



BEARINGS & P.T.

SAFETY

FIREFIGHTING

FIELD

INDUSTRIAL

ENERGY SERVICES

FISCAL 2010 | First Quarter
Interim Consolidated Financial Statements

December 31, 2009



Commercial Solutions Inc.
Fiscal 2010 First Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

Administration
4203-95 Street, Edmonton AB T6E 5R6
Toll Free: 1-888-522-9822

© 2010 Commercial Solutions Inc.

Interim Consolidated Statements of Loss, Comprehensive Loss, and (Deficit) Retained Earnings

(Unaudited)

Three months ended December 31	2009	2008
Revenue	\$ 21,251,236	\$ 35,788,582
Cost of goods distributed	15,376,115	25,829,761
Gross margin (\$)	5,875,121	9,958,821
Gross margin (%)	27.6%	27.8%
Expenses		
Salary and wages	3,567,194	5,838,411
Selling, general and administration	1,256,351	1,404,029
Rent, occupancy costs and utilities	1,165,848	1,336,963
Amortization of property and equipment	287,041	351,685
Amortization of intangible assets	237,066	210,018
Interest on long-term debt	194,116	33,513
Interest on bank indebtedness	144,973	254,342
Professional fees	121,951	231,564
Restructuring costs	75,100	10,055
Advertising and promotion	60,322	232,505
Refinancing costs	3,423	-
	7,113,385	9,903,085
(Loss) earnings before income taxes	(1,238,264)	55,736
Income tax (recovery) expense	(394,388)	17,752
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) EARNINGS	\$ (843,876)	\$ 37,984
(Deficit) retained earnings, beginning of period	(20,427,809)	3,454,339
(DEFICIT) RETAINED EARNINGS, END OF PERIOD	\$ (21,271,685)	\$ 3,492,323
Loss per share		
Basic	\$ (0.04)	\$ 0.00
Weighted average number of shares - basic	20,100,806	20,100,806
Diluted	\$ (0.04)	\$ 0.00
Weighted average number of shares - diluted	20,100,806	20,100,806

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Balance Sheets

AS AT	December 31, 2009 (unaudited)	September 30, 2009 (audited)
Assets		
Current		
Accounts receivable	\$ 12,744,927	\$ 12,100,129
Income taxes receivable	1,308,658	723,740
Inventory	23,112,018	24,557,236
Prepays	695,408	918,242
	37,861,011	38,299,347
Future income tax asset	787,311	787,311
Property and equipment	4,451,997	4,661,047
Intangible assets	1,847,324	2,084,390
TOTAL ASSETS	\$ 44,947,643	\$ 45,832,095
Liabilities		
Current		
Bank indebtedness (Note 2)	\$ 10,423,512	\$ 16,221,083
Accounts payable and accrued liabilities	11,138,320	7,415,544
Current portion of deferred tenant inducement	20,000	20,000
Current portion of long-term debt (Note 3)	76,304	894,137
	21,658,136	24,550,764
Future income tax liability	705,875	781,381
Deferred tenant inducement	93,333	98,333
Long-term debt (Note 3)	2,827,397	110,953
Notes payable	1,195,039	1,192,448
	26,479,780	26,733,879
Shareholders' Equity		
Share capital (Note 4)	37,860,880	37,860,880
Contributed surplus (Notes 3 and 5)	1,878,668	1,665,145
Deficit	(21,271,685)	(20,427,809)
	18,467,863	19,098,216
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 44,947,643	\$ 45,832,095

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(Unaudited)

