growth and to leverage its existing capabilities and distribution networks.

**CIRCA ENTERPRISES INC.**  
**Consolidated Balance Sheets**  
**(000's of Canadian dollars)**

*Unaudited*

<b>As at</b>	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
<b>ASSETS</b>		
Current		
Cash	153	350
Accounts receivable	4,017	3,588
Income taxes recoverable	-	58
Inventory (Note 4)	5,605	5,842
Prepaid expenses	263	295
	<b>10,038</b>	10,133
Property, plant and equipment (Note 5)	990	1,086
Assets held for sale	105	105
Deferred charges (Note 6)	224	286
Intangible assets (Note 7)	19	17
Future income taxes (Note 9)	616	782
	<b>11,992</b>	12,409
<b>LIABILITIES</b>		
Current		
Bank indebtedness (Note 8)	2,749	3,391
Accounts payable and accrued liabilities	2,093	2,476
Current income taxes	60	-
	<b>4,902</b>	5,867
Future income taxes (Note 9)	12	38
	<b>4,914</b>	5,905
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	2,710	2,710
Contributed surplus	2	2
Retained earnings	4,366	3,792
	<b>7,078</b>	6,504
	<b>11,992</b>	12,409
Commitments (Note 12)		
Subsequent event (Note 19)		

*See accompanying notes to the consolidated financial statements*

**Notice of No Auditor Review of Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2010 and June 30, 2009

**CIRCA ENTERPRISES INC.**  
**Consolidated Statements Operations and Retained Earnings**  
**(000's of Canadian dollars, except per share amounts)**

*Unaudited*

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	\$	\$	\$	\$
<b>SALES</b>	<b>6,817</b>	6,885	<b>12,088</b>	12,904
<b>COST OF SALES</b>				
Direct costs	<b>5,128</b>	5,160	<b>9,210</b>	10,396
Depreciation and amortization	<b>37</b>	45	<b>75</b>	90
	<b>1,652</b>	1,680	<b>2,803</b>	2,418
<b>EXPENSES</b>				
Selling, general and administrative	<b>909</b>	1,211	<b>1,882</b>	2,723
Depreciation and amortization	<b>67</b>	58	<b>124</b>	119
Restructuring costs (Note 17)	-	392	-	450
Interest	<b>27</b>	28	<b>45</b>	58
Loss on disposal of assets	<b>10</b>	3	<b>10</b>	1
Foreign currency translation (gain) loss	<b>(14)</b>	244	<b>(49)</b>	203
	<b>999</b>	1,936	<b>2,012</b>	3,554
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>653</b>	(256)	<b>791</b>	(1,136)
<b>PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)</b>				
Current	<b>30</b>	(232)	<b>77</b>	(192)
Future	<b>121</b>	314	<b>140</b>	41
	<b>151</b>	82	<b>217</b>	(151)
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)</b>	<b>502</b>	(338)	<b>574</b>	(985)
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>3,864</b>	4,376	<b>3,792</b>	5,023
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>4,366</b>	4,038	<b>4,366</b>	4,038
<b>EARNINGS (LOSS) PER SHARE (Note 11)</b>				
Basic and diluted	<b>0.05</b>	(0.04)	<b>0.06</b>	(0.10)

