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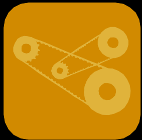

BEARINGS & P.T. SAFETY FIREFIGHTING FIELD INDUSTRIAL ENERGY SERVICES

FISCAL 2011

Management Discussion and Analysis

September 30, 2011

Management Discussion And Analysis

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INTRODUCTION

The following Management Discussion and Analysis is as of December 12, 2011 and is provided to assist readers in understanding the financial performance of Commercial Solutions Inc. ("Commercial" or the "Company") during the periods presented and significant trends that may impact future performance of the Company. This discussion should be read in conjunction with the annual Consolidated Financial Statements for September 30, 2011 and their related notes.

The financial data presented in this Management Discussion and Analysis has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") except as otherwise noted. The Company's reporting currency is the Canadian dollar. Commercial is a reporting issuer in Canada in the provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company trades on the Toronto Stock Exchange under the symbol CSA. Additional regulatory information relating to Commercial, including the Company's Annual Information Form, can be found at the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

Overview of the Business

Headquartered in Edmonton, Alberta, Commercial is one of Canada's leading independent national distributors of industrial and oilfield supplies. As at December 12, 2011, it had approximately 260 employees across its 23 Service Centres located primarily in Canada. Commercial offers more than 160,000 items critical to Maintenance Repair Operations ("MRO") and Original Equipment Manufacturing ("OEM") to its customers. The Company represents more than 450 leading manufacturers and serves over 11,000 customer accounts within a broad cross-section of industries including oil and gas, forestry, firefighting, food processing, chemical processing, mining, utilities, agriculture and construction.

The Company primarily has two separate business components. The Industrial Supplies component incorporates approximately 140,000 products encompassing bearing, power transmission equipment, industrial, safety, agricultural, resource management, survey, firefighting, and janitorial products. In addition, this business component offers technical support, customized inventory controls, materials management services, and customer training. The Oilfield Parts and Supplies component incorporates approximately 20,000 products and specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, gauges and industrial hand tools. The two components are integrated within the operations of the Company.

Mission and Growth Strategy

Commercial is committed to building sustainable value for its shareholders through disciplined management of its operations and a commitment to growing its business in a capital efficient manner.

Over the last twenty years, Commercial has successfully identified, rationalized, and integrated fifteen acquisitions. It has grown into one of the largest industrial and oilfield parts distributors in Western Canada. Commercial has achieved its growth with a disciplined acquisition strategy and undertaking measured and strategic organic growth. Commercial's growth through acquisition and successful integration of companies enable it to have its Service Centres act as "one-stop shops". This provides customer benefits through a wide variety of products as well as essential services and technical expertise.

The Company intends to achieve ongoing expansion through organic growth and selective acquisitions. As well, the Company continues to work on its program of diversifying its customer base within various industry sectors.

FORWARD LOOKING STATEMENT

This Management Discussion and Analysis contains forward-looking statements relating to such matters as expected financial performance, business prospects, and development activities and like matters. These statements involve risks and uncertainties, including but not limited to, the risk factors described elsewhere. Actual results could differ materially from those projected as a result of these risks and should not be relied upon as a prediction of future events. Commercial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, with an exception of securities laws requirements.

OVERVIEW OF THE RESULTS OF OPERATIONS

The Company closed fiscal 2011 with revenues of $107.7 million, 20.4% higher in comparison to the prior fiscal year. Operating expense as a percentage of revenues was lower at 23.9% compared to 26.8% as the Company continued to realize the benefits from its program of altering the Company's cost structure over the last two years. The increase in revenues and the less than proportionate increase in operating expenses resulted in a significant improvement in EBITDA by $3.0M to $4.3M from $1.3M in the prior year. Net earnings also improved significantly by $3.0M in comparison to fiscal 2010 due to increase in EBITDA coupled by $1.1M lower expenses related to depreciation, interest and refinancing costs partially offset by $1.1M higher tax expense in comparison to fiscal 2010.

		For the Years Ended September 30th		
INCOME STATEMENT		**2011**	**2010**	**2009**
Revenue		**$ 107,702,207**	$ 89,455,326	$ 106,023,410
Gross margin $		**30,049,431**	25,394,320	29,656,841
Gross margin %		**27.9%**	28.4%	28.0%
Operating expense $	a	**25,727,729**	24,077,417	32,010,342
Operating expense %		**23.9%**	26.9%	30.2%
EBITDA	a	**4,321,702**	1,316,903	(2,353,501)
Depreciation and amortization, net of gain on disposal of property and equipment		**1,559,855**	2,199,888	2,290,976
Interest expenses		**1,513,738**	1,595,233	1,137,620
Refinancing costs		**-**	334,774	272,231
Impairment of goodwill		**-**	-	19,548,494
Earnings (loss) before tax		**1,248,109**	(2,812,992)	(25,602,822)
Income tax expense (recovery)		**354,973**	(719,609)	(1,720,674)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)		**$ 893,136**	**$ (2,093,383)**	**$ (23,882,148)**
Earnings (loss) per share				
Basic	b	**$0.04**	($0.10)	($1.19)
Diluted	b	**$0.04**	($0.10)	($1.19)
Weighted average common shares outstanding				
Basic		**20,260,818**	20,100,806	20,100,806
Diluted		**21,170,006**	20,100,806	20,100,806

a See page 13 for a further explanation of these non-GAAP measures.

b If the $19,548,494 impairment of goodwill were excluded from the fiscal 2009 results, the basic and diluted earning per shares would have been ($0.21)

Revenue

The Company achieved significant growth of 20.4% in revenues in comparison to prior year as activity levels in all of the Company's primary markets maintained steady growth.

