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**COMMERCIAL SOLUTIONS INC.**  
MANAGEMENT DISCUSSION AND ANALYSIS  
SIX MONTHS ENDED MARCH 31, 2008

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## INTRODUCTION

The following Management Discussion and Analysis is as of May 14, 2008 and is provided to assist readers in understanding the financial performance of Commercial Solutions Inc. (“Commercial” or the “Company”) during the periods presented and significant trends that may impact future performance of the Company. This discussion should be read in conjunction with the accompanying unaudited interim March 31, 2008 consolidated financial statements and with the audited consolidated financial statements and Management Discussion and Analysis contained in the Company’s annual report for the year ended September 30, 2007.

The financial data presented in this Management Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the Company’s reporting currency is the Canadian dollar. Commercial is a reporting issuer in Canada in the provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company trades on the Toronto Stock Exchange under the symbol CSA. Additional regulatory information relating to Commercial, including the Company’s Annual Information Form, can be found at the System for Electronic Document Analysis and Retrieval (“SEDAR”) web site at [www.sedar.com](http://www.sedar.com).

## FORWARD LOOKING STATEMENT

This Management Discussion and Analysis contains forward-looking statements relating to such matters as expected financial performance, business prospects, development activities and like matters. These statements involve risk and uncertainties, including but not limited to the risk factors described elsewhere. Actual results could differ materially from those projected as a result of these risks and should not be relied upon as a prediction of future events. Commercial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, with an exception to securities laws requirements.

## OVERVIEW OF THE BUSINESS

Headquartered in Edmonton, Alberta, Commercial is one of Canada’s leading independent industrial distributors with 37 Services Centres and as at March 31, 2008 had 350 employees located across Canada. Commercial offers more than 160,000 items critical to maintenance repair operations (“MRO”) and original equipment manufacturing (“OEM”) customers. The Company represents more than 450 leading manufacturers and serves over 11,000 customer accounts within a broad cross-section of industries, including oil and gas, forestry, food processing, chemical processing, mining and utilities, agriculture and construction.

The Company conducts its operations through two separate business segments. The Industrial Supplies segment incorporates seven divisions. The Oilfield Parts and Supplies segment incorporates four divisions. The differentiation between the two segments is due to the differing product offerings. Either segment may service a similar customer base.

### **Industrial Supplies Segment**

The Industrial Supplies segment (“Industrial”) provides approximately 140,000 plus products encompassing bearing, power transmission, industrial, safety, agricultural, resource management, survey and janitorial products. In addition, the segment offers technical support, customized inventory controls, materials management services, and customer training, and provides electronic ordering to its larger national accounts through a sophisticated online catalogue application.

## Oilfield Parts and Supplies Segment

The Oilfield Parts and Supplies segment (“Oilfield”) provides approximately 20,000 products, but specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, gauges and industrial hand tools.

### Mission and Growth Strategy

Commercial will continue to focus on organic growth by expanding the number of its strategic partnership accounts and product lines. Management expects acquisitions to also play a continuing role in the Company’s growth. Commercial has successfully identified, rationalized, and integrated fourteen acquisitions over the past seventeen years and going forward management expects to continue to focus on its acquisition program. This program is intended to diversify and strengthen the product offering, expand geographical presence and fuel organic sales growth.

### FINANCIAL SUMMARY

INCOME STATEMENT, for the three months ended March 31st							
		2008		2007		Increase (Decrease)	
						\$	%
Sales		\$	37,477,869	\$	45,363,206	\$	(7,885,337) -17.4%
Gross margin \$			10,922,365		12,929,654		(2,007,289) -15.5%
Gross margin %			29.1%		28.5%		0.6%
Operating expenses	a		9,110,013		8,907,545		202,468 2.3%
EBITDA	b		1,812,352		4,022,109		(2,209,757) -54.9%
Interest			366,896		443,555		(76,659) -17.3%
Depreciation and amortization			550,406		498,180		52,226 10.5%
Earnings before tax			895,050		3,080,374		(2,185,324) -70.9%
Income taxes			283,553		982,532		(698,979) -71.1%
<b>Net earnings and comprehensive income</b>		<b>\$</b>	<b>611,497</b>	<b>\$</b>	<b>2,097,842</b>	<b>\$</b>	<b>(1,486,345) -70.9%</b>
<b>Earnings per share</b>							
	Basic	\$	0.03	\$	0.11	\$	(0.08) -72.7%
	Diluted	\$	0.03	\$	0.10	\$	(0.07) -70.0%
<b>Weighted avg. shares outstanding</b>							
	Basic		20,099,883		19,375,670		724,213 3.7%
	Diluted		20,099,883		20,333,497		(233,614) -1.1%
a See page 14 for a further explanation of this non-GAAP measure							
b Represents earnings before interest, taxes, depreciation and amortization (see page 14 for a further explanation of this non-GAAP measure)							

