
COMMERCIAL SOLUTIONS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
NINE MONTHS ENDED JUNE 30, 2008



INTRODUCTION

The following Management Discussion and Analysis is as of August 14, 2008 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 accompanying unaudited interim June 30, 2008 consolidated financial statements and with the audited consolidated financial statements and Management Discussion and Analysis contained in the Company’s annual report for the year ended September 30, 2007.

The financial data presented in this Management Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and 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.

FORWARD LOOKING STATEMENT

This Management Discussion and Analysis contains forward-looking statements relating to such matters as expected financial performance, business prospects, development activities and like matters. These statements involve risk 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 to securities laws requirements.

OVERVIEW OF THE BUSINESS

Headquartered in Edmonton, Alberta, Commercial is one of Canada’s leading independent industrial distributors with 37 Services Centres and as at June 30, 2008 had 350 employees located across Canada. Commercial offers more than 160,000 items critical to maintenance repair operations (“MRO”) and original equipment manufacturing (“OEM”) 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, food processing, chemical processing, mining and utilities, agriculture and construction.

The Company has traditionally conducted its operations through two separate business segments; the Industrial Supplies segment incorporating seven divisions providing approximately 140,000 plus products encompassing bearing, power transmission, industrial, safety, agricultural, resource management, survey and janitorial products. In addition, the segment offers technical support, customized inventory controls, materials management services, and customer training. The Oilfield Parts and Supplies segment incorporating four divisions, provides approximately 20,000 products, but specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, gauges and industrial hand tools.

The differentiation between the two segments is due to the differing product offerings. Management has been integrating the operations of the segments into certain of its service centres. The largest integration has been the merger of four Nisku, Alberta divisions formerly in three separate facilities into one 55,000 square foot leased building also located in Nisku. These integrations offer the potential for operating synergies, but make it prohibitive to separate operating results by segment.

Mission and Growth Strategy

Commercial will continue to focus on organic growth by expanding the number of its strategic partnership accounts and product lines. Management expects acquisitions to also play a continuing role in the Company's growth. Commercial has successfully identified, rationalized, and integrated fourteen acquisitions over the past eighteen years and going forward management expects to continue to focus on its acquisition program. This program is intended to diversify and strengthen the product offering, expand geographical presence and fuel organic sales growth.

FINANCIAL SUMMARY

INCOME STATEMENT, for the three months ended June 30th						
		2008	2007	Increase (Decrease)		
				\$	%	
Sales		\$33,921,608	\$36,238,836	(\$2,317,228)	-6.4%	
Gross margin \$		9,742,655	9,982,698	(240,043)	-2.4%	
Gross margin %		28.7%	27.5%	1.2%		
Operating expenses	a	9,122,737	9,232,752	(110,015)	-1.2%	
EBITDA	b	619,918	749,946	(130,028)	-17.3%	
Interest		351,383	337,823	13,560	4.0%	
Gain on disposal of property and equipment		(204,823)	(1,000)	203,823	20382.3%	
Refinancing costs		-	252,016	(252,016)	-100%	
Impairment of goodwill		15,000,000	-	15,000,000	100%	
Depreciation and amortization		576,672	459,544	117,128	25.5%	
Earnings (loss) before tax		(15,103,314)	(298,437)	(14,804,877)	4960.8%	
Income taxes		(31,964)	(93,813)	61,849	-65.9%	
Net (loss) and comprehensive (loss)		(\$15,071,350)	(\$204,624)	(\$14,866,726)	7265.4%	
(Loss) per share						
	Basic	c	(\$0.75)	(\$0.01)	(\$0.74)	7397.9%
	Diluted	c	(\$0.75)	(\$0.01)	(\$0.74)	7397.9%
Weighted avg. shares outstanding						
	Basic		20,100,806	19,468,416	632,390	3.2%
	Diluted		20,100,806	19,468,416	632,390	3.2%

a See page 15 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization (see page 15 for a further explanation of this non-GAAP measure).

