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# FISCAL 2009 | Annual Report

## Consolidated Financial Statements

September 30, 2009



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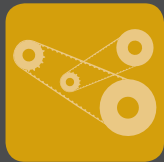
Commercial Solutions Inc.  
Fiscal 2009 Annual Financial Statements

Chief Financial Officer: Rozina Kassam, CA

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# 01 Auditor's Report



To the Shareholders of Commercial Solutions Inc.,

We have audited the consolidated balance sheets of Commercial Solutions Inc. as at September 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, (deficit) retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada  
December 10, 2009

*Grant Thornton LLP*  
"Grant Thornton, LLP"  
Chartered Accountants

# Consolidated Statements of Loss and Comprehensive Loss

	Years ended September 30	
	2009	2008
<b>Revenue</b>	\$ 106,023,410	\$ 143,425,182
Cost of goods distributed	76,366,569	101,788,419
Gross margin (28.0%, 2008 - 29.0%)	29,656,841	41,636,763
<b>Expenses</b>		
Salary and wages	19,597,394	23,727,011
Impairment of goodwill (see Note 6)	19,548,494	15,000,000
Selling, general and administration (see Note 16)	5,496,866	5,940,652
Rent, occupancy costs and utilities	5,076,631	4,606,831
Amortization on property and equipment	1,340,331	962,307
Interest on bank short term borrowings	984,709	946,939
Amortization on intangible assets	950,645	1,027,873
Professional fees (see Note 16)	871,155	900,761
Advertising and promotion	523,667	906,616
Restructuring costs	444,629	-
Refinancing fees (see Note 7)	272,231	-
Interest on long term debt	152,911	477,786
	55,259,663	54,496,776
<b>Loss before income taxes</b>	(25,602,822)	(12,860,013)
Income tax (recovery) expense	(1,720,674)	724,795
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (23,882,148)</b>	<b>\$ (13,584,808)</b>
<b>Loss per share (see Note 13)</b>		
Basic	\$ (1.19)	\$ (0.68)
Diluted	\$ (1.19)	\$ (0.68)

*See accompanying notes to the consolidated financial statements.*

# Consolidated Statements of (Deficit) Retained Earnings

	Years ended September 30	
	2009	2008
Retained earnings, beginning of year	\$ 3,454,339	\$ 17,039,147
Net loss	(23,882,148)	(13,584,808)
<b>(DEFICIT) RETAINED EARNINGS, END OF YEAR</b>	<b>\$ (20,427,809)</b>	<b>\$ 3,454,339</b>


# 04 Consolidated Balance Sheets

As at September 30	2009	2008
<b>Assets</b>		
Current		
Accounts receivable	\$ 12,100,129	\$ 23,093,567
Income taxes receivable	723,740	-
Inventory	24,557,236	28,248,399
Prepays	918,242	756,779
	<b>38,299,347</b>	<b>52,098,745</b>
Future income tax asset (see Note 15)	787,311	385,563
Property and equipment (see Note 4)	4,661,047	5,210,762
Intangible assets (see Note 5)	2,084,390	3,068,845
Goodwill (see Note 6)	-	19,686,124
<b>TOTAL ASSETS</b>	<b>\$ 45,832,095</b>	<b>\$ 80,450,039</b>
<b>Liabilities</b>		
Current		
Bank indebtedness (see Note 7)	\$ 16,221,083	\$ 22,119,327
Accounts payable and accrued liabilities	7,415,544	10,159,510
Income taxes payable	-	936,993
Current portion of deferred tenant inducement	20,000	20,000
Current portion of long term debt (see Note 8)	894,137	356,397
Current portion of notes payable (see Note 9)	-	1,246,023
	<b>24,550,764</b>	<b>34,838,250</b>
Future income tax liability (see Note 15)	781,381	1,101,369
Deferred tenant inducement	98,333	118,333
Long term debt (see Note 8)	110,953	984,382
Notes payable (see Note 9)	1,192,448	594,684
	<b>26,733,879</b>	<b>37,637,018</b>
<b>Shareholders' Equity</b>		
Share capital (see Note 10)	37,860,880	37,860,880
Contributed surplus (see Note 11)	1,665,145	1,497,802
(Deficit) retained earnings	(20,427,809)	3,454,339
	<b>19,098,216</b>	<b>42,813,021</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 45,832,095</b>	<b>\$ 80,450,039</b>

Commitments and contingencies (see Note 17)

*See accompanying notes to the consolidated financial statements.*

On behalf of the board



Jim Barker, Director



Alan Martin, CA CBV, Director

# Consolidated Statements of Cash Flows

	Years Ended September 30	
	2009	2008
<b>Increase (decrease) in cash and cash equivalents</b>		
<b>Operating</b>		
Net loss	\$ (23,882,148)	\$ (13,584,808)
Impairment of goodwill (see Note 6)	19,548,494	15,000,000
Amortization of property, equipment and intangibles	2,334,967	2,260,625
Stock based compensation (see Note 12)	167,343	239,250
Gain on disposal of property and equipment	(43,991)	(270,445)
Tenant inducement	(20,000)	(20,000)
Amortization of notes payable discount	(32,796)	104,931
Non-cash purchase price adjustments	(54,632)	-
Future income tax recovery	(709,375)	(206,387)
	<b>\$ (2,692,138)</b>	<b>\$ 3,523,166</b>
Change in non-cash operating working capital (see Note 14)	10,188,438	(3,046,762)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 7,496,300</b>	<b>\$ 476,404</b>
<b>Financing</b>		
Repayments on bank indebtedness (see Note 7)	(5,898,244)	3,396,905
Refinancing fees (see Note 7)	(70,000)	-
Issuances of common shares, net	-	189,000
Proceeds from long term debt	-	44,500
Repayments of long term debt	(436,532)	(377,008)
Repayments of notes payable	(400,000)	(1,721,667)
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$ (6,804,776)</b>	<b>\$ 1,531,730</b>
<b>Investing</b>		
Purchase of property and equipment	(902,778)	(2,351,272)
Proceeds on disposal of property and equipment	211,254	802,872
Acquisitions	-	(459,734)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ (691,524)</b>	<b>\$ (2,008,134)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents, beginning of year	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>

*See accompanying notes to the consolidated financial statements.*

# Notes to the Consolidated Financial Statements

## 1. NATURE OF OPERATIONS

Commercial Solutions Inc. is a public company traded on the Toronto Stock Exchange under the symbol CSA. The Company is a national distributor of bearings, power transmissions, safety equipment, forestry product, firefighting gear, survey supplies, industrial supplies, and oilfield parts and supplies.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as prescribed by the Accounting Standards Board of Canada (AcSB). The significant accounting policies used in the consolidated financial statements are as follows:

### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Commercial bearing service (1966) Ltd., Canglobal Products Ltd., Brightcapital Technologies Ltd., and Outillage B. Et G. Cadieux Ltd. All intercompany balances and transactions are eliminated on consolidation.

