



Interim Financial Statements

Six Months Ended March 31, 2005





**Commercial Solutions Inc.
Fiscal 2005 Second Quarter Report**

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Fiscal 2005 Second Quarter Report

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Consolidated Balance Sheet

	March 31 2005 (unaudited)	March 31 2004 (unaudited)	September 30 2004 (audited)
Assets			
Accounts receivable	\$ 14,582,456	\$ 13,661,717	\$ 11,679,326
Inventory	15,922,538	13,755,239	13,882,436
Prepaid expenses	424,088	600,506	458,111
	<u>30,929,082</u>	<u>28,017,462</u>	<u>26,019,873</u>
Deferred costs	77,500	-	127,589
Future income tax asset	1,521,426	1,947,673	1,791,371
Capital assets	1,550,778	2,167,211	1,737,826
Property held for sale	725,229	-	653,606
Goodwill	7,144,137	6,836,678	7,144,137
	<u>\$ 41,948,152</u>	<u>\$ 38,969,024</u>	<u>\$ 37,474,402</u>
Liabilities			
Bank indebtedness (note 3)	\$ 8,948,255	\$ 10,023,131	\$ 10,051,295
Accounts payable and accrued liabilities	10,586,087	10,179,622	8,641,790
Income taxes payable	897,231	249,955	465,030
Current portion of long-term debt	865,095	878,272	868,348
Current portion of notes payable	907,999	463,000	907,999
	<u>22,204,667</u>	<u>21,793,980</u>	<u>20,934,462</u>
Long-term debt	5,222,207	5,877,721	5,690,645
Notes payable	1,260,417	2,418,416	1,366,917
Preferred shares	1,968,178	1,968,178	1,968,178
	<u>30,655,469</u>	<u>32,058,295</u>	<u>29,960,202</u>
Shareholders' Equity			
Common shares (note 4)	7,070,397	4,914,905	4,926,903
Contributed surplus (note 2)	884,622	-	-
Retained earnings	3,337,664	1,995,824	2,587,297
	<u>11,292,683</u>	<u>6,910,729</u>	<u>7,514,200</u>
	<u>\$ 41,948,152</u>	<u>\$ 38,969,024</u>	<u>\$ 37,474,402</u>

On behalf of the Board:



Jim Barker, Director



Don Caron, Director

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Earnings & Retained Earnings

Unaudited

	Three Months Ended March 31 2005	Three Months Ended March 31 2004	Six Months Ended March 31 2005	Six Months Ended March 31 2004
Revenue	\$ 22,599,686	\$ 20,364,766	\$ 43,558,263	\$ 39,219,697
Cost of goods sold	16,098,137	14,522,331	31,154,531	28,117,055
Gross profit margin (\$)	6,501,549	5,842,435	12,403,732	11,102,642
Gross profit margin (%)	28.8%	28.7%	28.5%	28.3%
Expenses				
Salaries and benefits	3,147,440	3,096,871	6,171,985	6,093,729
Selling, general & administrative	1,567,508	1,505,742	3,060,316	2,889,974
	4,714,948	4,602,613	9,232,301	8,983,703
	1,786,601	1,239,822	3,171,431	2,118,939
Other items				
Interest	83,903	79,446	185,728	179,985
Interest on long-term debt	214,399	236,457	422,825	411,485
Depreciation	93,368	82,374	185,416	176,362
	391,670	398,277	793,969	767,832
Earnings before income taxes	1,394,931	841,545	2,377,462	1,351,107
Income taxes	521,598	305,556	890,610	499,910
Net earnings	873,333	535,989	1,486,852	851,197
Retained earnings, beginning of period	2,464,331	1,459,835	2,587,297	1,144,627
Change in accounting policy (note 2)	-	-	(736,485)	-
Retained earnings, end of period (note 2)	\$ 3,337,664	\$ 1,995,824	\$ 3,337,664	\$ 1,995,824
Earnings per share - basic	\$ 0.09	\$ 0.06	\$ 0.15	\$ 0.09
Weighted average number of shares	10,105,404	8,833,405	9,720,481	8,833,405
Earnings per share - diluted	\$ 0.08	\$ 0.05	\$ 0.14	\$ 0.08
Weighted average number of shares	11,446,181	10,581,326	10,965,143	10,496,882