A significant portion of the Company's revenue is derived from the energy sector which is impacted by drilling activity in Western Canada. Drilling activity in Western Canada is seasonal and is significantly impacted by weather conditions which can directly affect the Company's revenues. Wet weather and thawing conditions in April and May hamper rig movements thereby stalling drilling activity during these months. As a result, demand for the Company's energy products is generally highest in the fall and winter seasons and lowest in the spring season. Demand for energy products is also driven by the level of capital expenditures and maintenance, repair and operating requirements of the customers in the industry. When capital budgets in the energy sector are high, it lessens the seasonal impact of demand for energy related products. Capital expenditures are naturally influenced by oil and gas prices. In fiscal 2010, the seasonality impact of the spring thaw was lessened as oil and gas activity were generally low in the fall and winter seasons and in fiscal 2011, the increase in capital expenditures in the energy sector maintained high activity in the spring season.

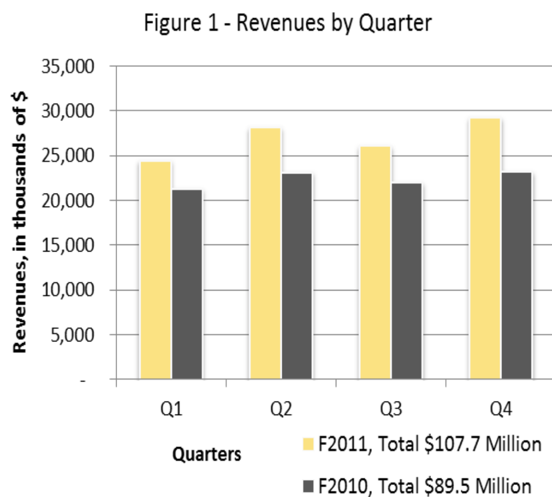


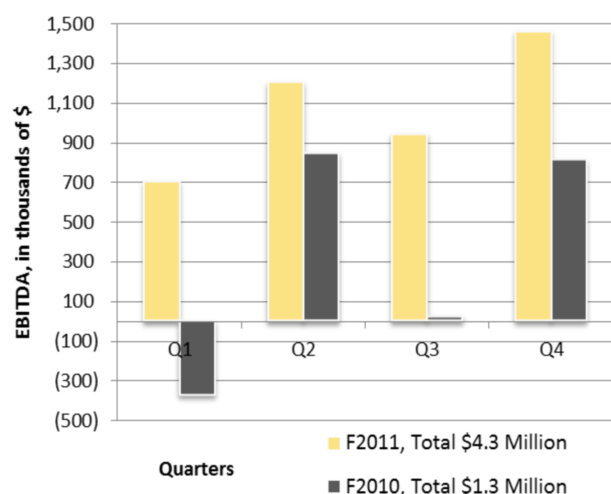
Figure 1 demonstrates the growth in revenues in the current year in comparison to the previous year by quarter. The increase in revenues in the current year is primarily the result of increased capital expenditures related to rig building as oil and gas companies anticipate continued stability and/or improvement in oil prices. Maintenance activities for existing rigs have also increased as many oil and gas companies had previously reduced their regular maintenance during the economic downturn. The Company also generates revenues from key customers who service oil and gas wells after well completion and production from the reservoir has begun. Well servicing activity is less impacted by weather and therefore less seasonal. The Company expects revenues generated from this sector to increase due to the overall increase in oil production.

The Company's other primary markets have also experienced an increase in revenues in comparison to the same period in the prior year. With the ramp-up in the energy sector, most other industries in Alberta are positively affected. The strength in the Alberta economy brings increases in consumer spending which benefits the manufacturing and construction industries. Although the excessive wet weather conditions negatively affected the agriculture industry regionally in the current fiscal year, strong agricultural commodity prices may increase the overall planting acreage in Alberta and Saskatchewan in the next year. The forestry sector has shown growth as mills in British Columbia have reopened after being shuttered for years. The increase in demand is expected to continue to grow internationally as British Columbia is one of the key suppliers to China and Japan in support of their growth and rebuilding efforts.

Increasing the diversity of customers is a continued focus of the Company. Working to offset the cyclical and seasonal nature of the energy sector, the Company continues its efforts in other primary markets such as mining, construction, manufacturing, resale, services, forestry and agriculture. The Company's diversification strategy also includes having widespread locations serving Western Canada. The Company believes the strategic distribution and location of facilities mitigate the risks of localized weather as well as economic and market conditions. Recently, Commercial expanded into Texas, the "hub" of the global oil and gas business. On March 1, 2011, the Company purchased the business of an existing operating company in Pinehurst, Texas and plans to establish this location as an anchor point for Commercial's international sales. The location also facilitates business with some of Commercial's Canadian customers who have operations in the Southern United States.

Although Commercial anticipates economic improvement going forward, it is not relying solely on a rebound in market activity to grow the business. Commercial remains focused on its sales and marketing programs which include increasing awareness of Commercial's capability in serving its customers. This includes ensuring customers fully appreciate the broad range of products and services that Commercial offers and providing them with the best solutions for their operational needs. This allows Commercial the ability to achieve an optimal balance of exposure in the various industry sectors that it serves and build on Commercial's strength of providing the industry leading "one-stop-shop" service to its customers across the West.

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



The Company reported a significant improvement in EBITDA in fiscal 2011 compared to fiscal 2010, as demonstrated in Figure 2. This is primarily due to an increase in revenues and a less than proportionate increase in operating expenses, partially offset by a slight decrease in gross margin rate.

Gross Margins

Gross margin rates in the current year were slightly lower than the prior year primarily due to product mix. Revenues from large oilfield equipment for rig building and fire safety gear which generate lower margins were higher in the current year. Partially offsetting this is the increase in sales of products sourced offshore which generate very strong margins.