### (b) Use of estimates

In preparing the Company's consolidated financial statements in conformity with Canadian 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, the assumptions included in the calculation to determine the carrying value of goodwill, the inputs into the Black-Scholes option pricing model for stock based compensation, the valuation of intangibles and the carrying value of accrued liabilities. Actual results could differ from these estimates.

### (c) Revenue recognition

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

### (d) Cash and cash equivalents

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

## Notes to the Consolidated Financial Statements (cont'd)

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### (e) Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price less estimated selling costs. Cost is determined using the average cost method. Cost includes the direct purchase price of the goods and transportation costs from vendors. Transportation costs within the Company's service centres are expensed as incurred. Management periodically reviews the inventory on a product by product basis in assessing provisions for obsolescence based upon current estimates of future events including economic conditions and growth prospects in the marketplace. Based on this review, \$608,832 of inventory was written down in the current year (2008 - \$994,043).

### (f) Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill is allocated to the individual assets acquired based on their estimated fair values.

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

The amortization methods and estimated useful lives of 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

### (g) Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill arising from acquisitions is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company consists of a single reporting unit. A reporting unit comprises business operations with similar economic characteristics and strategies, and is the level of reporting at which goodwill is tested for impairment. A reporting unit is either an operating segment or one level below. In fiscal 2009 the Company has concluded that the carrying value of goodwill is impaired and as such took a charge in the current year (see Note 6).

### (h) Stock based compensation

The Company has a stock based compensation plan, which is described in Note 12. The Company uses the fair value method of accounting for stock options for employees and directors. The fair value of option grants is calculated on the grant date using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those grants. A corresponding adjustment is recorded through contributed surplus. When options are exercised, the proceeds received by the Company together with the amount in contributed surplus, are credited to share capital.

## Notes to the Consolidated Financial Statements (cont'd)

### (i) Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the fiscal year. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional common shares from the assumed exercise of outstanding warrants and stock options, if dilutive. For warrants and stock options, the treasury method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the fiscal year.

### (j) Foreign currency translation

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

### (k) Property and equipment

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

Buildings	4% and 5%, declining balance
Leasehold improvements	20%, straight-line
Furniture and fixtures	20%, declining balance
Fencing	10%, declining balance
Equipment under capital lease	20%, declining balance
Automotive equipment	30%, declining balance
Computer equipment	30%, declining balance

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

### (l) Leases

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

### (m) Asset impairment

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

### (n) Income taxes

Income taxes have been provided using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the accounting bases and tax bases of assets and liabilities, and losses carried forward, and measured using the substantively enacted tax rates under tax laws that will be in effect when the differences are expected to reverse. Future tax assets are recognized to the extent that the realization of the asset is considered more likely than not.

## Notes to the Consolidated Financial Statements (cont'd)

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### (o) Deferred tenant inducement

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

### (p) Financial instruments

#### *Classification*

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

#### *Loans and receivables*

- Accounts receivable

#### *Other financial liabilities*

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

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

Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI"). Financial assets classified as loans and receivables and financial liabilities classified as other are measured at amortized cost.

#### *Derivatives and embedded derivatives*

All derivative instruments are recorded on the balance sheet at fair value. Derivatives that are designated and qualify as cash flow hedge or hedge of an investment in a self sustaining foreign relationship, have its effective portion of the gains and losses on the hedging item recorded in other comprehensive income ("OCI"). The ineffective portion is immediately recognized in income. The gain or loss is released from accumulated other comprehensive income and recorded when the hedged item affects income. For fair value hedges, gains or losses arising from the measurement of derivative hedging instruments fair value and attributable to the hedged risk are accounted for as an adjustment to the carrying amount of hedged items and are recorded in earnings. Derivatives that are not formally designated as hedges for accounting purposes are designated as held-for-trading and gains and losses are recorded directly in net earnings.

The Company has designated its forward exchange contracts as held-for-trading. The derivative instrument is measured at fair value and all adjustments to fair value are included in selling, general and administrative expenses with the liability recorded in accounts payable and accrued liabilities.

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

The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. As of September 30, 2008 and 2009, the Company had no OCI or accumulated OCI.

## Notes to the Consolidated Financial Statements (cont'd)

### (q) New accounting policy

Effective October 1, 2008, the Company began to utilize forward exchange contracts to hedge against changes in the value of the U.S. dollar relative to the Canadian dollar. The Company uses this hedging instrument only in connection to its exposure on cash and liabilities denominated in U.S. dollars and does not use them for trading or speculative purposes. For accounting purposes, the Company has the option to formally designate eligible hedging relationships between hedging instruments (i.e. the forward exchange contract) and a hedged item (i.e. liability denominated in U.S. dollars). This exercise involves an assessment of whether the hedging instrument is highly effective in offsetting the changes in the fair value or cash flows associated with the hedged item. If assessed as highly effective at inception and on an ongoing basis, the Company may apply hedge accounting. For derivatives accounted for under cash flow hedge accounting, the effective portion of the gains and losses on the hedging item are recorded in other comprehensive income. The ineffective portion is immediately recognized in income. The gain or loss is released from accumulated other comprehensive income and recorded when the hedged item affects income. Hedges that are not formally designated as hedges for accounting purposes are designated as held-for-trading and gains and losses are recorded directly in net earnings. The Company has designated its forward exchange contracts as held-for-trading. The derivative instrument is measured at fair value and all adjustments to fair value are included in selling, general and administrative expenses with the liability recorded in accounts payable and accrued liabilities.

### (r) Changes in accounting policies

Effective October 1, 2008, the Company adopted the new CICA standard Section 3031, "Inventories". This new standard provides additional guidance concerning measurement, classification, and disclosure. The standard allows for the reversal of previous write-downs to net realizable value when there is a change in the circumstances giving rise to the impairment. There were no adjustments to inventories in the adoption of this section. The amount of inventory recognized as expense is the equivalent to the total costs of goods distributed as disclosed in the statement of earnings.

Effective October 1, 2008, the Company adopted CICA Section 3064 "Goodwill and Intangible Assets". This standard supersedes Sections 3062, "Goodwill and Intangible Assets", and 3450, "Research and Development Costs". The new section establishes standards for the recognition, measurement, and disclosure of goodwill, intangible assets, and research and development costs. It also includes requirements for recognizing internally generated intangibles. There were no adjustments to goodwill and intangible assets in the adoption of this section.