*See accompanying notes to the consolidated financial statements*

**CIRCA ENTERPRISES INC.**  
**Consolidated Statements of Cash Flows**  
**(000's of Canadian dollars)**

*Unaudited*

	<b>Three months ended June 30, 2010</b>	Three months ended June 30, 2009	<b>Six months ended June 30, 2010</b>	Six months ended June 30, 2009
	\$	\$	\$	\$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net earnings (loss)	<b>502</b>	(338)	<b>574</b>	(985)
Adjustments for:				
Depreciation and amortization	<b>104</b>	103	<b>199</b>	209
Loss on disposal of assets	<b>10</b>	3	<b>10</b>	1
Stock compensation expense	-	5	-	5
Future income taxes	<b>121</b>	314	<b>140</b>	41
	<b>737</b>	87	<b>923</b>	(729)
Changes in non-cash working capital (Note 14)	<b>(491)</b>	(330)	<b>(444)</b>	390
	<b>246</b>	(243)	<b>479</b>	(339)
<b>FINANCING</b>				
(Decrease) increase in bank indebtedness	<b>(374)</b>	676	<b>(642)</b>	791
<b>INVESTING</b>				
Purchase of property, plant and equipment (Note 5)	<b>(36)</b>	(7)	<b>(50)</b>	(32)
Proceeds from sale of property, plant and equipment	-	-	-	6
Additions to deferred charges	-	(9)	-	(41)
Additions to intangible assets	-	(1)	<b>(3)</b>	(6)
Changes in non-cash working capital (Note 14)	<b>5</b>	(2)	<b>19</b>	(24)
	<b>(31)</b>	(19)	<b>(34)</b>	(97)
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(159)</b>	414	<b>(197)</b>	355
<b>CASH, BEGINNING OF PERIOD</b>	<b>312</b>	196	<b>350</b>	255
<b>CASH, END OF PERIOD</b>	<b>153</b>	610	<b>153</b>	610

Supplementary cash flow information (Note 14)

*See accompanying notes to the consolidated financial statements*

**CIRCA ENTERPRISES INC.****Notes to the Consolidated Financial Statements****(Tabular amounts expressed in 000's of Canadian dollars)****For the periods ended June 30, 2010 and 2009***Unaudited***Note 1 DESCRIPTION OF BUSINESS**

Circa Enterprises Inc. (the "Company" or "Circa") was incorporated under the Business Corporations Act of the province of Alberta. The Company's operations consist of two distinct business lines. The first being the provision of surge protection and related products, primarily to the United States market, the second business line being metal fabrication through its Ontario based subsidiary, Circa Metals Inc. ("Circa Metals"). The surge protection business consists of the design, manufacturing, marketing and sale of surge protection products which provide primary protection to telephone systems and data transmission against voltage surges. Circa Metals provides custom metal fabrication services as well as fabricated enclosures, pole line hardware and other products to the Canadian electrical industry.

**Note 2 SIGNIFICANT ACCOUNTING POLICIES***Basis of presentation*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries, Circa Telecom (U.S.A.), Inc. ("Circa U.S.A.") and Circa Metals. Certain comparative figures have been reclassified to conform to the current year presentation. All intercompany transactions are eliminated on consolidation. The accounting policies applied in these unaudited financial statements are consistent with those outlined in the Company's annual consolidated financial statements, except for changes in accounting policies described in Note 3.

**Note 3 CHANGES IN ACCOUNTING POLICIES****Future changes***Business Combinations, Section 1582*

CICA Handbook Section 1582 will replace Section 1581, Business Combinations and provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are also to be expensed.

**Note 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

*Consolidated Financial Statements, Section 1601 and  
Non-controlling Interests, Section 1602*

CICA Handbook Sections 1601 and 1602 will replace Section 1600, Consolidated Financial Statements. Section 1601, Consolidated Financial Statements carries forward guidance from Section 1600, with the exception of non-controlling interests which are addressed in a separate section. Section 1602, Non-controlling Interests is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 "Consolidated and Separate Financial Statement". This standard requires the Company to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions.

*International Financial Reporting Standards ("IFRS")*

Canadian publicly traded companies will be required to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. Financial statements for all interim periods reported in 2011 shall be prepared on an IFRS basis, with comparative data on an IFRS basis, including an opening balance sheet, as at January 1, 2010. Management has completed Phase 1 (Preliminary Impact Assessment), of its three phase IFRS conversion project and is currently in Phase 2 (Detailed Analysis).

**Note 4 INVENTORY**

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
Raw materials	<b>2,203</b>	2,625
Work in process	<b>306</b>	243
Finished goods	<b>3,096</b>	2,974
	<b>5,605</b>	5,842

During the six month period ending June 30, 2010, the Company expensed \$9.2 million (2009 ó \$10.4 million) of inventory which is included in cost of sales.