Operating Expenses

Operating expenses for fiscal 2011 decreased as a percentage of revenues by 3.0% but increased in dollar amount during the current fiscal year by 6.9% ($1.7 million) in comparison to the prior year. The increase is primarily due to increase in salaries and wages by 7.3% ($1.0 million) as headcount and commissions increased due to significantly higher sales. As well, the Company needed additional monies to enable it to attract and/or retain experienced personnel. However, the Company has successfully managed labour costs through operational efficiencies as the increase in labour costs is lower in comparison to the increase in revenues. Increases in selling, general and administration expenses such as warehouse supplies and travel within regions were a direct result of increases in sales activity. The Company increased its allowance for doubtful accounts by $0.1 million for a potential loss from a customer that has been delinquent in payment. The increase in professional fees is due to additional consulting fees as the Company prepares for the transition from GAAP to International Financial Reporting Standards ("IFRS") for next fiscal year. As well, higher legal fees were incurred for the Company's Annual General and Special Meeting due to additional matters for shareholders' approval. These increases were partially offset by lower marketing, occupancy and restructuring costs.

	For the Years ended September 30th		
OPERATING EXPENSES	**2011**	**2010**	**2009**
Salary and wages	**$ 15,495,720**	$ 14,446,491	$ 19,597,394
Rent,occupancy costs and utilities	**4,768,810**	4,748,635	5,076,631
Selling, general and administration	**4,714,149**	4,116,258	5,496,866
Professional fees	**497,744**	385,367	871,155
Advertising and promotion	**251,306**	303,566	523,667
Restructuring costs	**-**	77,100	444,629
TOTAL	**$ 25,727,729**	**$ 24,077,417**	**$ 32,010,342**

OPERATING EXPENSES	For the Years ended September 30th		
(as a % of Revenues)	**2011**	**2010**	**2009**
Salary and wages	**14.4%**	16.1%	18.5%
Rent,occupancy costs and utilities	**4.4%**	5.3%	4.8%
Selling, general and administration	**4.4%**	4.6%	5.2%
Professional fees	**0.5%**	0.4%	0.8%
Advertising and promotion	**0.2%**	0.3%	0.5%
Restructuring costs	**0.0%**	0.1%	0.4%
TOTAL	**23.9%**	**26.8%**	**30.2%**

* See page 13 for further explanation on this non-GAAP measure

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

	Q1	Q2	Q3	Q4	Sept 30th, Fiscal Year
EBITDA, Prior Year	**$ (371,645)**	**$ 847,834**	**$ 24,946**	**$ 815,768**	**$ 1,316,903**
Higher gross profit as a result of higher sales	873,670	1,476,441	1,101,197	1,755,035	**5,206,343**
(Lower) higher gross profit as a result of (lower) higher margins	(132,280)	(522,338)	295,734	(192,348)	**(551,232)**
Lower (higher) operating costs	261,258	(597,453)	(475,344)	(915,873)	**(1,727,412)**
Lower restructuring costs	75,100	2,000	-	-	**77,100**
EBITDA, Current Year	**$ 706,103**	**$ 1,206,484**	**$ 946,533**	**$ 1,462,582**	**$ 4,321,702**

Interest Expense and Refinancing Costs

Interest expense includes interest on bank indebtedness, long-term debt and notes payable, as well as amortization of transaction costs on long-term debt. Interest expense related to short-term debt was lower in the current year in comparison to the prior year despite increase in loan balance. The decrease is the result of the refinancing completed in October of 2010 where the Company obtained lower interest rates and higher fund availability (see "Financial Condition, Liquidity and Capital Resources"). Interest on long term debt decreased as the Company prepaid a substantial portion of its mezzanine debt in July of 2011. Refinancing costs were higher in the prior year when the Company wrote off costs related to debt restructuring. In the current year, the Company was successful in closing on an asset based loan and transaction costs of $490,600 directly related to this closing were netted against bank indebtedness on the balance sheet and will be amortized over the term of the loan as interest expense.

Income Taxes

The Company accrued income tax expense in the current year compared to a recovery in the prior year as the Company achieved positive earnings. The effective income tax rate for the current year is 28.4%.

Net Earnings (Loss), Comprehensive Income (Loss) and Weighted Average Shares Outstanding

The Company achieved increased net earnings and comprehensive income in the current year in comparison to losses in the prior year due to higher EBITDA, lower interest and depreciation expenses partially offset by higher income tax expense.

Weighted average basic shares outstanding at the end of fiscal 2011 were higher in comparison to prior year primarily due to the exercise of 800,000 warrants during the year. Weighted average diluted shares outstanding were lower in the prior year compared to the current year as stock options and warrants outstanding were classified as anti-dilutive and not included in the calculation of dilutive shares in the prior year. In the current year, these shares are dilutive as the Company has achieved earnings.

OVERVIEW OF THE RESULTS OF OPERATIONS CONTINUED

Trailing Twelve Months and Seasonal Nature of Business

The table presented below provides an opportunity for insight into the results of the trailing twelve months. Up to 50% of the Company's revenues are related to the energy industry in Western Canada. Activity in this industry is seasonal with fall and winter periods being the busiest and spring being the slowest due to spring thaw; therefore, the Company incurs a seasonal decline in its third quarter. During fiscal 2010, the impact of the weather on overall revenues was reduced as a result of the overall decline in activity in the energy sector from the global economic recession. In the current fiscal year, impact of weather was reduced by increased rig building activity in the spring.

		FISCAL 2010				FISCAL 2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue		$ 21,251	$ 23,089	$ 21,964	$ 23,151	$ 24,411	$ 28,095	$ 26,014	$ 29,182
Gross margin ($)		5,875	6,810	5,972	6,737	6,616	7,764	7,369	8,300
Gross margin (%)		27.6%	29.5%	27.2%	29.1%	27.1%	27.6%	28.3%	28.4%
Operating expenses		6,247	5,963	5,947	5,921	5,910	6,558	6,422	6,837
EBITDA	a	(372)	848	25	816	706	1,206	947	1,463
Net earnings (loss)		**($844)**	**($18)**	**($676)**	**($556)**	**($73)**	**$286**	**$116**	**$564**
Basic (loss) per share		($0.04)	($0.00)	($0.03)	($0.03)	($0.00)	$0.01	$0.01	$0.03
Diluted (loss) per share		($0.04)	($0.00)	($0.03)	($0.03)	($0.00)	$0.01	$0.01	$0.03

a See page 13 for a further explanation of these non-GAAP measures.

