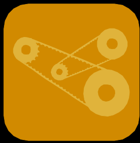

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FISCAL 2011 **ANNUAL REPORT**

Consolidated Financial Statements

September 30, 2011

Commercial Solutions Inc.
Fiscal 2011 Annual Financial Statements

Chief Financial Officer: Rozina Kassam

Administration:
4203-95 Street, Edmonton, AB T6E 5R6
Toll Free: 1-888-522-9822

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Consolidated Financial Statements

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Independent Auditor's Report

To the Shareholders of
Commercial Solutions Inc.

We have audited the accompanying consolidated financial statements of Commercial Solutions Inc., which comprise the consolidated balance sheets as at September 30, 2011 and 2010, and the consolidated statements of earnings (loss) and comprehensive income (loss), retained earnings (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Commercial Solutions Inc. as at September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Edmonton, Canada
December 9, 2011

Grant Thornton, LLP
Chartered Accountants

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	For the Years Ended September 30th			
		2011		2010
Revenue	**$**	**107,702,207**	$	89,455,326
Cost of goods distributed		**77,652,776**		64,061,006
Gross margin ($)		**30,049,431**		25,394,320
Gross margin (%)		**27.9%**		28.4%
Expenses				
Salary and wages		**15,495,720**		14,446,491
Rent, occupancy costs and utilities		**4,768,810**		4,748,635
Selling, general and administration (Note 15)		**4,714,149**		4,116,258
Interest on bank indebtedness		**796,242**		809,130
Amortization of intangible assets		**781,157**		927,829
Amortization of property and equipment		**778,698**		1,272,059
Interest on long-term debt		**717,496**		786,103
Professional fees (Note 15)		**497,744**		385,367
Advertising and promotion		**251,306**		303,566
Refinancing costs		**-**		334,774
Restructuring costs		**-**		77,100
		28,801,322		28,207,312
Earnings (loss) before income taxes		**1,248,109**		(2,812,992)
Income tax expense (recovery) (Note 14)		**354,973**		(719,609)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**$**	**893,136**	**$**	**(2,093,383)**
Earnings (loss) per share (Note 12)				
Basic	**$**	**0.04**	$	(0.10)
Weighted average number of shares - basic		**20,260,818**		20,100,806
Diluted	**$**	**0.04**	$	(0.10)
Weighted average number of shares - diluted		**21,170,006**		20,100,806

See pages 6 to 23 for the accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

	For the Years Ended September 30th			
		2011		2010
Deficit, Beginning of year	**$**	**(22,521,192)**	$	(20,427,809)
Reclassification of accumulated deficit (Note 9)		**22,593,887**		-
Net earnings (loss)		**893,136**		(2,093,383)
RETAINED EARNINGS (DEFICIT), END OF YEAR	**$**	**965,831**	**$**	**(22,521,192)**

See pages 6 to 23 for the accompanying notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

	As at September 30th	
	2011	2010
Assets		
Current		
Cash	**$ 141,115**	$ 47,847
Accounts receivable	**18,885,466**	14,645,539
Income taxes receivable	**-**	495,029
Future Income tax asset (Note 14)	**129,135**	146,427
Inventory	**22,620,620**	19,806,759
Prepaids	**2,575,888**	738,755
	44,352,224	35,880,356
Future income tax asset (Note 14)	**508,273**	600,979
Property and equipment (Note 4)	**2,716,635**	3,096,150
Intangible assets (Note 5)	**1,215,931**	1,793,935
TOTAL ASSETS	**$ 48,793,063**	**$ 41,371,420**
Liabilities		
Current		
Bank indebtedness (Note 6)	**$ 15,458,981**	$ 9,460,903
Accounts payable and accrued liabilities	**12,455,816**	9,756,276
Income tax payable	**415,418**	-
Deferred tenant inducement	**20,000**	20,000
Long term debt (Note 7)	**560,976**	89,074
Notes Payable (Note 8)	**200,000**	280,971
	29,111,191	19,607,224
Future income tax liability (Note 14)	**376,966**	537,371
Deferred tenant inducement	**58,333**	78,333
Long term debt (Note 7)	**10,794**	2,915,583
Notes payable (Note 8)	**735,887**	928,762
	30,293,171	24,067,273
Shareholders' Equity		
Share capital (Note 9)	**15,656,666**	37,860,880
Contributed surplus (Note 10)	**1,877,395**	1,964,459
Retained earnings (deficit)	**965,831**	(22,521,192)
	18,499,892	17,304,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 48,793,063**	**$ 41,371,420**