INCOME STATEMENT, for the six months ended March 31st								
		2008		2007		Increase (Decrease)		
						\$	%	
Sales	\$	71,188,710	\$	86,031,801	\$	(14,843,091)	-17.3%	
Gross margin \$		20,810,051		24,354,423		(3,544,372)	-14.6%	
Gross margin %		29.2%		28.3%		0.9%		
Operating expenses	a	18,008,906		17,564,706		444,200	2.5%	
EBITDA	b	2,801,145		6,789,717		(3,988,572)	-58.7%	
Interest		766,995		883,149		(116,154)	-13.2%	
Depreciation and amortization		1,057,279		857,912		199,367	23.2%	
Earnings before tax		976,871		5,048,656		(4,071,785)	-80.7%	
Income taxes		309,425		1,605,297		(1,295,872)	-80.7%	
<b>Net earnings and comprehensive income</b>	<b>\$</b>	<b>667,446</b>	<b>\$</b>	<b>3,443,359</b>	<b>\$</b>	<b>(2,775,913)</b>	<b>-80.6%</b>	
<b>Earnings per share</b>								
	Basic	\$	0.03	\$	0.18	\$	(0.15)	-83.3%
	Diluted	\$	0.03	\$	0.17	\$	(0.14)	-82.4%
<b>Weighted avg. shares outstanding</b>								
	Basic	20,058,459		19,163,375		895,084	4.7%	
	Diluted	20,058,459		20,125,560		(67,101)	-0.3%	

a See page 14 for a further explanation of this non-GAAP measure

b Represents earnings before interest, taxes, depreciation and amortization (see page 14 for a further explanation of this non-GAAP measure)

BALANCE SHEET, as at March 31st							
		2008		2007		Increase (Decrease)	
						\$	%
Current assets	\$	54,396,019	\$	58,318,722		(\$3,922,703)	-6.7%
Property and equipment		4,875,265		3,617,390		1,257,875	34.8%
Other assets		38,600,580		35,343,963		3,256,617	9.2%
<b>TOTAL ASSETS</b>		<b>97,871,864</b>		<b>97,280,075</b>		<b>591,789</b>	<b>0.6%</b>
Current liabilities		34,735,305		34,481,056		254,249	0.7%
Current portion of long term debt		2,172,109		4,109,850		(1,937,741)	-47.1%
Long term liabilities		3,988,939		4,490,574		(501,635)	-11.2%
<b>TOTAL LIABILITIES</b>		<b>40,896,353</b>		<b>43,081,480</b>		<b>(2,185,127)</b>	<b>-5.1%</b>
Share capital		37,860,880		35,925,041		1,935,839	5.4%
Retained earnings & contributed surplus		19,114,631		18,273,554		841,077	4.6%
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>56,975,511</b>		<b>54,198,595</b>		<b>2,776,916</b>	<b>5.1%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>\$</b>	<b>97,871,864</b>	<b>\$</b>	<b>97,280,075</b>	<b>\$</b>	<b>591,789</b>	<b>0.6%</b>

## FINANCIAL RESULTS

The fiscal 2008 Q2 reflected a period of restructuring and organic sales decline due to the cyclical slowdown in the Western Canadian oil and gas and forestry industries, driven by low natural gas prices and a strong Canadian dollar. The acquisition sales growth was due to the August 31, 2007 acquisition of Canglobal Products Ltd. (“Canglobal”), a Nisku, Alberta based distributor of oilfield gauges, generating approximately \$3,400,000 in annual sales. In addition, on February 29, 2008, Outillage B Et G Cadieux Inc. (“Cadieux”) a Terrebonne, Quebec based distributor of industrial supplies was acquired, generating approximately \$2,200,000 in annual sales.

