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**COMMERCIAL SOLUTIONS INC.**  
MANAGEMENT DISCUSSION AND ANALYSIS  
NINE MONTHS ENDED JUNE 30, 2007

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## INTRODUCTION

The following Management's Discussion and Analysis is as of August 14, 2007 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, 2007 consolidated financial statements and with the audited consolidated financial statements and Management's Discussion and Analysis contained in the Company's annual report for the year ended September 30, 2006.

The financial data presented in this Management's 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](http://www.sedar.com).

## FINANCIAL SUMMARY

INCOME STATEMENT, for the three months ended June 30th							
		2007		2006		Increase (Decrease)	
		\$		\$		\$	%
Sales		\$ 36,238,836		\$ 33,062,700		\$ 3,176,136	9.6%
Gross margin \$		9,983,698		9,056,801		926,897	10.2%
Gross margin %		27.5%		27.4%		0.1%	
Operating expenses	a	9,232,752		6,333,898		2,898,854	45.8%
EBITDA	b	750,946		2,722,903		(1,971,957)	-72.4%
Interest		337,823		231,359		106,464	46.0%
Refinancing costs	c	252,016		-		252,016	-
Depreciation and amortization		459,544		259,928		199,616	76.8%
Earnings (loss) before tax		(298,437)		2,231,616		(2,530,053)	-113.4%
Income taxes		(93,813)		750,270		(844,083)	-112.5%
<b>Net income (loss)</b>		<b>(\$204,624)</b>		<b>\$ 1,481,346</b>		<b>\$ (1,685,970)</b>	<b>-113.8%</b>
<b>Earnings (loss) per share</b>							
	Basic	(\$0.01)	\$	0.08	\$	(0.09)	-112.5%
	Diluted	(\$0.01)	\$	0.07	\$	(0.08)	-114.3%
<b>Weighted avg. shares outstanding</b>							
	Basic	19,468,416		17,531,525		1,936,891	11.0%
	Diluted	19,468,416		19,719,234		(250,818)	-1.3%
a See page 17 for a further explanation of this non-GAAP measure.							
b Represents earnings before interest, taxes, depreciation and amortization (see page 16 for a further explanation of this non-GAAP measure).							
c Represents one-time charges to consolidate banking and debt facilities (see page 9 for a further explanation of this charge).							

<b>INCOME STATEMENT, for the nine months ended June 30th</b>					
		<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>
Sales		\$ 122,270,637	\$ 97,600,017	\$ 24,670,620	25.3%
Gross margin \$		34,338,290	27,215,320	7,122,970	26.2%
Gross margin %		28.1%	27.9%	0.2%	
Operating expenses	a	26,797,627	18,039,853	8,757,774	48.5%
EBITDA	b	7,540,663	9,175,467	(1,634,804)	-17.8%
Interest		1,220,972	848,416	372,556	43.9%
Refinancing costs	c	252,016	-	252,016	-
Depreciation and amortization		1,317,456	695,441	622,015	89.4%
Earnings before tax		4,750,219	7,631,610	(2,881,391)	-37.8%
Income taxes		1,511,484	2,565,748	(1,054,264)	-41.1%
<b>Net income (loss)</b>		<b>\$ 3,238,735</b>	<b>\$ 5,065,862</b>	<b>\$ (1,827,127)</b>	<b>-36.1%</b>
<b>Earnings (loss) per share</b>					
	Basic	\$ 0.17	\$ 0.33	\$ (0.16)	-48.5%
	Diluted	\$ 0.16	\$ 0.29	\$ (0.13)	-44.8%
<b>Weighted avg. shares outstanding</b>					
	Basic	19,264,951	15,471,999	3,792,952	24.5%
	Diluted	20,131,915	17,733,599	2,398,316	13.5%
a See page 17 for a further explanation of this non-GAAP measure.					
b Represents earnings before interest, taxes, depreciation and amortization (see page 16 for a further explanation of this non-GAAP measure).					
c Represents one-time charges to consolidate banking and debt facilities (see page 9 for a further explanation of this charge).					