Commitments and contingencies (Note 16)
On behalf of the board

Signed "James Barker"
James Barker

Signed "Alan Martin"
Alan Martin

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended September 30th			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2011**		2010
Operating				
Net earnings (loss)	**$**	**893,136**	$	(2,093,383)
Items not affecting cash:				
Amortization of property and equipment and intangible assets		**1,559,855**		2,199,888
Amortization of transaction cost (Note 6)		**293,824**		155,754
Stock based compensation (Note 11)		**86,591**		101,939
Amortization of notes payable discount		**26,154**		17,285
Tenant inducement		**(20,000)**		(20,000)
Future income tax recovery (Note 14)		**(91,930)**		(204,106)
Gain on business acquisition (Note 3 and 13)		**(99,696)**		-
		2,647,934		157,377
Changes in non-cash operating working capital (Note 13)		**(5,375,079)**		5,011,910
TOTAL CASH FLOWS (USED) FROM OPERATING ACTIVITIES	**$**	**(2,727,145)**	**$**	**5,169,287**
Financing				
Advances (repayments) on bank indebtedness (Note 6)		**6,309,376**		(7,530,180)
Proceeds from long term debt (Note 7)		**-**		3,000,000
Repayments of long term debt		**(2,588,643)**		(134,461)
Repayments of notes payable		**(300,000)**		-
Refinancing costs on credit facility (Note 6)		**(318,555)**		(172,045)
Issuance of common shares (Note 9)		**257,060**		-
TOTAL CASH FLOWS FROM (USED) IN FINANCING ACTIVITIES	**$**	**3,359,238**	**$**	**(4,836,686)**
Investing				
Purchase of property and equipment		**(384,186)**		(143,568)
Purchase of intangible assets		**(76,748)**		(183,226)
Proceeds on disposal of property and equipment		**19,599**		42,040
Business acquisition (Note 3)		**(97,490)**		-
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES	**$**	**(538,825)**	**$**	**(284,754)**
Increase in Cash equivalents during the year		**93,268**		47,847
Cash and Cash equivalents, Beginning of year		**47,847**		**-**
TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**141,115**	**$**	**47,847**

See pages 6 to 23 for the accompanying notes to the Consolidated Financial Statements

1. Nature of Operations

Commercial Solutions Inc. ("Commercial or 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 supplies, firefighting gear, survey supplies, industrial supplies, and oilfield parts and supplies.

2. Significant Accounting Policies

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 significant accounting policies used in the consolidated financial statements are as follows:

(a) Basis of consolidation

The consolidated financial statements include the financial statements 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.

(b) Use of estimates

In preparing the Company's consolidated financial statements in conformity with 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. Significant estimates included in these financial statements are the valuation of accounts receivable, the valuation of inventory, the recognition of the appropriate amount of future tax assets and liabilities, the value of notes payable, the inputs into the Black-Scholes Option Pricing Model for stock-based compensation, the valuation of intangibles and the carrying value of accrued liabilities. Actual results could differ from these estimates.

(c) Revenue recognition

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time the goods are shipped and when reasonable assurance exists regarding the measurement and collection of the consideration received. There are instances where customers will request that the Company bill and hold their shipments until such time as the customers are prepared to receive the goods. Revenue on bill and hold arrangements is recognized when the customer is invoiced for goods that have been packaged and made ready for shipment, the risk of ownership of the goods is assumed by the customer at that time, and the terms and collection experience on the related billings are consistent with all other sales. Provisions for estimated product returns are based on historical experience. The Company monitors returns on an ongoing basis for indications that provisions require assessment. No warranty provision has been provided for in the financial statements as the Company does not offer a warranty on its products other than the warranties provided by the Company's suppliers.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balance with banks. Bank indebtedness and long-term bank borrowings are considered to be financing activities.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price less estimated selling costs. Cost is determined using the average cost method. Cost includes the direct purchase price of the goods and transportation costs from vendors. Transportation costs within the Company's Service Centers are expensed as incurred. Management periodically reviews the inventory on a product by product basis in assessing allowances for obsolescence based upon current estimates of future events including economic conditions and growth prospects in the marketplace. Based on this review, a total of $345,000 was recorded as provision for obsolescence in the current year (2010 – $571,445). If there is a change in circumstances that gave rise to the provisions, a reversal to these provisions may be made. There were no reversals recorded in the current year (2010 – $Nil). All inventory adjustments recognized as expenses are disclosed in the statement of earnings as costs of good distributed.

(f) Intangible assets

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 estimated useful lives. Intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if circumstances indicate the intangible might be impaired. The Company has no intangible assets with indefinite useful lives.

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

Customer Relationships	Straight-line - 6 to 7 years
Non-competition Agreements	Straight-line - 3 to 5 years
Trade Names	Straight-line - 1 to 3 years
Computer Software	Declining balance - 30%

(g) Stock-based compensation

The Company has a stock-based compensation plan, which is described in Note 11. The Company uses the fair value method of accounting for stock options for employees and directors. The fair value of option grants is calculated on the grant date using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those grants. A corresponding adjustment is recorded through contributed surplus. When options are exercised, the proceeds received by the Company together with the amount in contributed surplus, are credited to share capital.

(h) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the fiscal year. Diluted earnings (loss) per share is computed using the treasury stock method, where the weighted average shares outstanding is increased to include additional common shares from the assumed exercise of outstanding warrants and stock options, if dilutive. For warrants and stock options, the treasury method assumes that the proceeds to be received on the exercise of outstanding stock options are applied to repurchase common shares at the average market price during the fiscal year.

(i) Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in foreign currencies are translated at the monthly average rate in effect at the time of the transaction to approximate the rate on the transaction date. Gains or losses on translation are included in earnings.