### Revenue

REVENUE BY BUSINESS SEGMENT, for the three months ended March 31st						
	2008	%	2007	%	Change	
					\$	%
Industrial supplies	\$24,194,590	64.6%	\$26,442,524	58.3%	(\$2,247,934)	-8.5%
Oilfield parts & supplies	13,283,279	35.4%	18,920,682	41.7%	(5,637,403)	-29.8%
<b>Total</b>	<b>\$ 37,477,869</b>	<b>100.0%</b>	<b>\$ 45,363,206</b>	<b>100.0%</b>	<b>(\$7,885,337)</b>	<b>-17.4%</b>

REVENUE BY BUSINESS SEGMENT, for the six months ended March 31st						
	2008	%	2007	%	Change	
					\$	%
Industrial supplies	\$46,795,945	65.7%	\$ 50,987,779	59.3%	(\$4,191,834)	-8.2%
Oilfield parts & supplies	24,392,765	34.3%	35,044,022	40.7%	(10,651,257)	-30.4%
<b>Total</b>	<b>\$71,188,710</b>	<b>100.0%</b>	<b>\$86,031,801</b>	<b>100.0%</b>	<b>(\$14,843,091)</b>	<b>-17.3%</b>

#### 3 months ended March 31, 2008

The 17.4 percent consolidated sales decline is made up of a 19.2 percent decline in organic sales and a 1.8 percent increase from acquisition growth. The organic sales decline is a blend of 13.1 percent decline from the Industrial segment and a 28.0 percent decrease from the Oilfield segment.

#### 6 months ended March 31, 2008

The 17.3 percent consolidated sales decline is made up of a 19.1 percent decline in organic sales and 1.8 percent increase from acquisition growth. The organic sales decline is a blend of 9.8 percent decrease from the Industrial segment and a 32.5 percent decrease from the Oilfield segment.

The Oilfield segment sales decline is a consequence of the cyclical sector slowdown in the overall Western Canadian drilling industry for natural gas. Low natural gas prices due to high natural gas inventories coupled with the relatively high Canadian dollar caused a Western Canadian drilling activity reduction of 16.6 percent (comparing the average number of active rigs for the six months ended March 31, 2008 versus the comparable period in 2007 per the Canadian Association of Oilwell Drilling Contractors). Given diversification of sales to other industries, the Industrial segment is less impacted by the Western Canadian

oil and gas slowdown. The Industrial segment sales were strained from the forest industry downturn due to the slump in the US housing market and the strong Canadian dollar.

The acquisition growth is a result of the Canglobal and Cadieux additions.

Management maintains accounting systems that are able to track acquisition and organic growth. Acquisition growth is calculated by comparing the sales in the current period generated as a result of acquisitions to the sales in the prior year with none of the acquiree's sales. Organic growth/decline is calculated by comparing the current period's sales that existed in both the current and prior period.

#### Segment revenue weighting

Fiscal 2008 Q2 weighting of revenue between segments leaned to a greater extent towards the Industrial segment relative to fiscal 2007 Q2. Although the Canglobal acquisition's sales form part of the Oilfield segment, the drilling industry slowdown was the main contributor to the revenue percentage shift.

#### **Gross Margin**

The consolidated gross margin percentage increased for the following reasons:

- Management has continued to focus on direct buying and to consolidate its purchasing from manufacturers.
- Recent acquisitions have slightly higher gross profit margins than Commercial's traditional percentage due to their offshore sourcing.

Foreign exchange gains and losses are included in the gross margin figures cited. These fluctuations are driven primarily by US sourced materials.