**Note 5**      **PROPERTY, PLANT AND EQUIPMENT**

<b>June 30, 2010</b>			
	<b>Cost</b>	<b>Accumulated Depreciation and Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Equipment	4,458	3,672	786
Office equipment	1,571	1,462	109
Leasehold improvements	1,000	905	95
	<b>7,029</b>	<b>6,039</b>	<b>990</b>
<b>December 31, 2009</b>			
	<b>Cost</b>	<b>Accumulated Depreciation and Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Equipment	4,434	3,592	842
Office equipment	1,544	1,417	127
Leasehold improvements	1,000	883	117
	<b>6,978</b>	<b>5,892</b>	<b>1,086</b>

Depreciation for the six month period amounted to \$146,175 (2009 - \$181,961), of which \$75,272 (2009 - \$90,014) is included in cost of sales.

Property, plant and equipment acquired during the six month period amounted to \$50,104 (2009 - \$31,462), of which \$21,147 (2009 - \$nil) is included in accounts payable.

**Note 6**      **DEFERRED CHARGES**

<b>June 30, 2010</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Deferred development costs	1,613	1,389	224
<b>December 31, 2009</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Deferred development costs	1,040	754	286

Amortization of the deferred development costs for the six month period amounted to \$52,070 (2009 - \$25,958). During the six month period ended June 30, 2010, \$nil (2009 - \$40,320) of internal engineering wages and overhead costs were capitalized as deferred development costs. At June 30, 2010 the amount of deferred development costs that were not subject to amortization as the related project was not yet commercialized was \$nil (2009 ó \$168,188).

**Note 6 DEFERRED CHARGES (CONTINUED)**

During the three and six month periods ended June 30, 2010, the company wrote off \$9,869 in deferred development costs related to a previously capitalized project that is no longer considered commercially feasible.

**Note 7 INTANGIBLE ASSETS**

<b>June 30, 2010</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Patents and product certification costs	152	133	19

  

December 31, 2009			
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Patents and product certification costs	149	132	17

Amortization of the intangible assets for the six month period amounted to \$1,034 (2009 - \$956).

**Note 8 BANK INDEBTEDNESS**

The Company has a Canadian currency revolving credit facility from a Canadian chartered bank of up to \$6,000,000 (or the equivalent in U.S. currency). The credit facility is secured by a general security agreement covering all assets of the Company, a guarantee and subordination agreement in the amount of \$6,100,000 signed by Circa USA, a guarantee and postponement of claim in the amount of \$6,100,000 signed by Circa Metals, and a general security agreement covering all assets of Circa USA and Circa Metals. At June 30, 2010 the Company was in compliance with all covenants related to this credit facility.

The aggregate borrowings outstanding under this facility, in excess of \$1,000,000, are subject to borrowing base provisions supported by eligible accounts receivable and inventory that is available for prime-based loans and/or letters of credit/guarantee and/or bankers' acceptances. At June 30, 2010, the amount available under this facility was approximately \$5,638,000. The credit facility bears interest at prime plus 1.25% which was 3.75% at June 30, 2010 (prime plus 0.25% or 2.50% at June 30, 2009).

The drawings against this facility as at June 30, 2010 were \$2,525,000 (June 30, 2009 ó \$4,380,000). In addition, on June 30, 2010 the Company reclassified, on a net basis, negative Canadian cash balances of \$224,000 (June 30, 2009 ó \$76,000) to bank indebtedness.

**Note 9**      **INCOME TAXES**

The provision for income taxes differs from the amounts that would have resulted from the combined federal and provincial statutory tax rates. The main differences are as follows:

	<b>Three months ended June 30, 2010</b>	Three months ended June 30, 2009	<b>Six months ended June 30, 2010</b>	Six months ended June 30, 2009
	\$	\$	\$	\$
Earnings (loss) before income taxes	<b>653</b>	(256)	<b>791</b>	(1,136)
Expected tax recovery at combined federal and provincial rate of 29.0% (2009 ó 31.0%)	<b>189</b>	(75)	<b>229</b>	(352)
Increase (decrease) resulting from:				
Effect of differential U.S. federal and state income tax on earnings of wholly-owned subsidiary	<b>21</b>	31	<b>15</b>	(43)
Non-deductible foreign currency translation losses and gains	<b>(71)</b>	117	<b>(24)</b>	183
Other	<b>12</b>	9	<b>(3)</b>	61
Provision for income taxes	<b>151</b>	82	<b>217</b>	(151)