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

INCOME STATEMENT, for the nine months ended June 30th					
		2008	2007	Increase (Decrease)	
				\$	%
Sales		\$105,110,318	\$122,270,637	(\$17,160,319)	-14.0%
Gross margin \$		30,552,706	34,250,942	(3,698,236)	-10.8%
Gross margin %		29.1%	28.0%	1.1%	
Operating expenses	a	27,131,644	26,797,627	334,017	1.2%
EBITDA	b	3,421,062	7,453,315	(4,032,253)	-54.1%
Interest		1,118,378	1,220,972	(102,594)	-8.4%
Gain on disposal of property and equipment		(210,681)	(87,348)	123,333	141.2%
Refinancing costs		-	252,016	(252,016)	-100%
Impairment of goodwill		15,000,000	-	15,000,000	100%
Depreciation and amortization		1,639,808	1,317,456	322,352	24.5%
Earnings (loss) before tax		(14,126,443)	4,750,219	(18,876,662)	-397.4%
Income taxes		277,461	1,511,484	(1,234,023)	-81.6%
Net (loss) earnings and comprehensive (loss) income		(\$14,403,904)	\$3,238,735	(\$17,642,639)	-544.7%
(Loss) earnings per share					
	Basic	(\$0.72)	\$0.17	(\$0.89)	-522.1%
	Diluted	(\$0.72)	\$0.16	(\$0.88)	-548.5%
Weighted avg. shares outstanding					
	Basic	20,072,523	19,264,951	807,572	4.2%
	Diluted	20,072,523	20,131,915	(59,392)	-0.3%
a See page 15 for a further explanation of this non-GAAP measure.					
b Represents earnings before interest, taxes, depreciation and amortization (see page 15 for a further explanation of this non-GAAP measure).					
c If the \$15,000,000 impairment of goodwill were excluded from the fiscal 2008 Q3 results, the year-to-date basic and diluted earnings per share would have been \$0.03.					

BALANCE SHEET, as at June 30th					
		2008	2007	Increase (Decrease)	
				\$	%
Current assets		\$50,450,303	\$52,432,145	(\$1,981,842)	-3.8%
Property and equipment		5,219,373	3,832,560	1,386,813	36.2%
Other assets		23,464,422	35,186,533	(11,722,111)	-33.3%
TOTAL ASSETS		79,134,098	91,451,238	(12,317,140)	-13.5%
Current liabilities		31,681,539	34,333,670	(2,652,131)	-7.7%
Current portion of long term debt		1,872,013	1,284,360	587,653	45.8%
Long term liabilities		3,608,916	1,614,876	1,994,040	123.5%
TOTAL LIABILITIES		37,162,468	37,232,906	(70,438)	-0.2%
Share capital		37,860,880	36,081,599	1,779,281	4.9%
Retained earnings & contributed surplus		4,110,750	18,136,733	(14,025,983)	-77.3%
TOTAL SHAREHOLDERS' EQUITY		41,971,630	54,218,332	(12,246,702)	-22.6%
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		\$79,134,098	\$91,451,238	(\$12,317,140)	-13.5%

FINANCIAL RESULTS

The fiscal 2008 Q3, the Company's slowest quarter, reflected a period of restructuring and organic sales decline due to the cyclical slowdown in the Western Canadian oil and gas and forestry industries, driven by commodity prices and a strong Canadian dollar. Management examined its goodwill asset, determined an impairment existed and took an impairment charge. The fair value of intangibles assets was found to exceed carrying value and therefore no impairment charge was required.

Acquisition sales growth was incurred due to the August 31, 2007 acquisition of Canglobal Products Ltd. ("Canglobal"), a Nisku, Alberta based distributor of oilfield gauges, generating approximately \$3,400,000 in annual sales. In addition, on February 29, 2008, Outillage B Et G Cadieux Inc. ("Cadieux") a Terrebonne, Quebec based distributor of industrial supplies was acquired, generating approximately \$2,200,000 in annual sales.

Revenue

3 months ended June 30, 2008

The 6.4 percent consolidated sales decline is made up of a 9.9 percent decline in organic sales and a 3.6 percent increase from acquisition growth.

The quarterly period-over-period organic sales decline is narrowing. For the past five quarters, the negative organic sales decline was as follows:

Fiscal 2008 Q3	-	9.9 percent
Fiscal 2008 Q2	-	19.2 percent
Fiscal 2008 Q1	-	18.9 percent
Fiscal 2007 Q4	-	19.7 percent
Fiscal 2007 Q3	-	13.0 percent

This indicates the Company maybe nearing the bottom of the cyclical downturn in one of its primary industries, natural gas drilling.