Effective October 1, 2008, the Company adopted the amendments to CICA standard 1400. The Section was amended to include requirements to assess and disclose the entity's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption of this section did not have an impact on the company's financial statements.

### (s) Future accounting pronouncements

In February 2008, the 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 the fiscal year 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

The Company has established a timeline in which certain milestones of the process in the adoption of IFRS are to be accomplished. The Company is closely monitoring regulatory developments made by the Canadian Securities Administrator that may affect the timing or nature of disclosure of its adoption of IFRS. The Company is also monitoring developments in accounting made by the AcSB and the International Accounting Standards Board (IASB) to ensure that on adoption of IFRS, the Company is fully compliant with IFRS as issued by the IASB.

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with IFRS. Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interest at fair value, and a requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards of preparing consolidated financial statements. Section 1602 specifies that non-controlling interest be treated as a separate component of equity, not as a liability or other item of equity. The new standards will become effective in 2011. Early adoption is permitted. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that may be made in periods subsequent to the date of adoption.

## Notes to the Consolidated Financial Statements (cont'd)

In June 2009, the CICA issued an amendment to Section 3862, Financial Instruments - Disclosure to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. Early adoption is permitted.

### 3. ACQUISITIONS

For all acquisitions for which there are contingent consideration clauses, the records of the acquired companies are maintained separately for the purposes of calculating the contingent consideration. There were no acquisitions in the current fiscal year.

The following provides details of the acquisition in fiscal 2008:

#### *Outillage B. Et G. Cadieux Inc. ("Cadieux")*

On February 29, 2008, the Company acquired all of the outstanding shares of Cadieux; a Quebec based industrial supply company. The total purchase price was \$404,176.

<b>Components of the total purchase price:</b>	
Cash	\$ 185,000
Note payable to vendors (see Note 9)	194,442
Other costs of acquisition	24,734
<b>PURCHASE PRICE</b>	<b>\$ 404,176</b>
<b>Purchase price allocated to the net identifiable assets acquired based on estimated fair value:</b>	
Current assets	\$ 669,404
Property and equipment	55,831
Intangible assets	40,000
Future tax asset	16,735
Goodwill	145,630
Current liability	(496,495)
Future tax liability	(12,360)
Long term debt	(14,569)
<b>NET ASSETS ACQUIRED</b>	<b>\$ 404,176</b>

The future payments included above as the note payable to vendors are non-interest bearing and were recorded at an effective interest rate of 6.0%. They were contingent upon Cadieux achieving certain levels of annual pre-tax earnings and were to be paid out annually over 3 years from the date of acquisition. At the time of acquisition, the Company believed that these targets were more likely than not to be attained and hence, had recognized its liability. However, based on the review of first year results achieved by this operation and the general economic downturn, the Company re-evaluated the contingent payment and concluded that the targets will not be attained. The liability was therefore reversed in the second quarter of the current fiscal year. The adjustments were a reduction to goodwill of \$145,630, a reduction to intangible assets for \$33,809, an increase to future income tax liability of \$12,360 and other assets and liabilities that the purchase price was allocated to for a total reduction to notes payable of \$201,350, which was recorded at the fair value of the liability at the time the liability was reversed.

Other costs of acquisition above include professional fees related to the acquisition. The acquisition of Cadieux was accounted for using the purchase method of accounting and these consolidated financial statements include the results of the operation of Cadieux from the date of acquisition.

## Notes to the Consolidated Financial Statements (cont'd)

### *Purchase price adjustments*

As part of its acquisition program, the Company has contingent price payment liabilities to Canglobal Products Ltd. and Bright Capital Technology Ltd. ("Canglobal") based on the profitability of the acquired company until December 31, 2010 (see Note 17(b)). There was no payment in the current year on this acquisition.

In fiscal 2009, reversal of a previous accrual of \$201,350 was made on the Cadieux acquisition (see previous page). As well, there was an adjustment to goodwill for \$8,000 to reflect the valuation of accounts receivable from the Canglobal acquisition.

In fiscal 2008, \$250,000 was accrued related to the acquisition of Raeside Equipment Ltd ("Raeside"). The full amount was paid out in the current fiscal year.

There were no further purchase price adjustments in fiscal 2008 and fiscal 2009.

## 4. PROPERTY AND EQUIPMENT

September 30, 2009	Cost	Accumulated Amortization	Net Book Value
Land	\$ 108,500	\$ -	\$ 108,500
Buildings	530,584	133,497	397,087
Automotive	754,612	565,492	189,120
Computer	5,170,944	4,056,849	1,114,095
Equipment under capital lease	389,445	192,753	196,692
Leaseholds	1,980,603	1,082,381	898,222
Furniture and equipment	5,005,839	3,248,508	1,757,331
<b>TOTAL</b>	<b>\$ 13,940,527</b>	<b>\$ 9,279,480</b>	<b>\$ 4,661,047</b>

September 30, 2008	Cost	Accumulated Amortization	Net Book Value
Land	\$ 108,500	\$ -	\$ 108,500
Buildings	530,583	112,596	417,987
Automotive	1,247,633	923,675	323,958
Computer	4,754,620	3,652,570	1,102,050
Equipment under capital lease	360,283	139,742	220,541
Leaseholds	2,100,243	922,811	1,177,432
Furniture and equipment	4,696,632	2,836,338	1,860,294
<b>TOTAL</b>	<b>\$ 13,798,494</b>	<b>\$ 8,587,732</b>	<b>\$ 5,210,762</b>

## Notes to the Consolidated Financial Statements (cont'd)

### 5. INTANGIBLE ASSETS

In addition to the amortization of intangible assets, the balance was reduced in the current year by \$33,809 (2008 addition of \$40,000) due to a purchase price adjustment (see Note 3).