BALANCE SHEET, as at June 30th			Increase (Decrease)	
	2007	2006	\$	%
Current assets	\$ 52,432,145	\$ 48,956,882	\$ 3,475,263	7.1%
Property and equipment	3,832,560	3,391,896	440,664	13.0%
Other assets	35,266,544	21,343,970	13,922,574	65.2%
<b>TOTAL ASSETS</b>	<b>91,531,249</b>	<b>73,692,748</b>	<b>17,838,501</b>	<b>24.2%</b>
Current liabilities	34,413,681	19,096,463	15,317,218	80.2%
Current portion of long term debt	1,284,360	2,555,849	(1,271,489)	-49.7%
Long term liabilities	1,614,876	6,181,846	(4,566,970)	-73.9%
<b>TOTAL LIABILITIES</b>	<b>37,312,917</b>	<b>27,834,158</b>	<b>9,478,759</b>	<b>34.1%</b>
Share capital	36,081,599	34,088,759	1,992,840	5.8%
Retained earnings & contributed surplus	18,136,733	11,769,831	6,366,902	54.1%
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>54,218,332</b>	<b>45,858,590</b>	<b>8,359,742</b>	<b>18.2%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIAB</b>	<b>\$ 91,531,249</b>	<b>\$ 73,692,748</b>	<b>\$ 17,838,501</b>	<b>24.2%</b>

## FORWARD LOOKING STATEMENT

This Management's 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 previously described. 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 40 Services Centres and as at June 30, 2007 had 400 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 conducts its operations through two separate business segments. The Industrial Supplies segment incorporates seven divisions. The Oilfield Parts and Supplies segment incorporates three divisions. The differentiation between the two segments is due to the differing product offerings. Either segment may service a similar customer base.

### Industrial Supplies Segment ("Industrial segment")

The Industrial segment provides 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, and provides electronic ordering to its larger national accounts through a sophisticated online catalogue application.

## **Oilfield Parts and Supplies Segment (“Oilfield segment”)**

The Oilfield segment provides approximately 20,000 plus products, but specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, and industrial hand tools.

### **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 significant role in the Company’s growth. Commercial has successfully identified, rationalized, and integrated thirteen acquisitions over the past sixteen years and going forward, management expects to continue its acquisition program. This program is intended to diversify and strengthen the product offering, expand geographical presence and fuel organic sales growth.

Given the three acquisitions performed in the twelve months leading up to the end of fiscal 2007 Q3, management was focused on generating operational synergies from these acquired assets before it was prepared to undertake another significant acquisition. Since the beginning of fiscal 2007 Q3, management believes the necessary steps have been implemented to ensure these synergies are achieved and therefore further acquisitions are being actively pursued.

## **FINANCIAL RESULTS**

The fiscal 2007 Q3 results reflected a period of acquisition and organic sales growth, offset by poor weather, the continued slowdown in the Western Canadian oil and gas industry, driven by low commodity prices, and significantly reduced activity in the shallow gas sector. Fiscal 2007 Q3 also saw a return to seasonality in the Company’s business, a trend not seen since fiscal 2005. The third quarter traditionally is Commercial’s slowest quarter (see “FINANCIAL RESULTS – SUMMARY OF QUARTERLY DATA”).

Acquisition sales growth was due to three acquisitions performed during the twelve months leading up to the end of the third quarter of fiscal 2007. Those acquisitions were:

Excel Bearings Inc. (“Excel”): an Eastern Canadian bearing and power transmission distributor historically generating approximately \$3,500,000 in annual sales. This acquisition was completed in June 2006.

Rig Products Inc. (“Rig”): a Western Canadian oilfield parts and supplies distributor generating approximately \$15,000,000 in annual sales. This acquisition was completed in June 2006.

Raeside Equipment Ltd (“Raeside”): a Western Canadian bearing and power transmission distributor historically generating approximately \$20,000,000 in annual sales. This acquisition was completed in October 2006.