9 months ended June 30, 2008

The 14.0 percent consolidated sales decline is made up of a 16.3 percent decline in organic sales and 2.3 percent increase from acquisition growth.

For the Company's first three quarters in fiscal 2008, the Western Canadian natural gas drilling industry experienced turbulence. The first two quarters saw low natural gas prices as a result of high natural gas inventories, a high Canadian dollar and the negative effects of the Alberta Government Royalty Review Task Force. For the fiscal 2008 third quarter, these effects subsided. Although natural gas prices have recovered, due to the traditional spring break-up, industry capital expenditures programs have not yet taken hold.

Sales were also strained from the forest industry downturn due to the slump in the US housing market and the strong Canadian dollar.

The acquisition growth is a result of the Canglobal and Cadieux additions.

Management maintains accounting systems that are able to track acquisition and organic growth. Acquisition growth is calculated by comparing the sales in the current period generated as a result of acquisitions to the sales in the prior year with none of the acquiree's sales. Organic growth/decline is calculated by comparing the current period's sales that existed in both the current and prior period.

Gross Margin

The consolidated gross margin percentage increased for the following reasons:

- Management has continued to focus on direct buying and to consolidate its purchasing from manufacturers.
- Recent acquisitions have slightly higher gross profit margins than Commercial's traditional percentage due to their offshore sourcing.

Foreign exchange gains and losses are included in the gross margin figures cited. These fluctuations are driven primarily by US sourced materials.

Operating Expenses

For the three months ended June 30th			
	2008	2007	Change
Operating expenses (\$'s)	*		
Salary & wages	\$5,911,099	\$6,205,710	-4.7%
Selling, general & admin.	1,467,000	1,411,577	3.9%
Rent, occupancy costs & utilities	1,237,842	958,194	29.2%
Advertising & promotions	252,588	394,513	-36.0%
Professional fees	254,208	262,758	-3.3%
Total	\$9,122,737	\$9,232,752	-1.2%
	2008	2007	
Operating expenses (as a % of sales)			
Salary & wages	17.4%	17.1%	
Selling, general & admin.	4.3%	3.9%	
Rent, occupancy costs & utilities	3.6%	2.6%	
Advertising & promotions	0.7%	1.1%	
Professional fees	0.7%	0.7%	
Total	26.9%	25.5%	

* See page 15 for a further explanation of this non-GAAP measure.

For the nine months ended June 30th			
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Operating expenses (\$'s)	*		
Salary & wages	\$17,848,245	\$18,324,782	-2.6%
Selling, general & admin.	4,320,009	3,785,647	14.1%
Rent, occupancy costs & utilities	3,346,902	2,837,400	18.0%
Advertising & promotions	931,148	1,186,673	-21.5%
Professional fees	685,340	663,125	3.4%
Total	\$27,131,644	\$26,797,627	1.2%
	<u>2008</u>	<u>2007</u>	
Operating expenses (as a % of sales)			
Salary & wages	17.0%	15.0%	
Selling, general & admin.	4.1%	3.1%	
Rent, occupancy costs & utilities	3.2%	2.3%	
Advertising & promotions	0.9%	1.0%	
Professional fees	0.7%	0.5%	
Total	25.8%	21.9%	
* See page 15 for a further explanation of this non-GAAP measure.			

In fiscal 2008 Q3, management continued its restructuring efforts. In the latter half of fiscal 2007, the Company's operating expenses were approximately \$9,450,000 per quarter, incorporating a full quarter of the August 31, 2007 Canglobal acquisition. For the nine months ended June 30, 2008, quarterly operating costs have been averaging approximately \$9,000,000. Included in the current year is \$250,000 in severance costs.

As a percentage of sales, the operating expenses increased due to the shortfall in revenue. Despite the downward business cycle, Alberta labour and lease rates continue to climb, when typically these would fall off with the decreased activity.

The following is an analysis of the major operating expense categories:

Salaries and wages on a dollar basis decreased when comparing the nine months ended June 30, 2008 versus the comparative period. Since the September 30, 2007 year end, the number of employees has decreased approximately 11.0 percent. Offsetting these costs savings was the severance cost mentioned above and an annual inflationary salary increase effective January 1, 2008. While revenues continue to be under pressure, management will maintain its examination of appropriate personnel levels.