September 30, 2009	Cost	Accumulated Amortization	Net Book Value
Customer relations	\$ 4,358,595	\$ 2,346,067	\$ 2,012,528
Non-competition agreements	385,253	334,780	50,473
Trade names	559,875	538,486	21,389
<b>TOTAL</b>	<b>\$ 5,303,723</b>	<b>\$ 3,219,333</b>	<b>\$ 2,084,390</b>

September 30, 2008	Cost	Accumulated Amortization	Net Book Value
Customer relations	\$ 4,398,595	\$ 1,668,396	\$ 2,730,199
Non-competition agreements	385,253	227,996	157,257
Trade names	559,875	378,486	181,389
<b>TOTAL</b>	<b>\$ 5,343,723</b>	<b>\$ 2,274,878</b>	<b>\$ 3,068,845</b>

### 6. GOODWILL

Goodwill was partially adjusted in the second quarter of fiscal 2009 due to the re-evaluation of contingent payments on the Cadieux acquisition (see Note 3). The re-evaluation resulted in a reduction to goodwill of \$145,630 with a corresponding reduction to notes payable. As well, there was an offsetting adjustment to goodwill for \$8,000 to reflect valuation of accounts receivable from the Canglobal acquisition.

The Company conducted its goodwill impairment test in the second quarter of fiscal 2009 due to the changes in the economic environment since its last impairment test in the third quarter of fiscal 2008. As a result, an impairment charge of \$19,548,494 (2008 - \$15,000,000) was recorded to write-off the entire value of its goodwill. The impairment is primarily the result of the general economic downturn, specifically the weakness in the energy sector which is the Company's major market sector, and the recent decline in the Company's market capitalization.

	2009	2008
Balance, beginning of year	\$ 19,686,124	\$ 34,290,494
Acquisitions	-	145,630
Purchase price adjustments	(137,630)	250,000
Impairment of goodwill	(19,548,494)	(15,000,000)
<b>BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 19,686,124</b>

### 7. BANK INDEBTEDNESS

Subsequent to the end of fiscal year 2009, the Company entered into a restated credit facility with Canadian Imperial Bank of Commerce (the "Lender") effective December 9, 2009 and expiring October 31, 2010. The restated credit facility provides a \$15,000,000 operating line of credit (see Note 20).

As at September 30, 2009, the Company had a consolidated credit facility (the "facility") with the Lender which provided a \$17,500,000 (September 30, 2008 - \$25,000,000) operating line of credit and a \$1,260,000 (September 30, 2008 - \$1,260,000) acquisition line. As of September 30, 2009, \$16,221,083 (September 30, 2008 - \$22,119,327) was drawn on the operating line, which is classified as bank indebtedness on the balance sheet; and, \$816,667 (September 30, 2008 - \$1,096,667) was drawn on the acquisition line, which is classified as current portion of long term debt on the balance sheet.

The financial covenants of the facility included (i) margin requirements between loans and certain receivables and inventory balances, (ii) debt servicing, and (iii) senior funded debt to earnings before interest, tax, depreciation and amortization and impairment of goodwill ("EBITDA"). The credit facility was secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. Prior to the amendments on this facility, the facility bore interest at prime plus 1.0%, with a sliding scale that increased based on financial covenants and a standby fee of 0.25% on unused amounts of the facility.

The Company was in compliance with these covenants through to September 30, 2008. However, for the first quarter ended December 31, 2008, the Company breached the debt servicing ratio. In February 2009, the Lender amended the lending agreement to reflect the interest rate at prime plus 3.5% and a standby fee of 0.75% on the monthly undrawn facility and required that principal payments on notes payables be deferred until after December 31, 2009, which was subsequently extended further (see Note 20). For all subsequent quarters of fiscal 2009, the Company has not been in compliance with both the debt servicing ratio and the senior funded debt to EBITDA ratio. As at September 30, 2009, the debt servicing ratio was (1.07):1.00 which is below the minimum covenant ratio of 1.10:1.00 and the senior funded debt to EBITDA ratio was (7.88):1.00 which is not in compliance with the required maximum ratio of 4.00:1.00. The Company is in compliance with its margin requirements between loans and certain receivables and inventory balances.

The facility originally matured in April 2009 and the Lender provided extensions up to August 31, 2009 and waived all covenant violations up to this date with a reduction of the operating line from \$25,000,000 to \$17,500,000 which reflected the Company's financing needs. In the current fiscal year, the Company has incurred a total of \$342,231 (2008 - \$NIL) in transaction costs related to the evaluation of its financing alternatives. Of this amount, \$272,231 was expensed in the current year. The remaining balance of \$70,000 is classified as prepaid expenses and will be amortized over the term of the new agreement once the agreement is effective.

## Notes to the Consolidated Financial Statements (cont'd)

### 8. LONG TERM DEBT

Long term debt balances as at September 30, 2009 are as follows:

	2009	2008
Finance contracts, secured by certain equipment bearing interest at rates up to 6.4% (2008 - 6.4%) repayable in monthly installments of \$7,186 (2008 - \$7,388) including interest maturing March 2010 through November 2012 (2008 - September 2012).	\$ 188,423	\$ 244,112
Acquisition loan secured by a general security agreement and assignment of property and equipment, repayable in monthly installments of \$23,333 (2008 - \$23,333) plus interest (see Note 7).	816,667	1,096,667
	1,005,090	1,340,779
Less current portion	894,137	356,397
<b>TOTAL</b>	<b>\$ 110,953</b>	<b>\$ 984,382</b>

Minimum principal repayments expected in each of the next four years based on the terms above are as follows:

<b>2010</b>	<b>\$ 894,137</b>
<b>2011</b>	<b>\$ 68,949</b>
<b>2012</b>	<b>\$ 40,851</b>
<b>2013</b>	<b>\$ 1,153</b>

The increase in current portion of long term debt reflects the repayment of the acquisition loan subsequent to year end, (see Note 7).

Subsequent to September 30, 2009, the Company closed an arm's-length private placement for gross cash proceeds of \$3,000,000 as mezzanine debt repayable in 2 years, maturing October 2011. The closing was comprised of subordinated secured promissory notes earning 18.0% per annum and 1,200,000 Warrants (see Note 20).

