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FISCAL 2010 | Second Quarter Management Discussion and Analysis

March 31, 2010



Commercial Solutions Inc.
Fiscal 2010 Second Quarter Management Discussion and Analysis

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This discussion and analysis of the financial results of Commercial Solutions Inc. (“Commercial” or the “Company”) is as of May 14, 2010 and should be read in conjunction with the interim consolidated financial statements and accompanying notes. The financial data presented herein has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and in Canadian dollars. Additional information relating to the Company, including the Annual Information Form can be found at the System for Electronic Document Analysis and Retrieval (“SEDAR”) web site at www.sedar.com

RESULTS OF OPERATIONS

	For the three months ended March 31st		2010	2009	% Change
Revenue			\$ 23,089,142	\$ 29,333,030	-21.3%
Gross margin (\$)			6,810,472	7,693,549	-11.5%
Gross margin (%)			29.5%	26.2%	3.3%
Operating expenses		a	5,962,638	8,421,711	-29.2%
Earnings (loss) before interest, tax, depreciation and amortization (“EBITDA”)		a	847,834	(728,162)	216.4%
Depreciation and amortization			468,150	611,085	-23.4%
Interest expense and refinancing costs			405,919	290,886	39.5%
Impairment of goodwill			-	19,548,494	-100.0%
Loss before tax			(26,235)	(21,178,627)	-99.9%
Income tax recovery			8,355	519,198	-98.4%
NET LOSS AND COMPREHENSIVE LOSS			\$ (17,880)	\$ (20,659,429)	-99.9%
Loss per share					
Basic			\$ (0.00)	\$ (1.03)	
Diluted			\$ (0.00)	\$ (1.03)	

a See page 9 for a further explanation of these non-GAAP measures.

	For the six months ended March 31st		2010	2009	% Change
Revenue			\$ 44,340,378	\$ 65,121,612	-31.9%
Gross margin (\$)			12,685,593	17,652,370	-28.1%
Gross margin (%)			28.6%	27.1%	1.5%
Operating expenses		a	12,209,404	17,475,238	-30.1%
Earnings before interest, tax, depreciation and amortization (“EBITDA”)		a	476,189	177,132	168.8%
Depreciation and amortization			992,257	1,172,788	-15.4%
Interest expense and refinancing costs			748,431	578,741	29.3%
Impairment of goodwill			-	19,548,494	-100.0%
Loss before tax			(1,264,499)	(21,122,891)	-94.0%
Income tax recovery			402,743	501,446	-19.7%
NET LOSS AND COMPREHENSIVE LOSS			\$ (861,756)	\$ (20,621,445)	-95.8%
Loss per share					
Basic			\$ (0.04)	\$ (1.03)	
Diluted			\$ (0.04)	\$ (1.03)	

a See page 9 for a further explanation of these non-GAAP measures.

Revenue

After several consecutive quarters of negative growth since the end of fiscal 2008, the Company has now achieved a second consecutive quarter with positive growth in revenues. Second quarter revenues are 8.6% higher than revenues achieved in the first quarter of the current fiscal year. First quarter revenues were 5.0% higher than its preceding quarter. Part of the increase in the second quarter revenues in comparison to the first quarter in the current fiscal year is due to seasonality as drilling activity is at its peak in the winter season; however, as drilling activity has generally been lower in the past couple of years, seasonality plays a smaller role in the twelve-month revenue trend.

The increase in the second quarter revenues compared to the first quarter revenues is also attributable to the focused effort by the Company in increasing its top-line results. Management has adjusted its sales programs to make it easier for customers to contact the order desks and industry experts through a centralized order and call-in system. Marketing efforts and compensation plans to the sales representatives have been adjusted to promote the Company's ability to provide a "one-stop-shop" benefit to customers through its breadth of product offerings. Commercial anticipates these initiatives will continue to add growth in revenues in the future.