Selling, general and administrative expenses increased due to the Canglobal and Cadieux acquisitions, as well as increased fuel costs and vehicle insurance. In addition, increased travel costs (related to fuel costs) for outside salespeople were incurred.

Rent, utility and occupancy costs reflect the following:

- inflationary increases on facilities;

- the incremental costs of the facilities that came with the Canglobal and Cadieux acquisitions, and
- larger, newer, updated facilities for the Calgary, Fort McMurray and Regina locations.

This expense incorporates longer term commitments, making it difficult to reduce costs given the current economic slowdown. Despite this fact, merged facilities were completed for three locations from April 2007 to November 2007. In mid 2008 Q3, the Company began consolidating three divisions/facilities into its new Nisku, Alberta Superstore. During this transition, duplicate rent will be incurred.

Professional and consulting fees increased slightly as Commercial has continued its project to be compliant with Canadian securities regulations regarding internal controls over financial reporting.

Advertising and promotions decreased on a year to date basis relative to the comparative period as management reduces its discretionary spending.

Interest Expense

The decrease in year to date interest expense versus the comparative period is not a function of decreased debt levels, but less expensive financing. In fiscal 2007 Q3, Commercial retired approximately \$5,000,000 in subordinated debentures (with a weighted average interest rate of 12.3 percent) by utilizing its bank operating line. Interest charged on the operating line to the end of fiscal 2008 Q3 is at the prime rate with a sliding scale increase based on covenants.

Impairment of Goodwill

See the explanation under “Goodwill” in the “FINANCIAL CONDITION AND LIQUIDITY” section below.

Income Taxes

The Company’s fiscal 2008 Q3 year to date effective tax rate is 31.8 percent excluding the impairment of goodwill from taxable income.

Earnings Per Share and Weighted Average Shares Outstanding

If the \$15,000,000 impairment of goodwill were excluded from the fiscal 2008 Q3 results, the basic and diluted earnings per share for the quarter would have been \$0.00. Year-to-date basic and diluted earnings per share would have been \$0.03.

The quarter-over-quarter increase in shares outstanding is a result of the exercise of stock options and share purchase warrants.

FINANCIAL RESULTS – SUMMARY OF QUARTERLY DATA

	FISCAL 2007			FISCAL 2008	
	Q4	Q1	Q2	Q3	Total
Sales	\$35,594,663	\$33,710,841	\$37,477,869	\$33,921,608	\$140,704,981
Gross margin (\$)	10,892,684	9,893,646	10,922,365	9,742,655	41,451,350
Gross margin (%)	30.6%	29.3%	29.1%	28.7%	29.5%
Operating expenses	a 9,223,051	8,898,995	9,109,911	9,122,737	36,354,694
EBITDA	b 1,669,633	994,651	1,812,454	619,918	5,096,656
Net earnings (loss)	\$298,951	\$55,949	\$611,497	(\$15,071,350)	(\$14,104,953)
Basic earnings (loss) per share	\$0.01	\$0.00	\$0.03	(\$0.75) c	(\$0.71) c
Diluted earnings (loss) per share	\$0.02	\$0.00	\$0.03	(\$0.75) c	(\$0.70) c

a See page 15 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization. See page 15 for a further explanation of this non-GAAP measure.

c If the \$15,000,000 impairment of goodwill were excluded from the fiscal 2008 Q3 results, the basic and diluted earnings per share for the quarter would have been \$0.00. The trailing twelve months basic and diluted earnings per share would have been \$0.04 and \$0.05 respectively.

	FISCAL 2006			FISCAL 2007	
	Q4	Q1	Q2	Q3	Total
Sales	\$40,900,553	\$40,668,595	\$45,363,206	\$36,238,836	\$163,171,190
Gross margin (\$)	12,268,699	11,424,938	12,929,654	9,983,698	46,606,989
Gross margin (%)	30.0%	28.1%	28.5%	27.5%	28.6%
Operating expenses	a 7,159,149	8,657,330	8,907,545	9,232,752	33,956,776
EBITDA	b 5,109,550	2,767,608	4,022,109	750,946	12,650,213
Net earnings (loss)	\$2,885,420	\$1,345,517	\$2,097,842	(\$204,624)	\$6,124,155
Basic earnings (loss) per share	\$0.16	\$0.07	\$0.11	(\$0.01)	\$0.33
Diluted earnings (loss) per share	\$0.14	\$0.07	\$0.10	(\$0.01)	\$0.30

a See page 15 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization (see page 15 for a further explanation of this non GAAP measure)

Trailing Twelve Months

The above “Financial Results - Summary of Quarterly Data” provides an opportunity for insight into the trailing twelve months growth rates.

