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**FISCAL 2011 FIRST QUARTER**  
Interim Consolidated Financial Statements

December 31, 2010



Commercial Solutions Inc.  
Fiscal 2011 First Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

**Administration**  
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## CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

<i>(Unaudited)</i>	For the three months ended December 31st	
	2010	2009
<b>Revenue</b>	<b>\$ 24,411,438</b>	<b>\$ 21,251,236</b>
Cost of goods distributed	17,794,927	15,376,115
Gross margin (\$)	6,616,511	5,875,121
Gross margin (%)	27.1%	27.6%
<b>Expenses</b>		
Salary and wages	3,555,218	3,567,194
Rent, occupancy costs and utilities	1,111,910	1,165,848
Selling, general and administration	1,089,208	1,256,351
Amortization of intangible assets	221,321	280,776
Interest on bank indebtedness	200,213	144,973
Amortization of property and equipment	194,028	243,331
Interest on long-term debt	192,298	194,116
Professional fees	96,524	121,951
Advertising and promotion	57,548	60,322
Restructuring costs	–	75,100
Refinancing costs	–	3,423
	<b>6,718,268</b>	<b>7,113,385</b>
<b>Loss before income taxes</b>	<b>(101,757)</b>	<b>(1,238,264)</b>
Income tax recovery	29,062	394,388
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (72,695)</b>	<b>\$ (843,876)</b>
Deficit, beginning of period	(22,521,192)	(20,427,809)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (22,593,887)</b>	<b>\$ (21,271,685)</b>
<b>Loss per share</b>		
Basic	<b>\$ (0.00)</b>	<b>\$ (0.04)</b>
Weighted average number of shares – basic	20,100,806	20,100,806
Diluted	<b>\$ (0.00)</b>	<b>\$ (0.04)</b>
Weighted average number of shares – diluted	20,100,806	20,100,806

See accompanying notes to the interim consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

	As at December 31, 2010 <i>(unaudited)</i>	As at September 30, 2010 <i>(audited)</i>
<b>Assets</b>		
Current:		
Cash	\$ 772,470	\$ 47,847
Accounts receivable	15,522,653	14,645,539
Income taxes receivable	450,794	495,029
Future income taxes	146,427	146,427
Inventory	20,819,627	19,806,759
Prepays	534,981	738,755
	<b>38,246,952</b>	35,880,356
Future income tax asset	600,979	600,979
Property and equipment	3,025,320	3,096,150
Intangible assets	1,616,131	1,793,935
<b>TOTAL ASSETS</b>	<b>\$ 43,489,382</b>	<b>\$ 41,371,420</b>
<b>Liabilities</b>		
Current:		
Bank indebtedness (Note 3)	\$ 10,786,766	\$ 9,460,903
Accounts payable and accrued liabilities	10,746,088	9,756,276
Deferred tenant inducement	20,000	20,000
Long-term debt (Note 4)	2,964,865	89,074
Notes payable	180,971	280,971
	<b>24,698,690</b>	19,607,224
Future income tax liability	484,219	537,371
Deferred tenant inducement	73,333	78,333
Long-term debt (Note 4)	54,838	2,915,583
Notes payable	928,762	928,762
	<b>26,239,842</b>	24,067,273
<b>Shareholders' Equity</b>		
Share capital (Note 5)	37,860,880	37,860,880
Contributed surplus	1,982,547	1,964,459
Deficit	(22,593,887)	(22,521,192)
	<b>17,249,540</b>	17,304,147
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 43,489,382</b>	<b>\$ 41,371,420</b>

See accompanying notes to the interim consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i>	For the Three Months Ended December 31st	
Increase (Decrease) in Cash and Cash Equivalents	2010	2009
<b>Operating</b>		
Net loss	\$ (72,695)	\$ (843,876)
Items not affecting cash:		
Amortization of property and equipment	194,028	287,041
Amortization of intangible assets	221,321	237,066
Amortization of transaction cost	91,526	38,938
Stock-based compensation	18,088	16,148
Amortization of notes payable discount	–	2,591
Tenant inducement	(5,000)	(5,000)
Future income tax recovery	(53,150)	(75,507)
	394,118	(342,599)
Change in non-cash operating working capital	(782,976)	4,046,982
<b>TOTAL CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(388,858)</b>	<b>3,704,383</b>
<b>Financing</b>		
Advances (repayments) on bank indebtedness	1,648,925	(6,567,572)
Proceeds from long-term debt	–	3,000,000
Repayments of long-term debt	(23,891)	(58,819)
Repayments of notes payable	(100,000)	–
Refinancing costs on credit facility (Note 3)	(244,837)	–
<b>TOTAL CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1,280,197</b>	<b>(3,626,391)</b>
<b>Investing</b>		
Purchase of property and equipment	(123,198)	(110,699)
Purchase of intangible assets	(43,518)	–
Proceeds on disposal of property and equipment	–	32,707
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(166,716)</b>	<b>(77,992)</b>
<b>Increase in cash and cash equivalents during the period</b>	<b>724,623</b>	<b>–</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>47,847</b>	<b>–</b>
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 772,470</b>	<b>\$ –</b>

Cash taxes recovered during the three-month period is \$20,145 (2010 – paid \$226,037).

Cash interest paid during the three-month period is \$165,137 (2010 – \$121,527).