## Notes to the Consolidated Financial Statements (cont'd)

### 9. NOTES PAYABLE

	2009	2008
Due to certain shareholders and officers (Impact acquisition), unsecured and bearing interest at an effective rate of 15.0% per annum, repayable in payments of \$400,000 due on October 1, 2007 and \$400,000 due on October 1, 2008.	\$ -	\$ 400,000
Due to certain shareholders and officers (Rig acquisition), unsecured and bearing interest at an effective rate of 15.0% per annum, repayable in payment of \$166,667 originally due on June 27, 2009. (see Note 9(a)(i))	143,804	160,239
Due to certain shareholders and officers (Excel acquisition), unsecured and bearing interest at an effective rate of 15.0% per annum, repayable in a payment of \$150,000 originally due on June 6, 2009. (see Note 9(a)(ii))	129,424	145,784
Due to certain shareholders and officers (Canglobal acquisition), unsecured and bearing interest at 6.0% per annum, repayable in payments of \$919,220 originally due in equal payments on August 31, 2009 and August 2010. (see Notes 3 and 9(a)(iii))	919,220	933,334
Due to certain shareholders and officers (Cadieux acquisition), unsecured and bearing interest at an effective rate of 6.0% per annum, originally repayable in payments of \$73,333 March 31, 2009, \$73,333 March 31, 2010 and \$73,334 March 31, 2011. (see Notes 3 and 9(a)(iv))	-	201,350
	<b>1,192,448</b>	1,840,707
Less current portion	-	1,246,023
<b>TOTAL</b>	<b>\$ 1,192,448</b>	<b>\$ 594,684</b>

#### (a) Notes payable from acquisitions

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

- (i) The 6.0% interest bearing note payable originally due on June 27, 2009 relating to the acquisition of Rig, is in the amount of \$166,667 (2008 – \$166,667). The payment of this note has been deferred as per the requirement by the Lender (see Notes 7 and 20). The note's carrying value of \$143,804 (2008 – \$160,239) is determined using a discount rate of 15.0%.
- (ii) The 6.0% interest bearing note payable originally due June 6, 2009 relating to the acquisition of Excel Bearings Inc. ("Excel"), is in the amount of \$150,000 (2008 – \$150,000). The payment of this note has been deferred as per the requirement by the Lender (see Notes 7 and 20). The note's carrying value of \$129,424 (2008 – \$145,784) is determined using a discount rate of 15.0%.
- (iii) The 6.0% interest bearing note payable originally due in equal amounts on August 31, 2009 and August 31, 2010 relating to the acquisition of Canglobal, is in the total amount of \$919,220 (2008 - \$933,334). The payment of this note has been deferred as per the requirement by the Lender (see Notes 7 and 20). The note's carrying value is equal to its face value using a discount rate of 6.0%.
- (iv) The non-interest bearing note originally payable due in equal amounts on March 31, 2009, March 31, 2010 and March 31, 2011 relating to the acquisition of Cadieux, is in the amount of \$220,000 and was reversed in the current year due to revised profitability estimates (see Note 3).

## Notes to the Consolidated Financial Statements (cont'd)

Discount rates utilized on the above notes range from 6.0% to 15.0% as opposed to the 0.0% to 6.0% coupon rates based on management's assessment of the fair value of these notes. For each note payable, the Company assessed the total consideration issued on acquisition which consisted of cash, Company shares, notes payable and purchase price adjustments based on future earnings. Management determined the relative risks of the total consideration issued (as opposed to each instrument individually) to arrive at the discount rate used. Each discount rate was commensurate with the interest rate on arm's length debt obtained by the Company with similar terms and security at the point in time of the acquisition.

The minimum principal repayment is estimated to be paid out in fiscal 2011 but is subject to conditions precedent in senior loan agreement.

### 10. SHARE CAPITAL

#### Common shares authorized:

Unlimited number of voting common shares

#### Common shares issued:

	Number of Shares	Amount
Balance, September 30, 2007	20,006,306	\$ 37,606,675
Shares issued on exercise of options (by employees, directors and agents)	94,500	254,205
Balance, September 30, 2008	20,100,806	\$ 37,860,880
<b>BALANCE, SEPTEMBER 30, 2009</b>	<b>20,100,806</b>	<b>\$ 37,860,880</b>

#### (a) Share purchase warrants

As at September 30, 2009, there were no warrants outstanding (2008 - NIL). Subsequent to year end, warrants were issued as part of the mezzanine debt agreement (see Note 20).

#### (b) Restricted shares

As part of the shares that formed the consideration on acquisitions, restrictions exist regarding the time before the shares may be sold. During fiscal 2009, resale restrictions on 102,383 shares expired. The remaining resale restrictions for fiscal 2010 are on 80,645 shares.

#### (c) Stock option plan

The Company has established a stock option plan for its directors, executive officers, employees, and other key personnel. The Board of Directors may designate which directors, officers, employees, and other key personnel of the Company are to be granted options. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. An option granted under the stock option plan may vest at such times as the Board of Directors of the Company may determine at the time of granting, subject to the rules of any stock exchange or other regulatory body having jurisdiction. Options are not assignable.

Provision is made for accelerated vesting in certain circumstances and early termination in the event of death or cessation of employment.

On March 14, 2007 (amended on July 7 2009) the shareholders approved a new plan. Under the new and amended plan, the exercise price of each option shall not be less than the volume weighted average price of the Company's common shares on the last 5 days that the Company's stock traded prior to the date of grant which the Company considers the fair value at the date of grant. An option's maximum term is ten years. Options are vested with one third becoming exercisable after 12 months of the grant date and another one third after 24 months. The options become fully exercisable after 36 months.

## Notes to the Consolidated Financial Statements (cont'd)

As of September 30, 2009, under the current option plan the Board of Directors was authorized to grant options for up to 1,608,064 (2008 – 1,608,064) common shares of which 1,012,600 options had been granted (2008 – 1,388,017).

A summary of the status of the Company's stock option plan for the periods presented and changes during the periods ended on those dates are as follows:

### (d) Options to employees and directors

<b>September 30, 2009</b>	<b>Stock options</b>	<b>Weighted average exercise price</b>
Outstanding, beginning of year	1,388,017	\$ 2.08
Granted	70,000	0.25
Forfeited and expired	(445,417)	2.82
<b>OUTSTANDING, END OF YEAR</b>	<b>1,012,600</b>	<b>\$ 1.62</b>
<b>OPTIONS EXERCISABLE, END OF YEAR</b>	<b>625,933</b>	<b>\$ 2.21</b>

<b>September 30, 2008</b>	<b>Stock options</b>	<b>Weighted average exercise price</b>
Outstanding, beginning of year	830,267	\$ 3.68
Granted	962,000	0.91
Forfeited and expired	(309,750)	2.80
Exercised	(94,500)	2.00
<b>OUTSTANDING, END OF YEAR</b>	<b>1,388,017</b>	<b>\$ 2.08</b>
<b>OPTIONS EXERCISABLE, END OF YEAR</b>	<b>338,150</b>	<b>\$ 3.90</b>