Seasonal Nature of the Business

The Company has significant exposure to the energy industry (over 50.0 percent of sales). Typically, the oil and gas industry slows down in April and May due to spring thaw, therefore the Company incurs a

seasonal decline in its third quarter. A portion of the increases between quarters is a reflection of acquisition activity.

FINANCIAL CONDITION AND LIQUIDITY

Cash From Operations

Commercial generated funds totaling \$3,319,086 from operating activities for the nine months ended June 30, 2008 compared to funds generated of \$356,603 in the comparative period. The source of funds was mostly generated through a reduction in inventory

The collection of receivables has marginally slowed down relative to September 30, 2007, as evidenced by the increase in days sales in receivables (see below), which is typical of an industry slowdown. Management continues to monitor its receivables for increased collection issues particularly for natural gas drilling and forestry customers. The days purchases in payables has slightly increased relative to the September 30, 2007 year end balance in order to match the days receivable ratio.

Although inventory turnover has decreased, the dollar value of inventory has decreased by \$1,404,687 since September 30, 2007. When the approximate \$450,000 in inventory from the Cadieux acquisition is factored in, the actual decrease in inventory is \$1,854,687.

Working Capital

The Company continues to fund its operating and capital requirements with cash generated from operations and borrowings under its secured, revolving demand facility provided by the Canadian Imperial Bank of Commerce ("CIBC"). The Company's primary capital needs have been the purchase of inventory, and the funding of accounts receivable, debt service payments and capital expenditures.

WORKING CAPITAL RATIOS	As @ June 30th		As @
	2008	2007	Sept. 30.07
Working capital ratio	1.50	1.47	1.47
Days sales in receivables	56.0	54.2	58.6
Inventory turns	3.4	4.4	4.1
Days purchases in payables	52.8	55.3	56.2

The Company's net working capital as at June 30, 2008 decreased to \$16,970,084 (working capital ratio of 1.50) from \$17,048,686 at September 30, 2007 (working capital ratio of 1.47). The marginal decrease is from the cash outflow generated by the more rapid payment of payables relative to the collection of receivables, but offset by the reduction of inventory.

As mentioned earlier, the inventory turnover ratio is reduced due to the Company's key sector slowdown. Commercial has undertaken an inventory reduction program, focusing on vendor returns and re-allocating products to branches with the greatest opportunity of sale.

Commitments

Commercial has assumed various contractual obligations and commitments in the normal course of operations and financing activities. There have been no significant developments since year end.

Intangibles

Intangibles decreased from September 30, 2007 due to amortization. As part of its goodwill impairment assessment (see below), management conducted an assessment of intangible assets. The fair value test of intangibles incorporated estimates such as normalized earnings, price earnings multiples, cash flows, discount rates and terminal values. It was determined that the intangible assets were not impaired. Any impairment of intangible assets would reduce net earnings.

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 useful lives. Commercial has no assets with infinite useful lives.

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

Customer relationships	Straight-line – 6 - 7 years
Non-competition agreements	Straight-line – 3 - 5 years
Trade name	Straight-line – 1 - 3 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets of acquired businesses. Goodwill is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value is based on estimates of normalized earnings, price earnings multiples, cash flows, discount rates and terminal values. Such estimates require judgment.

With the current economic conditions and the continuing decrease in share value, an impairment charge of \$15,000,000 in fiscal 2008 Q3 was booked. Current economic conditions impacting the charge are:

- the high Canadian dollar, negatively impacting Canadian manufacturers;
- the challenges facing the Canadian forest industry; and
- reduced levels in 2007 and 2008 of exploration and development activity by energy producers in Western Canada, negatively impacting natural gas drilling.

Due to the integration of operations, the charge cannot be attributed to particular previous acquisitions.

Property and equipment

The fiscal 2008 Q3 investment in property and equipment primarily centered on improvements to the management information system, facility upgrades and the purchase of a condominium in Fort McMurray, Alberta in order to house staff. The gain on sale of property is the result of the disposal of an older condominium in Fort McMurray.