## Operating Expenses

For the three months ended March 31st			
	2008	2007	Change
<b>Operating expenses (\$'s)</b>	*		
Salary & wages	\$ 5,981,989	\$ 6,212,739	-3.7%
Selling, general & admin.	1,449,624	1,187,040	22.1%
Rent, occupancy costs & utilities	1,127,171	1,007,106	11.9%
Advertising & promotions	343,513	294,392	16.7%
Professional fees	207,716	206,268	0.7%
<b>Total</b>	<b>\$ 9,110,013</b>	<b>\$ 8,907,545</b>	<b>2.3%</b>
	2008	2007	
<b>Operating expenses (as a % of sales)</b>			
Salary & wages	16.0%	13.7%	
Selling, general & admin.	3.9%	2.6%	
Rent, occupancy costs & utilities	3.0%	2.2%	
Advertising & promotions	0.9%	0.6%	
Professional fees	0.6%	0.5%	
<b>Total</b>	<b>24.3%</b>	<b>19.6%</b>	
* See page 14 for a further explanation of this non-GAAP measure			

For the six months ended March 31st			
	2008	2007	Change
<b>Operating expenses (\$'s)</b>	*		
Salary & wages	\$ 11,937,146	\$ 12,119,072	-1.5%
Selling, general & admin.	2,853,008	2,437,821	17.0%
Rent, occupancy costs & utilities	2,109,060	1,879,206	12.2%
Advertising & promotions	678,560	728,240	-6.8%
Professional fees	431,132	400,367	7.7%
<b>Total</b>	<b>\$ 18,008,906</b>	<b>\$ 17,564,706</b>	<b>2.5%</b>
	2008	2007	
<b>Operating expenses (as a % of sales)</b>			
Salary & wages	16.8%	14.1%	
Selling, general & admin.	4.0%	2.8%	
Rent, occupancy costs & utilities	3.0%	2.2%	
Advertising & promotions	1.0%	0.8%	
Professional fees	0.6%	0.5%	
<b>Total</b>	<b>25.3%</b>	<b>20.4%</b>	
* See page 14 for a further explanation of this non-GAAP measure			

In fiscal 2008 Q2, management continued its restructuring efforts. In the latter half of fiscal 2007, the Company's operating expenses were approximately \$9,450,000 per quarter, incorporating a full quarter of the August 31, 2007 Canglobal acquisition. For the six months ended March 31, 2008, quarterly operating

costs have been averaging approximately \$9,000,000. Included during this period is \$250,000 in severance costs.

As a percentage of sales, the operating expenses increased due to the shortfall in revenue. The current downward business cycle is unusual as inflationary pressures are continuing to be felt in Alberta labour and lease rates, when typically these would fall off with the decreased activity.

The following is an analysis of the major operating expense categories:

Salaries and wages on a dollar basis decreased when comparing the six months ended March 31, 2008 versus the comparative period. Since the September 30, 2007 year end, the number of employees has decreased approximately 11.0 percent. Offsetting these costs savings was the severance cost mentioned above and an annual inflationary salary increase effective January 1, 2008. While revenues continue to be under pressure, management will maintain its examination of appropriate personnel levels.

Selling, general and administrative expenses increased due to the Canglobal and Cadieux acquisitions, as well as increased fuel costs of delivery vehicles and vehicle insurance. In addition, increased travel costs (related to fuel costs) for outside salespeople were incurred. For the 3 and 6 months comparative period, Selling, general and administrative expenses include a gain on disposal of property and equipment of \$86,348.

Rent, utility and occupancy costs reflect the following:

- inflationary increases on facilities;
- the incremental costs of the facility that came with the Canglobal and Cadieux acquisitions, and
- larger, newer, updated facilities for the Calgary, Fort McMurray and Regina locations.

This expense reflects longer term commitments, making it difficult to reduce costs given the current economic slowdown. Despite this fact, merged facilities were completed for three locations from April 2007 to November 2007. In mid F2008 Q3, the Company will begin consolidating three divisions/facilities into its new Nisku, Alberta Superstore. During this transition, duplicate rent will be incurred.

Professional and consulting fees increased slightly as Commercial has undertaken its project to be compliant with Canadian securities regulations regarding internal controls over financial reporting. Commercial's internal deadline for completing the project is September 30, 2008, therefore this expense will continue until that time.