## Revenue

REVENUE BY BUSINESS SEGMENT, for the three months ended June 30th							
	2007		2006		Change		
	\$	%	\$	%	\$	%	
Industrial supplies	\$ 27,648,017	76.3%	\$ 22,107,504	66.9%	\$ 5,540,513	25.1%	
Oilfield parts & supplies	8,590,819	23.7%	10,955,196	33.1%	(2,364,377)	-21.6%	
<b>Total</b>	<b>\$ 36,238,836</b>	<b>100.0%</b>	<b>\$ 33,062,700</b>	<b>100.0%</b>	<b>\$ 3,176,136</b>	<b>9.6%</b>	

REVENUE BY BUSINESS SEGMENT, for the nine months ended June 30th							
	2007		2006		Change		
	\$	%	\$	%	\$	%	
Industrial supplies	\$ 78,635,796	64.3%	\$ 59,851,966	61.3%	\$ 18,783,830	31.4%	
Oilfield parts & supplies	43,634,841	35.7%	37,748,051	38.7%	5,886,790	15.6%	
<b>Total</b>	<b>\$ 122,270,637</b>	<b>100.0%</b>	<b>\$ 97,600,017</b>	<b>100.0%</b>	<b>\$ 24,670,620</b>	<b>25.3%</b>	

### 3 months ended June 30, 2007

The 9.6 percent consolidated sales growth is made up of 23.3 percent from acquisition growth and 13.0 percent from organic retraction. The organic retraction is a blend of 2.3 percent decrease from the Industrial segment and a 34.6 percent decrease from the Oilfield segment.

### 9 months ended June 30, 2007

The 25.3 percent consolidated sales growth is made up of 27.7 percent from acquisition growth and 2.2 percent from organic retraction. The organic retraction is a blend of 4.6 percent increase from the Industrial segment and a 12.8 percent decrease from the Oilfield segment.

The Oilfield segment sales decline reflects poor weather and an industry slowdown, although at a reduced rate relative to the overall Western Canadian drilling activity reduction of 54.7 percent (comparing the average number of active drilling rigs in fiscal 2007 Q3 versus fiscal 2006 Q3). Given diversification of sales to other industries, the Industrial segment is less impacted by a Western Canadian oil and gas slowdown.

Management maintains accounting systems that are able to track acquisition growth and organic growth.

### Segment revenue weighting

The fiscal 2007 Q3 weighting of revenue between segments leaned to a greater extent towards the Industrial segment relative to fiscal 2006 Q3. Although three acquisitions were completed since fiscal 2006 Q3, approximately \$23,500,000 in annual revenues from these acquisitions relate to the Industrial segment, as opposed to approximately \$15,000,000 in annual revenues to the Oilfield segment. The relative weighting in acquisition revenues, along with the economic slowdown in the Oilfield segment, generated the percentage differences.

## Gross Margin

The consolidated gross margin percentage increased slightly for both the three and nine months ended June 30, 2007. The rise can be attributable to the following:

- Two of the three acquisitions performed since fiscal 2006 Q2 had gross profit margins at or above 28.0 percent.
- Management has continued to focus on direct buying and to consolidate its purchasing from manufacturers.

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				
		2007	2006	Change
<b>Operating expenses (\$'s)</b>	*			
Salary & wages	\$	6,205,710	\$ 4,219,140	47.1%
Selling, general & admin.		1,411,577	1,068,311	32.1%
Rent, occupancy costs & utilities		958,194	628,560	52.4%
Advertising & promotions		394,513	320,696	23.0%
Professional fees		262,758	97,191	170.4%
	\$	<b>9,232,752</b>	\$ <b>6,333,898</b>	45.8%
		<b>2007</b>	<b>2006</b>	
<b>Operating expenses (as a % of sales)</b>				
Salary & wages		17.1%	12.8%	
Selling, general & admin.		3.9%	3.2%	
Rent, occupancy costs & utilities		2.6%	1.9%	
Advertising & promotions		1.1%	1.0%	
Professional fees		0.7%	0.3%	
<b>Total</b>		<b>25.5%</b>	<b>19.2%</b>	

\* See page 17 for a further explanation of this non-GAAP measure.