Senior operating credit facility and long term debt

In March 2008, the Company underwent the annual review of its consolidated credit facility (“facility”) with the CIBC. The re-newed facility maintained the same operating line of credit, a reduced acquisition line and covenants to reflect current market conditions. The facility consists of a \$25,000,000 (September 30, 2007 - \$25,000,000) operating line of credit and a \$1,260,000 (September 30, 2007 - \$10,000,000)

acquisition loan. As of June 30, 2008, \$1,236,667 (September 30, 2007 - \$1,400,000) was drawn on the acquisition loan, and \$17,964,705 (September 30, 2007 - \$18,646,622) was drawn on the operating line.

OUTLOOK

For the majority of fiscal 2007 and the first three quarters of fiscal 2008, two of Commercial's larger market's (natural gas drilling and forestry) have been in a cyclical downturn. While the future prospects for the Canadian forest industry continues to be challenging, optimism exists for the Western Canadian natural gas drilling market.

The excess natural gas storage and resulting negative impact on natural gas prices that persisted for most of calendar 2007 and early 2008 appears to be easing. With natural gas inventories starting the heating season at record highs, early calendar 2008 sentiment was bearish, however, a cold winter in North America reduced natural gas storage levels to near the five-year average. This stronger than expected natural gas consumption, coupled with reduced liquefied natural gas imports to the US, has led to strengthening economic fundamentals with improved demand for oilfield services expected to increase by the final quarter of calendar 2008.

Stronger natural gas and oil prices should provide incentive to drill oil and natural gas wells. However, a sustained period of higher natural gas prices will most likely be required to instill producer confidence to increase overall Western Canadian drilling activity. It is believed that many energy producers had a defined budget for the first half of calendar 2008 and are evaluating the latter half of this year and potentially adjusting their calendar 2009 budgets upwards.

Management has focused its fiscal 2008 efforts integrating acquisitions, permitting a reduction in operating costs, as well as managing its working capital in a declining revenue environment. The operating expense vigilance will continue going forward. Should opportunistic acquisitions present themselves, Commercial will pursue them in an effort to increase sales and broaden geographic presence. Although fiscal 2008 has been demanding, over the medium and long term, management is optimistic that its strong competitive position will place it favourably to take advantage of available market share once these markets recover.

Commercials' business units have successfully operated through cyclical industry conditions in the past and, with management's operational discipline, management anticipates the Company to be in a position to capitalize on future opportunities as industry fundamentals return to stronger levels.

COMMON SHARES AND CONVERTIBLE SECURITIES

Commercial has authorized an unlimited number of common shares with no par value. As at August 14, 2008 the Company had 20,100,806 common shares outstanding.

The Board of Directors may grant options to purchase up to 1,555,206 common shares. As of August 14, 2008, options to purchase 762,917 common shares were outstanding at an average exercise price of \$3.91 per common share.

RISK FACTORS

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

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 &

gas, forestry, agricultural and mining sectors, are cyclical in nature. The strategy of the Company is to mitigate these risks by operating in various regions of the country, serving various 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 would have a material adverse effect on the Company's financial condition and results of operations.

Alberta Royalty Review

The Government of Alberta recently announced a new royalty regime for the province's oil, natural gas and oilsands sector. The implementation of the proposed changes to the royalty regime in Alberta are subject to certain risks and uncertainties. At this time, it is not possible to predict the impact these changes could have on the Company's operations.

Supply-Side Risks

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 Risk

Although the Company distributes industrial products to more than 11,000 customers, the Company's largest customer (operating predominantly in the Western Canadian drilling industry) comprises approximately 5.3 percent of the Company's total sales for the nine months ended June 30, 2008 and represented 22.3 percent of accounts receivable as at June 30, 2008. 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.

Credit Risk

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the Company's consolidated financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. The most significant estimates included in these financial statements are the valuations of accounts receivable, inventory and future tax assets, carrying value of goodwill, stock based compensation, intangibles and accrued liabilities. Actual results could differ from these estimates.

CHANGES IN ACCOUNTING POLICIES

Effective October 1, 2007, the Company adopted two new CICA standards, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements. These standards have been applied without restatement of prior periods.