Although natural gas drilling activity in the current quarter has improved from the same period last year, revenue is lower in comparison. There was a steep decline in the oil and gas prices in the mid-2008 calendar year which resulted in the low drilling activity in the second quarter of the prior fiscal year; however, field activity for both oil and gas was still generating reasonable revenue at Commercial's energy dependent locations. The higher activity levels resulted from capital projects, such as rig building, initiated and committed by Commercial's customers earlier in 2008 when oil and gas prices were strong. As such, the brunt of the drilling and exploration capital cuts were felt by the Company during the latter months of fiscal 2009 which significantly impacted revenues. Decrease in revenues is also partially attributable to the closure of the lower EBITDA* contributing service centres in fiscal 2009.

Revenues for the six months ended March 31, 2010 were lower in comparison to the same period in the prior year primarily due to the lower drilling activity in the first quarter and lower rig building activity and a decreased number of service centres in the second quarter.

Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA")

The Company achieved a positive EBITDA in the current quarter, compared to EBITDA losses in the same period last year and in the preceding quarters. Improvement in EBITDA in the three and six months ended March 31, 2010 were primarily due to improved gross profit and lower operating costs, partially offset by lower revenues.

Gross Margins: Gross margins were higher in the three and six months ended March 31, 2010 than the same period in the prior year due to a reassessment of margins in certain product lines which improved both revenues and lowered costs of goods distributed. A greater mix of revenues was generated from sales of products sourced offshore which sell at higher margins. The strengthening Canadian dollar also contributed to improved margins as it decreased the costs of inventory purchased in USD.

Operating Costs: The decrease in operating expenses of approximately 30.0% from comparative periods in the prior year is the result of the significant cost cutting measures taken by management throughout fiscal 2009. The decreased expenses are primarily from significant reduction in headcount, salary rollbacks, lower discretionary expenses and decreased occupancy costs due to a reduced number of service centers.

The Company's EBITDA position continues to improve over its preceding quarters. EBITDA in the current quarter significantly improved by approximately \$1,220,000 over the first quarter of the current fiscal year. EBITDA in the first quarter had also improved from its preceding quarter by approximately \$656,000.

Major components of the EBITDA variance from the same period in the prior year are as follows:

	Q1	Q2	TOTAL
2009 EBITDA*	\$ 905,294	\$ (728,162)	\$ 177,132
Lower gross profit as a result of lower sales	(4,045,280)	(1,637,664)	(5,682,944)
(Lower) higher gross profit as a result of (lower) higher margins	(38,420)	754,587	716,167
Lower operating costs	2,871,804	2,459,073	5,330,877
Higher restructuring costs	(65,045)	-	(65,045)
2010 EBITDA*	\$ (371,647)	\$ 847,834	\$ 476,187

* See page 9 for a further explanation of this non-GAAP measure.

Interest Expense

Interest expense includes interest on bank indebtedness, long-term debt and notes payable, as well as amortization of transaction costs on long-term debt. Interest expense is higher in both the three and six months ended March 31, 2010 in comparison to the same periods in the prior year primarily due to increased interest expense on the mezzanine debt and its related amortized transaction costs. This is offset by lower interest expense on the bank indebtedness, as the outstanding balance decreased by 45.0% in comparison to the same period in the prior year. The significant decrease in bank indebtedness is due to the reduction in working capital investment, reduction in operating costs and partial payback through refinancing \$3,000,000 of mezzanine debt.

Income Taxes

The effective income tax rate for the three and six months ended March 31, 2010 is approximately 31.85%, which is consistent with the prior year.

Net Loss

Net loss for the three and six months ended March 31, 2010 were significantly lower than net loss in the same periods last year primarily due to the \$19,548,494 goodwill write-down. Normalized for this charge, net loss in the current period is lower than net loss in the same period in the prior year due to higher EBITDA partially offset by higher interest expense and lower income tax recovery.