Advertising and promotions decreased on a year to date basis relative to the comparative period as management reduces its discretionary spending.

### **Interest Expense**

The decrease in fiscal 2008 Q2 and year to date interest expense versus comparative periods is not a function of decreased debt levels, but less expensive financing. In fiscal 2007 Q3, Commercial retired approximately \$5,000,000 in subordinated debentures (with a weighted average interest rate of 12.3 percent) by utilizing its bank operating line. Interest charged on the operating line to the end of fiscal 2008 Q2 is at the prime rate with a sliding scale increase based on covenants.

### **Income Taxes**

The Company's fiscal 2008 Q2 effective tax rate is 31.6 percent.

## Net Earnings and Earnings Per Share

The level of costs reductions since September 30, 2007 has not matched the level of reduced gross profit dollars from diminished sales, creating the 80.6 percent decrease in year to date net earnings.

The quarter-over-quarter increase in shares outstanding is a result of the exercise of stock options and share purchase warrants.

## FINANCIAL RESULTS – SUMMARY OF QUARTERLY DATA

	FISCAL 2007		Fiscal 2008		Total
	Q3	Q4	Q1	Q2	
Sales	\$36,238,836	\$35,594,663	\$33,710,841	\$37,477,869	\$143,022,209
Gross margin (\$)	9,983,698	10,892,684	9,893,646	10,922,365	41,692,393
Gross margin (%)	27.5%	30.6%	29.3%	29.1%	29.2%
Operating expenses	a 9,232,752	9,223,051	8,898,995	9,110,013	36,464,811
EBITDA	b 750,946	1,669,633	994,651	1,812,352	5,227,582
<b>Net earnings (loss)</b>	<b>(\$204,624)</b>	<b>\$298,951</b>	<b>\$55,949</b>	<b>\$611,497</b>	<b>\$761,773</b>
Basic earnings (loss) per share	(\$0.01)	\$0.01	\$0.00	\$0.03	\$0.03
Diluted earnings (loss) per share	(\$0.01)	\$0.02	\$0.00	\$0.03	\$0.04

a See page 13 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization. See page 12 for a further explanation of this non-GAAP measure.

	FISCAL 2006		Fiscal 2007		Total
	Q3	Q4	Q1	Q2	
Sales	\$33,062,700	\$40,900,553	\$40,668,595	\$45,363,206	\$159,995,054
Gross margin (\$)	9,056,801	12,268,699	11,424,938	12,929,654	45,680,092
Gross margin (%)	27.4%	30.0%	28.1%	28.5%	28.6%
Operating expenses	a 6,333,898	7,159,149	8,657,330	8,907,545	31,057,922
EBITDA	b 2,722,903	5,109,550	2,767,608	4,022,109	14,622,170
<b>Net earnings</b>	<b>\$1,481,346</b>	<b>\$2,885,420</b>	<b>\$1,345,517</b>	<b>\$2,097,842</b>	<b>\$7,810,125</b>
Basic earnings per share	\$0.08	\$0.16	\$0.07	\$0.11	\$0.42
Diluted earnings per share	\$0.07	\$0.14	\$0.07	\$0.10	\$0.38

a See page 14 for a further explanation of this non-GAAP measure

b Represents earnings before interest, taxes, depreciation and amortization (see page 14 for a further explanation of this non-GAAP measure)

## Trailing Twelve Months

The above “Financial Results - Summary of Quarterly Data” provides an opportunity for insight into the trailing twelve months growth rates.

### **Seasonal Nature of the Business**

The Company has significant exposure to the energy industry (over 50.0 percent of sales). Typically, the oil and gas industry slows down in April and May due to spring thaw, therefore the Company incurs a seasonal decline in its third quarter. A portion of the increases between quarters is a reflection of acquisition activity.