Effective October 1, 2007, the Company adopted CICA standard Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed in order for a user of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

RELATED PARTY TRANSACTIONS

Commercial enters into various related party transactions. 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. There have been no significant developments since year end.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Chief Executive Officer and Chief Financial Officer have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities on a timely basis in order to make disclosure decisions. In addition, these disclosure controls and procedures 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 provincial and territorial securities legislation is recorded, processed, summarized and reported within time periods specified in the provincial and territorial securities legislation.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of these disclosure controls and procedures as at June 30, 2008 and conclude that they are effective to provide reasonable assurance of achieving their design objectives based on that evaluation.

It should be noted that while the Company’s Chief Executive Officer and Chief Financial Officer believe that the Company’s disclosure controls and procedures provide reasonable assurance, they do not guarantee that the disclosure controls and procedures 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.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following measures included in this report do not have a standardized meaning under Canadian generally accepted accounting principles and, therefore, are unlikely to be comparable to similar measures presented by other companies. There have been no changes in the composition of these non-GAAP financial measures when compared to previously disclosed measure.

EBITDA (Earnings before interest, taxes, depreciation and amortization) is not a concept recognized by generally accepted accounting principles, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. The impairment of goodwill is included as an add back to work towards EBITDA as the goodwill impairment does not impact operating cash flow. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:

	For the three months ended June 30th	
	2008	2007
Net (loss) and comprehensive (loss)	(\$15,071,350)	(\$204,624)
Add:		
Income taxes	(31,964)	(93,813)
Depreciation and amortization	576,672	459,544
Impairment of goodwill	15,000,000	-
Refinancing costs	-	252,016
Gain on disposal of property and equipment	(204,823)	(1,000)
Interest	351,383	337,823
EBITDA	\$619,918	\$749,946

	For the nine months ended June 30th	
	2008	2007
Net earnings (loss) and comprehensive earnings (loss)	(\$14,403,904)	\$3,238,735
Add:		
Income taxes	277,461	1,511,484
Depreciation and amortization	1,639,808	1,317,456
Impairment of goodwill	15,000,000	-
Refinancing costs	-	252,016
Gain on disposal of property and equipment	(210,681)	(87,348)
Interest	1,118,378	1,220,972
EBITDA	\$3,421,062	\$7,453,315

Operating expenses is not a concept recognized by generally accepted accounting principles as it does not include amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the June 30, 2008 consolidated financial statements:

	For the three months ended June 30th	
	2008	2007
Operating expenses	\$9,122,737	\$9,232,752
Add:		
Depreciation and amortization	576,672	459,544
Refinancing costs	-	252,016
Loss (gain) on disposal of property and equipment	(204,823)	(1,000)
Interest	351,383	337,823
Total expenses	\$9,845,969	\$10,281,135

	For the nine months ended June 30th	
	2008	2007
Operating expenses	\$27,131,644	\$26,797,627
Add:		
Depreciation and amortization	1,639,808	1,317,456
Refinancing costs	-	252,016
Loss (gain) on disposal of property and equipment	(210,681)	(87,348)
Interest	1,118,378	1,220,972
Total expenses	\$29,679,149	\$29,500,723

CORPORATE INFORMATION

Officers and Directors

Jim Barker
President, Chairman & Director
Edmonton, Alberta

Eric Sauze, CA CFA
Chief Operating & Financial Officer
Edmonton, Alberta

Dr. Ken Harrison
Director
Edmonton, Alberta

Richard Smith
Director
Calgary, Alberta

Stephen Kent
Director
Edmonton, Alberta

Don Caron
Secretary and Director
Edmonton, Alberta

Bill Rosser
Director
Edmonton, Alberta

Daryl Kruper
Director
Edmonton, Alberta

Corporate Office

4203 - 95 Street
Edmonton, Alberta T6E 5R6
Ph.: (780) 432-1611
Fax: (780) 462-0807

Auditors

Grant Thornton LLP
1401 Scotia Place 2
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Shares Listed

Toronto Stock Exchange
Trading Symbol – “CSA”

Bankers

Canadian Imperial Bank of Commerce
10102 Jasper Avenue
Edmonton, Alberta
T5J 1W5

Transfer Agent

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

Share Capital

Issued: 20,100,806 common shares

Investor Relations

Spinnaker Capital Management Inc.
10 King Street East
Suite 1250
Toronto, Ontario
M5C 1C3
Attention: Ali Mahdavi
Phone: (416) 962-3300

Website

www.csinet.ca