Trailing Twelve Months and Seasonal Nature of Business

The following tables provide an opportunity for insight into the results of the trailing twelve months. The Company has experienced a decline in sales over the last twelve months primarily due to the decline in activity in the oil and gas sector. Approximately 50.0% of the Company's sales are related to the energy industry. 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. However, as activity in the oil and gas sector has been generally low, the seasonality impact of the spring thaw is lessened in comparison to fiscal years prior to 2008.

Summary of Quarterly Data

	FISCAL 2009		FISCAL 2010		TOTAL
	Q3	Q4	Q1	Q2	
Revenue	\$ 20,749,108	\$ 20,152,690	\$ 21,251,236	\$ 23,089,142	\$ 85,242,176
Gross margin \$	5,715,399	6,289,072	5,875,121	6,810,472	24,690,064
Gross margin %	27.5%	31.2%	27.6%	29.5%	29.0%
Operating expenses	a 7,218,392	7,316,712	6,246,766	5,962,638	26,744,508
EBITDA	a (1,502,993)	(1,027,640)	(371,645)	847,834	(2,054,444)
NET LOSS	\$ (1,619,260)	\$ (1,641,443)	\$ (843,876)	\$ (17,880)	\$ (4,122,459)
Basic loss per share	\$ (0.08)	\$ (0.08)	\$ (0.04)	\$ (0.00)	\$ (0.20)
Diluted loss per share	\$ (0.08)	\$ (0.08)	\$ (0.04)	\$ (0.00)	\$ (0.20)

a See page 9 for a further explanation of these non-GAAP measures.

	FISCAL 2008		FISCAL 2009		TOTAL
	Q3	Q4	Q1	Q2	
Revenue	\$ 33,921,608	\$ 38,314,864	\$ 35,788,582	\$ 29,333,030	\$ 137,358,084
Gross margin \$	9,689,904	11,326,194	9,958,821	7,693,549	38,668,468
Gross margin %	28.6%	29.6%	27.8%	26.2%	28.2%
Operating Expenses	a 9,069,986	9,202,325	9,053,527	8,421,711	35,747,549
EBITDA	a 619,918	2,123,869	905,294	(728,162)	2,920,919
NET EARNINGS (LOSS)	\$ (15,071,350)	\$ 819,096	\$ 37,984	\$ (20,659,429)	\$ (34,873,699)
Basic earnings (loss) per share	\$ b (0.75)	\$ 0.04	\$ -	\$ c (1.03)	\$ d (1.74)
Diluted earnings (loss) per share	\$ b (0.75)	\$ 0.04	\$ -	\$ c (1.03)	\$ d (1.74)

a See page 9 for a further explanation of these non-GAAP measures.

b If the \$15,000,000 impairment of goodwill were excluded from the fiscal 2008 Q3 results, the basic and diluted earnings per share would have been \$0.00.

c If the \$19,548,494 impairment of goodwill were excluded from the fiscal 2009 Q2 results, the basic and diluted earnings per share would have been (\$0.06).

d If the \$15,000,000 and \$19,548,494 impairment of goodwill were excluded from the fiscal 2008 Q3 and fiscal 2009 Q1 results respectively, the trailing twelve months basic and diluted earnings per share would have been (\$0.02).

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Commercial continues to maintain its strong balance sheet by focusing on effectively managing its working capital and overall debt. The following table summarizes key consolidated financial position data:

As at March 31st	2010	2009
Total current assets	\$ 36,268,148	\$ 45,591,324
Total current liabilities	19,671,176	30,065,006
NET INVESTMENT IN WORKING CAPITAL	\$ 16,596,972	\$ 15,526,318
TOTAL TANGIBLE ASSETS	\$ 41,295,296	\$ 52,244,218
Bank indebtedness	11,621,726	21,127,947
Accounts payable	7,954,332	6,835,950
Current portion long-term debt	75,118	1,053,206
Long-term debt	2,891,180	192,261
Notes payable	1,201,151	1,207,134
TOTAL DEBT	\$ 23,743,507	\$ 30,416,498
Working capital ratio	1.84	1.52
Days sales in receivables	53.7	55.8
Inventory turns	2.5	3.5
Days purchases in payables	49.5	49.7

The Company's primary capital needs are for the purchase of inventory, and the funding of accounts receivable, debt service payments and capital expenditures. As working capital levels may vary primarily due to seasonal fluctuations and timing of payments and receipts, the Company utilizes its operating credit facility which assists with the timing of cash flows as required.