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
Future income taxes consist of the following temporary differences:		
Property, plant and equipment	<b>80</b>	86
Deferred charges	<b>(56)</b>	(72)
Intangible assets	<b>16</b>	17
Non-capital loss carry-forwards	<b>815</b>	969
Valuation allowance	<b>(203)</b>	(203)
Other	<b>(48)</b>	(53)
	<b>604</b>	744

The Company has federal non-capital loss carry-forwards totalling \$4.0 million that it may use to offset future taxable income in the Circa Enterprises Inc. and Circa Metals Inc. entities. These losses expire in 2027 to 2029.

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
Geographical breakdown of future income taxes:		
Canada	<b>616</b>	782
USA	<b>(12)</b>	(38)
	<b>604</b>	744

**Note 10 SHARE CAPITAL****Authorized**

Unlimited number of voting common shares

Unlimited number of first preferred shares, issuable in series

Unlimited number of second preferred shares, issuable in series

**Issued common shares**

	<b>June 30, 2010</b>		December 31, 2009	
	<b>Number of shares</b>	<b>Amount \$</b>	Number of shares	Amount \$
Balance, beginning of period	<b>9,589</b>	<b>2,710</b>	9,504	2,699
Issued during the period	-	-	85	11
Balance, end of period	<b>9,589</b>	<b>2,710</b>	9,589	2,710

Under a stock option plan, the Company may grant options to its officers, directors, employees and consultants. Options granted under the plan have a maximum term of ten years, with vesting terms and conditions determined by the board of directors when granted. The exercise price of each option shall be no less than the market price of the Company's shares at the grant date of the options. At June 30, 2010, there were 958,865 common shares reserved for this purpose representing 10% of the issued and outstanding common shares of the Company. There were no options issued during the three month period ended June 30, 2010 and no options were outstanding.

For the three month period ended June 30, 2010 the weighted average number of common shares outstanding was 9,588,650 (2009 ó 9,533,786) and for the six month period ended June 30, 2010 the weighted average number of common shares outstanding was 9,588,650 (2009 ó 9,518,851).

**Note 11 EARNINGS (LOSS) PER SHARE**

Basic and diluted earnings (loss) per share have been calculated using the weighted average number of common shares outstanding during the three and the six months period ended June 30, 2010 which was 9,588,650 (9,533,786 for the three month period and 9,518,851 for the six month period ended June 30, 2009).

**Note 12 COMMITMENTS**

The Company is committed to long-term office and manufacturing premises lease payments through 2016. Annual payments required for each of the next five years and thereafter are as follows:

	<b>\$</b>
2010	<b>761</b>
2011	<b>1,370</b>
2012	<b>1,148</b>
2013	<b>1,035</b>
2014	<b>979</b>
2015 and thereafter	<b>1,305</b>
	<b>6,598</b>

**Note 13 SEGMENTED DISCLOSURES**

The Company has business operations in Canada and the U.S.A. engaged in the sale of its surge protection product line (öSurge Protectionö). These operations are reported as one segment. The Company has another reportable segment operating in Canada engaged in custom metal fabrication and the manufacture of fabricated enclosures, pole line hardware and other products for the Canadian electrical industry (öMetalsö). The Company evaluates the segments performance based on gross profit.