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Unaudited

	Three Months Ended March 31 2005		Six Months Ended March 31 2005	
		2004		2004
Increase (decrease) in cash and cash equivalents				
Operating				
Net earnings	\$ 873,333	\$ 535,989	\$ 1,486,852	\$ 851,197
Depreciation	93,368	82,374	185,416	191,130
Loss on disposal of property and equipment	18,633	-	10,333	-
Future income tax expense	434,438	305,556	434,438	499,910
Stock based compensation expense	40,915	-	78,782	-
	<u>1,460,687</u>	<u>923,919</u>	<u>2,195,821</u>	<u>1,542,237</u>
Changes in non-cash working capital	<u>(987,110)</u>	<u>(1,465,641)</u>	<u>(2,532,793)</u>	<u>(2,107,547)</u>
	<u>473,577</u>	<u>(541,722)</u>	<u>(336,972)</u>	<u>(565,310)</u>
Financing				
Banker's acceptances	(7,000,000)	-	(8,000,000)	-
Common shares issued, net	-	-	2,048,437	-
Long-term debt, net	(256,080)	(104,632)	(471,691)	2,294,483
Notes payable	(53,250)	(936,583)	(106,500)	(1,076,071)
Related party advances, net	-	(10,867)	-	7,184
	<u>(7,309,330)</u>	<u>(1,052,082)</u>	<u>(6,529,754)</u>	<u>1,225,596</u>
Investing				
Purchase of property and equipment	(51,260)	(62,594)	(151,905)	(299,406)
Deferred costs	(62,500)	-	50,089	-
Proceeds on disposal of property and equipment	49,882	-	71,582	-
	<u>(63,878)</u>	<u>(62,594)</u>	<u>(30,234)</u>	<u>(299,406)</u>
Increase (decrease) in cash and cash equivalents during the period	(6,899,631)	(1,656,398)	(6,896,960)	360,880
Cash and cash equivalents (note 3)				
Beginning of period	<u>(2,048,624)</u>	<u>(366,733)</u>	<u>(2,051,295)</u>	<u>(2,384,011)</u>
End of period	<u>\$ (8,948,255)</u>	<u>\$ (2,023,131)</u>	<u>\$ (8,948,255)</u>	<u>\$ (2,023,131)</u>

See accompanying notes to the consolidated financial statements.

1. Summary of significant accounting policies

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly owned subsidiaries. These financial statements do not contain all disclosures required by Canadian GAAP for annual audited financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual audited financial statements.

These financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited financial statements of the preceding fiscal year, except as disclosed in Note 2.

2. Change in accounting policy

Effective October 1, 2004, the Company adopted the new provisions of CICA Handbook Section 3870 Stock-Based Compensation and Other Stock Based Payments” which now requires companies to adopt the fair value based method for all stock-based payments granted on or after January 1, 2002. The Company is now required to expense stock options issued to employees, directors and non-employees. Previously, the Company was only required to disclose the pro forma effect of any stock options issued to employees and directors in the notes to the financial statements. As permitted by the standard, this change has been applied retroactively without restatement of prior periods’ financial statements. As a result, the Company adjusted its opening retained earnings by \$736,485 in fiscal 2005 to reflect the cumulative effect of the change on prior periods.

The contributed surplus balance of \$884,622 is attributed to the \$736,485 cumulative effect of adopting the new standard as described above, the \$69,355 fair value of Agents’ options issued during the 3 months ending December 31, 2004 (see Note 4) and stock based compensation expense of \$78,782 for the six months ended March 31, 2005 (see Note 7).

3. Bank indebtedness

The Company has credit facilities of \$15,000,000 Canadian or its US equivalent. As at March 31, 2005, bank indebtedness is \$8,948,255 (2004 - \$10,023,131), and is due on demand.

Advances under the credit facilities as at March 31, 2005 and 2004 and September 30, 2004 are as follows:

	March 31 2005	March 31 2004	September 30 2004
Bank overdrafts	\$ 8,948,255	\$ 2,023,131	\$ 2,051,295
Banker's acceptance	\$ -	\$ 8,000,000	\$ 8,000,000
	<u>\$ 8,948,255</u>	<u>\$ 10,023,131</u>	<u>\$ 10,051,295</u>

Bank overdrafts bears interest on a sliding scale ranging from prime to prime plus 0.75%. This scale is based upon the Company's current ratio. The banker's acceptance as at March 31, 2004 bears interest at an effective rate of 3.75% (September 30, 2004 - 4%) and matured on April 14, 2004 (September 30, 2004 - October 8, 2004).

3. Bank indebtedness (cont)

The loan is secured by a general security agreement covering all present and after acquired property, postponements of claims from related parties, and an assignment of life insurance.

The agreements governing the operating loan facility and long term debt contain certain financial covenants regarding (i) margin requirements between loans and certain receivables and inventory balances, (ii) working capital, (iii) debt servicing and (iv) debt to tangible net worth. As at March 31, 2005, the Company was operating within its covenants.