<b>September 30, 2009</b>				<b>September 30, 2008</b>				
Exercise Price	Number outstanding at September 30, 2009	Remaining Contractual Life (Years)	Exercise Price	Number outstanding at September 30, 2009	Remaining Contractual Life (Years)	Exercise Price	Number outstanding at September 30, 2009	Remaining Contractual Life (Years)
\$ 0.25	40,000	4.5	\$ 0.63	810,000	5.0	1.19	40,000	4.5
0.25	40,000	4.2	2.21	40,000	4.2	2.25	65,000	0.2
0.63	640,000	4.0	2.50	65,000	1.5	2.58	33,000	1.7
1.19	30,000	3.5	2.60	32,167	1.1	3.37	62,000	4.0
2.21	40,000	3.2	3.50	10,000	2.0	3.80	20,000	2.3
2.50	30,000	0.5	6.06	40,000	3.5	6.25	30,000	2.5
2.58	18,000	0.7	6.65	10,000	3.2	6.75	74,750	3.0
3.37	45,000	3.0	7.34	30,000	2.9	8.25	26,100	2.8
3.50	10,000	1.0	8.25	26,100	2.8			
3.80	20,000	1.3						
6.65	10,000	2.2						
6.75	64,500	2.0						
8.25	25,100	1.8						

## Notes to the Consolidated Financial Statements (cont'd)

### 11. CONTRIBUTED SURPLUS

	2009		2008	
Balance, Beginning of year	\$	1,497,802	\$	1,323,757
Fair value at date of grant of options to employees and directors		167,343		239,250
Carrying value of options exercised by employees and directors		-		(65,205)
<b>BALANCE, END OF YEAR</b>	<b>\$</b>	<b>1,665,145</b>	<b>\$</b>	<b>1,497,802</b>

### 12. STOCK BASED COMPENSATION

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

The Company recorded in salary and wages stock based compensation expense and a corresponding increase in contributed surplus in the amount of \$167,343 for the year ending September 30, 2009 (2008 - \$239,250).

The significant assumptions made in the calculation of the weighted average fair value of the options are as follows:

	2009		2008	
Risk-free interest rate		2.8% to 4.2%		2.8% to 4.2%
Expected life		4 years		4 years
Expected volatility		45% to 70%		45% to 63%
Expected dividend yield		nil		nil
Weighted average fair value per option	\$	0.25	\$	0.25

### 13. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	2009		2008	
<b>Numerator for basic and diluted loss per share:</b>				
Net loss attributable to common shareholders	\$	(23,882,148)	\$	(13,584,808)
<b>Denominator for basic and diluted loss per share:</b>				
Weighted average number of common shares		20,100,806		20,079,633
Basic earnings per share		20,100,806		20,079,633
Diluted earnings per share		20,100,806		20,079,633
<b>BASIC LOSS PER SHARE</b>	<b>\$</b>	<b>(1.19)</b>	<b>\$</b>	<b>(0.68)</b>
<b>DILUTED LOSS PER SHARE</b>	<b>\$</b>	<b>(1.19)</b>	<b>\$</b>	<b>(0.68)</b>

The outstanding stock options as at September 30, 2009 are non-dilutive in fiscal 2009 and 2008 but may be dilutive in the future.

## Notes to the Consolidated Financial Statements (cont'd)

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
<b>Change in non-cash operating working capital:</b>		
Accounts receivable	\$ 10,993,438	\$ (1,008,031)
Income tax receivable	(723,740)	850,790
Inventory	3,691,163	2,024,428
Prepays	(91,463)	63,839
Accounts payable and accrued liabilities	(2,743,967)	(5,914,781)
Income tax payable	(936,993)	936,993
<b>TOTAL</b>	<b>\$ 10,188,438</b>	<b>\$ (3,046,762)</b>
<b>Non-cash transactions</b>		
Capital assets purchased under capital lease	\$ 100,842	\$ 44,500
Notes payable issued on acquisition	\$ -	\$ 194,442
Purchase price adjustments:		
Goodwill (see Note 6)	\$ (137,630)	\$ 250,000
Future income tax (see Note 15)	\$ (12,360)	\$ -
Intangible assets (see Note 3)	\$ (33,809)	\$ -
Notes payable (see Note 3)	\$ 201,350	\$ -
<b>Interest and income taxes paid</b>		
Interest paid	\$ 1,100,717	\$ 1,325,301
Income taxes paid	\$ 669,714	\$ 322,415

There were no acquisitions in the current year. Cash consideration (net of cash acquired) (see Note 3) used in business acquisitions in the prior year was:

September 30, 2008	Cadieux	Prior Acquisitions	Total
Cash consideration paid	\$ 185,000	\$ 250,000	\$ 435,000
Transaction costs	24,734	-	24,734
<b>Cash consideration paid for business acquisitions</b>	<b>\$ 209,734</b>	<b>\$ 250,000</b>	<b>\$ 459,734</b>

### 15. INCOME TAXES

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

	2009	2008
Current tax (recovery) expense	\$ (1,011,299)	931,182
Future tax recovery	(709,375)	(206,387)
<b>TOTAL</b>	<b>\$ (1,720,674)</b>	<b>\$ 724,795</b>

## Notes to the Consolidated Financial Statements (cont'd)

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

	2009	2008
<b>Expected income tax recovery at 31.85% (2008 - 32.35%)</b>	<b>\$ (8,154,499)</b>	<b>\$ (4,160,214)</b>
<b>Increase (decrease) resulting from:</b>		
Goodwill impairment	6,231,610	4,852,500
Non-deductible expenses	123,691	163,911
Tax rate differential	83,623	(70,882)
Provincial capital tax	13,250	7,719
Effect of foreign tax rates	5,369	(56,421)
Other	(21,279)	13,594
Non-taxable portion of capital gains	(2,439)	(25,412)
<b>TOTAL INCOME TAX (RECOVERY) EXPENSE</b>	<b>\$ (1,720,674)</b>	<b>\$ 724,795</b>

A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

### Temporary differences

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

	2009	2008
<b>Future income tax asset</b>		
Loss carryforwards	\$ 435,980	\$ 88,837
Financing costs	160,122	264,161
Inventory	130,667	-
Deferred tenant inducements	31,667	-
Exploration expenses	28,875	32,565
<b>TOTAL FUTURE INCOME TAX ASSET</b>	<b>\$ 787,311</b>	<b>\$ 385,563</b>
<b>Future income tax liability</b>		
Intangibles	\$ 564,724	\$ 859,693
Capital assets - deficiency of undepreciated capital cost compared to net carrying value	204,060	233,007
Other	12,597	8,669
<b>TOTAL FUTURE INCOME TAX LIABILITY</b>	<b>\$ 781,381</b>	<b>\$ 1,101,369</b>
<b>NET FUTURE INCOME TAX ASSET (LIABILITY)</b>	<b>\$ 5,930</b>	<b>\$ (715,806)</b>

As at September 30, 2009, the Company had non-capital losses available for a carry-forward of \$1,676,845 (2008 - \$343,522, of which \$118,768 will expire in 2027 and \$224,754 will expire in 2028), and \$1,333,323 will expire in 2029. For financial reporting purposes a future tax asset has been recognized in respect of these carry-forwards.

