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## **FISCAL 2010 | Second Quarter** Interim Consolidated Financial Statements

March 31, 2010



Commercial Solutions Inc.  
Fiscal 2010 Second Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

**Administration**  
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# Interim Consolidated Statements of Loss, Comprehensive Loss, and Deficit

(Unaudited)	For the three months ended March 31st		For the six months ended March 31st	
	2010	2009	2010	2009
Revenue	\$ 23,089,142	\$ 29,333,030	\$ 44,340,378	\$ 65,121,612
Cost of goods distributed	16,278,670	21,639,481	31,654,785	47,469,242
<b>Gross margin (\$)</b>	<b>6,810,472</b>	<b>7,693,549</b>	<b>12,685,593</b>	<b>17,652,370</b>
<b>Gross margin (%)</b>	<b>29.5%</b>	<b>26.2%</b>	<b>28.6%</b>	<b>27.1%</b>
<b>Expenses</b>				
Salary and wages	3,564,239	5,250,222	7,131,433	11,088,633
Rent, occupancy costs and utilities	1,270,239	1,446,052	2,436,087	2,783,015
Selling, general and administration	955,794	1,439,606	2,212,145	2,844,007
Amortization of property and equipment	334,083	344,114	621,124	695,799
Interest on bank indebtedness	218,314	260,110	363,287	514,452
Amortization on intangible assets	134,067	266,971	371,133	476,989
Professional fees	105,508	212,222	227,459	453,469
Interest on long term debt	187,605	30,776	381,721	64,289
Advertising and promotion	64,858	73,609	125,180	306,114
Restructuring costs	2,000	-	77,100	-
Refinancing costs	-	-	3,423	-
Impairment of goodwill	-	19,548,494	-	19,548,494
	<b>6,836,707</b>	<b>28,872,176</b>	<b>13,950,092</b>	<b>38,775,261</b>
<b>Loss before income taxes</b>	<b>(26,235)</b>	<b>(21,178,627)</b>	<b>(1,264,499)</b>	<b>(21,122,891)</b>
Income tax recovery	8,355	519,198	402,743	501,446
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (17,880)</b>	<b>\$ (20,659,429)</b>	<b>\$ (861,756)</b>	<b>\$ (20,621,445)</b>
(Deficit) retained earnings, beginning of period	(21,271,685)	3,492,323	(20,427,809)	3,454,339
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (21,289,565)</b>	<b>\$ (17,167,106)</b>	<b>\$ (21,289,565)</b>	<b>\$ (17,167,106)</b>
<b>Loss per share</b>				
Basic	\$ (0.00)	\$ (1.03)	\$ (0.04)	\$ (1.03)
Weighted average number of shares - basic	20,100,806	20,100,806	20,100,806	20,100,806
Diluted	\$ (0.00)	\$ (1.03)	\$ (0.04)	\$ (1.03)
Weighted average number of shares - diluted	20,100,806	20,100,806	20,100,806	20,100,806

See accompanying notes to the interim consolidated financial statements.

# Interim Consolidated Balance Sheets

AS AT	March 31, 2010 (unaudited)	September 30, 2009 (audited)
<b>Assets</b>		
Current		
Cash	\$ 221,597	\$ -
Accounts receivable	13,642,009	12,100,129
Income taxes receivable	1,042,726	723,740
Inventory	20,613,814	24,557,236
Prepays	748,002	918,242
	<b>36,268,148</b>	<b>38,299,347</b>
Future income tax asset	787,311	787,311
Property and equipment	4,239,837	4,661,047
Intangible assets	1,713,258	2,084,390
<b>TOTAL ASSETS</b>	<b>\$ 43,008,554</b>	<b>\$ 45,832,095</b>
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 3)	\$ 11,621,726	\$ 16,221,083
Accounts payable and accrued liabilities	7,954,332	7,415,544
Current portion of deferred tenant inducement	20,000	20,000
Current portion of long-term debt (Note 4)	75,118	894,137
	<b>19,671,176</b>	<b>24,550,764</b>
Future income tax liability	663,176	781,381
Deferred tenant inducement	88,333	98,333
Long-term debt (Note 4)	2,891,180	110,953
Notes payable	1,201,151	1,192,448
	<b>24,515,016</b>	<b>26,733,879</b>
<b>Shareholders' Equity</b>		
Share capital (Note 5)	37,860,880	37,860,880
Contributed surplus (Notes 4 and 6)	1,922,223	1,665,145
Deficit	(21,289,565)	(20,427,809)
	<b>18,493,538</b>	<b>19,098,216</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 43,008,554</b>	<b>\$ 45,832,095</b>