Capital assets acquired through capital leases during the three-month period are \$NIL (2010 – \$NIL).

Non-cash transaction costs related to bank indebtedness and included in prepaids is \$130,814 (2010 – \$NIL).

See accompanying notes to the interim consolidated financial statements.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)* For the three months ended December 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.

## 3. Bank Indebtedness

As at September 30th, 2010, the Company had a consolidated credit facility (the “Facility”) with the Canadian Imperial Bank of Commerce (the “Lender”) which provided a \$15,000,000 operating line of credit of which \$9,460,903 was drawn as at that date.

On October 8, 2010, the Company entered into a new \$16,000,000 senior secured Asset-Based Lending Facility (the “ABL Facility”) with the Bank of America, N.A. and repaid the outstanding indebtedness in full to the Lender amounting to \$8,716,195. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. The ABL Facility includes an opportunity for the Company to increase the loan to \$20,000,000 to fund future growth provided the Company continues to be in compliance with all covenants on a pro-forma basis, after giving effect to the increase in the borrowing amount.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The restated credit facility bears interest at prime plus 1.5% (September 30, 2010 – prime plus 4.5%) or banker’s acceptance rate plus 3.25% (September 30, 2010 – 5.75%), and, a standby fee of 0.5% (September 30, 2010 – 1%) on unused amounts of the facility. The ABL facility includes monitoring fees, recorded as interest on bank indebtedness, of \$35,000 in the current period (September 2010 – \$Nil).

Significant financial covenants of the ABL Facility include (i) margin requirements between loans and certain receivables and inventory balances, (ii) availability block of \$1,000,000; and (iii) minimum net tangible worth of \$14,500,000 if fund availability is lower than \$2,500,000. These covenants are to be measured continuously.

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As at December 31, 2010, \$11,108,435 was drawn on the ABL Facility, net of transaction costs of \$321,669 for a balance of \$10,786,766.

The Company incurred a total of \$416,883 as transaction costs directly related to closing the ABL Facility of which \$244,837 was paid in the current period. All transaction costs are netted against the amount drawn on the ABL Facility and amortized as interest on bank indebtedness over the term of the loan.

### 4. Long-term Debt

Long-term debt as at December 31, 2010 is made up of: Finance contracts totaling \$136,518 (September 30, 2010 – \$160,410) with a current portion at \$81,680 (September 30, 2010 – \$89,074); and mezzanine debt of \$3,000,000.00, net of transaction costs at \$2,883,185 (September 30, 2010 – \$2,844,247), repayable on October 8, 2011 and recorded as current liability.

The Company closed a two-year term mezzanine debt agreement on October 8, 2009. 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.

### 5. Share Capital

The following table summarizes information on share capital and related matters as at December 31:

	2010		2009	
	Outstanding	Exercisable	Outstanding	Exercisable
Common shares	20,100,806	–	20,100,806	–
Employee and director compensation options	1,278,800	676,467	1,001,000	628,000
Warrants	1,200,000	1,200,000	1,200,000	–

The following table summarizes transactional information on stock options:

	For the three months ended December 31st			
	2010		2009	
	Stock Options	Stock Option Weighted Average Exercise Price	Stock Options	Stock Option Weighted Average Exercise Price
Outstanding, as at September 30th	1,310,167	\$ 0.85	1,012,600	\$ 1.62
Forfeited and expired	(31,367)	2.19	(11,600)	5.08
<b>OUTSTANDING, AS AT DECEMBER 31ST</b>	<b>1,278,800</b>	<b>\$ 0.82</b>	<b>1,001,000</b>	<b>\$ 1.58</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The following table summarizes transactional information on warrants:

	For the three months ended December 31st			
	2010		2009	
	Warrants	Warrants Weighted Average Exercise Price	Warrants	Warrants Weighted Average Exercise Price
Outstanding, as at September 30th	1,200,000	\$ 0.31	–	\$ –
Granted	–	–	1,200,000	0.31
<b>OUTSTANDING, AS AT DECEMBER 31ST</b>	<b>1,200,000</b>	<b>\$ 0.31</b>	<b>1,200,000</b>	<b>\$ 0.31</b>

## 6. 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 three-month period ended December 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

## DIRECTORS AND OFFICERS

**Jim Barker | Edmonton, AB**  
President, Chairman, CEO and Director

**Dr. Ken Harrison | Edmonton, AB**  
Director

**Rozina Kassam | Edmonton, AB**  
Chief Financial Officer

**Daryl Kruper | Sherwood Park, AB**  
Director

**Alan Martin, CA CBV | St. Albert, AB**  
Director

**William Rosser | Edmonton, AB**  
Corporate Secretary and Director

**Richard Smith | Calgary, AB**  
Director

## AUDITORS

**Grant Thornton LLP**  
1401 Scotia Place 2  
10060 Jasper Avenue  
Edmonton, AB, Canada T5J 3R8

## SHARES LISTED

**Toronto Stock Exchange**  
Trading Symbol – “CSA”

## TRANSFER AGENT

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

## BANKERS

**Bank of America, N.A.**  
Simcoe Place, 200 Front Street W.  
Toronto, ON, Canada M5V 3L2

## SHARE CAPITAL

**Issued:** 20,100,806 common shares

## CORPORATE OFFICE

**Commercial Solutions Inc.**  
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## WEBSITE

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**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.