Fourth Quarter Results

		For the three months ended September 30th		
INCOME STATEMENT		**2011**	**2010**	**Increase (Decrease) %**
Revenue		**$ 29,182,088**	$ 23,151,095	26.1%
Gross margin $		**8,299,717**	6,737,030	23.2%
Gross margin %		**28.4%**	29.1%	(0.7%)
Operating expenses	a	**6,837,135**	5,921,262	15.5%
Operating expense %		**23.4%**	25.6%	(2.1%)
EBITDA	a	1,462,582	815,768	79.3%
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)		**$ 563,449**	**$ (555,544)**	**201.4%**
Earnings (loss) per share				
Basic		**$0.03**	($0.03)	
Diluted		**$0.03**	($0.03)	
Weighted average shares outstanding				
Basic		**20,628,919**	20,100,806	
Diluted		**21,693,588**	20,100,806	

a See page 13 for a further explanation of these non-GAAP measures.

Higher revenues and lower operating costs as a percentage of revenues contributed to significant improvement in EBITDA from the same period in the prior year. Increases and stability of oil prices have lead to higher rig utilization rates of 57.2% in comparison to 40.8% in same period in the prior year. The higher utilization and increase in capital spending by oilfield customers in Western Canada favourably impacted Commercial's revenues. Higher revenues were also generated from customers in the well servicing sector.

Fourth Quarter Results continued

Gross margin rates in the current quarter were slightly lower than the same period in the prior year primarily due to product mix. Revenues generated from large equipment sales supporting capital activity by oilfield customers typically generate lower margins. Partially offsetting the decreased margins is the increase in sales on other oilfield products and to other industry sectors where margins are higher.

Operating expenses decreased as a percentage of revenues but increased in dollar amount in comparison to the same period in the prior year. The increase is primarily due to wage increases required to attract and retain experienced personnel. The Company has successfully managed labour costs through operational efficiencies as the increase in labour costs is less in proportion to the increase in revenues from the same period in the prior year. Other factors contributing to the increase in operating expenses are directly related to the increase in revenues, such as increase in warehouse supplies and sales expenses. The Company also incurred additional professional fees in the current quarter in preparation for IFRS conversion from GAAP which is effective in the next quarter.

	For the three months ended Sept 30th	
CASH FLOW STATEMENT	**2011**	**2010**
Total cash from operations	**$ (857,151)**	$ (738,138)
Total cash from financing	**806,622**	780,382
Total cash from investing	**(130,112)**	(76,572)

	For the three months ended Sept 30th	
FREE CASH FLOW *	**2011**	**2010**
Total cash from operations	**$ (857,151)**	$ (738,138)
Total cash from investing	**(130,112)**	(76,572)
TOTAL	**$ (987,263)**	(814,710)

* Free Cash Flow (“FCF”) is a non-GAAP measure of financial performance calculated as operating cash flow minus capital expenditures, excluding investment in assets through business acquisitions. FCF represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Cash generated from operations in the current quarter was $1.0 million prior to working capital changes compared to $0.2 million in the same period last year. Investment in working capital increased significantly in the current quarter to $1.9 million compared to $0.9 million in the same quarter last year primarily due to the increase in accounts receivable and prepayments on large inventory orders. These increases were partially offset by timing of payment of accounts payables.

Free cash flow decreased in comparison to same period in the prior year due to the increase in working capital requirements in the current quarter and the increase in capital assets additions. The negative free cash flow as a result of growth in receivables and prepayment and investment in capital assets was funded through the increase in the operating line of credit.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

	As at September 30th		
KEY BALANCE SHEET DATA	**2011**	**2010**	**2009**
Total current assets	**$ 44,352,224**	$ 35,880,356	$ 38,430,014
Total current liabilities	**29,111,191**	19,607,224	24,550,764
Net investment in working capital	**$ 15,241,033**	**$ 16,273,132**	**$ 13,879,250**
Total tangible assets	**$ 47,577,132**	**$ 39,577,485**	$ 43,283,428
Bank indebtedness	**15,458,981**	9,460,903	16,221,083
Accounts payable	**12,455,816**	9,756,276	7,415,544
Income tax payable	**415,418**	-	-
Current portion long term debt	**560,976**	89,074	894,137
Current portion notes payable	**200,000**	280,971	-
Long-term debt	**10,794**	2,915,583	110,953
Notes payable	**735,887**	928,762	1,192,448
Future income tax liability	**376,966**	537,371	781,381
Total debt	**$ 30,214,838**	**$ 23,968,940**	**$ 26,615,546**

	As at September 30th		
KEY RATIOS	**2011**	**2010**	**2009**
Debt to tangible asset ratio	**0.64**	0.61	0.61
Working capital ratio	**1.52**	1.83	1.57
Days sales in receivables	**53.1**	52.3	57.2
Inventory turns	**3.7**	3.0	2.7
Days purchases in payables	**47.1**	47.1	52.3

a Total debt excludes Deferred Tenant Inducement as it does not represent future cash outflows.

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

Long-term debt as at September 30, 2011, including current portion, is made up of finance contracts totalling $71,770 and mezzanine debt of $500,000. The mezzanine debt agreement was closed on October 8, 2009 for gross proceeds of $3,000,000 repayable in two years maturing on October 8, 2011. On July 18, 2011, the Company finalized an amended agreement with its senior lender which provided the Company additional liquidity to prepay the full amount of the mezzanine loan at the option of the mezzanine lenders. As a result, a total of $2,500,000 of the loan was paid out on July 29, 2011 to the mezzanine lenders that took advantage of the prepayment. The Company paid out the remaining $500,000 subsequent to fiscal 2011 on the maturity date, October 8, 2011. There were no prepayment penalties paid on this arrangement with the mezzanine lenders.