4. Common shares

Pursuant to a final prospectus dated November 11, 2004, filed with the applicable securities regulatory authorities, and pursuant to an Agency Agreement between the Company and Paradigm Capital Inc. and Canaccord Capital Corporation (collectively the "Agents"), the Company qualified for distribution 1,251,000 common shares at a price of \$2.00 per common share for gross proceeds of \$2,502,000. The financing closed on November 26, 2004. The Company paid the Agents a commission of 6% of the aggregate gross proceeds from the sale of common shares. In addition, the Agents received a non-transferable option ("Agents' Options") to purchase 125,100 common shares at an exercise price of \$2.00 per common share. The estimated fair value of the options issued to the Agents was \$69,355 and was recorded as a reduction to common shares and a corresponding increase to contributed surplus. The Agents' Options were qualified by and distributed pursuant to the prospectus.

The Company also paid the reasonable out of pocket costs of the Agents and disbursements of the Agents' legal counsel.

At March 31, 2005 the Company had 10,105,404 common shares, 1,950,555 warrants and 1,347,367 options to acquire common shares outstanding. All of the warrants and 757,945 options are vested and exercisable. In addition to the Agents' Options discussed above, 66,500 common share options have been granted during the six months ended March 31, 2005.

5. Subsequent events

On May 12, 2005, the Company announced that it has completed a private placement of 3,000,000 common shares for gross proceeds of \$7,500,000 with the assistance of Paradigm Capital Inc. ("Paradigm"). The common shares are subject to a four month hold period, which will expire on September 13, 2005.

Paradigm has been issued an option to offer for sale by way of private placement additional common shares, equivalent to 15% of the securities issued in the private placement until June 13, 2005 at \$2.50 per common share.

In consideration for its services under the offering, Paradigm received cash compensation equal to 6% of the gross proceeds of the offering and a compensation option to purchase common shares of the Company equal to 8% of the common shares sold under the offering at a price of \$2.70 per common share, with such option exercisable for a period of 18 months following the closing of the offering.

6. Segmented information

The Company operates two business segments in Canada: (i) the distribution of industrial supplies; and (ii) the distribution of oilfield parts and supplies.

The following table presents information about reportable segment profit and loss for three months ended March 31, 2005:

	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated Mar 31, 2005
Revenue	\$ 18,118,893	\$ 4,556,038	\$ (75,245)	\$ 22,599,686
Segment profit (loss)	<u>1,206,446</u>	<u>977,970</u>	<u>(15,049)</u>	2,169,367
General corporate expenses				382,766
Depreciation expense				93,368
Interest expense				298,302
Income taxes				<u>521,598</u>
Consolidated net earnings				<u>\$ 873,333</u>
Identifiable assets	<u>\$ 27,075,016</u>	<u>\$ 6,391,448</u>	<u>\$ (49,547)</u>	\$ 33,416,917
Corporate assets				<u>8,531,235</u>
Total assets				<u>\$ 41,948,152</u>
Capital expenditures	<u>\$ 48,758</u>	<u>\$ 2,502</u>		<u>\$ 51,260</u>
Depreciation expense	<u>\$ 87,303</u>	<u>\$ 6,065</u>		<u>\$ 93,368</u>

The following table presents information about reportable segment profit and loss for three months ended March 31, 2004:

	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated Mar 31, 2004
Revenue	\$ 16,733,379	\$ 3,677,654	\$ (46,267)	\$ 20,364,766
Segment profit (loss)	<u>835,463</u>	<u>851,336</u>	<u>(9,253)</u>	1,677,546
General corporate expenses				437,724
Depreciation expense				82,374
Interest expense				315,903
Income taxes				<u>305,556</u>
Consolidated net earnings				<u>\$ 535,989</u>
Identifiable assets	<u>\$ 24,697,280</u>	<u>\$ 5,911,223</u>	<u>\$ (29,208)</u>	\$ 30,579,295
Corporate assets				<u>8,389,729</u>
Total assets				<u>\$ 38,969,024</u>
Capital expenditures	<u>\$ 62,594</u>	<u>\$ -</u>		<u>\$ 62,594</u>
Depreciation expense	<u>\$ 74,823</u>	<u>\$ 7,551</u>		<u>\$ 82,374</u>

6. Segmented information (cont)

The following table presents information about reportable segment profit and loss for six months ended March 31, 2005:

	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated Mar 31, 2005
Revenue	\$ 34,908,723	\$ 8,808,063	\$ (158,523)	\$ 43,558,263
Segment profit (loss)	<u>2,009,328</u>	<u>1,930,119</u>	<u>(31,705)</u>	3,907,742
General corporate expenses				736,311
Depreciation expense				185,416
Interest expense				608,553
Income taxes				<u>890,610</u>
Consolidated net earnings				<u>\$ 1,486,852</u>
Identifiable assets	<u>\$ 27,075,016</u>	<u>\$ 6,391,448</u>	<u>\$ (49,547)</u>	\$ 33,416,917
Corporate assets				<u>8,531,235</u>
Total assets				<u>\$ 41,948,152</u>
Capital expenditures	<u>\$ 149,403</u>	<u>\$ 2,502</u>		<u>\$ 151,905</u>
Depreciation expense	<u>\$ 173,224</u>	<u>\$ 12,192</u>		<u>\$ 185,416</u>