(j) Property and equipment

Property and equipment are recorded at cost. Rates and bases of amortization applied to write-off the cost less estimated residual or salvage value of property and equipment, whichever is lower, over their estimated useful lives are as follows:

Buildings	4% and 5% declining balance
Leasehold Improvements	20%, Straight-line
Furniture and Fixtures	20%, declining balance
Fencing	10%, declining balance
Equipment under Capital Lease	20%, declining balance
Automotive Equipment	30%, declining balance
Computer Equipment	30%, declining balance

Full amortization is recorded in the month of acquisition and none in the month of disposal.

(k) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incident to ownership is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are amortized on a straight-line basis over the term of the lease if there are free rental periods.

(l) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or circumstances raise concerns that their carrying value exceeds the undiscounted value of future cash flows. If impairment is indicated, the impairment loss, if any, is measured as the amount by which the long-lived asset's carrying value exceeds its estimated fair value. Estimated fair value is determined using the discounted, estimated future cash flows attributable to the use and eventual disposal of the long-lived asset.

(m) Income taxes

Income taxes have been provided using the liability method of tax allocation. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities, and losses carried forward, and their respective tax bases; and measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Future tax assets are recognized to the extent that the realization of the asset is considered more likely than not.

(n) Deferred tenant inducement

Deferred tenant inducement represents a cash benefit received from a landlord pursuant to a lease agreement. The tenant inducement is amortized on a straight-line basis against rent expense over the initial term of the related lease.

(o) Financial instruments classification

All financial assets are classified as one of held-to-maturity, loans and receivables, held-for trading or available-for-sale and all financial liabilities are classified as held-for-trading or other. The Company has made the following classification of its financial assets and liabilities:

Loans and Receivables
- Cash
- Accounts receivable

Other Financial Liabilities

- Bank indebtedness
- Accounts payable and accrued liabilities
- Long-term debt
- Notes payable

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest method.

Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI"). Financial assets classified as loans and receivables and financial liabilities classified as other are measured at amortized cost, using the effective interest method.

Derivatives and Embedded Derivatives

Derivatives that are not formally designated as hedges for accounting purposes are held-for-trading instruments and gains and losses are recorded directly in net earnings. The Company has forward exchange and option contracts as derivatives. The derivative instrument is measured at fair value and all adjustments to fair value are included in selling, general and administrative expenses with the liability recorded in accounts payable and accrued liabilities.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. As of September 30, 2010 and 2011, the Company had no OCI or accumulated OCI.

(p) 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.

(q) 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 allow them to participate in the long-term success of the Company and encourage a 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.

3. Acquisition

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 2(p).

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

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.

4. Property and Equipment

	As at September 30th, 2011		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 103,000	$ -	$ 103,000
Buildings	486,783	138,511	348,272
Automotive	614,204	533,079	81,125
Computer	3,447,313	3,017,617	429,696
Equipment under capital lease	360,064	266,188	93,876
Leaseholds	1,873,934	1,472,802	401,132
Furniture and equipment	4,268,332	3,008,798	1,259,534
TOTAL	$ 11,153,630	$ 8,436,995	$ 2,716,635

	As at September 30th, 2010		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 108,500	$ -	$ 108,500
Buildings	530,584	153,350	377,234
Automotive	622,432	518,106	104,326
Computer	3,319,665	2,857,942	461,723
Equipment under capital lease	360,064	225,955	134,109
Leaseholds	1,822,943	1,235,010	587,933
Furniture and equipment	4,065,083	2,742,758	1,322,325
TOTAL	$ 10,829,271	$ 7,733,121	$ 3,096,150

5. Intangible Assets

	As at September 30th, 2011		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 4,477,755	$ 3,634,527	$ 843,228
Non-competition agreements	392,499	392,499	-
Trade names	559,875	559,875	-
Computer software	1,866,788	1,494,085	372,703
TOTAL	$ 7,296,917	$ 6,080,986	$ 1,215,931

	As at September 30th, 2010		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 4,358,595	$ 3,027,547	$ 1,331,048
Non-competition agreements	385,253	368,286	16,967
Trade names	559,875	559,875	-
Computer software	1,790,040	1,344,120	445,920
TOTAL	$ 7,093,763	$ 5,299,828	$ 1,793,935

6. Bank Indebtedness

As at September 30, 2009, the Company had a consolidated credit facility (the "Facility") with the Canadian Imperial Bank of Commerce (the "Lender"), which provided a $17,500,000 operating line of credit and a $1,260,000 acquisition line. On December 9, 2009 the Company entered into a Restated Credit Facility (the "Restated Facility") with the lender that provided the Company with $15,000,000 operating line of credit. As at September 30, 2010, $9,460,903 was drawn on the Restated Facility.

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. (the "ABL Lender") and repaid the outstanding indebtedness in full to the Lender amounting to $8,716,195. The ABL Facility had a term of three years and was subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. The ABL Facility included an opportunity for the Company to increase the facility to $20,000,000 to fund future growth provided the Company continued to be in compliance with all covenants on a pro- forma basis, after accounting for the increase in the borrowing amount.

On July 18, 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 allowed the repayment of the mezzanine loan and supports the Company's future growth. The Company paid out $2,500,000 of the $3,000,000 mezzanine debt on July 29, 2011 as early settlement at the option of the mezzanine lenders, and paid out the remaining $500,000 subsequent to September 30, 2011 (Note 7).