Net investment in working capital decreased in comparison to the prior year primarily due to the reclassification of the mezzanine debt from long-term to current liability. Debt to tangible asset ratio increased primarily due to the increased funding required to stock inventory in reaction to the higher activity anticipated in the coming months in comparison to the prior year.

On October 8, 2010, the Company closed on an Asset-Based Lending Facility ("ABL Facility") with Bank of America N.A.. The ABL Facility provided a $16,000,000 senior secured operating line and had a maturity of three years. On July 18, 2011, this agreement was amended to increase the facility to $23,000,000 and extend the term from three years to four years. Additionally, the Company has the opportunity to further increase the loan to $25,000,000 to fund future growth if Commercial continues to be in compliance with all covenants on a pro-forma basis after giving effect to the increase in the borrowing amount. The amendment supports the Company's growth and repayment of the mezzanine loan of which $2,500,000 was paid on July 29, 2011. The Company believes that the ABL Facility will provide sufficient access to capital both for current needs and future growth. The borrowing base is calculated as a percentage of specified value of eligible inventory and accounts receivable.

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.

The Company incurred a total of $490,600 as transaction costs related to the ABL Facility of which $318,555 was paid in the current year. 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.

As at September 30, 2011, the Company was in compliance with all covenants and maintained fund availability at over $2,500,000. Although not a covenant that has been triggered, the Company reviewed its tangible net worth of $17,283,961 as at September 30, 2011, which was well beyond the minimum requirement of $14,500,000. This covenant remains as a springing covenant but is to be adjusted annually based on the Company's financial performance. 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.

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

Inventory: The Company is committed to aggressive ongoing inventory management efforts with the goal of minimizing inventory balances while still meeting customers' needs. This includes strong centralized inventory purchasing, opportunity-based distribution to Service Centres and an asset recovery program where inventory with lower than average turnover is put through an incentive focused marketing plan to increase likelihood of sale. Due to the progress with these initiatives, the Company has increased its inventory turnover from 3.0 to 3.7 over the past twelve months.

Accounts Receivable: Management deals with credit risk by utilizing an effective credit-granting process and maintaining appropriate credit administration, measurement and monitoring processes. As well, more attentive communication with customers on a frequent basis involving multiple levels of the corporation has aided in understanding customer needs and viability. This has proven to facilitate timely revenue collection.

Summary of Cash Flows

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

	For the twelve months ended Sept 30th		
CASH FLOW STATEMENT	**2011**	**2010**	**2009**
Total cash from operations	**$ (2,727,145)**	$ 5,169,287	$ 7,496,300
Total cash from financing	**3,359,237**	(4,836,686)	(6,804,776)
Total cash from investing	**(538,825)**	(284,754)	(691,524)

	For the twelve months ended Sept 30th		
FREE CASH FLOW *	**2011**	**2010**	**2009**
Total cash from operations	**$ (2,727,145)**	$ 5,169,287	$ 7,496,300
Total cash from investing	**(538,825)**	(284,754)	(691,524)
Less: business acquisitions	**97,490**	-	-
TOTAL	**(3,168,480)**	4,884,533	6,804,776

* Free Cash Flow ("FCF") is a non-GAAP measure of financial performance calculated as operating cash flow minus capital expenditures, excluding investment in assets through business acquisitions. FCF represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

The Company's cash outflow in operating activities in the current year was a result of positive operating cash flows of $2.7 million offset by increase in investment in working capital of $5.4 million. With significant increase in activity, the Company experiences a temporary drain on cash due to working capital requirements as accounts receivables increase. Additionally, there was an increase in prepayments for inventory that were not received as at September 30, 2011. Cash levels will rebuild as receivables are collected and the inventory is received and sold. In the prior year, working capital levels were lower as the Company continued its efforts on reducing inventory levels. Based on current and forecasted demand, Commercial does not plan to further decrease inventory levels but continues to work on managing levels through an intimate understanding of market requirements.

Cash used in investing activity reflects investment in the business acquisition during the second quarter as well as required leasehold improvements and enhanced computer systems.

Free cash flow decreased in comparison to the prior year due to the increase in working capital requirements in the current year and the increase in capital assets additions, excluding investment in assets through the acquisition of the Pinehurst entity in Texas. The negative free cash flow as a result of growth in receivables and prepayment and investment in capital assets was funded through the increase in the operating line of credit.

Long-term Debt

Long-term debt relates to 1) mezzanine debt of $500,000 repayable on October 8, 2011, secured by a general security agreement in second position bearing an interest rate of 18% per annum; and, 2) finance contracts of $71,770 secured by certain equipment bearing interest at 5.4% rates repayable in monthly instalments maturing from June 2012 through December 2014.

The mezzanine debt agreement was closed on October 8, 2009 for gross proceeds of $3,000,000 repayable in two years maturing on October 8, 2011. Upon close, 1,200,000 warrants were granted to the lenders. Each whole warrant entitles the holder to purchase one Common Share of the Company at a price of $0.31 per share for a period of three years, expiring October 8, 2012. The common shares to be issued upon exercise of the warrants were subject to a four month statutory hold period from the date of grant. As at September 30, 2011, 800,000 of these warrants have been exercised. 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. The Company incurred further transaction costs of $114,132 related to the closing of the transaction. All transaction costs are netted against the long-term debt and amortized to net earnings as interest on long-term debt over the term of the loan.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES CONTINUED

During the current fiscal year, the Company finalized an amended agreement with its senior lender which provided the Company additional liquidity to prepay the full amount of the mezzanine loan at the option of the mezzanine lenders. As a result, a total of $2,500,000 of the loan was paid out on July 29, 2011 to the mezzanine lenders that took advantage of the prepayment. The Company paid the remaining $500,000 on the maturity date, October 8, 2011. There were no prepayment penalties paid on this arrangement with the mezzanine lenders.