<b>For the nine months ended June 30th</b>				
		<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Operating expenses (\$'s)</b>	*			
Salary & wages	\$	18,324,782	\$ 11,817,959	55.1%
Selling, general & admin.		3,785,647	3,065,273	23.5%
Rent, occupancy costs & utilities		2,837,400	1,960,908	44.7%
Advertising & promotions		1,186,673	766,096	54.9%
Professional fees		663,125	429,617	54.4%
		<b>\$ 26,797,627</b>	<b>\$ 18,039,853</b>	<b>48.5%</b>
		<u>2007</u>	<u>2006</u>	
<b>Operating expenses (as a % of sales)</b>				
Salary & wages		15.0%	12.1%	
Selling, general & admin.		3.1%	3.1%	
Rent, occupancy costs & utilities		2.3%	2.0%	
Advertising & promotions		1.0%	0.8%	
Professional fees		0.5%	0.4%	
<b>Total</b>		<b>21.9%</b>	<b>18.5%</b>	
* See page 17 for a further explanation of this non-GAAP measure.				

Due to the Excel, Rig and Raeside acquisitions, the dollar value of operating expenses increased 45.8 percent and 48.5 percent respectively for fiscal 2007 Q3 and the year to date period. As a percentage of sales, the usual downward trend noted in fiscal 2006 and 2005 was reversed. This was due to a shortfall in revenue and not necessarily a significant increase in operating expenses. This downward business cycle is unusual as inflationary pressures are continuing to be felt in Alberta labour and lease rates, when typically these would fall off with the decreased activity. Management has chosen to maintain its current level of infrastructure in its operations, despite the industry slowdown. The following is an analysis of the major operating expense categories:

Salaries and wages on a dollar basis increased as a result of an additional 71 employees from the various acquisitions (Excel – 9, Rig – 18, Raeside – 44). In addition, annual inflationary wage increases were incurred, particularly in the 19 Alberta locations, where labour is in short supply.

Selling, general and administrative expenses increased due to the acquisitions, as well as increased fuel costs of delivery vehicles in Commercial's Oilfield segment. In addition, increased travel costs (related to fuel costs) for outside salespeople was incurred.

Rent, utility and occupancy costs reflect the following:

- inflationary increases on facilities;
- the incremental costs of the additional sixteen locations from the Excel, Rig and Raeside acquisitions, and
- larger, newer, updated facilities for the Calgary, Fort McMurray and Regina locations.

Professional and consulting fees increased as Commercial has undertaken its project to be compliant with Canadian securities regulations regarding internal controls over financial reporting. Commercial's deadline for completing the project is September 30, 2008.

Advertising and promotions has increased due to the operations of the acquisitions, but also, in part due to the publication of a 600+ page industrial supply catalogue.

## **Interest Expense**

The increase in fiscal 2007 Q3 and year to date interest expense versus comparative periods reflects the increased draws on Commercial's bank operating line to finance the cash consideration on the three most recent acquisitions performed since fiscal 2006 Q3. In fiscal 2007 Q3, Commercial retired approximately \$5 million in subordinated debentures utilizing its bank operating line. Interest charged on the operating line is at the prime rate with a sliding scale increase based on covenants.

## **Refinancing Costs**

In April 2007, CSI consolidated its banking arrangements and completed a new debt facility ("Facility") with Canadian Imperial Bank of Commerce ("CIBC").

The new consolidated Facility consists of a \$25 million operating loan and a \$10 million acquisition line with flexibility allowing it to increase with the growth of Commercial. The Facility replaces Commercial's mix of operating loans, subordinated debentures and term loans provided by three separate financial institutions. Pricing for the Facility is at prime, with a sliding scale increase based on covenants. The Refinancing Costs relate to the break-fees on the early retirement of approximately \$5 million of subordinated debentures as well as the write-off of deferred financing costs related to the retired debt instruments that were originally being amortized over the life of the subordinated debentures.

## **Income Taxes**

The Company's fiscal 2007 effective tax rate is 31.8 percent. Over the past several years, Commercial had available tax loss carryforwards, but as of the end of fiscal 2006, much of these have now been exhausted.

## **Net Earnings (Loss) and Earnings (Loss) Per Share**

Although the three acquisitions, increased sales in both fiscal 2007 Q3 and year to date, operating expenses increased over 45.0 percent during these two periods (primarily due to acquisitions and inflationary increases). This translated into the fiscal 2007 Q3 and year to date net earnings reductions.