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 0.5% (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 $119,137 (2010-$NIL) for the twelve months ended September 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. Based on the Company's current levels, the minimum requirement has been increased to $16,583,961 from October 1, 2011 to February 28, 2012 and $17,083,961 from March 1, 2012 to September 30, 2012. As at September 30, 2011, the Company was operating within its covenants.

As at September 30, 2011, $15,768,887 was drawn on the ABL Facility, net of unamortized transaction costs of $309,906 for a balance of $15,458,981. The Company incurred a total of $490,600 as transaction costs directly related to ABL Facility of which $318,555 was paid in the current year. Included in the amount is $61,668 related to the amended ABL on July 18, 2011. The total unamortized portion of the transaction costs as at July 18, 2011 will be amortized over the extended term of four years, ending October 8, 2014. All transaction costs are netted against the amount drawn on the ABL Facility and amortized to net earnings as interest on bank indebtedness.

7. Long-term debt

	As at September 30th	
	2011	2010
(i) Finance contracts	$ **71,770**	$ 160,410
(ii) Mezzanine debt	**500,000**	2,844,247
	571,770	3,004,657
Less current portion	**560,976**	89,074
TOTAL	**$ 10,794**	**$ 2,915,583**

(i) Finance contracts - secured by certain equipment bearing interest at rates up to 5.4% (2010 – 5.9%) repayable in monthly installments of $5,559 (2010 – $8,219) including interest maturing June 2012 through December 2014 (2010 – May 2011 through December 2014).

(ii) Mezzanine debt - on October 8, 2009, the Company closed on a mezzanine debt agreement of $3,000,000. The loan injection was a condition precedent to the Facility (Note 6). The mezzanine debt was repayable in two years, maturing October 8, 2011. The closing was comprised of subordinated secured promissory notes earning 18% per annum and are secured in second position to the senior 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 mezzanine 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 was calculated as $197,375 at inception using the Black-Scholes option pricing model. As at September 30 2011, 800,000 warrants were exercised (2010 – NIL) (Note 9).

The Company incurred further transaction costs of $114,132 related to the closing of the transaction. Transaction costs were netted against the long-term debt and amortized to net earnings as interest on long-term debt. As of September 30 2011, transaction costs relating to the mezzanine loan were fully amortized (Sep 30, 2010 unamortized balance - $155,753).

Mezzanine lenders were provided with the opportunity to settle for early payout of the mezzanine debt on July 29, 2011. A total of $2,500,000 was paid out to mezzanine lenders that opted to take advantage of the early payout. The Company paid the remaining $500,000 on the maturity date of October 8, 2011.

Minimum principal repayments on long-term debt expected in each of the next three fiscal years based on the terms above are as follows:

YEAR		REPAYMENTS
2012	**$**	**560,976**
2013	**$**	**8,838**
2014	**$**	**1,956**

8. Notes Payable

The notes payable are related to the Company's acquisition program.

	As at September 30th			
		2011		2010
Due to certain shareholders and officers from the Rig Products Inc. acquisition (Note 8 (i))	**$**	**166,667**	$	162,916
Due to certain shareholders and officers from Excel Bearings Inc acquisition (Note 8 (ii))		**150,000**		146,625
Due to certain shareholders and officers from Canglobal Products Ltd and Bright Capital Technology Ltd acquisition (Note 8 (iii))		**619,220**		900,192
		935,887		1,209,733
Less current portion		**200,000**		280,971
TOTAL	**$**	**735,887**	**$**	**928,762**

(i) Unsecured and bearing interest at a rate of 9% per annum (2010 – 6%), repayable as follows: $50,000 on each of the following dates: December 27, 2011, June 27, 2012, December 27, 2012 and the remaining $16,667 repayable in full on June 27, 2013. The interest bearing note payable to shareholders and officers of Rig Products Inc. was originally due on June 27, 2009 in the amount of $166,667 (2010 – $166,667) at an interest rate of 6%. The payment of this note has been renegotiated as per the requirement of the ABL Lender (Note 6). The interest rate was at 6% up to June 27, 2011 and has been increased to 9% thereafter until repaid in full. The notes' carrying value of $166,667 (2010 – $162,916) is determined using an effective rate of 9% (2010 – 9%).

(ii) Unsecured and bearing interest at a rate of 9% per annum (2010 – 6%), repayable as follows: $50,000 on each of the following dates: December 6, 2011, June 6, 2012 and December 6, 2012. The interest bearing note payable to shareholders and officers of Excel Bearings Inc. was originally due on June 6, 2009 in the amount of $150,000 (2010 – $150,000) at an interest rate of 6%. The payment of this note has been renegotiated as per the requirement of the ABL Lender (Note 6). The interest rate was at 6% up to June 6, 2011 and has been increased to 9% thereafter until repaid in full. The notes' carrying value of $150,000 (2009 – $146,625) is determined using an effective rate of 9% (2010–9%).

