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FISCAL 2011 THIRD QUARTER
Interim Consolidated Financial Statements

June 30, 2011



Demand *Expert* Solutions®

Commercial Solutions Inc.
Fiscal 2011 Third Quarter Financial Statements

Chief Financial Officer: Rozina Kassam

Administration:
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Interim Consolidated Statement of Earnings (Loss), Comprehensive Income (Loss), and Retained Earnings (Deficit)

<i>(Unaudited)</i>	For the Three Months ended		For the Nine Months ended	
	June 30th		June 30th	
	2011	2010	2011	2010
Revenue	\$ 26,014,047	\$ 21,963,853	\$ 78,520,119	\$ 66,304,231
Cost of goods distributed	18,645,419	15,992,156	56,770,405	47,646,941
Gross margin (\$)	7,368,628	5,971,697	21,749,714	18,657,290
Gross margin (%)	28.3%	27.2%	27.7%	28.1%
Expenses				
Salary and wages	3,949,513	3,600,907	11,382,454	10,732,340
Selling, general and administration	1,225,543	970,829	3,563,710	3,182,974
Rent, occupancy costs and utilities	1,096,129	1,193,350	3,354,636	3,629,437
Interest on bank indebtedness	206,455	198,607	596,687	561,895
Interest on long-term debt	198,050	258,858	599,113	640,578
Amortization of property and equipment	195,076	256,749	584,028	786,101
Amortization of intangible assets	184,585	232,783	617,803	695,688
Professional fees	88,063	117,469	411,416	344,928
Advertising and promotion	62,847	64,196	178,378	189,376
Restructuring costs	-	-	-	77,100
Refinancing costs	-	70,000	-	73,423
	7,206,261	6,963,748	21,288,225	20,913,840
Earnings (loss) before income taxes	162,367	(992,051)	461,489	(2,256,550)
Income tax expense (recovery)	46,372	(315,968)	131,801	(718,711)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 115,995	\$ (676,083)	\$ 329,688	\$ (1,537,839)
Retained earnings (deficit) beginning of period	286,388	(21,289,565)	(22,521,192)	(20,427,809)
Reclassification of accumulated deficit (Note 6)	-	-	22,593,887	-
RETAINED EARNINGS (DEFICIT), END OF PERIOD	\$ 402,383	\$ (21,965,648)	\$ 402,383	\$ (21,965,648)
Earnings (loss) per share				
Basic	\$ 0.01	\$ (0.03)	\$ 0.02	\$ (0.08)
Weighted average number of shares - basic	20,303,817	20,100,806	20,170,460	20,100,806
Diluted	\$ 0.01	\$ (0.03)	\$ 0.02	\$ (0.08)
Weighted average number of shares - diluted	21,907,196	20,100,806	21,631,947	20,100,806

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS

	As at June 30 2011 (Unaudited)	As at September 30 2010 (Audited)
Assets		
Current		
Cash	\$ 321,755	\$ 47,847
Accounts receivable	17,274,042	14,645,539
Income taxes receivable	76,309	495,029
Future income taxes	146,427	146,427
Inventory	21,628,303	19,806,759
Prepays	783,195	738,755
	40,230,031	35,880,356
Future income tax asset	600,979	600,979
Property and equipment	2,786,308	3,096,150
Intangible assets	1,374,170	1,793,935
TOTAL ASSETS	\$ 44,991,488	\$ 41,371,420
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 12,200,151	\$ 9,460,903
Accounts payable and accrued liabilities	10,452,929	9,756,276
Deferred tenant inducement	20,000	20,000
Current portion of long term-debt (Note 5)	3,027,228	89,074
Current portion of notes payable	297,404	280,971
	25,997,712	19,607,224
Future income tax liability	432,806	537,371
Deferred tenant inducement	63,333	78,333
Long term-debt (Note 5)	23,262	2,915,583
Notes payable	735,887	928,762
	27,253,000	24,067,273
Shareholders' Equity		
Share capital (Note 6)	15,367,012	37,860,880
Contributed surplus	1,969,093	1,964,459
Retained earnings (Deficit) (Note 6)	402,383	(22,521,192)
	17,738,488	17,304,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 44,991,488	\$ 41,371,420