In addition to being negatively impacted from the earnings reduction, diluted earnings per share was influenced by an approximate 24.0 percent increase in the diluted share count related to the 3,000,000 common shares issued on March 28, 2006, as well as the exercise of stock options and share purchase warrants.

## FINANCIAL RESULTS – SUMMARY OF QUARTERLY DATA

### Trailing Twelve Months

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

	FISCAL 2006		FISCAL 2007		Total
	Q4	Q1	Q2	Q3	
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
<b>Net earnings (loss)</b>	<b>\$ 2,885,420</b>	<b>\$ 1,345,517</b>	<b>\$ 2,097,842</b>	<b>(\$204,624)</b>	<b>\$ 6,124,155</b>
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 17 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization. See page 16 for a further explanation of this non-GAAP measure.

	FISCAL 2005		FISCAL 2006		Total
	Q4	Q1	Q2	Q3	
Sales	\$ 28,891,179	\$ 30,051,902	\$ 34,485,415	\$ 33,062,700	\$ 126,491,196
Gross margin (\$)	7,948,001	8,367,421	9,791,098	9,056,801	35,163,321
Gross margin (%)	27.5%	27.8%	28.4%	27.4%	27.8%
Operating expenses	a 5,449,176	5,736,268	5,969,687	6,333,898	23,489,029
EBITDA	b 2,498,825	2,631,153	3,821,411	2,722,903	11,674,292
<b>Net earnings (loss)</b>	<b>\$ 1,386,444</b>	<b>\$ 1,399,224</b>	<b>\$ 2,185,292</b>	<b>\$ 1,481,346</b>	<b>\$ 6,452,306</b>
Basic earnings (loss) per share	\$ 0.09	\$ 0.10	\$ 0.15	\$ 0.08	\$ 0.42
Diluted earnings (loss) per share	\$ 0.09	\$ 0.09	\$ 0.13	\$ 0.07	\$ 0.38

a See page 17 for a further explanation of this non-GAAP measure.

b Represents earnings before interest, taxes, depreciation and amortization. See page 16 for a further explanation of this non-GAAP measure.

### Seasonal Nature of the Business

Although the Company has significant exposure to the energy industry (over 50.0 percent of sales), during the past two years, sales have not displayed material seasonality. Typically, the oil and gas industry slows down in April and May due to spring thaw, but given the growth in this sector, particularly with rig building and favourable weather, this usual downturn has been offset. For fiscal 2007, the recent slow

down in the oil and gas sector and very poor weather in the spring caused the seasonal trend to return with activity levels and the Company's revenue taking a seasonal decline in fiscal 2007 Q3.

The mix of sales between the Industrial segment and the Oilfield segment is more noticeable in the third quarter with a greater weighting towards the Industrial segment. The sales increases between quarters are primarily a reflection of acquisition activity rather than seasonality.

## FINANCIAL CONDITION AND LIQUIDITY

### Cash From Operations

Commercial generated funds totaling \$376,648 from operating activities for the nine months ended fiscal 2007 compared to generating cash totaling \$2,216,264 from operating activities in the comparative period. This use of operating cashflow reflects an investment in inventory and also the payment of a significant tax payable from fiscal 2006.

### 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 CIBC. The Company's primary capital needs have been the purchase of inventory, fund accounts receivable, fund debt service payments, and the funding of capital expenditures.

WORKING CAPITAL RATIOS	As @ June 30, 2007		As @
	2007	2006	Sept. 30.06
Working capital ratio	1.47	2.27	1.76
Days sales in receivables	54.2	54.6	56.7
Inventory turns	4.4	5.4	5.3
Days purchases in payables	55.3	56.2	54.0

The Company's net working capital position at June 30, 2007 decreased to \$16,734,104 (working capital ratio of 1.47) from \$27,716,812 at September 30, 2006 (working capital ratio of 1.76). This decrease is primarily attributable to the \$14,500,000 cash paid on closing for the purchase of Raeside in October 2006, as well as the retirement of approximately \$5,000,000 of subordinated debentures (approximately \$2,700,000 were in long term debt, therefore a shift from long term debt to current liabilities).