Three months ended December 31	2009	2008
Increase (decrease) in cash and cash equivalents		
Operating		
Net (loss) earnings	\$ (843,876)	\$ 37,984
Items not affecting cash:		
Amortization of property and equipment	287,041	351,685
Amortization of intangible assets	237,066	210,018
Stock based compensation (Note 5)	16,148	52,239
Amortization of transaction costs (Note 3)	38,938	-
Tenant inducement	(5,000)	(5,000)
Amortization of note payable discount	2,591	3,810
Non-cash purchase price adjustments	-	(25,000)
Future income tax	(75,507)	(66,891)
	(342,599)	558,845
Change in non-cash operating working capital	4,046,982	960,731
Change in long-term accounts receivable	-	(1,180,000)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 3,704,383	\$ 339,576
Financing		
(Repayments) advances on bank indebtedness (Note 2)	(6,567,572)	537,836
Proceeds on long-term debt	3,000,000	-
Repayments of long-term debt	(58,819)	(94,611)
Repayments of notes payable	-	(400,000)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	\$ (3,626,391)	\$ 43,225
Investing		
Purchase of property and equipment	(110,699)	(388,251)
Proceeds on disposal of property and equipment	32,707	5,450
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ (77,992)	\$ (382,801)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	-
Cash and cash equivalents, beginning of period	-	-
TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ -	\$ -

Cash taxes paid during the three month period is \$266,037 (2008 - \$NIL).

Cash interest paid during the three month period is \$303,492 (2008 - \$16,912).

Capital assets acquired through capital leases during the three month period are \$Nil (2008 - \$96,702).

See accompanying notes to the interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

(Unaudited)

For the three months ended December 31, 2009 and 2008

1. BASIS OF PRESENTATION

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

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 unaudited interim consolidated financial statements have been prepared by management 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.

A significant portion of the Company’s revenue is exposed to the energy sector and therefore displays seasonality. Typically, the oil and gas industry slows down in April and May due to spring thaw. This generally causes the Company’s third quarter to be its slowest from a revenue perspective.

These interim financial statements, in all material respects follow the same accounting policies and methods of application as the annual audited financial statements of the preceding fiscal year.

2. BANK INDEBTEDNESS

On December 9, 2009, the Company entered into a Restated Credit Facility (the “Facility”) with Canadian Imperial Bank of Commerce (the “Lender”). The Facility provides the Company a \$15,000,000 (September 31, 2009 - \$17,500,000) operating line of credit for monthly renewal up to October 31, 2010. Proceeds from the Facility on closing date were \$13,227,350 which were used to pay out the previous operating line of \$12,457,348 and acquisition line of \$770,002. As at December 31, 2009, \$10,423,512 (September 30, 2009 - \$16,221,083) was drawn on the operating line.

The Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The Facility bears interest at prime plus 4.5% (September 30, 2009 - prime plus 3.50%) or bankers’ acceptance rate plus 5.75% (September 30, 2009 - bankers’ acceptance rate plus 4.50%), and, a standby fee of 1.0% (September 30, 2009 - 0.75%) on unused amounts of the Facility.

The financial covenants of the Facility include (i) margin requirements between loans and certain receivables and inventory balances, (ii) minimum working capital ratio of 1.35, and (iii) minimum trailing twelve month adjusted negative earnings before interest, tax, depreciation and amortization (“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 Facility include a maximum capital expenditure of \$750,000 in any trailing twelve month period and no principal payments on the notes payable and the mezzanine loan over the term of the agreement.

As at December 31, 2009, the Company was operating within its covenants.

3. LONG-TERM DEBT

Long-term debt as at December 31, 2009 is made up of: 1] Finance contracts totaling \$176,270 with a long-term portion at \$99,966 and secured by certain equipment bearing interest at rates up to 6.4% repayable in monthly installments of \$7,186 including interest maturing March 2010 through November 2012; and, 2] Mezzanine debt through an arm's length private placement for gross cash proceeds of \$3,000,000, net of transaction costs at \$2,727,431.

The Company closed on the mezzanine debt agreement on October 8, 2009. The loan injection of \$3,000,000 was a condition precedent to the Restated Credit Facility agreement with the Lender (see Note 2). The mezzanine debt is repayable in two years, maturing October 2011. The closing was comprised of subordinated secured promissory notes earning 18.0% per annum and 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. Upon close, 1,200,000 warrants were granted to the lenders. Each whole warrant entitles the holder to purchase one Common Share of the Company at a price of \$0.31 per share for a period of three years, expiring October 8, 2012. The common shares to be issued upon exercise of the warrants will be subject to a four month statutory hold period from the date of grant.