Notes Payable

Notes payable relate to the balances owing to shareholders of previously acquired companies being Rig Products Inc., Excel Bearings Inc., Canglobal Products Ltd., and Bright Capital Technology Ltd. Repayment terms to the shareholders have been extended from the original terms as required by the senior credit facility lender. On September 30, 2010, revised terms were established with the note holders where interest expense was increased from 6% to 9% effective June 2011 for Rig Products Inc. and Excel Bearings Inc. and August 2011 for Canglobal Products Ltd. and Bright Capital Technology Ltd. Principal payments are amortized over three years with final payment due on December 31, 2013.

Commitments

Under various lease agreements, the Company will be required to make annual lease payments. Future minimum lease payments 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

Intangibles

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. Intangible assets are recognized when the resource is identifiable, controllable by the Company, and which future economic benefits are expected to flow to the Company. The cost of intangible assets acquired in a business combination that meet the specified criteria for recognition 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%

Intangible assets decreased in the current fiscal year due to amortization of intangibles partially offset by the addition of software and the intangibles acquired through the Company's newly formed subsidiary, Commercial Solutions USA LLC ("CSU").

Intangibles continued

During the second quarter of the current year, Commercial acquired the inventory, capital assets, intangible assets and ongoing business processes of a Pinehurst, Texas entity, Canglobal Instruments LLC ("CGI"), for total cash consideration of $97,490 (USD 100,000) and formed CSU. 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. The intangible assets acquired are comprised of customer relationships of $126,406 and will be amortized straight line over their estimated useful life of five years.

Property and Equipment

The fiscal 2011 investment in property and equipment primarily centered on required facility upgrades.

MEASURES NOT IN ACCORDANCE WITH GAAP

The following measures included in this report do not have a standardized meaning under Canadian GAAP and, therefore, may not be comparable to similar measures presented by other companies. There have been no changes in the composition of these non-GAAP financial measures when compared to previously disclosed measures. EBITDA is not a concept recognized by Canadian GAAP, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business.

The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:

	For the Years ended September 30th		
	2011	**2010**	**2009**
Net earnings (loss) and comprehensive income (loss)	**$ 893,136**	$ (2,093,383)	$ (23,882,148)
Add:			
Impairment of goodwill	**-**	-	19,548,494
Depreciation and amortization	**1,559,855**	2,199,888	2,290,976
Interest expenses	**1,513,738**	1,595,233	1,137,620
Refinancing costs	**-**	334,774	272,231
Income tax expense (recovery)	**354,973**	(719,609)	(1,720,674)
EBITDA	**$ 4,321,702**	**$ 1,316,903**	**$ (2,353,501)**

Operating expenses is not a concept recognized by GAAP as it does not include amortization expense and similar type expenses related to operations. The following is a reconciliation of operating expenses to total expenses for each of the periods presented in this MD&A:

	For the Years ended September 30th		
	2011	**2010**	**2009**
Operating expenses	**$ 25,727,729**	$ 24,077,417	$ 32,010,342
Add:			
Impairment of goodwill	**-**	-	19,548,494
Depreciation and amortization	**1,559,855**	2,199,888	2,290,976
Interest expenses	**1,513,738**	1,595,233	1,137,620
Refinancing costs	**-**	334,774	272,231
TOTAL EXPENSES	**$ 28,801,322**	**$ 28,207,312**	**$ 55,259,663**

OUTLOOK

The Company is anticipating activity levels in fiscal 2012 to be robust in the energy sector which will favourably impact the Company's overall revenues. Commercial generates significant revenues from this sector in Western Canada which is largely dependent on the price of oil and gas. With strong oil prices continuing to drive activity into 2012, the Canadian Association of Oilwell Drilling Contractors ("CAODC") is expecting a significant growth in the size of the drilling rig fleet. It is forecasted that in the 2012 calendar year, industry will have a significantly larger fleet – an additional 35 rigs from present levels with 15 new rigs joining the fleet in the second quarter of fiscal 2012. This kind of growth is reminiscent of 2007 when the Canadian fleet added 49 rigs.

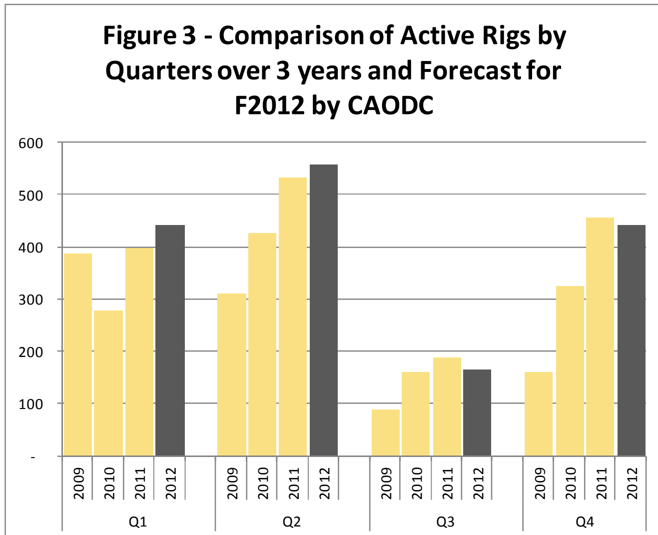


Figure 3 - Comparison of Active Rigs by Quarters over 3 years and Forecast for F2012 by CAODC

Figure 3 shows the historical number of active rigs by quarter over the last three years and the forecasted active rigs by CAODC for fiscal 2012, subject to favorable weather and field conditions. The greatest limiting factor in utilizing the larger fleet size will be the shortage of skilled rig workers. The industry suffered a substantial loss of skills and knowledge during the downturn of 2009 and it has struggled to attract these experienced workers back.