(iii) Unsecured and bearing interest at a rate of 9% per annum (2010 – 6%), repaid as follows: $100,000 on each of the following dates: October 31, 2010, March 31, 2011 and August 31, 2011 and the remaining $619,220 are repayable in full on December 31, 2013. The interest bearing note payable to shareholders and officers of Canglobal was originally due in equal payments of $459,610 on August 31 of 2009 and 2010. The payments were renegotiated as per the requirements of the ABL Lender (Note 6). Due to the deferral of the payments, the Company paid $100,000 as penalties to the shareholders and officers of Canglobal in fiscal 2011 (2010 - $45,000), which was accrued as interest on long-term debt in Fiscal 2010. The interest rate was at 6% up to August 31, 2011 and has been increased to 9% thereafter until repaid in full. The notes' carrying value of $619,220 (2010 – $900,192) is determined using an effective rate of 9% (2010 – 9%).

For each notes payable, the Company assessed the total consideration issued on acquisition which consisted of cash, Company shares, notes payable and purchase price adjustments based on future earnings. Management determined the relative risks of the total consideration issued (as opposed to each instrument individually) to arrive at the discount rate of 9%. As the original terms of the notes matured, management updated the assessment with current renegotiated terms.

Notes payable payment schedule:

YEAR		PAYMENTS
2012	**$**	**200,000**
2013	**$**	**116,667**
2014	**$**	**619,220**

9. Share Capital

(a) Common Shares Authorized

Unlimited number of voting common shares.

(b) Common Shares Issued

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 of the deficit allows the Company to continue business, as if making a fresh start, with a balance sheet that reflects appropriately the future prospects 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.

(b) Common Shares Issued continued

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.

	As at September 30th			
	2011		2010	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	**20,100,806**	**$ 37,860,880.00**	20,100,806	$ 37,860,880.00
Shares issued on exercises of options (by employees, directors and agents)	24,666	13,673	-	-
Shares issued on exercises of warrants (by mezzanine lenders)	800,000	376,000	-	-
Reclassification of accumulated deficit		(22,593,887)		-
BALANCE, END OF YEAR	**20,925,472**	**$ 15,656,666**	**20,100,806**	**$ 37,860,880**

(c) Share Purchase Warrants

	As at September 30th			
	2011		2010	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Balance, beginning of year	**1,200,000**	**$ 0.31**	-	$ -
Granted	**-**	**-**	1,200,000	0.31
Exercised	(800,000)	0.31	-	-
BALANCE, END OF YEAR	**400,000**	**$ 0.31**	**1,200,000**	**$ 0.31**

As at September 30, 2011, 400,000 warrants, which were issued as part of the mezzanine debt, are outstanding (2010 – 1,200,000) (Note 7). The fair value of the warrants were calculated as $197,375 at inception using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 2.9%, dividend yield of nil, volatility factor of the expected market price of the Company's common shares of 75% and an expected life of the warrants of three years. The remaining contracted life of the warrants is one year.

(d) 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 September 30, 2011 the Company issued 47,174 (2010-NIL) DSUs. The fair value of the DSUs is $41,041, which is measured based on the closing price of the shares on the balance sheet date. The amounts is recorded as salaries and wages expense and included as accounts payable (Note 11).

(e) Stock Option Plan

The Company has established a stock option plan for its directors, executive officers, employees, and other key personnel. The Board of Directors may designate which directors, officers, employees, and other key personnel of the Company are to be granted options.

The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. An option granted under the stock option plan may vest at such times as the Board of Directors of the Company may determine at the time of granting, subject to the rules of any stock exchange or other regulatory body having jurisdiction. Options are not assignable.

(e) Stock Option Plan continued

The exercise price of each option is at minimum of the volume weighted average price of the Company's common shares on the last five days that the Company's stock traded prior to the date of grant. The Company considers this value as the fair value at the date of grant.

An option's maximum term is ten years. Options are generally vested with one third becoming exercisable after 12 months of the grant date and another one third after 24 months. The options become fully exercisable after 36 months. Provision is made for accelerated vesting in certain circumstances and early termination in the event of death or cessation of employment.

The Board of Directors is authorized to grant DSUs and options to purchase shares up to a maximum of 10% of common shares outstanding. Maximum allowable grants under these plans as at September 30, 2011 was 2,092,547 (September 30, 2010 – 2,010,081) of which 1,235,134 (2010 - 1,310,167) is outstanding stock options and 47,174 (2010 – NIL) is outstanding DSUs for a total of 1,282,308 (September 30, 2010 -1,310,167).

A summary of the status of the Company's stock option plan for the periods presented and changes during the periods ended on those dates are outlined below.

	As at September 30th			
	2011		2010	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Balance, beginning of year	**1,310,167**	**$0.85**	**1,012,600**	**$1.62**
Granted	-	-	617,000	0.29
Forfeited and expired	(50,367)	2.18	(319,433)	2.21
Exercised	(24,666)	0.37	-	-
BALANCE, END OF YEAR	**1,235,134**	**0.81**	**1,310,167**	**0.85**
Options Exercisable, End of Year	**1,032,289**	**$0.91**	**675,278**	**$1.23**

