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FISCAL 2010 | Third Quarter
Interim Consolidated Financial Statements

June 30, 2010



Commercial Solutions Inc.
Fiscal 2010 Third Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

Administration
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Interim Consolidated Statements of Loss, Comprehensive Loss, and Deficit

(Unaudited)

	For the three months ended June 30th		For the nine months ended June 30th	
	2010	2009	2010	2009
Revenue	\$ 21,963,853	\$ 20,749,108	\$ 66,304,231	\$ 85,870,721
Cost of goods distributed	15,992,156	15,033,709	47,646,941	62,502,951
Gross margin (\$)	5,971,697	5,715,399	18,657,290	23,367,770
Gross margin (%)	27.2%	27.5%	28.1%	27.2%
Expenses				
Salary and wages	3,600,907	4,584,226	10,732,340	15,672,859
Rent, occupancy costs and utilities	1,193,350	1,252,729	3,629,437	4,035,744
Selling, general and administration	970,829	979,317	3,182,974	3,823,323
Amortization of property and equipment	303,966	340,447	925,090	1,036,246
Interest on long-term debt	258,858	33,504	640,578	97,793
Interest on bank indebtedness	198,607	185,584	561,895	700,037
Amortization on intangible assets	185,566	238,495	556,699	715,484
Professional fees	117,469	278,008	344,928	731,478
Advertising and promotion	64,196	124,112	189,376	430,226
Restructuring costs	-	-	77,100	-
Refinancing costs (Note 3)	70,000	75,000	73,423	75,000
Impairment of goodwill	-	-	-	19,548,494
	6,963,748	8,091,422	20,913,840	46,866,684
Loss before income taxes	(992,051)	(2,376,023)	(2,256,550)	(23,498,914)
Income tax recovery	315,968	756,763	718,711	1,258,209
NET LOSS AND COMPREHENSIVE LOSS	\$ (676,083)	\$ (1,619,260)	\$ (1,537,839)	\$ (22,240,705)
(Deficit) retained earnings, beginning of period	(21,289,565)	(17,167,106)	(20,427,809)	3,454,339
DEFICIT, END OF PERIOD	\$ (21,965,648)	\$ (18,786,366)	\$ (21,965,648)	\$ (18,786,366)
Loss per share				
Basic	\$ (0.03)	\$ (0.08)	\$ (0.08)	\$ (1.11)
Weighted average number of shares - basic	20,100,806	20,100,806	20,100,806	20,100,806
Diluted	\$ (0.03)	\$ (0.08)	\$ (0.08)	\$ (1.11)
Weighted average number of shares - diluted	20,100,806	20,100,806	20,100,806	20,100,806

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Balance Sheets

AS AT	June 30, 2010 (unaudited)	September 30, 2009 (audited)
Assets		
Current		
Cash	\$ 61,700	\$ -
Accounts receivable	12,701,590	12,100,129
Income taxes receivable	569,656	723,740
Inventory	19,994,167	24,557,236
Prepays	853,659	918,242
	34,180,772	38,299,347
Future income tax asset	787,311	787,311
Property and equipment	3,985,193	4,661,047
Intangible assets	1,527,692	2,084,390
TOTAL ASSETS	\$ 40,480,968	\$ 45,832,095
Liabilities		
Current		
Bank indebtedness (Note 3)	\$ 8,537,219	\$ 16,221,083
Accounts payable and accrued liabilities	9,204,927	7,415,544
Current portion of deferred tenant inducement	20,000	20,000
Current portion of long-term debt (Note 4)	74,700	894,137
	17,836,846	24,550,764
Future income tax liability	604,073	781,381
Deferred tenant inducement	83,333	98,333
Long-term debt (Note 4)	2,909,519	110,953
Notes payable	1,207,674	1,192,448
	22,641,445	26,733,879
Shareholders' Equity		
Share capital (Note 5)	37,860,880	37,860,880
Contributed surplus (Notes 4 and 6)	1,944,291	1,665,145
Deficit	(21,965,648)	(20,427,809)
	17,839,523	19,098,216
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 40,480,968	\$ 45,832,095

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(Unaudited)

	For the three months ended June 30th		For the nine months ended June 30th	
	2010	2009	2010	2009
Increase (decrease) in cash and cash equivalents				
Operating				
Net loss	\$ (676,083)	\$ (1,619,260)	\$ (1,537,839)	\$ (22,240,705)
Items not affecting cash				
Amortization of property and equipment and intangible assets	489,532	578,942	1,481,789	1,751,730
Amortization of transaction cost	38,938	-	116,815	-
Stock based compensation (Note 6)	22,068	50,200	81,771	151,065
Amortization of note payable discount	6,524	22,838	15,226	(26,654)
Future income tax recovery	(59,103)	(75,961)	(177,309)	(227,882)
Tenant inducement	(5,000)	(5,000)	(15,000)	(15,000)
Impairment of goodwill	-	-	-	19,548,494
Non-cash purchase price adjustments	-	-	-	(25,000)
	(183,124)	(1,048,241)	(34,547)	(1,083,952)
Changes in operating working capital	3,244,044	6,301,389	5,921,497	7,272,160
Changes in long-term accounts receivable	-	999,410	-	-
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 3,060,920	\$ 6,252,558	\$ 5,886,950	\$ 6,188,208
Financing				
Repayments of bank indebtedness (Note 3)	(3,084,506)	(6,005,937)	(8,453,864)	(4,693,318)
Proceeds from long-term debt	-	-	3,000,000	-
Repayments of long-term debt	(21,019)	(96,177)	(97,234)	(287,560)
Repayments of notes payable	-	-	-	(400,000)
Refinancing costs on credit facility (Note 3)	(65,970)	(124,750)	(65,970)	(124,750)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	\$ (3,171,495)	\$ (6,226,864)	\$ (5,617,068)	\$ (5,505,628)
Investing				
Purchase of property and equipment	(50,072)	(31,973)	(248,270)	(701,760)
Proceeds on disposal of property and equipment	750	6,279	40,088	19,180
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ (49,322)	\$ (25,694)	\$ (208,182)	\$ (682,580)
INCREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	\$ (159,897)	\$ -	\$ 61,700	\$ -
Cash and cash equivalents, beginning of period	221,597	-	-	-
TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 61,700	\$ -	\$ 61,700	\$ -

Cash taxes recovered during the three month period is \$728,800 (2009 - paid \$188,940) and cash taxes recovered during the nine month period is \$733,384 (2009 - paid \$368,264).