*See accompanying notes to the interim consolidated financial statements.*

# Interim Consolidated Statement of Cash Flows

(Unaudited)

	For the three months ended March 31st		For the six months ended March 31st	
	2010	2009	2010	2009
Increase (decrease) in cash and cash equivalents				
<b>Operating</b>				
Net loss	\$ (17,880)	\$ (20,659,429)	\$ (861,756)	\$ (20,621,445)
Items not affecting cash:				
Amortization of property and equipment and intangible assets	468,150	611,085	992,257	1,172,788
Stock based compensation (Note 6)	43,555	48,627	59,703	100,866
Amortization of transaction cost (Note 4)	38,939	-	77,877	-
Amortization of note payable discount	6,111	(53,305)	8,702	(49,495)
Tenant inducement	(5,000)	(5,000)	(10,000)	(10,000)
Future income tax recovery	(42,700)	(85,030)	(118,205)	(151,921)
Impairment of goodwill	-	19,548,494	-	19,548,494
Non-cash purchase price adjustments	-	-	-	(25,000)
	491,175	(594,558)	148,578	(35,713)
Changes in operating working capital	(1,369,529)	10,043	2,677,452	970,774
Changes in long-term accounts receivable	-	180,590	-	(999,410)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (878,354)</b>	<b>\$ (403,925)</b>	<b>\$ 2,826,030</b>	<b>\$ (64,349)</b>
<b>Financing</b>				
Advances (repayments) on bank indebtedness (Note 3)	1,198,214	774,782	(5,369,358)	1,312,618
Proceeds on long-term debt	-	-	3,000,000	-
Repayments of long-term debt	(17,395)	(96,772)	(76,215)	(191,383)
Repayments of notes payable	-	-	-	(400,000)
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$ 1,180,819</b>	<b>\$ 678,010</b>	<b>\$ (2,445,573)</b>	<b>\$ 721,235</b>
<b>Investing</b>				
Purchase of property and equipment	(87,499)	(281,536)	(198,198)	(669,787)
Proceeds on disposal of property and equipment	6,631	7,451	39,338	12,901
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ (80,868)</b>	<b>\$ (274,085)</b>	<b>\$ (158,860)</b>	<b>\$ (656,886)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD</b>	<b>\$ 221,597</b>	<b>\$ -</b>	<b>\$ 221,597</b>	<b>\$ -</b>
Cash and cash equivalents, beginning of period	-	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 221,597</b>	<b>\$ -</b>	<b>\$ 221,597</b>	<b>\$ -</b>

Cash taxes recovered during the three month period is \$270,621 (2009 - paid \$179,324) and cash taxes paid during the six month period is \$4,584 (2009 - \$179,324).

Cash interest paid during the three month period is \$136,337 (2009 - \$13,062) and during the six month period is \$227,864 (2009 - \$30,020).

Capital assets acquired through capital leases during the three month period are \$41,054 (2009 - \$NIL) and during the six month period are \$41,054 (2009 - \$96,702).

*See accompanying notes to the interim consolidated financial statements.*

# Notes to the Interim Consolidated Financial Statements

*(Unaudited)*

For the six months ended March 31, 2010 and 2009

## 1. BASIS OF PRESENTATION

Commercial Solutions Inc. (the “Company”) is a public company traded on the Toronto Stock Exchange under the symbol CSA. The Company is a national distributor of bearings, power transmission equipment, safety equipment, forestry product, firefighting gear, survey supplies, industrial supplies, and oilfield parts and supplies.