On December 9, 2009, the Company secured a Restated Credit Facility with the Canadian Imperial Bank of Commerce (the "Lender") which provides a \$15,000,000 operating line of credit for monthly renewal up to October 31, 2010. The new facility rolled in the previous operating line of credit of \$12,457,348 and the acquisition line of \$770,002 for a total of \$13,227,350 on the closing date.

The Company also closed on a two-year term mezzanine debt agreement for \$3,000,000 on October 8, 2009. This loan injection was a condition precedent to the Restated Credit Facility agreement. Proceeds from the mezzanine debt were used to partially pay down the previous operating line with the Lender and supplement working capital requirements.

Both working capital ratio and working capital investment have improved primarily due to the addition of long-term mezzanine debt as detailed above. Normalized for this change, the working capital ratio is 1.61 and the net working capital investment is \$13,705,792. Although the working capital ratio increased, the net investment in working capital has decreased compared to the prior year due to the less than proportionate decrease in bank indebtedness in comparison to decreases in accounts receivable and inventory.

Management continues to monitor and implement strict controls over the Company's investment in working capital during these difficult times. The Company specifically focuses on its investment in inventory and accounts receivable through the following programs:

Inventory: The Company is committed to aggressive ongoing inventory management efforts that work towards the goal of minimizing inventory balances while still meeting the customer's needs. This includes centralized inventory purchasing, opportunity-based distribution to branches and an asset recovery program where inventory with lower than average turnover is put through a different marketing plan to increase success of sale. These initiatives have reduced inventory balances by 28.0% from the comparative period last year.

Accounts Receivable: Management recognizes that as a result of more difficult credit conditions, the Company may experience increased difficulty receiving payments from its customers. Management proactively manages this risk by operating under a sound credit-granting process and maintaining appropriate credit administration, measurement and monitoring process. As well, communication with customers is more involved and on a more periodic basis through various levels of management to understand the customers' needs and financial health which has proven to facilitate timely collection or timely discussion of possible delays.

As at March 31, 2010, the Company was operating within its bank covenants with the Lender. These covenants are monitored and reported on a monthly basis. Covenants include: (i) margin requirements between loans and certain receivables and inventory balances, (ii) a minimum working capital ratio of 1.35, and (iii) a maximum trailing twelve month adjusted negative 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. The Company continues to work towards complying with these covenants over the term of the agreement. However, as a result of uncertain and weak economic conditions, the Company cannot be certain of achieving the covenants.

The Company continues periodic discussions regarding an asset based loan (“ABL”) as it believes that ABL’s are well suited for the Company’s financing needs and allows the Company to take advantage of its strong balance sheet. Management is currently reviewing proposed term sheets from interested ABL providers and intends to complete the assessment and switch to an ABL facility before the end of the current fiscal year. With the current secured position with the Lender and the possibility of changing to an ABL, management believes that the Company has sufficient capital resources to meet its growth and operating requirements in the short term.

Summary of Cash Flows

The following table highlights the Company’s cash flows during the period:

	For the three months ended March 31		For the six months ended March 31	
	2010	2009	2010	2009
Total cash from operating	\$ (878,354)	\$ (403,925)	\$ 2,826,030	\$ (64,349)
Total cash from financing	1,180,819	678,010	(2,445,573)	721,235
Total cash from investing	(80,868)	(274,085)	(158,860)	(656,886)
Free cash flow *	(959,223)	(678,010)	2,667,170	(721,235)

* Free cash flow is a non-GAAP measure and is defined as cash provided by (used in) operating activities less net capital expenditures.