The warrants were treated as transaction costs of the debt and were recorded as part of contributed surplus. The fair value of the warrants are calculated as \$197,375 at inception using the Black Sholes pricing model with the following assumptions: risk-free interest rate of 2.86%, dividend yield of nil, volatility factor of the expected market price of the Company's common shares of 75.0% and an expected life of the warrants of three years.

The Company incurred further transaction costs of \$114,132 related to the closing of the transaction. All transaction costs are netted against the long-term debt and amortized to net earnings as interest on long-term debt over the term of the loan.

4. SHARE CAPITAL

The following table summarizes information on share capital and related matters as at December 31, 2009:

	Outstanding	Exercisable
Common shares	20,100,806	n/a
Employee and director compensation options	1,001,000	628,000

The following tables summarize information on stock option and warrant transactions for the three months ended December 31, 2009:

	2009		2008	
	Stock Options	Stock Option Weighted Average Exercise Price	Stock Options	Stock Option Weighted Average Exercise Price
Outstanding, as at September 30	1,012,600	\$ 1.62	1,388,017	\$ 2.08
Granted *	-	-	30,000	-
Forfeited and expired	(11,600)	5.08	(125,000)	2.97
OUTSTANDING, AS AT DECEMBER 31	1,001,000	\$ 1.58	1,293,017	\$ 1.95

* Subsequent to December 31, 2009, 529,000 stock options were granted at an exercise price of \$0.27.

	2009		2008	
	Warrants	Warrants Weighted Average Exercise Price	Warrants	Warrants Weighted Average Exercise Price
Outstanding, as at September 30	-	\$ -	-	\$ -
Granted	1,200,000	0.31	-	-
Forfeited and expired	-	-	-	-
OUTSTANDING, AS AT DECEMBER 31	1,200,000	\$ 0.31	-	\$ -

5. STOCK BASED COMPENSATION

The Company recorded stock based compensation expense for options issued to employees and directors and a corresponding increase in contributed surplus in the amount of \$16,148 (2008 - \$52,239) for the three months ended December 31, 2009.

6. CAPITAL MANAGEMENT

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

- ensure that there is financial capacity to support the operations through the seasonal periods and cyclical years with sufficient capability to manage unforeseen operational and industry developments;
- ensure the Company has capital and capacity to support the long-term growth strategy, and,
- maximize 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.

During the period ended December 31, 2009, the Company was in compliance with its externally imposed debt covenant requirements. The Company monitors these requirements on a monthly basis.

Changes in certain key ratios are as follows:

	Dec 31, 2009	Sept 30, 2009
Working capital ratio*	1.75	1.56
Senior funded debt to adjusted EBITDA ratio **	(3.80)	(7.88)
Debt servicing ratio***	(2.42)	(1.07)

* "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. 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. This measure was used in measuring compliance with certain debt covenants in the prior year. Management continues to use this ratio to measure performance.

*** "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. This measure was used in measuring compliance with certain debt covenants in the prior year. Management continues to use this ratio to measure performance.

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



Corporate Information

Officers and Directors

Jim Barker
President, Chairman and Director
Edmonton, Alberta

Dr. Ken Harrison
Director
Edmonton, Alberta

Rozina Kassam, CA
Chief Financial Officer
Edmonton, Alberta

Daryl Kruper
Director
Edmonton, Alberta

Alan Martin, CA CBV
Director
St. Albert, Alberta

Bill Rosser
Corporate Secretary and Director
Edmonton, Alberta

Richard Smith
Director
Calgary, 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

1 888 522 9822 | www.commercialsolutions.ca



BEARINGS & P.T.



SAFETY



FIREFIGHTING



FIELD



INDUSTRIAL



ENERGY SERVICES

ISO 9001:2008 Registered Organization

Commercial Solutions Inc. is a fully integrated supplier of Maintenance, Repair and Operation products and expert solutions to Canadian industry. For full details about our operating divisions and areas of expertise, please visit our website.