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) Increase (decrease) in cash and cash equivalents	For the three months ended June 30th		For the nine months ended June 30th	
	2011	2010	2011	2010
Operating				
Net earnings (loss)	\$ 115,995	\$ (676,083)	\$ 329,688	\$ (1,537,839)
Items not affecting cash:				
Amortization of property and equipment	195,076	256,749	584,028	786,101
Amortization of intangible assets	184,585	232,783	617,803	695,688
Amortization of transaction cost	69,134	38,938	229,059	116,815
Stock based compensation and other (Note 6e)	2,848	22,068	74,874	81,771
Amortization of notes payable discount	6,269	6,524	23,558	15,226
Tenant inducement	(5,000)	(5,000)	(15,000)	(15,000)
Future income tax recovery	(41,507)	(59,103)	(144,439)	(177,309)
Gain on business acquisition (Note 3)	-	-	(99,696)	-
	527,400	(183,124)	1,599,875	(34,547)
Changes in non-cash operating working capital	(1,403,942)	3,244,044	(3,469,869)	5,921,497
TOTAL CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	(876,542)	3,060,920	(1,869,994)	5,886,950
Financing				
Advances (repayments) on bank indebtedness	1,048,117	(3,084,506)	3,014,704	(8,453,864)
Issuances of common shares	62,000	-	65,780	-
Proceeds from long term-debt	-	-	-	3,000,000
Repayments of long term-debt	(23,459)	(21,019)	(70,982)	(97,234)
Repayments of notes payable	-	-	(200,000)	-
Refinancing costs on credit facility	(12,050)	(65,970)	(256,887)	(65,970)
TOTAL CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	1,074,608	(3,171,495)	2,552,615	(5,617,068)
Investing				
Cash consideration paid on business acquisition (Note 3)	-	-	(97,490)	-
Purchase of property and equipment	(85,991)	(23,376)	(257,484)	(105,546)
Purchase of intangible assets	(5,281)	(26,696)	(70,957)	(142,724)
Proceeds on disposal of property and equipment	481	750	17,218	40,088
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES	(90,791)	(49,322)	(408,713)	(208,182)
Increase (decrease) in cash and cash equivalents during the period	107,275	(159,897)	273,908	61,700
Cash and cash equivalents, beginning of period	214,480	221,597	47,847	-
TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 321,755	\$ 61,700	\$ 321,755	\$ 61,700

Cash taxes recovered during the three month period is \$122,334 (2010 – \$728,800) and during the nine month period is \$142,479 (2010 - \$733,384)

Cash interest paid during the three month period is \$140,231 (2010 - \$155,154) and during the nine month period is \$515,627 (2010 - \$383,019)

Capital assets acquired through capital leases during the three month period is \$NIL (2010 - \$41,054) and during the nine month period is \$NIL (2010 - \$41,054)

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the nine months ended June 30, 2011 and 2010

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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Commercial bearing service (1966) Ltd., Canglobal Products Ltd., Brightcapital Technologies Ltd., and Commercial Solutions USA LLC. All intercompany balances and transactions are eliminated on consolidation.

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 GAAP for annual audited financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual audited consolidated financial statements.

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

(a) Changes in accounting policies:

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued Business Combinations Section 1582, replacing the former Business Combinations Section 1581, which establishes the standards for the accounting of business combinations. The implementation of section 1582 impacts how business combinations are accounted for, including the application of fair market measurements, the recognition and measurement of goodwill or gain from a bargain purchase, and the expensing of acquisition related costs. The new section applies prospectively to business combinations for which the acquisition date is during fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity early adopting section 1582 must also apply Consolidated Financial Statements, Section 1601, and Non-controlling Interests, Section 1602 at the same time, if applicable. Sections 1601 and 1602 require the non-controlling interest to be included in the equity section, separate from the parent equity.

The Company has elected to early adopt CICA Handbook sections 1582, 1601 and 1602 effective October 1, 2010. The implementation of Section 1582 has impacted the recording of the Canglobal Instruments LLC (“CGI”) business combination (Note 3) and will impact the recording of future business combinations. There has been no impact from the early adoption and implementation of Sections 1601 and 1602.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(b) New accounting policy:

At the Company's Annual General and Special Meeting held on March 11, 2011 the shareholders approved a new Deferred Share Units ("DSU") plan. The Company may offer the DSU plan to directors, senior officers, key employees and consultants in order to align their efforts with the longer term goals of the Company, allow them to participate in the longer term success of the Company and encourage a greater sense of ownership. DSUs are redeemable upon termination of employment or a Director's resignation, as the case may be. The holder of the DSU has the option of redeeming the DSU in either shares or cash, subject to the approval of the Company's Board of Directors.

DSUs are recorded as a liability if they include the option to redeem in cash. Grants of DSU are recorded at fair value, as salaries and wage expense at the time of grant. The liability is updated to fair value at each subsequent reporting period with changes being recorded in salaries and wage expense. Fair value is calculated based on the quoted market price of the Company's shares on the date of grant and each subsequent reporting date. The liability for DSUs is included in accounts payable and accrued liabilities on the balance sheet.