The Company’s accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles (GAAP) as prescribed by the Accounting Standards Board of Canada (AcSB). The unaudited interim consolidated financial statements have been prepared by management and include the accounts of the Company and its wholly owned subsidiaries. These financial statements do not contain all disclosures required by Canadian GAAP for annual audited financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual audited financial statements.

These interim financial statements, in all material respects follow the same accounting policies and methods of application as the annual audited financial statements of the preceding fiscal year.

## 2. SEASONALITY OF OPERATIONS

A significant portion of the Company’s revenue is exposed to the energy sector and therefore displays seasonality. Typically, the oil and gas industry slows down in April and May due to spring thaw. This generally causes the Company’s third quarter to be its slowest from a revenue perspective. However, as drilling activity has generally slowed down over the last couple of years, the seasonality impact has been lessened.

## 3. BANK INDEBTEDNESS

On December 9, 2009, the Company entered into a Restated Credit Facility (the “Facility”) with Canadian Imperial Bank of Commerce (the “Lender”). The Facility provides the Company a \$15,000,000 (September 30, 2009 - \$17,500,000) operating line of credit for monthly renewal up to October 31, 2010. Proceeds from the Facility on closing date were \$13,227,350 which were used to pay out the previous operating line of \$12,457,348 and acquisition line of \$770,002. As at March 31, 2010, \$11,621,726 (September 30, 2009 - \$16,221,083) was drawn on the operating line.

The Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The Facility bears interest at prime plus 4.50% (September 30, 2009 - prime plus 3.50%) or bankers’ acceptance rate plus 5.75% (September 30, 2009 - bankers’ acceptance rate plus 4.50%), and, a standby fee of 1.0% (September 30, 2009 - 0.75%) on unused amounts of the Facility.

The financial covenants of the Facility include (i) margin requirements between loan and certain receivables and inventory balances, (ii) a minimum working capital ratio of 1.35, and (iii) a maximum trailing twelve month adjusted negative earnings before interest, tax, depreciation and amortization (“EBITDA”) as follows: a) at closing date, \$4,000,000; b) at March 31, 2010, \$2,000,000; c) at June 30, 2010, \$1,000,000; and, d) at September 30, 2010 and thereafter, \$NIL. These covenants are to be measured monthly.

Additional covenants on the Facility include a maximum capital expenditure of \$750,000 in any trailing twelve month period and no principal payments on the notes payable and the mezzanine loan over the term of the agreement.

As at March 31, 2010, the Company was operating within its covenants.

## 4. LONG-TERM DEBT

Long-term debt as at March 31, 2010 is made up of: 1] Finance contracts totaling \$199,928 (September 30, 2009 - \$188,423) with a long-term portion at \$124,810 (September 30, 2009 - \$110,953) and secured by certain equipment bearing interest at rates up to 6.40% repayable in monthly installments of \$7,186 (September 30, 2009 - \$7,186) including interest maturing March 2010 through November 2012; and, 2] Mezzanine debt through an arm's length private placement for gross cash proceeds of \$3,000,000, net of transaction costs at \$2,766,370 (September 30, 2009 - \$NIL).

The Company closed on the mezzanine debt agreement on October 8, 2009. The loan injection of \$3,000,000 was a condition precedent to the Restated Credit Facility agreement with the Lender (see Note 3). The mezzanine debt is repayable in two years, maturing October 2011. The closing was comprised of subordinated secured promissory notes earning 18.0% per annum and are secured in second position to the Lender by a general security agreement covering all present and after acquired property and postponements of claims from related parties. Upon close, 1,200,000 warrants were granted to the lenders. Each whole warrant entitles the holder to purchase one Common Share of the Company at a price of \$0.31 per share for a period of three years, expiring October 8, 2012. The common shares to be issued upon exercise of the warrants were subject to a four month statutory hold period from the date of grant.

The warrants were treated as transaction costs of the debt and were recorded as part of contributed surplus. The fair value of the warrants are calculated as \$197,375 at inception using the Black Scholes option pricing model with the following assumptions: risk-free interest rate of 2.86%, dividend yield of nil, volatility factor of the expected market price of the Company's common shares of 75.0% and an expected life of the warrants of three years.