Outstanding Options

SEPTEMBER 30TH, 2011			SEPTEMBER 30TH, 2010		
Exercise Price	Number Outstanding	Remaining contractual Life (Years)	Exercise Price	Number Outstanding	Remaining contractual Life (Years)
$0.46	**43,000**	**3.8**	$0.46	48,000	4.8
0.35	**40,000**	**3.5**	0.35	40,000	4.5
0.27	**471,500**	**3.3**	0.27	512,500	4.3
0.25	**40,000**	**2.5**	0.25	40,000	3.5
0.25	**40,000**	**2.2**	0.25	40,000	3.2
0.63	**483,334**	**2.0**	0.63	496,667	3.0
1.19	**30,000**	**1.5**	1.19	30,000	2.5
3.37	**34,300**	**1.0**	3.37	39,000	2.0
6.75	**53,000**	**0.1**	6.75	59,500	1.0
			8.25	4,500	0.8
TOTAL	**1,235,134**			**1,310,167**	

10. Contributed Surplus

	For the Years Ended September 30th	
	2011	**2010**
Balance, Beginning of year	**$1,964,459**	$1,665,145
Fair value of options to employees and directors at date of grant	**45,550**	101,939
Fair value of warrants to mezzanine lenders at date of grant	**-**	197,375
Carrying value of options exercised by employees and directors	**(4,614)**	**-**
Carrying value of warrants exercised by mezzanine lenders	**(128,000)**	**-**
BALANCE, END OF YEAR	**$1,877,395**	**$1,964,459**

11. Stock-based Compensation

For stock options granted to employees and directors after October 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 2 to the financial statements. The fair value of common shares is determined at the grant date using the Black-Scholes Option Pricing Model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the fair value amount in contributed surplus is added to share capital.

The Company recorded in salary and wages stock-based compensation expense and a corresponding increase in contributed surplus in the amount of $45,550 for the year ending September 30, 2011 (2010 - $101,939).

No options were granted in 2011. The significant assumptions made in the calculation of the weighted average fair value of the options granted in 2010 were: risk free interest rate 2.5%, expected life 4 years, expected volatility between 71% and 81% and expected dividend yield NIL.

Stock based compensation recorded as part of salaries and wages are as follows:

	For the years ended September 30th			
		2011		**2010**
Stock options	**$**	**45,550**	$	101,939
Deferred shares units		**41,041**		-
TOTAL	**$**	**86,591**		**$101,939**

12. Earnings (Loss) Per Share

	For the Years ended September 30, 2011			
		2011		**2010**
Numerator for Basic and diluted earnings (loss) per share				
Net earnings (loss) attributable to common shareholders	**$**	**893,136**	$	(2,093,383)
Denominator for basic and diluted earnings (loss) per share:				
Weighted average number of common shares		**20,260,818**		20,100,806
Denominator for basic earnings (loss) per share		**20,260,818**		20,100,806
Incremental Shares from Unexercised Options		**509,188**		-
Incremental Shares from Unexercised Warrants		**400,000**		-
Denominator for diluted earnings (loss) per share		**21,170,006**		20,100,806
BASIC EARNINGS (LOSS) PER SHARE	**$**	**0.04**	**$**	**(0.10)**
DILUTED EARNINGS (LOSS) PER SHARE	**$**	**0.04**	**$**	**(0.10)**

13. Supplemental Cash Flow Information

	For the Years Ended September 30th	
	2011	2010
Change in non-cash operating working capital:		
Accounts receivable	**$ (4,239,927)**	$ (2,545,410)
Income tax receivable	**495,029**	228,711
Inventory	**(2,737,801)**	4,750,477
Prepaids	**(1,967,947)**	237,400
Accounts payable and accrued liabilities	**2,660,149**	2,340,732
Income tax payable	**415,418**	-
TOTAL	**$ (5,375,079)**	**$ 5,011,910**
Non-cash transactions:		
Capital assets purchased under capital lease	**$ -**	$ 59,781
Fair value of warrants to mezzanine lenders	**-**	197,375
Gain on business acquisition: (Note 3)		
Capital assets	**13,165**	
Intangible assets	**126,406**	-
Future income tax liability	**(39,875)**	
	$ 99,696	$ 257,156.00
Interest and income taxes paid:		
Cash Interest paid	**$ 668,522**	$ 649,161
Cash Income taxes recovered	**$ (487,321)**	$ (734,723)

14. Income Taxes

Major components of income tax expense (recovery) are as follows:

	For the years ended September 30th	
	2011	2010
Current expense (recovery)	**$ 446,903**	$ (515,503)
Future recovery	**(91,930)**	(204,106)
TOTAL	**$ 354,973**	**$ (719,609)**

Income tax expense (recovery) differs from the amount computed by applying the combined statutory provincial and federal income rates to the respective years' earnings or loss before income taxes. These differences result from the following items:

	For the years ended September 30th	
	2011	2010
Expected income tax expense (recovery) at 27.88% (2010 - 28.56%)	**$ 347,910**	$ (803,390)
(Increase) decrease resulting from:		
Non-deductible expenses	**28,697**	69,716
Tax rate differential	**(3,712)**	(18,293)
Provincial capital tax	**-**	1,871
Effect of foreign tax rates	**22,128**	8,560
Other	**8,447**	13,483
Non-taxable portion of capital gains	**(48,497)**	8,444
INCOME TAX EXPENSE (RECOVERY)	**$ 354,973**	**$ (719,609)**

A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not. There were no valuation allowances recorded for both fiscal 2011 and 2010.