Cash interest paid during the three month period is \$155,154 (2009 - \$20,900) and during the nine month period is \$383,019 (2009 - \$25,246). Capital assets acquired through capital leases during the three month period are \$NIL (2009 - \$NIL) and during the nine month period are \$41,054 (2009 - \$96,702).

See accompanying notes to the interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

(Unaudited)

For the nine months ended June 30, 2010 and 2009

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.

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. SEASONALITY OF OPERATIONS

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. However, as drilling activity has generally slowed down over the last couple of years, the seasonality impact has been lessened.

3. BANK INDEBTEDNESS

On December 9, 2009, the Company entered into a Restated Credit Facility (the “Facility”) with the Canadian Imperial Bank of Commerce (the “Lender”). The Facility provides the Company a \$15,000,000 (September 30, 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 June 30, 2010, \$8,537,219 (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 4.50% (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 1.00% (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) maximum 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 June 30, 2010, the Company was operating within its covenants.

The Company has been evaluating other possible financing alternatives over the last year. Subsequent to June 30, 2010, the Company has completed its evaluation and is working on closing a loan agreement with an asset based lender. The asset based lender has provided the Company with a formal commitment to provide a credit facility that is dependent on the level of the Company's inventories and outstanding trade accounts receivables.

The commitment is subject to completion of legal due diligence work. This new agreement will be over a three-year term and will restrict repayment of long-term debt related to the mezzanine debt and notes payable that will become due over the term unless approved by the asset based lender. The approval will be based on a sufficient level of liquidity. As such, as at June 30, 2010, the notes payable continue to be classified as long-term debt.

The Company continues to work closely with the asset based lender to ensure that an agreement is closed on a timely basis. The Company expects to close before October 31, 2010. If the agreement is not closed before this date, there is no guarantee that the Lender will provide a further extension of the existing facility which may reduce the Company's financial flexibility.

The Company has incurred \$65,970 (2009 - \$124,750) for the nine months ended June 30, 2010 in transaction costs with the asset based lender related to fee deposits and due diligence work. This cost has been recorded as prepaid expenses and will be amortized over the term of the loan once effective. Previously capitalized fees of \$70,000 with other lenders have been expensed in the current period.

4. LONG-TERM DEBT

Long-term debt as at June 30, 2010 is made up of: 1] Finance contracts totaling \$178,910 (September 30, 2009 - \$188,423) with a long-term portion at \$104,210 (September 30, 2009 - \$110,953) and secured by certain equipment bearing interest at rates up to 6.40% repayable in monthly installments of \$6,562 (September 30, 2009 - \$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 \$2,805,309 (September 30, 2009 - \$NIL).

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 3). 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 were 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-Scholes 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.

5. SHARE CAPITAL

The following table summarizes information on share capital and related matters as at June 30, 2010:

	Outstanding	Exercisable
Common shares	20,100,806	n/a
Employee and director compensation options	1,407,500	550,833
Warrants	1,200,000	1,200,000

5. SHARE CAPITAL CONT'D

The following table summarizes transactional information on stock options:

	For the nine months ended June 30th			
	2010		2009	
	Stock Options	Stock Option Weighted Average Exercise Price	Stock Options	Stock Option Weighted Average Exercise Price
Outstanding, as at September 30th	1,012,600	\$ 1.62	1,388,017	\$ 2.08
Granted	617,000	0.29	70,000	0.25
Forfeited and expired	(222,100)	2.63	(232,750)	2.27
OUTSTANDING, AS AT JUNE 30TH	1,407,500	\$ 0.88	1,225,267	\$ 1.93

The fair value of the options granted during the period using the Black Scholes pricing model is calculated as \$111,193 using the following assumptions: risk free rate of 2.5%; dividend yield of nil; volatility factor of expected market price of the Company's common shares of 73.2% and an expected life of the options for four years.

The following table summarizes transactional information on warrants:

	For the nine months ended June 30th			
	2010		2009	
	Warrants	Warrants Weighted Average Exercise Price	Warrants	Warrants Weighted Average Exercise Price
Outstanding, as at September 30th	-	\$ -	-	\$ -
Granted	1,200,000	0.31	-	-
OUTSTANDING, AS AT JUNE 30TH	1,200,000	\$ 0.31	-	\$ -

The fair value of the warrants are calculated as \$197,375 at inception using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 2.9%, 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.

6. STOCK BASED COMPENSATION

The Company recorded stock based compensation expenses for options issued to employees and directors and a corresponding increase in contributed surplus in the amount of \$22,068 (2009 - \$50,200) for the three months ended June 30, 2010 and \$81,771 (2009 - \$151,066) for the nine months ended June 30, 2010.

7. 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 June 30, 2010, the Company was in compliance with its externally imposed debt covenant requirements. The Company monitors these requirements on a monthly 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
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Shares Listed

Toronto Stock Exchange
Trading Symbol – “CSA”

Transfer Agent

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Bankers

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Share Capital

Issued: 20,100,806 common shares

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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.