Commercial is encouraged with the overall business activity levels going forward, however acknowledges that competing for scarce labour and rising costs of goods and services particularly in Alberta will unfavourably impact overall operating costs. The Company is cognizant of these factors and has strategies to mitigate the impact. The Company looks forward to building its presence in the U.S.A. through its recent business acquisition of an entity in Pinehurst, Texas. Although a modest investment, Commercial is committed to taking on expansion opportunities with new and existing customers, primarily in the energy sector, by positioning key sales personnel in Houston.

Revenues generated from the Company's other primary markets including construction, mining and agriculture also continue to improve due to a general rebound in the Alberta economy and the Company's focused efforts on customer service and diversification. There is a ramp up in activity throughout the resource sectors outside of oil and gas including potash and nickel. Construction, infrastructure and contracts in the oil and gas markets are also experiencing substantial recovery. Although the excessively wet weather conditions affected the agriculture industry regionally in the third quarter of the current fiscal year, strong agricultural commodity prices are expected to result in an increase in overall planting acreage in Alberta and Saskatchewan in 2012. The forestry sector has also shown growth as mills in British Columbia have reopened after being shuttered for years. The increase in demand is expected to continue to grow internationally as British Columbia is one of the key suppliers to China and Japan in support of their growth and rebuilding efforts respectively.

While Commercial anticipates continued recovery in most of its primary markets, the Company also views the recovery cautiously to ensure its revitalization will be sustained. There are increasing concerns with the sovereign debt issues across Europe with the potential for these issues to create another global economic crisis. Demand for capital and maintenance programs and increases in drilling activity in the energy sector are expected to continue to grow provided commodity prices hold at current levels or improve. If prices weaken, drilling activity levels may drop and the improving demand for capital equipment could be derailed. Commercial continues to manage the business to allow for the flexibility to react to the changing market conditions. The Company is financially stable, with a strong balance sheet and a cost structure that helps withstand the ongoing volatility in the market. Commercial believes that it is well positioned to continue to support ongoing operations and to selectively consider additional investments and strategic initiatives in the year ahead.

SHARE CAPITAL

Commercial has authorized an unlimited number of common shares with no par value. As at December 12, 2011 the Company had 20,925,472 common shares outstanding (September 30, 2010 - 20,100,806). The increase in number of common shares was due to exercised stock options and warrants.

SHARE CAPITAL CONTINUED

At the Company's Annual General Meeting on March 11, 2011, 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. 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 with a balance sheet that reflects appropriately the future prospects of the Company. During the second quarter of current fiscal year, the reclassification of deficit to share capital was made, and share capital was adjusted to $15,273,013 as at March 31, 2011 from $37,860,880 as at December 31, 2010.

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

The shareholders also approved a new Deferred Share Units ("DSU") Plan at the March 11, 2011 meeting. 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 resignation from the Board, as the case may be. The holder of the DSU has the option of redeeming the DSU in either shares or cash subject to Board approval. DSUs are recorded as a liability if they include the option to redeem in cash. The liability is recorded at fair value at date of grant, and updated to fair value at each subsequent reporting period until the DSU is exercised. Fair value is calculated based on the quoted market price of the Company's shares on the date of grant and each subsequent measurement date. During the year, 47,174 (2010 – NIL) DSUs were granted which vested immediately. Commercial records the cost of the DSU Plan as salary and wages expense and the liability for DSUs is included in accounts payable and accrued liabilities on the balance sheet.

The Board of Directors may 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 is outstanding stock options and 47,174 are outstanding DSUs for a total of 1,282,308 (September 30, 2010 -1,310,167). Of the total options to purchase shares, 1,032,289 are exercisable as at September 30, 2011 (September 30, 2010- 675,278).

On October 8, 2009, the Company issued 1,200,000 warrants as part of the agreement on the mezzanine debt. 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. As at September 30, 2011, 800,000 of these warrants have been exercised. 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.

CRITICAL ACCOUNTING 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. The most 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 assumptions included in the calculation to determine the carrying value of intangibles, the inputs into the Black-Scholes Option Pricing Model for stock based compensation, and the carrying value of accrued liabilities. Actual results could differ from these estimates.

In the normal course of business, the Company's operations continue to be influenced by a number of internal and external factors, and the Company is exposed to risks and uncertainties that can affect its business, financial condition and operating results. All businesses are subject to risk and the Board and management of the Company take prudent measures to mitigate any risks by which the Company may be affected.

RISKS AND UNCERTAINTIES

Dependence on Market Economic Conditions

The demand for the products distributed by the Company can vary in accordance with general economic cycles. In addition, the industry sectors that are served by the Company, including the construction, oil and gas, forestry, agricultural and mining sectors, are cyclical in nature. The strategy of the Company is to mitigate these risks by serving diverse business sectors of the industrial supply industry and maintaining tight controls over operating expenses. Also, since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy could have a material adverse effect on the Company's financial condition and results of operations.

Alberta Royalty Regime

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a new royalty regime that introduced new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The new royalty regime was implemented effective January 1, 2009 and revised subsequently during 2010. The implementation of revisions of the royalty regime in Alberta may present certain risks and uncertainties. The calculation and collection of royalties is based on price and volume sensitive rates of the natural resources. These rates may have an impact on capital expenditures related to production and drilling which could negatively impact the business and cash flow of the Company.

Volatility of Industry Conditions

The Company's existing business areas largely depend upon the level of exploration and development activity for crude oil and natural gas in Western Canada. Oil and natural gas industry conditions are influenced by numerous factors over which the Company has no control including: oil and natural gas prices; levels of international demand; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the discovery rates of new oil and natural gas reservoirs; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing. The Company's client base also includes agricultural industries including food processing, pulp and paper, and mining and metals; all of which are subject to variations in world commodity pricing.

Supply-side Risk

The Company distributes industrial products manufactured or supplied by a number of major suppliers. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

Customer and Credit Risk

The Company extends credit facilities to its customers which are unsecured. 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.