### **FINANCIAL CONDITION AND LIQUIDITY**

#### **Cash From Operations**

Commercial generated funds totaling \$2,881,459 from operating activities for the six months ended March 31, 2008 compared to a use of funds of \$2,746,404 in the comparative period. This source of operating cash flow reflects the collection from customers at a more rapid pace than the payment to vendors. The collection of receivables has marginally slowed down relative to September 30, 2007, as evidenced by the increase in days sales in receivables (see below), which is typical of an industry slowdown. Management continues to monitor its receivables for increased collection issues for natural gas drilling and forestry customers. The days purchases in payables has slightly increased relative to the September 30, 2007 year end balance in order to match the days receivable ratio.

Although inventory turnover has decreased, the dollar value of inventory has decreased by \$1,120,489 since September 30, 2007. This net figure includes \$450,000 in inventory from the Cadieux acquisition.

#### **Working Capital**

The Company continues to fund its operating and capital requirements with cash generated from operations and borrowings under its secured, revolving demand facility provided by the Canadian Imperial Bank of Commerce ("CIBC"). The Company's primary capital needs have been the purchase of inventory, and the funding of accounts receivable, debt service payments and capital expenditures.

WORKING CAPITAL RATIOS	As @ March 31st		As @
	2008	2007	Sept. 30.07
Working capital ratio	1.47	1.51	1.47
Days sales in receivables	61.0	61.7	58.6
Inventory turns	3.5	4.4	4.1
Days purchases in payables	58.1	57.6	56.2

The Company's net working capital as at March 31, 2008 increased to \$17,488,605 (working capital ratio of 1.47) from \$17,048,686 at September 30, 2007 (working capital ratio of 1.47). The marginal increase is from the cashflow generated by the more rapid collection of receivables relative to the payment of payables and the reduction of inventory.

As mentioned earlier, the inventory turnover ratio is reduced due to the Company's key sector slowdown. Commercial has undertaken an inventory reduction program, focusing on vendor returns and re-allocating products to branches with the greatest opportunity of sale.

### Commitments

Commercial has assumed various contractual obligations and commitments in the normal course of operations and financing activities. There have been no significant developments since year end.

### Intangibles

Intangibles decreased from September 30, 2007 due to amortization. Management will be conducting an annual assessment of intangible assets. Each fair value test of intangibles may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rates and terminal values. Any impairment of intangible assets would reduce net earnings.

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill is allocated to the individual assets acquired based on their estimated fair values.

Intangible assets with finite useful lives are amortized over their useful lives. Commercial has no assets with infinite useful lives.

The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Customer relationships	Straight-line – 6 - 7 years
Non-competition agreements	Straight-line – 3 - 5 years
Trade name	Straight-line – 1 - 3 years

### Goodwill

Fiscal 2008 Q2 goodwill increased marginally relative to its September 30, 2007 balance due to the Cadieux acquisition.

The goodwill is tested for impairment at least annually by comparing its fair value to its book value. The evaluation for impairment of goodwill is determined by assessing recoverability based on undiscounted future earnings and cash flows of the related business. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from

those used in our current valuation, we may be required to recognize an impairment loss in future periods. Any permanent impairment in the value of goodwill is charged to earnings. For the year-ending September 30, 2007, the Company had a third party, Ernst & Young LLP, perform the annual goodwill valuation and management determined that there was no impairment to the carrying value of goodwill.

### **Property and equipment**

The fiscal 2008 Q2 investment in property and equipment primarily centered on improvements to the management information system, facility upgrades and the purchase of a condominium in Fort McMurray, Alberta in order to house staff.

### **Senior operating credit facility and long term debt**

In March 2008, the Company underwent the annual review of its consolidated credit facility ("facility") with the Canadian Imperial Bank of Commerce. The re-newed facility maintained the same operating line of credit, a reduced acquisition line and covenants to reflect current market conditions. The facility consists of a \$25,000,000 (September 30, 2008 - \$25,000,000) operating line of credit and a \$1,260,000 (September 30, 2007 - \$10,000,000) acquisition loan. As of March 31, 2008, \$1,236,667 (September 30, 2007 - \$1,400,000) was drawn on the acquisition loan, and \$17,179,668 (September 30, 2007 - \$18,646,622) was drawn on the operating line.