Management anticipates generating positive cash flows from operating activities during the current fiscal year from disciplined working capital management. Cash flows from operating activities will be used to reduce bank indebtedness.

The Company had \$1,180,819 cash inflow from financing activities in the three months ended March 31, 2010. The cash inflow was used for the change in working capital due to timing of payments and receipts. For the six months ended March 31, 2010, the Company utilized \$2,445,573 cash in financing activity. Positive cash flows from operating activities and the proceeds of \$3,000,000 from mezzanine debt were used to reduce bank indebtedness.

Cash flow used for investment activity for the three and six months ended March 31, 2010 was \$80,868 and \$158,860 respectively. The investment in these periods related to capital expenditures primarily centered on improvements in the management information systems. Capital expenditures are budgeted to continue at low levels in comparison to prior years with the objective of maximizing free cash flow.

Share Capital

Commercial has authorized an unlimited number of common shares and an unlimited number of preferred shares with no par value. As at March 31, 2010 the Company had 20,100,806 common shares outstanding. During the 2010 Annual and Special General Meeting, the shareholders approved that the Board of Directors may grant options to purchase up to 2,010,081, which is 10.0% of the outstanding common shares (September 30, 2009 - 1,608,064 common shares at 8.0% of the outstanding common shares). As at March 31, 2010, options to purchase 1,445,500 common shares were outstanding at an average exercise price of \$0.96 per common share.

On October 8, 2009, the Company issued warrants as part of the agreement on the mezzanine debt. As at March 31, 2010, the number of warrants outstanding was 1,200,000. 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. The warrants were treated as transaction costs of the debt and were recorded as part of contributed surplus. The fair values of the warrants are calculated as \$197,375 at inception using the Black Sholes pricing model.

Measures Not In Accordance With Generally Accepted Accounting Principles (“GAAP”)

The following measures included in this report do not have a standardized meaning under Canadian GAAP 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 is not a concept recognized by Canadian GAAP, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. The following table is a reconciliation of EBITDA to net earnings for the periods presented in this MD&A:

	For the three months ended March 31st		For the six months ended March 31st	
	2010	2009	2010	2009
Net loss and comprehensive loss	\$ (17,880)	\$ (20,659,429)	\$ (861,756)	\$ (20,621,445)
Add:				
Depreciation and amortization	468,150	611,085	992,257	1,172,788
Interest expense and refinancing costs	405,919	290,886	748,431	578,741
Income tax recovery	(8,355)	(519,198)	(402,743)	(501,446)
Impairment of goodwill	-	19,548,494	-	19,548,494
EBITDA	\$ 847,834	\$ (728,162)	\$ 476,189	\$ 177,132

Operating expenses as presented on page 3 is not a concept recognized by GAAP as it does not include amortization expense and similar type expenses 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, 2010 consolidated financial statements:

	For the three months ended March 31st		For the six months ended March 31st	
	2010	2009	2010	2009
Operating expenses	\$ 5,962,638	\$ 8,421,711	\$ 12,209,404	\$ 17,475,238
Add:				
Depreciation and amortization	468,150	611,085	992,257	1,172,788
Interest expense and refinancing costs	405,919	290,886	748,431	578,741
Impairment of goodwill	-	19,548,494	-	19,548,494
TOTAL EXPENSES	\$ 6,836,707	\$ 28,872,176	\$ 13,950,092	\$ 38,775,261

Outlook

The global economic crisis had a significant impact on the Company's business in fiscal 2009. As such, during fiscal 2009, management focused on restructuring operations to adjust the Company's cost structure. Total operating cost reductions achieved approximate an annualized \$10 million in comparison to operating costs in fiscal 2008. The benefits of aggressive cost-cutting measures taken will continue to be realized over the current fiscal year. The Company remains focused in the current year on running the business efficiently and cost effectively through a combination of improved productivity and reduced working capital investment.