2. SEASONALITY OF OPERATIONS

A significant portion of the Company's revenue is exposed to the energy sector and therefore displays seasonality. Typically, the energy sector 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. ACQUISITION OF THE BUSINESS OF CANGLOBAL INSTRUMENTS LLC ("CGI")

On March 1, 2011, the Company, through its newly formed subsidiary, Commercial Solutions USA LLC, acquired the inventory, capital assets, intangible assets and ongoing business processes of a Pinehurst, Texas entity, CGI, for total cash consideration of \$97,490 (USD 100,000). Total transaction costs related to the acquisition were \$71,465 which includes legal and finders' fees. Transaction costs were expensed as incurred, in accordance with Note 1(a).

The Company has determined that the acquisition meets the definition of a business combination which requires that the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. In the case of CGI, the inventory, capital assets and intangibles are substantially all of the required inputs to operate the business. In addition, the Company also acquired the business processes including management, location and assembled workforce.

As a result, the Company applied the acquisition method of accounting where the identifiable assets acquired and liabilities assumed are recognized and measured as well as a gain from a bargain purchase. Net identifiable assets acquired and liabilities assumed and recorded at estimated fair market values are as follows:

	Fair Market Value
Inventory	\$ 76,060
Capital assets	34,595
Intangible assets	126,406
Future income tax liability	(39,875)
	\$ 197,186

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The intangible assets are comprised of customer relationships of \$126,406 and will be amortized straight line over their estimated useful life of five years.

The fair value of \$197,186 for the assets acquired and liabilities assumed exceeds the purchase price of \$97,490 which results in a bargain purchase. The gain on the bargain purchase of \$99,696 has been recorded in the income statement as part of selling, general and administrative expense in the second quarter of current fiscal year.

4. BANK INDEBTEDNESS

As at September 30, 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 facility 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 accounting for 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 ABL Facility bears interest at prime plus 1.50% (September 30, 2010 - prime plus 3.50%) or bankers' acceptance rate plus 3.25% (September 30, 2010 - bankers' acceptance rate plus 5.75%), and, a standby fee of 0.05% (September 30, 2010 - 1.00%) on unused amounts of the ABL Facility. The ABL Facility includes monitoring fees, recorded as interest on bank indebtedness, of \$40,954 (2010-\$NIL) for the three months ended June 30, 2011 and \$110,420 (2010 - \$NIL) for the nine months ended June 30, 2011.

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) a springing covenant where minimum net tangible worth of \$14,500,000 (to be adjusted annually) is triggered if fund availability is lower than \$2,500,000. These covenants are to be measured monthly. As at June 30, 2011, the Company was operating within its covenants.

As at June 30, 2011, \$12,474,215 was drawn on the ABL Facility, net of unamortized transaction costs of \$274,064 for a balance of \$12,200,151. The Company incurred a total of \$428,932 as transaction costs directly related to ABL Facility of which \$256,887 was paid in the current year. All transaction costs are netted against the amount drawn on the ABL Facility and amortized to net earnings as interest on bank indebtedness over the term of the loan.

Subsequent to June 30, 2011 the ABL Facility was amended to increase the facility from \$20,000,000 to \$25,000,000 and extend the term from three years to four years. The amendment supports the Company's growth and the forthcoming payment of the mezzanine loan. With this increase in availability, \$2,500,000 of the \$3,000,000 mezzanine debt was paid out as early settlement on July 29, 2011 at the option of the mezzanine lenders (see Note 5).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. LONG-TERM DEBT

Long-term debt as at June 30, 2011 is made up of: finance contracts totalling \$89,430 (September 30, 2010 - \$160,410) with a current portion at \$66,166 (September 30, 2010 - \$89,074); and mezzanine debt of \$2,961,062, net of transaction costs of \$38,938 (September 30, 2010 - \$2,844,247), repayable on October 8, 2011 and recorded as current liability in the current period.

The mezzanine debt agreement was closed on October 8, 2009 for a two-year term. The closing was comprised of subordinated secured promissory notes earning 18.0% per annum and are secured in second position to the ABL Facility 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 Company incurred 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.

Subsequent to June 30, 2011, the mezzanine lenders were provided with the opportunity to settle for early payout of the mezzanine debt on July 29, 2011. The early payout was supported by the Company's availability from the ABL Facility. A total of \$2,500,000 was paid out to mezzanine lenders that opted to take advantage of the early payout. The Company intends to pay the remaining \$500,000 on the maturity date, October 8, 2011.