## **OUTLOOK**

Commercial will continue to execute on its focus of pursuing growth opportunities through acquisitions in an effort to increase sales and broaden its geographic presence. Management is confident that several new operational initiatives being introduced will yield benefits during the next fiscal year and beyond. Although two of its larger markets (natural gas drilling and forestry) are in a cyclical downturn, over the medium and long term, management is optimistic that its strong competitive position will position it favourably to take advantage of available market share once these markets recover.

On April 10, 2008, the Alberta government announced improvements to royalty rates designed to provide further incentives for deep wells drilled commencing in 2009. In addition, natural gas prices have begun to strengthen into May 2008. These factors are causing optimism for the fall and winter Western Canadian drilling programs.

Commercials' business units have successfully operated through cyclical industry conditions in the past and, with management's operational discipline, management anticipates the Company to be in a position to capitalize on future opportunities as industry fundamentals return to stronger levels.

## **COMMON SHARES AND CONVERTIBLE SECURITIES**

Commercial has authorized an unlimited number of common shares with no par value. As at May 14, 2008 the Company had 20,100,806 common shares outstanding.

The Board of Directors may grant options to purchase up to 1,555,206 common shares. As of May 14, 2008, options to purchase 762,917 common shares were outstanding at an average exercise price of \$3.91 per common share. Warrants totaling 355,555 with an exercise price of \$2.25 may be exercised into common shares. These warrants expire on September 11, 2008.

## **RISK FACTORS**

In the normal course of business, the Company's operations continue to be influenced by a number of internal and external factors, and the Company is exposed to risks and uncertainties that can affect its business, financial condition and operating results. All businesses are subject to risk and the Board and management of the Company take prudent measures to mitigate any risks by which the Company may be affected.

### **Dependence on Market Economic Conditions**

The demand for the products distributed by the Company can vary in accordance with general economic cycles. In addition, the industry sectors that are served by the Company, including the construction, oil & gas, forestry, agricultural and mining sectors, are cyclical in nature. The strategy of the Company is to mitigate these risks by operating in various regions of the country, serving various business sectors of the industrial supply industry and maintaining tight controls over operating expenses. Also, since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy would have a material adverse effect on the Company's financial condition and results of operations.

### **Alberta Royalty Review**

The Government of Alberta recently announced a new royalty regime for the province's oil, natural gas and oilsands sector. The implementation of the proposed changes to the royalty regime in Alberta are subject to certain risks and uncertainties. At this time, it is not possible to predict the impact these changes could have on the Company's operations.

### **Supply-Side Risks**

The Company distributes industrial products manufactured or supplied by a number of major suppliers. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

### **Customer Risk**

Although the Company distributes industrial products to more than 11,000 customers, the Company's largest customer (operating predominantly in the Western Canadian drilling industry) comprises approximately 6.5 percent of the Company's total sales for the six months ended March 31, 2008 and represented 14.5 percent of accounts receivable as at March 31, 2008. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major customers. As a result, the loss of any of the Company's major customers could have a material adverse effect upon the Company's results of operations and financial condition.

### **Credit Risk**

The Company extends credit facilities to its customers which are generally unsecured. Although the Company has a system of credit management in place, there is a risk that some of the Company's customers may not be able to meet their obligations when they become due. The loss of a large receivable would have a substantial adverse effect on the Company's profitability.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing the Company's consolidated financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. The most significant estimates included in these financial statements are the valuations of accounts receivable, inventory and future tax assets, carrying value of goodwill, stock based compensation, intangibles and accrued liabilities. Actual results could differ from these estimates.

## **CHANGES IN ACCOUNTING POLICIES**

Effective October 1, 2007, the Company adopted two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. These standards have been applied without restatement of prior periods.