The following table presents information about reportable segment profit and loss for six months ended March 31, 2004:

	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated Mar 31, 2004
Revenue	\$ 31,763,049	\$ 7,585,245	\$ (128,597)	\$ 39,219,697
Segment profit (loss)	<u>1,186,313</u>	<u>1,661,622</u>	<u>(25,718)</u>	2,822,217
General corporate expenses				688,510
Depreciation expense				191,130
Interest expense				591,470
Income taxes				<u>499,910</u>
Consolidated net earnings				<u>\$ 851,197</u>
Identifiable assets	<u>\$ 24,697,280</u>	<u>\$ 5,911,223</u>	<u>\$ (29,208)</u>	\$ 30,579,295
Corporate assets				<u>8,389,729</u>
Total assets				<u>\$ 38,969,024</u>
Capital expenditures	<u>\$ 288,471</u>	<u>\$ 10,935</u>		<u>\$ 299,406</u>
Depreciation expense	<u>\$ 176,079</u>	<u>\$ 15,051</u>		<u>\$ 191,130</u>

7. Stock based compensation

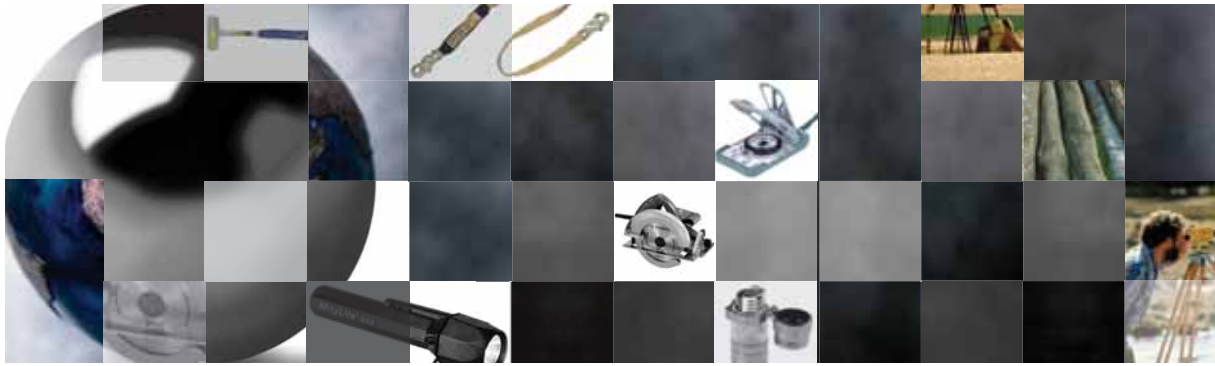
The Company recorded stock based compensation expense and a corresponding increase in contributed surplus in the amount of \$40,915 for the 3 months ending March 31, 2005. For the six months ending March 31, 2005, the company recorded stock based compensation expense of \$78,782.

Disclosure of the impact on earnings and earnings per share, as if the fair value based method of accounting for stock based compensation had been applied for the comparative period ended March 31, 2004 is as follows:

	3 Mos. Ended March 31, 2004	6 Mos. Ended March 31, 2004
Net earnings for the period as reported	\$ 535,989	\$ 851,197
Pro forma current period compensation cost	<u>\$ 56,466</u>	<u>\$ 112,933</u>
Pro forma net earnings for the period	<u>\$ 479,523</u>	<u>\$ 738,264</u>
Basic earnings per share as reported	\$ 0.06	\$ 0.09
Pro forma basic earnings per share	\$ 0.05	\$ 0.08
Diluted earnings per share as reported	\$ 0.06	\$ 0.09
Pro forma diluted earnings per share	\$ 0.05	\$ 0.07

8. Comparative figures

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



Corporate Information

Officers and Directors

Jim Barker
Chairman, President, CEO and Director
Edmonton, Alberta

Eric Sauze, CA CFA
Chief Financial Officer
Edmonton, Alberta

Dr. Ken Harrison
Director
Edmonton, Alberta

Richard Smith
Director
Calgary, Alberta

Don Caron
Secretary and Director
Edmonton, Alberta

Stephen Kent
Director
Edmonton, Alberta

Greg Florence
Director
Regina, Saskatchewan

William Rosser
Director
Edmonton, Alberta

Corporate Office

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Auditors

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

Shares Listed

TSX Venture Exchange
Trading Symbol – “CSA”

Bankers

Bank of Montreal
10199 – 101 Street
Edmonton, Alberta T5J 3Y4

Transfer Agent

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

Share Capital

Issued: 13,105,404 common shares
Issued: 983,760 preferred shares

Web Site: www.csinet.ca