### Intangibles

Intangible assets increased from September 30, 2006 to June 30, 2007 as a result of the Company's acquisition of Raeside, with the majority of the value due to customer relationships, which are being amortized over seven years. Much of the value Commercial paid for Raeside was to gain access to their 44 employees who have extensive experience in the bearings and power transmission industry. In addition, Commercial wanted admission to Raeside's 10 locations in British Columbia and Alberta, eight of which Commercial had no presence in those markets. The value of an acquisition's employees and their locations is reflected in the related goodwill generated by the acquiree and not in the intangible assets produced from the acquisition. Commercial prefers to "buy" into markets, as opposed to grow them organically.

Management will be conducting an annual assessment of intangible assets. Each fair value test of intangibles may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rates, and terminal values. 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 a group 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 relative fair values.

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with infinite useful lives are reviewed for impairment annually.

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
Other intangible assets	Straight-line – 1 - 3 years

### **Goodwill**

Fiscal 2007 Q3 goodwill compared to September 30, 2006 increased by \$11,105,912 due to the October 2006 Raeside acquisition (\$10,939,245) and due to a purchase price adjustment (\$166,667) based on the profitability of an acquired company.

The goodwill is tested for impairment at least annually by comparing its fair value to its book value. The evaluation for impairment of goodwill is determined by assessing recoverability based on undiscounted future earnings and cash flows of the related business. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods. Any permanent impairment in the value of goodwill is charged to earnings. For the year-ending September 30, 2006, the Company completed a valuation of the goodwill and the annual goodwill impairment test and determined that there was no impairment to the carrying value of goodwill.

### **Property and equipment**

Commercial's fiscal 2007 Q3 and year to date investment in property and equipment primarily centered on improvements to the management information system and facility upgrades. On March 31, 2007, the Company sold its land and building in Prince Albert, Saskatchewan for a gain of \$86,179. The building had been vacant as the branch operations had been moved to another facility.

### **Senior operating credit facility and long term debt**

As at June 30, 2007, the Company maintained a senior operating credit facility with the CIBC allowing the Company to draw up to \$25,000,000 on its operating loan and access to an additional \$10,000,000 through an acquisition line. As at June 30, 2007, the Company was operating within its covenants.

### **OUTLOOK**

The oil and gas sectors in Western Canada are currently undergoing an adjustment to operating costs, which will reverberate through the whole infrastructure pertaining to drilling activity. Although industry activity levels are difficult to forecast, general consensus among industry analysts is that activity levels will see a recovery in the fall of 2007.

While the agriculture market has stabilized after several years of decline, the Western Canadian forestry market is beginning to feel the negative impact from the housing slowdown in the United States. Raeside

was particularly exposed to the forest industry. This industry slowdown has been negated to a certain degree by the increased variety of products (safety and industrial) being sold by Raeside.

These slowdowns have afforded management the opportunity to focus on a number of initiatives generating efficiencies, particularly:

- Continuing to assimilate its recent acquisitions. In March 2007, Raeside joined Rig and Excel to be converted onto Commercial's management information system, a critical step towards generating sales, purchasing and operating synergies for Commercial's acquired companies.
- In March 2007, Commercial introduced its first ever 600+ page Industrial Supply catalogue. In addition to its external customer value, this catalogue acts as a strong tool for Commercial employees communicating the Company's diverse portfolio of products.
- In March 2007, Commercial consolidated its Quotations Department into its head office, allowing for the leverage of centralized product and pricing knowledge.
- Developing plans for Commercial's 40,000 square foot Nisku superstore which will consolidate and replace three separate Nisku facilities providing a one-stop shop for drilling industry customers. The expected opening date is early calendar 2008.

Gross profit margins for fiscal 2007 are expected to be comparable to fiscal 2006. The dilutive effect from the Rig acquisition should be offset by purchasing synergies from the other divisions.