## 16. RELATED PARTY TRANSACTIONS

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

- a) Legal fees of \$296,041 (2008 - \$178,654) were paid to a law firm for corporate matters of which a director is a partner. Of this amount, \$97,339 (2008 - \$26,685) is included in accounts payable.

## Notes to the Consolidated Financial Statements (cont'd)

- b) Management consulting fees of \$169,348 (2008 - \$169,107) were paid to a company, 371070 Alberta Ltd., over which an officer and director has significant influence.
- c) Management consulting fees of \$30,000 (2008 - \$60,183) were paid to a company, Western America Venture Management Inc., over which a former director had significant influence.
- d) The Company paid directors' fees and expenses of \$90,090 (2008 - \$75,909) to four (2008 - four) of its independent directors.
- e) In fiscal 2006, a note payable with a face value of \$1,600,000, and fair value of \$1,450,284 related to a purchase price adjustment on a previous acquisition was accrued to several current and former executives of the Company and their spouses (executives of the Company). The executives and their spouses were previous shareholders of the acquired company. During the current year, \$400,000 (2008 - \$400,000) of the note payable was paid. There is no outstanding balance related to this note as at September 30, 2009 (September 30, 2008 - \$400,000).

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.

### 17. COMMITMENTS AND CONTINGENCIES

#### (a) 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
2010	\$ 75,564	\$ 2,490,016
2011	64,319	2,226,741
2012	34,406	1,817,554
2013	-	1,504,641
2014 and thereafter	-	5,434,497

#### (b) Contingencies

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

The Canglobal acquisition on August 31, 2007 includes an agreement where potential future payments may be made to previous shareholders based on pre-tax earnings on December 31, 2009 and 2010. In accordance with Canadian GAAP, future contingent consideration is not recognized as part of the cost of the purchase until the consideration is earned as the outcome cannot be determined beyond a reasonable doubt at the time of the acquisition.

# Notes to the Consolidated Financial Statements (cont'd)

## 18. CAPITAL MANAGEMENT

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

- safeguarding the entity's ability to continue as a going concern; and,
- increase shareholder value.

In the management of capital, the Company includes bank indebtedness, long term debt, notes payable, and shareholders' equity in the definition of capital.

The Company uses a combination of debt and equity financing to help achieve its objectives. The percentage levels of each capital component may change as the Company attempts to take advantage of prevailing market conditions.

The Company is not subjected to capital requirements imposed by a regulator.

As at September 30, 2009, the Company breached its externally imposed debt covenants requirement, specifically, the debt servicing and the senior debt to EBITDA ratio (see Note 7). Due to this, the Lender was in a position to declare the loans in default and demand payment. If this did occur, the Company would be forced to seek financing from other sources to meet debt repayment needs. However, subsequent to year end, the Company entered into a Restated Credit Agreement with the Lender. This agreement is effective December 9, 2009 and matures on October 31, 2010 (see Note 20).

Changes in certain key ratios are as follows:

	Sep 30, 2009	Sep 30, 2008
Working capital ratio*	1.56	1.50
Senior funded debt to adjusted EBITDA ratio **	(7.88)	3.34
Debt servicing ratio***	(1.07)	1.16

\* "Working capital ratio" is defined as current assets divided by current liabilities.

\*\* "Senior funded debt to adjusted EBITDA ratio" is defined as the ratio of senior secured and interest bearing debt to adjusted EBITDA. "Adjusted EBITDA" is defined as EBITDA plus qualified acquired EBITDA. "Qualified acquired EBITDA" means normalized EBITDA for any company acquired during the period and is subject to the lender's approval. Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. EBITDA is a key measure used by management to evaluate the Company's performance and is used in measuring compliance with certain debt covenants.

\*\*\* "Debt servicing ratio" is the ratio of EBITDA less cash taxes to the sum of (i) debt service requirements; and, (ii) unfunded capital expenditures. "Debt service requirements" are defined as the scheduled principal and interest payments on senior funded debt and notes payable. "Unfunded capital expenditures" are capital expenditures that are not specifically financed with long term debt.

Both the senior funded debt to adjusted EBITDA and debt servicing ratios are calculated on a trailing twelve month basis.

## Notes to the Consolidated Financial Statements (cont'd)

### 19. FINANCIAL INSTRUMENTS

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

#### (a) Financial Instruments – Carrying Values

Financial assets (classified as loans and receivables)	Sep 30, 2009	Sep 30, 2008
Accounts receivable	\$ 12,100,129	\$ 23,093,567
<b>Financial liabilities (classified as other financial liabilities)</b>		
Bank indebtedness	\$ 16,221,083	\$ 22,119,327
Accounts payable and accrued liabilities	7,415,544	10,159,510
Long term debt	1,005,090	1,340,779
Notes payable	1,192,448	1,840,707

The Company has determined that the fair value of its short-term financial assets, including accounts receivable, and financial liabilities, including accounts payable and accrued liabilities and financial derivatives, approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments. The fair value of the Company's bank indebtedness also approximates its respective carrying amounts due to the floating rate nature of the debt.

The fair value of the notes payable and the long term debt obligations are estimated based on current rates available to the Company for similar debt of the same remaining maturities. The estimated fair value of the notes payable and long term debt as at September 30, 2009 is \$2,197,538 (September 30, 2008 - \$3,199,641). If the Company paid out the loans at September 30, 2009, a pretax loss of \$43,439 (2008- \$18,155) would occur. These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible.

#### (b) Financial income and expense

	2009	2008
<b>Interest expense:</b>		
Bank indebtedness	\$ 984,709	\$ 946,939
Long term debt	105,470	220,965
Notes payable	47,441	256,821
<b>Bad debt (recovery) expense</b>	<b>(282,200)</b>	<b>247,346</b>

#### (c) Financial risk management

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

##### (i) Credit risk

The Company extends credit facilities to its customers which are unsecured. Although the Company has a system of credit management in place, there is a risk that some of the Company's customers may not be able to meet their obligations when they become due. The loss of a large receivable would have a substantial adverse effect on the Company's profitability. In fiscal 2009, the Company's largest customer accounted for approximately \$4,940,873 or 4.65% (2008 - \$8,995,704 or 6.27%) of total revenue, and comprised \$302,652 or 2.47% (2008 - \$1,882,046 or 8.15%) of accounts receivable as at September 30, 2009.