	Three months ended June 30, 2010					Six months ended June 30, 2010				
	Surge Protection			Metals		Surge Protection			Metals	
	Canada	US	Total	(Canada)		Canada	US	Total	(Canada)	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Segment sales	2,337	2,577	4,914	4,110	9,024	4,212	4,660	8,872	7,207	16,079
Intersegment sales	2,011	-	2,011	196	2,207	3,608	3	3,611	380	3,991
Sales	326	2,577	2,903	3,914	6,817	604	4,657	5,261	6,827	12,088
Cost of sales ó direct costs			1,986	3,142	5,128			3,639	5,571	9,210
Cost of sales ó depreciation and amortization			20	17	37			41	34	75
Gross profit			897	755	1,652			1,581	1,222	2,803
Total assets	2,377	2,859	5,236	6,756	11,992	2,377	2,859	5,236	6,756	11,992
Property, plant and equipment	296	47	343	647	990	296	47	343	647	990
Expenditures on property, plant and equipment and deferred charges	11	-	11	28	39	25	-	25	28	53

  

	Three months ended June 30, 2009					Six months ended June 30, 2009				
	Surge Protection			Metals		Surge Protection			Metals	
	Canada	US	Total	(Canada)		Canada	US	Total	(Canada)	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Segment sales	1,538	2,956	4,494	4,029	8,523	2,562	5,198	7,760	7,930	15,690
Intersegment sales	1,224	48	1,272	366	1,638	2,088	66	2,154	632	2,786
Sales	314	2,908	3,222	3,663	6,885	474	5,132	5,606	7,298	12,904
Cost of sales			2,006	3,154	5,160			3,634	6,762	10,396
Cost of sales ó depreciation and amortization			33	12	45			67	23	90
Gross profit			1,183	497	1,680			1,905	513	2,418
Total assets	757	4,520	5,277	8,945	14,222	757	4,520	5,277	8,945	14,222
Property, plant and equipment and goodwill	450	131	581	807	1,388	450	131	581	807	1,388
Expenditures on property, plant and equipment and deferred charges	14	1	15	6	21	56	6	62	16	78

Net book value of property, plant and equipment located in Canada and the U.S. amounts to \$943,138 (2009 - \$1,257,118) and \$46,572 (2009 - \$130,870), respectively.

Four customers represented \$5.5 million of total sales during the six month period ending June 30, 2010 (2009 ó three customers represented \$3.7 million of total sales).

**Note 14 SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended June 30, 2010</b>	Three months ended June 30, 2009	<b>Six months ended June 30, 2010</b>	Six months ended June 30, 2009
	\$	\$	\$	\$
<b>Changes in non-cash working capital - operating:</b>				
Accounts receivable	<b>(1,076)</b>	(840)	<b>(429)</b>	(184)
Income taxes recoverable	<b>32</b>	(90)	<b>58</b>	(35)
Inventory	<b>481</b>	1,707	<b>237</b>	1,536
Prepaid expenses	<b>21</b>	(31)	<b>32</b>	(47)
Accounts payable and accrued liabilities	<b>(9)</b>	(1,076)	<b>(402)</b>	(880)
Income taxes payable	<b>60</b>	-	<b>60</b>	-
	<b>(491)</b>	(330)	<b>(444)</b>	390
<b>Changes in non-cash working capital - investing:</b>				
Accounts payable related to property, plant and equipment, and deferred charges	<b>5</b>	(2)	<b>19</b>	(24)
Interest paid	<b>31</b>	28	<b>45</b>	58
Income taxes paid	<b>15</b>	-	<b>15</b>	-

**Note 15 FINANCIAL INSTRUMENTS***Fair values*

The fair values of financial assets and liabilities included in the consolidated balance sheet are as follows:

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
<b>Held for trading:</b>		
Cash	<b>153</b>	350
<b>Loans and receivables:</b>		
Accounts receivable	<b>4,017</b>	3,588
<b>Other liabilities:</b>		
Bank indebtedness	<b>2,749</b>	3,391
Accounts payable and accrued liabilities	<b>2,093</b>	2,476

**Note 15 FINANCIAL INSTRUMENTS (CONTINUED)**

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the observable inputs used to value the instrument.

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 inputs to the valuation model are not based on observable market data.

Due to the short-term nature of these financial assets and liabilities, the Company has determined that the carrying amounts approximate fair value.