Given the near term anticipated increase in Western Canadian drilling activity levels, management is committed to its core infrastructure. This pledge will see operating costs continue at recent levels for the remainder of fiscal 2007. The Oilfield segment's operating margins are higher than that of the Industrial segment's as it levers from the purchasing volumes of the Industrial segment. Assuming a continuation of sales trends negatively affecting the more profitable Oilfield segment for the remainder of fiscal 2007, EBITDA margins will be under pressure from their fiscal 2006 levels.

Management continues to seek growth opportunities through acquisitions to widen Commercial's geographic presence and to diversify its portfolio of products. Although there are a limited number of major industry players, the Canadian market for distribution suppliers continues to be fragmented. Many of these organizations are facing succession issues relating to an aging demographic. It is anticipated that within the next four quarters at least one acquisition would be completed.

## **COMMON SHARES AND CONVERTIBLE SECURITIES**

Commercial has authorized an unlimited number of common shares with no par value. As at August 14, 2007 the Company had 19,506,626 common shares outstanding.

The Board of Directors may grant options to purchase up to 1,555,206 common shares. As of August 14, 2007, options to purchase 1,024,336 common shares were outstanding at an average exercise price of \$3.41 per common share. Agent's options totaling 189,000 from the equity financing performed in fiscal 2006 are outstanding at an average exercise price of \$5.06. Warrants totaling 355,555 with an exercise price of \$2.25 may be exercised into common shares. These warrants expire on September 11, 2008.

## **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.

## **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 comprises approximately 7.2 percent of the Company's total sales for the nine months ended June 30, 2007. 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, intangibles and accrued liabilities. Actual results could differ from these estimates.

## **CHANGES IN ACCOUNTING POLICIES**

Effective October 1, 2006, the Company adopted the new provisions prescribed by the AcSB, “Financial Instruments – Recognition and Measurement”, “Hedges”, and “Comprehensive Income”. The application of these new standards did not have a significant effect on the Company’s financial position, earnings, or cash flows.

## **RELATED PARTY TRANSACTIONS**

During the June 30, 2007 third quarter, the Company entered into related party transactions. Examples of these types of transactions are listed in note 18 of the September 30, 2006 consolidated financial statements. In management’s opinion, related party transactions are all in the normal course of operations and are conducted at fair market value.

## **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, 2007 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:

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

	<b>For the three months ended June 30th</b>	
	<b>2007</b>	<b>2006</b>
Net earnings (loss)	(\$204,624)	\$ 1,481,346
Add:		
Income taxes	(93,813)	750,270
Depreciation and amortization	459,544	259,928
Refinancing costs	252,016	-
Interest	337,823	231,359
<b>EBITDA</b>	<b>\$ 750,946</b>	<b>\$ 2,722,903</b>

	<b>For the nine months ended June 30th</b>	
	<b>2007</b>	<b>2006</b>
Net earnings (loss)	\$ 3,238,735	\$ 5,065,862
Add:		
Income taxes	1,511,484	2,565,748
Depreciation and amortization	1,317,456	695,441
Refinancing costs	252,016	-
Interest	1,220,972	848,416
<b>EBITDA</b>	<b>\$ 7,540,663</b>	<b>\$ 9,175,467</b>

Operating expenses as presented on page 7 and 8 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, 2007 consolidated financial statements:

	<b>For the three months ended June 30th</b>	
	<b>2007</b>	<b>2006</b>
Operating expenses	\$ 9,232,752	\$ 6,333,898
Add:		
Depreciation and amortization	459,544	259,928
Refinancing costs	252,016	-
Interest	337,823	231,359
<b>Total expenses</b>	<b>\$ 10,282,135</b>	<b>\$ 6,825,185</b>

	<b>For the nine months ended June 30th</b>	
	<b>2007</b>	<b>2006</b>
Operating expenses	\$ 26,797,627	\$ 18,039,853
Add:		
Depreciation and amortization	1,317,456	695,441
Refinancing costs	252,016	-
Interest	1,220,972	848,416
<b>Total expenses</b>	<b>\$ 29,588,071</b>	<b>\$ 19,583,710</b>

## CORPORATE INFORMATION

### Officers and Directors

Jim Barker  
President, Chairman & Director  
Edmonton, Alberta

Eric Sauze, CA CFA  
Chief 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: 19,506,626 common shares

### Investor Relations

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

### Website

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