## Notes to the Consolidated Financial Statements (cont'd)

Accounts receivable that are past their contractual terms of 30 days as at September 30, 2009 are \$5,950,054 (September 30, 2008 - \$9,718,602). However, given the customer base, customers typically pay in 45 days. Management does not consider the amount over 30 days, net of provisions for uncollectible accounts, as uncollectible as management is thorough in the process of reviewing credit limits and works closely with the customers to ensure collection. Historically, bad debts as a percentage of revenue is less than 1.0%.

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

	2009		2008	
<b>Balance, beginning of year</b>	\$	493,388	\$	604,375
Bad debt (recovery) expense		(282,200)		247,346
Accounts written off and other adjustments		84,166		(358,333)
<b>BALANCE, END OF YEAR</b>	<b>\$</b>	<b>295,354</b>	<b>\$</b>	<b>493,388</b>

### (ii) Foreign Currency Risk

The Company has cash or bank overdrafts and accounts payable and accrued liabilities denominated in foreign currencies which exposes the Company to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. Effective fiscal 2009, the Company initiated a program of hedging this risk by purchasing U.S. dollar forward exchange contracts. The notional value of the forward contract not yet settled at September 30, 2009 is USD 1,200,000 with a term to maturity of approximately four weeks from the inception of contract. The fair value adjustments related to this derivative instrument is a loss of \$1,000 (2008 - \$NIL) and is included in selling, general and administrative expenses. The liability related to this adjustment is included in accounts payable and accrued liabilities. Total foreign exchange loss for the year is \$262,536 (2008 - gain of \$294,015). Based on September 30, 2009 balances of assets and liabilities denominated in foreign currency, if the Canadian dollar had strengthened by 10.0%, with all other variables held constant, net loss would have increased by approximately \$35,627 (2008 - \$29,402).

### (iii) Liquidity risk

	2010		2011		2012		2013	
Bank indebtedness	\$	16,221,083	\$	-	\$	-	\$	-
Accounts payable		7,415,544		-		-		-
Long term debt		894,137		68,949		40,851		1,153
Notes payable (estimated timing of payment)		-		1,192,448		-		-
<b>TOTAL</b>	<b>\$</b>	<b>24,530,764</b>	<b>\$</b>	<b>1,261,397</b>	<b>\$</b>	<b>40,851</b>	<b>\$</b>	<b>1,153</b>

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. Global financial markets and economic conditions have been disrupted and volatile. The debt and equity capital markets have been distressed. These factors, together with the repricing of credit and the current weak economic conditions have made and will likely continue to make it difficult to obtain cost effective financing. In addition, the cost of obtaining money from the credit markets has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to the Company's current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain funding will be available when needed and to the extent required, on acceptable terms. 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.

## Notes to the Consolidated Financial Statements (cont'd)

The Company's current credit facility contains financial covenants that are based on the trailing twelve months of EBITDA. During the year ended September 30, 2009, the Company breached two of its externally imposed debt covenants, specifically the debt servicing ratio and the senior funded debt to EBITDA covenants. The Company is in compliance with its margin requirements between loans and certain receivables and inventory balances.

The facility originally matured in April 2009 and the Lender provided extensions up to August 31, 2009 and waived all covenant violations up to this date with a reduction of the operating line from \$25,000,000 to \$17,500,000 which reflected the Company's financing needs. The reduction in required funds by the Company is due to its success in reducing its operating costs and inventory levels and more timely collection of accounts receivable. Subsequent to fiscal year 2009, the Company has a new credit facility with the Lender effective December 9, 2009 which expires October 31, 2010. The new credit provides a \$15,000,000 operating line of credit (see Note 20).

### **(iv) Interest rate risk**

The Company has floating rate debt, which 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, 2009 had increased by 1.0%, with all other variables held constant, net loss would have increased by approximately \$162,211 (2008 - \$221,193).

## 20. SUBSEQUENT EVENTS

Subsequent to year end, Commercial entered into a Restated Credit Agreement with the Lender which provides an operating line of credit of \$15,000,000 effective December 9, 2009 and expiring on October 31, 2010. As well, as at October 8, 2009, the Company closed an arm's-length private placement for gross cash proceeds of \$3,000,000 as mezzanine debt payable in two years, maturing October 8, 2011. The loan injection of \$3,000,000 was a condition precedent to the Restated Credit Agreement with the Lender.

### **(i) Restated Credit Agreement**

As at the closing date, December 9, 2009, the total amount drawn on the restated credit facility was \$13,227,350 which comprised of the payout on the previous operating line of \$12,457,348 and acquisition line of \$770,002.

The restated credit facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The restated credit facility bears interest at prime plus 4.5% or bankers' acceptance rate plus 5.75%, and, a standby fee of 1.0% on unused amounts of the facility.

The financial covenants of the facility included (i) margin requirements between loans and certain receivables and inventory balances, (ii) minimum current ratio of 1.35, and (iii) minimum trailing twelve month negative EBITDA as follows: a) at closing date, \$4,000,000; b) at March 31, 2010, \$2,000,000; c) at June 30, 2010, \$1,000,000; and, d) at September 30, 2010 and thereafter, \$NIL. These covenants are to be measured monthly.

Additional covenants on the Restated Credit Agreement include a maximum capital expenditure of \$750,000 and no principal payments on the notes payable and the mezzanine loan over the term of the Restated Credit Agreement.

### **(ii) Mezzanine Debt**

Mezzanine debt of \$3,000,000 is due and payable in twenty-four months, on October 8, 2011. These subordinated promissory notes are secured in second position to the Lender by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The notes bear an interest rate of 18.0% per annum and 1,200,000 warrants. 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 will be subject to a four month statutory hold period from the date of grant.

## 21. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

# 06 Corporate Information

## Officers and Directors

Jim Barker  
President, Chairman and Director  
Edmonton, Alberta

Rozina Kassam, CA  
Chief Financial Officer  
Edmonton, Alberta

Dr. Ken Harrison  
Director  
Edmonton, Alberta

Richard Smith  
Director  
Calgary, Alberta

Alan Martin, CA CBV  
Director  
St. Albert, Alberta

Bill Rosser  
Corporate Secretary and 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”

## Transfer Agent

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

## Bankers

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

## Share Capital

Issued: 20,100,806 common shares

## Website

[www.commercialsolutions.ca](http://www.commercialsolutions.ca)



1 888 522 9822 | [www.commercialsolutions.ca](http://www.commercialsolutions.ca)



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