*Credit risk*

The Company's credit risk is primarily related to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited due to the following reasons:

- The Company has established a comprehensive credit policy. This includes the establishment of credit terms with new customers and the continued monitoring of credit terms of existing customers.
- The strong historical collection record of the Company's customer base located throughout North America.

**Note 15 FINANCIAL INSTRUMENTS (CONTINUED)**

The following table sets forth details of accounts receivable and the related allowance for doubtful accounts:

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
Accounts receivable based on 30 day repayment terms:		
Current and under 30 days past due	<b>2,460</b>	1,739
Over 30 days past due	<b>1,567</b>	1,857
Less: allowance for doubtful accounts	<b>(10)</b>	(8)
<b>Total accounts receivable reported on the Balance Sheet</b>	<b>4,017</b>	3,588

At June 30, 2010 three customers, each representing over 10% of the total accounts receivable balance, had outstanding accounts receivable balances totalling \$1,974,000 (December 31, 2009 one customer had a balance of \$395,000).

*Liquidity risk*

The Company maintains a revolving credit facility to ensure it has sufficient funds available to meet its current and foreseeable financial requirements at reasonable costs.

The balance sheet includes \$2,093,000 in accounts payable and accrued liabilities all due within one year or less and bank indebtedness of \$2,749,000 payable on demand.

*Interest rate risk*

The Company is exposed to interest rate risk to the extent that any bank indebtedness under the existing credit facility bears interest based on prime rates. Based on the bank indebtedness outstanding as of June 30, 2010 a 1% movement in the prime rate would change quarterly interest expense by approximately \$6,300.

*Foreign currency exchange risk*

Foreign currency exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency exchange risk arising from the translation of the U.S. dollar denominated monetary assets and liabilities into Canadian dollars. At June 30, 2010 the Company had U.S. dollar denominated accounts receivable of \$1,676,000 (2009 - \$1,523,000) and accounts payable and accrued liabilities of \$126,000 (2009 - \$461,000). At June 30, 2010, with other variables unchanged, a \$0.01 movement in the Canadian dollar against the U.S. dollar would affect earnings by approximately \$23,000.

**Note 16 CAPITAL DISCLOSURES**

The Company's objectives when managing capital are:

- To provide an adequate return to shareholders
- To maintain financial flexibility in order to have access to capital in the event of future requirements.
- To maintain sufficient liquidity to pursue its growth strategy

**Note 16 CAPITAL DISCLOSURES (CONTINUED)**

The Company's net capital is comprised of interest bearing debt and shareholders equity net of cash.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as in light of changes in economic conditions and the risk characteristics of the underlying assets.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to capital employed. Net debt and total capital employed is as follows:

	<b>June 30, 2010</b>	December 31, 2009
	\$	\$
Bank indebtedness	<b>2,749</b>	3,391
Less: Cash	<b>(153)</b>	(350)
<b>Net debt</b>	<b>2,596</b>	3,041
Bank indebtedness	<b>2,749</b>	3,391
Shareholders' equity	<b>7,078</b>	6,504
Less: Cash	<b>(153)</b>	(350)
<b>Total capital employed</b>	<b>9,674</b>	9,545
<b>Net debt to total capital employed</b>	<b>0.27:1</b>	0.32:1

**Note 17 RESTRUCTURING COSTS**

In 2009, the Company made significant changes to its operations, related to changing its sales strategy, streamlining workflow and rationalizing its operations. These costs were recognized as restructuring costs in the financial statements as realized.

For the three and six month periods ended June 30, 2009, the Company's restructuring actions included consolidating its business activities and operating facilities and reducing the workforce. There were no restructuring costs incurred in the three and six month periods ended June 30, 2010.

**Note 18 COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation.

**Note 19 SUBSEQUENT EVENT**

Subsequent to June 30, 2010 the Company reached a tentative agreement for the sale of its Welland, Ontario land and building classified as Assets held for sale. The negotiated selling price of the property is \$275,000 and the Company expects to realize net proceeds of approximately \$255,000 after closing fees and commissions. Closing is conditional on the satisfaction of certain conditions considered normal to the buy and sale process, and the sale is scheduled to be finalized in October 2010.