With restructuring initiatives from fiscal 2009 substantially complete, management is now clearly focused on returning to a growth oriented company. Commercial plans to grow its revenues through various sales and marketing programs that target increased communication with its customers, focusing on the Company's ability to provide a "one-stop-shop" benefit through its breadth of product offerings. Since early fiscal 2010, the following revenue and profitability growth programs have been initiated:

- A corporate marketing video that is shared with our existing and potential customers to communicate the products and services the Company offers and how the Company can serve many of their operational needs through the diversified inventory available;
- An enhanced system that makes it easier for customers to contact Commercial's order desks and industry experts through a centralized order and call-in system. This centralized system will at the same time improve productivity as branch operations focus primarily on getting the products to the customers versus taking orders;
- Greater emphasis on the Vendor Managed Inventory Program where the Company manages stock levels at customer sites assisting them to manage their non-core activities; and,
- Sales compensation plans to focus on growth and diversity. Accounts assigned to sales representatives are based on achieving revenue growth from various industry sectors to achieve revenue diversification.

The goal from the above initiatives is to serve Commercial's customers with a broad range of products and services that provide the best solutions for their operational needs while Commercial achieves an optimal balance of exposure within the various industry sectors that it serves.

The Company expects that future profitability will be enhanced as these programs go full-scale and management continues refining the re-sized costs structure. With these in place together with the lower investment in working capital, the Company will more successfully serve its customers at a lower cost and be well prepared to take advantage of an economic recovery. The first few months of 2010 have shown some improvement in industry activity and higher confidence for a return of stronger market conditions. Rig maintenance and building activity that have been low over the last twelve months is now starting to pick up as customers are more optimistic about the next drilling season. However, Commercial expects that fiscal 2010 will continue to be another challenging year as commodity prices remain volatile while the general economy continues on the road to recovery. The volatility and the uncertainty in future economic conditions make revenue prediction difficult. As such, the Company will continue to monitor its costs structure to ensure it remains in line with its revenues.

Commercial's mission and growth strategy is to build sustaining value for its shareholders through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. Over the years, Commercial has grown successfully into one of the largest industrial and oilfield parts distributor in Western Canada. Commercial intends to continue with the growth model through organic growth and selective acquisitions.

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 risks and the Board and management of the Company take prudent measures to mitigate any risks by which the Company may be affected.

There have been no significant changes to existing risk factors or new key risks identified from the key risks disclosed in the Company's Annual Information Form and Management Discussion and Analysis for the year ended September 30, 2009.

The debt repayment schedule has been updated from September 30, 2009 to include mezzanine debt as follows:

	2010	2011	2012
Bank indebtedness	\$ 11,621,726	\$ -	\$ -
Accounts payable	7,954,332	-	-
Long-term debt (net of transaction costs)	75,118	54,075	2,837,105
Notes payable (estimated timing of payments)	-	1,201,151	-
TOTAL	\$ 19,651,176	\$ 1,255,226	\$ 2,837,105

Critical Accounting Estimates

In preparing the Company's consolidated financial statements in conformity with Canadian GAAP, 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 and inventory, the recognition of the appropriate amount of future tax assets, the assumptions included in the calculation to determine the carrying value of goodwill, the inputs into the Black-Scholes option pricing model for stock-based compensation and fair value of warrants, the valuation of intangibles and the carrying value of accrued liabilities. Actual results could differ from these estimates.

Future Accounting Pronouncements

In February 2008, the Accounting Standards Board of Canada (AcSB) confirmed that the use of International Financial Reporting Standards (IFRS) will be required for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company anticipates implementation of this standard in its first quarter of fiscal year 2012 and is currently evaluating the impact of its adoption on the consolidated financial statements.