Temporary Differences

The tax effects of temporary differences that give rise to the Company's future income tax assets and liabilities are as follows:

	As at September 30th			
	2011		2010	
Future income tax assets, current				
Inventory	**$**	**86,475**	$	146,427
Accrued rent		**65,390**		-
Other		**(22,730)**		
	$	**129,135**	$	146,427
Future income tax assets, long-term				
Loss carryforwards	**$**	**363,972**	$	495,533
Financing costs		**82,567**		40,742
Deferred tenant inducements		**20,367**		25,867
Exploration expenses		**22,957**		25,677
Obligations under capital leases		**7,739**		13,160
Deferred shares units		**10,671**		-
	$	**508,273**	$	600,979
Future income tax liabilities				
Intangibles	**$**	**290,330**	$	351,828
Capital assets - deficiency of undepreciated capital cost compared to net carrying value		**86,636**		178,351
Other		**-**		7,192
	$	**376,966**	$	537,371
NET FUTURE INCOME TAX ASSET	**$**	**260,442**	**$**	**210,035**

As at September 30, 2011, the Company had non-capital losses available for a carry-forward of $1,399,893 (2010 - $1,905,896) of which $918,798 (2010 - $1,248,708) will expire in 2029 and $481,095 (2010 - $493,145) will expire in 2030. For financial reporting purposes a future tax asset has been recognized in respect of these carry-forwards.

15. Related Party Transactions

During the year, the Company entered into the following related party transactions:

(a) Legal fees of $367,166 (2010 – $275,187) were paid to a law firm for corporate matters of which a director is a partner. Of this amount, $46,300 (2010 – $12,921) is included in accounts payable. Included in this amount is $150,051, which was paid to this law firm as part of closing the ABL Facility (2010 -$75,000 – finder's fees for the closing of the mezzanine debt).

(b) Management consulting fees of $155,500 (2010 – $130,563) were paid to a company, 371070 Alberta Ltd., over which an officer and director has significant influence.

(c) The Company paid directors' fees and expenses of $83,532 (2010 – $91,638) to four (2010 – four) independent directors.

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.

16. Commitments and Contingencies

(a) Commitments

Under various lease agreements, the Company will be required to make monthly lease payments. Future minimum lease payments on an annual basis are as follows:

YEAR	Operating Leases	Premises Leases
2012	$ 262,575	$ 2,701,348
2013	$ 211,816	$ 2,553,674
2014	$ 90,796	$ 2,565,508
2015	-	$ 2,514,907
2016	-	$ 2,416,381

(b) Contingencies

The Company is involved in various claims and litigations arising in the normal course of business. While the outcome of these matters are uncertain and there is no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse impact on its financial position, results of operations or liquidity. Therefore, no provision for these claims and litigations has been included in these financial statements.

On February 29, 2008, the Company acquired all of the outstanding shares of Outillage B. Et G. Cadieux Inc. (”Cadieux”). The acquisition agreement included potential future payments totaling $220,000 that were contingent upon Cadieux achieving certain levels of annual pre-tax earnings and were to be paid out annually over three years ending February 28, 2011. At the time of acquisition, the Company believed that these targets were more likely than not to be attained and hence, had recorded its liability. However, based on the review of first year results achieved by this operation and the general economic downturn, the Company re-evaluated the contingent payment and concluded that the targets will not be attained. The liability was therefore reversed in fiscal 2009 and the operation has since been wound down with all assets sold to a third party. On September 22, 2011, Cadiuex filed a statement of claim for $220,000 representing the contingent payment payable. The Company believes that this claim has no merit based on the calculated pre-tax earnings achieved by this operation.

17. Capital Management

The objectives of the Company's capital management program are to:

- 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
- maximize shareholder value

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.

17. Capital Management continued

In the management of capital, the Company includes the following in the definition of capital:

	As at September 30, 2011	
	2011	**2010**
Bank Indebtedness	**$ 15,458,981**	$ 9,460,903
Long Term Debt	**$ 571,770**	$ 3,004,657
Notes Payable	**$ 935,887**	$ 1,209,733
Shareholder's Equity	**$ 18,499,892**	$ 17,304,147

During the year ended September 30, 2011, the Company was in compliance with its externally imposed debt covenant requirements (Note 6). The Company monitors these requirements on a monthly basis.

18. Financial Instruments

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short and long-term borrowings, forward exchange contracts, and any other amounts that will result in future cash outlays.

(a) Financial Instruments – Carrying Values

	For the Years ended September 30th	
	2011	**2010**
FINANCIAL ASSETS (classified as loans and receivables)		
Cash	**$ 141,115**	$ 47,847
Accounts Receivable	**18,885,466**	14,645,539
FINANCIAL LIABILITIES (classified as other financial liabilities)		
Bank Indebtedness	**$ 15,458,981**	$ 9,460,903
Accounts payable and accrued liabilities	**12,455,816**	9,756,275
Long term debt	**571,770**	3,004,657
Notes payable	**$ 935,887**	$ 1,209,733

The Company has determined that the fair value of its short-term financial assets, including cash, accounts receivable and financial liabilities, including accounts payable and accrued liabilities, approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments.

The fair value of the Company's bank indebtedness also approximates its respective carrying amounts due to the floating rate nature of the debt.

The fair value of the notes payable and the long-term debt obligations are estimated based on current rates available to the Company for similar debt of the same remaining maturities.