The Company incurred further transaction costs of \$114,132 related to the closing of the transaction. All transaction costs are netted against the long-term debt and amortized to net earnings as interest on long-term debt over the term of the loan.

## 5. SHARE CAPITAL

The following table summarizes information on share capital and related matters as at March 31, 2010:

	Outstanding	Exercisable
Common shares	20,100,806	n/a
Employee and director compensation options	1,445,500	576,167
Warrants	1,200,000	1,200,000

The following table summarizes transactional information on stock options:

	For the six months ended March 31st			
	2010		2009	
	Stock Options	Stock Option Weighted Average Exercise Price	Stock Options	Stock Option Weighted Average Exercise Price
Outstanding, as at September 30	1,012,600	\$ 1.62	1,388,017	\$ 2.08
Granted	569,000	0.28	70,000	0.25
Forfeited and expired	(136,100)	3.05	(216,750)	2.21
<b>OUTSTANDING, AS AT MARCH 31</b>	<b>1,445,500</b>	<b>\$ 0.96</b>	<b>1,241,267</b>	<b>\$ 1.95</b>

The fair value of the options granted during the period using the Black Scholes option pricing model is calculated as \$95,506 using the following assumptions: risk free interest rate of 2.5%; dividend yield of nil; volatility factor of the expected market price of the Company's common shares of 72.0% and an expected life of the options of four years.

## 5. SHARE CAPITAL - CONT'D

The following table summarizes transactional information on warrants:

	For the six months ended March 31st			
	2010		2009	
	Warrants	Warrant Exercise Price	Warrants	Warrant Exercise Price
Outstanding, as at September 30	-	\$ -	-	\$ -
Granted	1,200,000	0.31	-	-
<b>OUTSTANDING, AS AT MARCH 31</b>	<b>1,200,000</b>	<b>\$ 0.31</b>	<b>-</b>	<b>\$ -</b>

## 6. STOCK BASED COMPENSATION

The Company recorded stock based compensation expense for options issued to employees and directors and a corresponding increase in contributed surplus in the amount of \$43,555 (2009 - \$48,627) for the three months ended March 31, 2010 and \$59,703 (2009 - \$100,866) for the six months ended March 31, 2010.

## 7. CAPITAL MANAGEMENT

The objectives of the Company's capital management program include:

- ensure that there is financial capacity to support the operations through the seasonal periods and cyclical years with sufficient capability to manage unforeseen operational and industry developments;
- ensure the Company has capital and capacity to support the long-term growth strategy, and,
- maximize shareholder value.

In the management of capital, the Company includes bank indebtedness, long-term debt, notes payable, and shareholders' equity in the definition of capital.

The Company uses a combination of debt and equity financing to help achieve its objectives. The percentage levels of each capital component may change as the Company attempts to take advantage of prevailing market conditions.

The Company is not subjected to capital requirements imposed by a regulator.

During the period ended March 31, 2010, the Company was in compliance with its externally imposed debt covenant requirements. The Company monitors these requirements on a monthly basis.



# Corporate Information

## Officers and Directors

Jim Barker  
President, Chairman and Director  
Edmonton, Alberta

Dr. Ken Harrison  
Director  
Edmonton, Alberta

Rozina Kassam, CA  
Chief Financial Officer  
Edmonton, Alberta

Daryl Kruper  
Director  
Edmonton, Alberta

Alan Martin, CA CBV  
Director  
St. Albert, Alberta

Bill Rosser  
Corporate Secretary and Director  
Edmonton, Alberta

Richard Smith  
Director  
Calgary, Alberta

## Corporate Office

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## Auditors

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

## Shares Listed

Toronto Stock Exchange  
Trading Symbol – “CSA”

## Transfer Agent

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

## Bankers

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

## Share Capital

Issued: 20,100,806 common shares

## Website

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





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Commercial Solutions Inc. is a fully integrated supplier of Maintenance, Repair and Operation products and expert solutions to Canadian industry. For full details about our operating divisions and areas of expertise, please visit our website.