6. SHARE CAPITAL

(a) Common shares

At the Company's Annual General Meeting, the Company obtained shareholder approval to reclassify the deficit of \$22,593,887 as at December 31, 2010 to reduce share capital. The reclassification provides users of the Company's financial statements with a statement more in keeping with the current economic condition of the Company. The revised balance sheet will more appropriately reflect the Company's ongoing operations, whereas the previous presentation reflected an accumulated deficit which primarily resulted from the write down of goodwill in fiscal years 2008 and 2009. The reclassification provides users of the Company's financial statements with a statement more in keeping with the current economic condition of the Company. During the quarter ended March 31, 2011, the charge of deficit to share capital was made, and share capital was adjusted to \$15,273,013 from \$37,860,880 as at December 31, 2010.

The accounting entry described above will not impact shareholder rights, privileges or obligations and will not result in cash flow or change in total Shareholders' Equity.

	Number of Shares	Amount
Balance, September 30, 2010	20,100,806	\$ 37,860,880
Shares issued on exercises of options (by employees, directors and agents)	14,000	6,020
Shares issued on exercises of warrants (by Mezzanine lenders)	200,000	94,000
Reclassification of accumulated deficit	-	(22,593,887)
Balance, June 30, 2011	20,314,806	\$ 15,367,013

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(b) Stock option plan:

	For the nine months ended June 30			
	2011		2010	
	Stock Options	Stock Option Weighted Average exercise price	Stock Options	Stock Option Weighted Average exercise price
Outstanding, as at September 30	1,310,167	\$ 0.85	1,012,600	\$ 1.62
Granted	-	-	617,000	0.29
Exercised	(14,000)	0.27	-	-
Forfeited and expired	(40,367)	2.00	(222,100)	2.63
OUTSTANDING AS AT JUNE 30	1,255,800	\$ 0.82	1,407,500	\$ 0.88

(c) Deferred shares units ("DSU")

Effective March 11, 2011 the Shareholders approved a DSU plan for directors, senior officers, key employees and consultants. DSUs are redeemable upon termination of employment or a Director's resignation, as the case may be. They may be redeemed by the holder in either shares or cash, subject to Board approval.

As at June 30, 2011 the Company issued 40,000 (2010-NIL) DSUs. The fair value of the DSUs of \$36,000, as measured based on the closing price of the shares on the balance sheet date, was included in accounts payable, with the change in fair value recorded as salaries and wages expense.

(d) Warrants

	For the nine months ended June 30			
	2011		2010	
	Warrants	Warrants Weighted Average exercise price	Warrants	Warrants Weighted Average exercise price
Outstanding, as at September 30	1,200,000	\$ 0.31	-	\$ -
Granted	-	-	1,200,000	0.31
Exercised	(200,000)	0.31	-	-
OUTSTANDING AS AT JUNE 30	1,000,000	\$ 0.31	1,200,000	\$ 0.31

(e) Stock-based compensation

Stock based compensation is recorded as part of salaries and wages expense.

	For the three months ended June 30		For the nine months ended June 30	
	2011	2010	2011	2010
Stock options	\$ 8,848	\$ 22,068	\$ 38,874	\$ 81,771
Deferred shares units	(6,000)	-	36,000	-
	\$ 2,848	\$ 22,068	\$ 74,874	\$ 81,771

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. CAPITAL MANAGEMENT

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

- ensuring 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;
- ensuring the Company has capital and capacity to support the long-term growth strategy; and,
- maximizing 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 June 30, 2011, the Company was in compliance with its externally imposed debt covenant requirements (Note 4). The Company monitors these requirements on a monthly basis.

8. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the ABL Facility was amended providing the Company improved liquidity to fund its growth and forthcoming mezzanine debt repayment (Note 4).

On July 29, 2011 the Company prepaid a substantial portion of its mezzanine debt, totalling \$2,500,000 (Note 5).

9. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

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

Dr. Ken Harrison | Edmonton, AB
Director

Rozina Kassam, CA | Edmonton, AB
Chief Financial Officer

Daryl Kruper | Sherwood Park, AB
Director

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

William Rosser, LL.B. | Edmonton, AB
Corporate Secretary and Director

Richard Smith | Calgary, AB
Director

AUDITORS

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SHARES LISTED

Toronto Stock Exchange
Trading Symbol – « CSA »

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SHARE CAPITAL

Issued: 20,314,806 common shares

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BEARINGS & P.T.



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FIELD



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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.