Effective October 1, 2007, the Company adopted CICA standard Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed in order for a user of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

## **RELATED PARTY TRANSACTIONS**

Commercial enters into various related party transactions. In management's opinion, these transactions are all in the normal course of operations and are recorded at the exchange value, which was the amount of consideration established and agreed to by the related parties. There have been no significant developments since year end.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Chief Executive Officer and Chief Financial Officer have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities on a timely basis in order to make disclosure decisions. In addition, these disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within time periods specified in the provincial and territorial securities legislation.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of these disclosure controls and procedures as at March 31, 2008 and conclude that they are effective to provide reasonable assurance of achieving their design objectives based on that evaluation.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide reasonable assurance, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud because those controls and procedures can only provide reasonable assurance, not absolute assurance. A control system, no matter how well conceived or operated cannot provide absolute assurance because there are inherent limitations in all control systems. These inherent limitations include the realities that judgments in decision-making can

be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The following measures included in this report do not have a standardized meaning under Canadian generally accepted accounting principles and, therefore, are unlikely to be comparable to similar measures presented by other companies. There have been no changes in the composition of these non-GAAP financial measures when compared to previously disclosed measures:

EBITDA (Earnings before interest, taxes, depreciation and amortization) is not a concept recognized by generally accepted accounting principles, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:

	<b>For the three months ended March 31st</b>	
	<b>2008</b>	<b>2007</b>
Net earnings and comprehensive income	\$611,497	\$2,097,842
Add:		
Income taxes	283,553	982,532
Depreciation and amortization	550,406	498,180
Interest	366,896	443,555
<b>EBITDA</b>	<b>\$1,812,352</b>	<b>\$4,022,109</b>

	<b>For the six months ended March 31st</b>	
	<b>2008</b>	<b>2007</b>
Net earnings and comprehensive income	\$667,446	\$3,443,359
Add:		
Income taxes	309,425	1,605,297
Depreciation and amortization	1,057,279	857,912
Interest	766,995	883,149
<b>EBITDA</b>	<b>\$2,801,145</b>	<b>\$6,789,717</b>

Operating expenses as presented on page 3 and 4 is not a concept recognized by generally accepted accounting principles as it does not include amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the March 31, 2008 consolidated financial statements:

	<b>For the three months ended March 31st</b>	
	<b>2008</b>	<b>2007</b>
Operating expenses	\$9,110,013	\$8,907,545
Add:		
Depreciation and amortization	550,406	498,180
Interest	366,896	443,555
<b>Total expenses</b>	<b>\$10,027,315</b>	<b>\$9,849,280</b>

	<b>For the six months ended March 31st</b>	
	<b>2008</b>	<b>2007</b>
Operating expenses	\$18,008,906	\$17,564,706
Add:		
Depreciation and amortization	1,057,279	857,912
Interest	766,995	883,149
<b>Total expenses</b>	<b>\$19,833,180</b>	<b>\$19,305,767</b>

## CORPORATE INFORMATION

### Officers and Directors

Jim Barker  
President, Chairman & Director  
Edmonton, Alberta

Eric Sauze, CA CFA  
Chief Operating & Financial Officer  
Edmonton, Alberta

Dr. Ken Harrison  
Director  
Edmonton, Alberta

Richard Smith  
Director  
Calgary, Alberta

Stephen Kent  
Director  
Edmonton, Alberta

Don Caron  
Secretary and Director  
Edmonton, Alberta

Bill Rosser  
Director  
Edmonton, Alberta

Daryl Kruper  
Director  
Edmonton, Alberta

### Corporate Office

4203 - 95 Street  
Edmonton, Alberta T6E 5R6  
Ph.: (780) 432-1611  
Fax: (780) 462-0807

### Auditors

Grant Thornton LLP  
1401 Scotia Place 2  
10060 Jasper Avenue  
Edmonton, Alberta T5J 3R8

### Shares Listed

Toronto Stock Exchange  
Trading Symbol – “CSA”

### Bankers

Canadian Imperial Bank of Commerce  
10102 Jasper Avenue  
Edmonton, Alberta  
T5J 1W5

### Transfer Agent

Computershare Trust Company of Canada  
600, 530 - 8th Avenue SW  
Calgary, AB  
T2P 3S8

### Share Capital

Issued: 20,100,806 common shares

### Investor Relations

Spinnaker Capital Management Inc.  
10 King Street East  
Suite 1250  
Toronto, Ontario  
M5C 1C3  
Attention: Ali Mahdavi  
Phone: (416) 962-3300

### Website

[www.csinet.ca](http://www.csinet.ca)