(b) Financial Instruments – Income and Expense

	For the Years ended September 30th			
		2011		2010
Interest expense				
Bank indebtedness	$	**796,242**	$	809,130
Long term debt		**619,621**		684,876
Notes payable		**97,875**		101,227
Bad debt expense	**$**	**327,565**	**$**	**90,109**

(c) Financial Risk Management

The Company has exposure to credit, interest rate, liquidity and foreign currency risks. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(i) Credit Risk

The Company extends credit facilities to its customers which are unsecured. The Company manages its credit risk relating to these receivables through credit approval and monitoring procedures. Credit limits are established based on trade information, payment history, credit score, credit rating and financial analysis where possible. 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.

In fiscal 2011, the Company's largest customer accounted for approximately $6,517,544 or 6.12% (2010 – $4,192,468 or 4.72%) of total revenue, and comprised $1,642,500 or 8.80% (2010 – $1,049,090 or 7.38%) of accounts receivable as at September 30, 2011.

Accounts receivable that are past their contractual terms of 30 days as at September 30, 2011 are $8,348,842 (September 30, 2010 – $6,897,999). However, given the customer base, customers typically pay in 45 days. Management does not consider the amount over 30 days, net of provisions for uncollectible accounts, as uncollectible as management is thorough in the process of reviewing credit limits and works closely with the customers to ensure collection. Historically, bad debts as a percentage of revenue are less than 1%.

Provisions for uncollectible accounts are made in the allowance for doubtful accounts. Balances in the allowance for doubtful accounts are as follows:

	For the Years ended September 30th			
		2011		2010
Balance, beginning of year	$	**310,000**	$	295,354
Bad debt expense		**327,565**		90,109
Accounts written off and other adjustments		**(85,469)**		(75,463)
BALANCE, END OF YEAR	**$**	**552,096**	**$**	**310,000**

(ii) Foreign Currency Risk

The Company has transactions denominated in U.S. dollars as it purchases and sells products as well as incurs costs in U.S. dollars as part of its operations. The Company is also geographically diversified, with an investment in a subsidiary in the U.S.A. As a result, the Company is exposed to both transaction and translation risks respectively, which impact the Company's net earnings as foreign exchange rates fluctuate. The translation risks impact to net earnings is insignificant due to the size of the investment in the U.S.A. subsidiary.

(ii) Foreign Currency Risk continued

As a result of the transactions in U.S. dollars, the Company has cash or bank overdrafts and accounts payable and accrued liabilities denominated in foreign currencies. The Company uses derivatives as part of its policy to manage these exposures. The Company uses both forward contracts and options for U.S. dollar purchases to manage this risk. The notional values of the forward contracts and options not yet settled at September 30, 2011 is a maximum of $3,100,000 with a terms to maturity ranging from 30 to 90 days from the inception of contract (2010 - $2,050,000 with terms to maturity of approximately 30 to 90 days). The fair value adjustments related to this derivative instrument is a gain of $99,249 (2010 – $11,368) and is included in selling, general and administrative expenses. The offset to liability related to this adjustment is included in accounts payable and accrued liabilities. Total foreign exchange gain for the year is $97,293 (2010 –$55,069).

Based on September 30, 2011 balances of assets and liabilities denominated in foreign currency, if the Canadian dollar had strengthened by 10%, with all other variables held constant, net earnings would have decreased by approximately $155,246 (2010 – net loss would have increased by $96,399).

(iii) Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company has a four-year term bank credit facility up to $25,000,000 that is forecasted to meet current and future working capital needs. The Company has processes in place for cash management and continuously monitors actual and forecast cash flows to manage its commitments on financial liabilities. If the cash generated from the Company's business, together with the credit availability from its credit facility is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants. Although the Company does not anticipate difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions.

If funding is not available when needed, or is available only on unfavourable terms, the Company may be unable to implement its business plans, or to take advantage of business opportunities, or respond to competitive pressures, any of which could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

Commercial has assumed various contractual obligations and commitments in the normal course of operations and financing activities. The Company will be required to settle these obligations as follows:

	2012	2013	2014
Bank indebtedness	$ 15,458,981	$ -	$ -
Accounts payable	12,455,816	-	-
Long term debt	560,976	8,838	1,956
Notes payable	200,000	116,667	619,220
TOTAL	**$ 28,675,773**	**$ 125,505**	**$ 621,176**

(iv) Interest Rate Risks

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. The variable interest debt is subject to interest rate cash flow risk. The required cash flow to service the debt will fluctuate as a result of the changes in market rates. If the interest rate on the Company's average loan balance for the year ended September 30, 2011 had increased by 1%, with all other variables held constant, net earnings would have decreased by approximately $124,599 (2010 – net loss would have increased by $128,410).

NOTES

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

AUDITOR

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

BANKER

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

SHARE CAPITAL

Issued: 20,925,472 common shares

CORPORATE OFFICE

Commercial Solutions Inc.
4203 – 95 Street
Edmonton, AB, Canada T6E 5R6
Ph. : (780) 432-1611 | Fax : (780) 462-0807

WEBSITE

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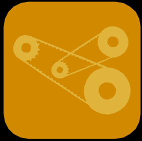

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ISO 9001:2008 Registered Organization

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