The Company has developed an IFRS implementation plan that attempts to address both the impact of the current IFRS standards and the potential for change through the convergence date. The Company's convergence plan consists of three phases: Diagnostic, Development, and Implementation. The Company has completed the Diagnostic phase and is currently initiating the Development phase. Both the development and implementation phases are planned to be completed before December 31, 2011 to achieve timely reporting of its fiscal 2012 first quarter results under IFRS standards. Key aspects of the activities under each of these phases and established timelines for each phase are as follows:

Diagnostic (completed)

- Identify key differences between current Canadian GAAP and IFRS and categorize potential impacts as high, medium and low; and,
- Allocate and train appropriate resources to the convergence project.

Development (April 2010 to June 2011)

- Research specific accounting differences identified in the initial accounting phase;
- Identify potential impacts on applicable functions, including financial statements, accounting policies and processes, performance metrics, business and operations management, banking arrangements, information systems, control environment and internal and external communications;
- Identify transition options under IFRS 1 (IFRS 1 is for companies that adopt IFRS for the first time. It allows for these companies to elect for certain exceptions in order to not apply each IFRS section on a retrospective basis); and,
- Communicate findings to executive management, Board of Directors, audit committee and external auditors.

Implementation (June 2011 to December 2011)

- Quantify the impact of accounting differences identified in the development phase;
- Finalize transitional (IFRS 1) and ongoing accounting policy choices;
- Prepare an opening balance sheet as at October 1, 2010 and comparative periods over fiscal 2011 and related note disclosures;
- Prepare required MD&A disclosures; and,
- Communicate findings to executive management, Board of Directors, audit committee, external auditors; and external stakeholders, including the investment community and bankers.

Related Party Transactions

During the six months ended March 31, 2010, the Company entered into the following related party transactions:

- a) Legal fees of \$117,363 (2009 - \$164,699) were paid to a law firm for corporate matters of which a director, Mr. William Rosser, is a partner. Of this amount, \$44,396 (2009 - \$NIL) is included in accounts payable. As well, a finder's fee of \$75,000 was paid to this law firm for the closing of the mezzanine debt of \$3,000,000 on October 8, 2009 (see "Financial Position, Liquidity and Capital Resources"). Of the \$3,000,000 cash proceeds, \$2,500,000 of the proceeds were sourced through this law firm.
- b) Management consulting fees of \$67,563 (2009 - \$83,854) were paid to a company, 371070 Alberta Ltd., over which an officer and director, Mr. Jim Barker, has significant influence.
- c) Management consulting fees of \$Nil (2009 - \$30,000) were paid to a company, Western America Venture Management Inc., over which a former director, Mr. Don Caron, has significant influence.
- d) The Company paid directors' fees and expenses of \$44,619 (2009 - \$44,726) to its four (2009 - four) independent directors, namely: Dr. Ken Harrison, Mr. Daryl Kruper, Mr. Alan Martin, and Mr. Richard Smith.

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.

Disclosure Controls and Procedures, and Internal Control Over Financial Reporting

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being made known to the appropriate individuals. In addition, the CEO and CFO are responsible to design internal controls over financial reporting or cause them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Disclosure Controls and Procedures ("DC&P")

An evaluation of the effectiveness of the Company's DC&P was conducted as at March 31, 2010, by and under the supervision of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the DC&P were effective as at March 31, 2010.

Internal Controls over Financial Reporting ("ICFR")

The Company's management, including the CEO and the CFO, has evaluated the design of the Company's ICFR using the framework and criteria established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's ICFR as at March 31, 2010 were effective.

Management has concluded that the consolidated financial statements fairly represent the Company's consolidated financial position and consolidated results of operations as at and for the three and six months ended March 31, 2010.

Forward Looking Statement

This Management Discussion and Analysis contains forward looking statements relating to such matters as expected financial performance, business prospects, and development activities and like matters. These statements involve risks 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 a statement is made or to reflect the occurrence of unanticipated events, with an exception of securities laws requirements.



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

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”

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

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BEARINGS & P.T.



SAFETY



FIREFIGHTING



FIELD



INDUSTRIAL



ENERGY SERVICES

ISO 9001:2008 Registered Organization

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.