RISKS AND UNCERTAINTIES CONTINUED

The Company's largest customer (operating predominantly in the Western Canadian drilling industry) comprises approximately 6.12% (2010 – 4.72%) of the Company's total sales in the current year and represented 8.80% (2010 – 7.38%) of accounts receivable as at September 30, 2011. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major customers. As a result, the loss of any of the Company's major customers could have a material adverse effect upon the Company's results of operations and financial condition.

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, Commercial's history has demonstrated that customers typically pay within 45 to 60 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.

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

	As at 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**

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.

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).

RISKS AND UNCERTAINTIES CONTINUED

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 revolving credit facility up to $25,000,000 with a four year term ending October 8, 2014 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 availability 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**

Interest Rate Risk

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).

SUMMARY OF ACCOUNTING POLICIES

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.

SUMMARY OF ACCOUNTING POLICIES CONTINUED

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.

New Accounting Policies

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.

International Financial Accounting Standards

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

The Company has developed an IFRS implementation plan that attempts to address both the impact of the current IFRS standards and the potential for change through the convergence date. The Company's convergence plan consists of three phases: Diagnostic, Development, and Implementation. The Company has completed the Diagnostic phase and substantially completed the Development phase and is currently in the process of implementing the differences identified in the development phase. This phase is planned to be completed before December 31, 2011 to achieve timely reporting of its fiscal 2012 first quarter results under IFRS standards.

Key aspects of the activities under each of these phases and established time lines for each phase are as follows:

Diagnostic (completed):

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

Development (substantially completed):

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

Implementation (June 2011 to December 2011):

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

The Company is in the final stages of quantifying the impacts expected on its consolidated financial statements due to differences between Canadian GAAP and IFRS. Based on work completed to date, Commercial does not anticipate significant financial or operational impacts from conversion to IFRS including changes to financial statements, accounting policies, performance metrics, business and operations management, banking arrangements, information systems, control environment and internal and external communications. The following highlights the most significantly discussions the Company had over the project. None of the factors below are expected to significantly impact the financial statements:

IFRS 1 – First-Time Adoption of IFRS

Most adjustments required on transition to IFRS are to be made retrospectively against opening retained earnings as of October 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, IFRS 1 provides entities adopting IFRS for the first time, a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition.

The following are the optional exemptions that the Company is expecting to apply:

1. Business combination election – This election allows the Company to adopt IFRS 3(R) prospectively from the date of transition.
2. Share-based payments election – This election enables the Company to adopt IFRS 2, share-based payments, from the date of transition to IFRS.

The remaining optional exemptions are not significant to the Company's adoption of IFRS.

IFRS 2 – Share-Based Payments

Canadian GAAP permits companies to either estimate the forfeitures at the grant date or record the entire expense as if all share-based payments vest and then record forfeitures as they occur. IFRS requires that forfeitures be estimated at the time of grant to eliminate distortion of remuneration expense recognized during the vesting period. The estimate should be revised if subsequent information indicates that actual forfeitures are likely to differ from previous estimates.

IAS 12 – Income Taxes

While the overall methodology for recording deferred taxes is consistent between Canadian GAAP and IFRS, there are minimal differences that may have an impact on the Company's financial statements.

IAS 36 – Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing while IFRS uses a one-step approach for both testing for and measurement of impairment. This could potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but would not be supported on a discounted cash flow basis. The Company is not expecting any impairment to be recorded on transition. In addition, IFRS requires the reversal of any previous impairment losses where circumstances leading to the original impairment have changed, with the exception of impairment losses related to goodwill which is not reversible. Canadian GAAP prohibits reversal of all impairment losses.

In light of the IFRS requirements, the Company has implemented required changes that will support the compilation of the IFRS compliant financial data for the opening balance sheet as at October 1, 2010, fiscal 2011 and thereafter, such as a stock-based compensation plan management system. The implementation phase also includes ongoing training for key personnel, identification and documentation of impact and required changes to, and ensuring the effectiveness of, the Company's internal control environment and disclosure controls and procedures.

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, Mr. William Rosser, 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, Mr. James Barker, has significant influence.

(c) The Company paid directors' fees and expenses of $83,532 (2010 – $91,638) to four (2010 – four) independent directors, namely: Dr. Kenneth Harrison, Mr. Daryl Kruper, Mr. Alan Martin, and, Mr. Richard Smith.

In management's opinion, these transactions are all in the normal course of operations and are recorded at the exchange value, which was the amount of consideration established and agreed to by the related parties.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR") for the Company.

The Chief Executive Officer and Chief Financial Officer have, as at the end of the year covered by the annual filings, designed such DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. In addition, these DC&P have been designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation.

The Chief Executive Officer and Chief Financial Officer have, as at the end of the year covered by the annual filings, also designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. ICFR includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the Company

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements

The Company is required under National Instrument 52-109 to use a control framework to design its ICFR. The Company has used the Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is a control framework that has been established by a group that has followed due-process procedures, including the broad distribution of the framework for public comment.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING CONTINUED

Evaluation of Effectiveness

As required by National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation and testing of the effectiveness of the design and operation of the Company's DC&P and ICFR were conducted as of September 30, 2011, by and under the supervision of management, including the CEO and CFO. In making the assessment of the effectiveness of the Company's internal control over financial reporting, management used the criteria set forth by COSO in Internal Control – Integrated Framework. The evaluation included documentation review, inquiries, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and internal control over financial reporting were effective as of September 30, 2011.

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P and ICFR provide reasonable assurance, they do not guarantee that the DC&P and ICFR will prevent all errors and fraud because those controls and procedures can only provide reasonable assurance, not absolute assurance. A control system, no matter how well conceived or operated cannot provide absolute assurance because there are inherent limitations in all control systems. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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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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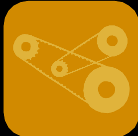

BEARINGS & P.T.

SAFETY

FIREFIGHTING

FIELD

INDUSTRIAL

ENERGY SERVICES

ISO 9001:2008 Registered Organization

Commercial Solutions Inc. is a fully integrated supplier of Maintenance, Repair and Operation products and expert solutions to Canadian industry.