

TSX VENTURE EXCHANGE "CSA"

Commercial

Solutions Inc



SECOND QUARTER REPORT
For the Six Months Ended March 31, 2004

Commercial

Solutions Inc

To Our Shareholders:

Commercial Solutions Inc. (the "Company") (TSX-V: CSA) is pleased to announce its operating results for the second quarter and six-month period ended March 31, 2004. This quarter represents the sixth consecutive quarter of revenue growth and fifth consecutive quarter of increased profitability. During the second quarter the Company generated net earnings of \$0.5 million or \$0.06 per share on consolidated revenues of \$20.4 million, up from last year's second quarter revenue figure of \$16.1 million and earnings of \$0.2 million or \$0.03 per share. For the six-month period ended March 31, 2004 revenues were \$39.2 million as compared to \$30.8 million from the prior year with current earnings of \$0.9 million or \$0.10 per share compared to a loss of \$0.2 million or \$(0.03) in 2003.

Financial highlights from the second quarter are as follows:

	Three Months Ended March 31,			Six Months Ended March 31,		
	2004	2003	Increase (%)	2004	2003	Increase (%)
Revenue	\$ 20,364,766	\$ 16,140,478	26.2%	\$ 39,219,697	\$ 30,760,179	27.5%
Gross profit margin (\$)	5,842,435	4,240,930	37.8%	11,102,642	8,009,159	38.6%
Gross profit margin (%)	28.7%	26.3%		28.3%	26.0%	
EBITDA	1,239,822	487,737	154.2%	2,133,707	377,004	466.0%
Pre-tax earnings (loss)	841,545	197,811	325.4%	1,351,107	(207,963)	749.7%
Net earnings (loss)	535,989	197,811	171.0%	851,197	(207,963)	509.3%
Basic earnings (loss) per share pre-tax	\$ 0.10	\$ 0.03		\$ 0.15	\$ (0.03)	
Basic earnings (loss) per share	\$ 0.06	\$ 0.03		\$ 0.10	\$ (0.03)	
Diluted earnings (loss) per share	\$ 0.06	\$ 0.03		\$ 0.09	\$ (0.03)	
Issued and outstanding shares	8,833,405	7,055,628		8,833,405	7,055,628	

The overall increase in revenue and profitability is attributable to the acquisition of the Cando group of companies and the results of synergies and restructurings performed overall by the Company. In addition to its contribution towards increased revenue, the Cando group strengthened the gross profit margin by 2.3% for the six months ended March 31, 2004. Operating expenses were reduced as a percentage of sales, due to increased volume of sales, acquisition synergies and restructuring, by 1.9%, from 24.8% for the six months March 31, 2003 compared to 22.9% for the six months ended March 31, 2004. The Company experiences seasonality in its business cycle, with the first quarter generally the slowest.

The Company currently has over \$5.0 million in tax losses to offset taxable income the benefit of which was recognized for accounting purposes in the September 30, 2003 year end financial statements. Going forward, in accordance with generally accepted accounting principles, the Company must report income tax expense at its effective rate, however, no taxes are paid until all tax losses have been applied. The income tax expense charge is a non-cash item, therefore, it represents an add-back when working towards cash flow from operations. Accordingly, March 31, 2004 six month pre-tax income of \$1,351,107 or \$0.15 per share is a closer approximation of the Company's actual operational cash flow amount.

We are extremely encouraged by the contributions of recent acquisitions and the results from our efforts to achieve operational synergies. The expected continued strength in the energy sector bodes well for the upcoming quarters as energy generates 37% of the revenues for the Company. We are also actively pursuing additional strategic acquisitions to diversify our overall product offering and geographic market penetration.

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) "James Barker"

James Barker, Chairman, CEO and President
May 30, 2004

Commercial Solutions Inc.

Consolidated Balance Sheets

	March 31 2004 (unaudited)	March 31 2003 (unaudited)	September 30 2003 (audited)
Assets			
Receivables	\$ 13,661,717	\$ 9,247,831	\$ 12,356,440
Inventory	13,755,239	11,123,800	12,671,682
Prepays	600,506	250,594	428,925
	<u>28,017,462</u>	<u>20,622,225</u>	<u>25,457,047</u>
Due from related parties	-	-	7,184
Future income tax asset	1,697,718	449,000	2,233,101
Capital assets	2,167,211	2,213,624	2,058,935
Goodwill and other assets	7,565,393	1,459,446	7,565,393
	<u>\$ 39,447,784</u>	<u>\$ 24,744,295</u>	<u>\$ 37,321,660</u>
Liabilities			
Bank indebtedness	\$ 10,023,131	\$ 8,379,143	\$ 10,384,011
Payables and accruals	10,179,623	7,723,506	9,762,228
Current portion of notes payable	463,000	250,000	1,432,570
Current portion of long-term debt	878,272	449,400	403,516
	<u>21,544,026</u>	<u>16,802,049</u>	<u>21,982,325</u>
Notes payable	2,418,416	-	2,274,917
Long-term debt	5,877,721	4,472,239	4,307,993
	<u>29,840,163</u>	<u>21,274,288</u>	<u>28,565,235</u>
Shareholders' Equity			
Common shares	4,914,905	1,126,350	4,914,905
Preferred shares	1,968,178	1,968,178	1,968,178
Retained earnings	2,724,538	375,479	1,873,342
	<u>9,607,621</u>	<u>3,470,007</u>	<u>8,756,425</u>
	<u>\$ 39,447,784</u>	<u>\$ 24,744,295</u>	<u>\$ 37,321,660</u>

Approved by the Board of Directors

(signed) "James Barker"

James Barker, Director

(signed) "Don Caron"

Don Caron, Director

Commercial Solutions Inc.

Consolidated Statement of Income (Loss) and Retained Earnings (unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	2004	2003	2004	2003
Revenue	\$ 20,364,766	\$ 16,140,478	\$ 39,219,697	\$ 30,760,179
Cost of goods sold	14,522,331	11,899,548	28,117,055	22,751,020
Gross profit margin (\$)	5,842,435	4,240,930	11,102,642	8,009,159
Gross profit margin (%)	28.7%	26.3%	28.3%	26.0%
Expenses				
Selling, general & administrative	1,403,642	1,224,227	2,753,858	2,606,066
Salaries and benefits	3,198,971	2,528,966	6,215,077	5,026,089
	4,602,613	3,753,193	8,968,935	7,632,155
Operating income	1,239,822	487,737	2,133,707	377,004
Other expenses				
Amortization	82,374	93,092	191,130	188,544
Interest	315,903	196,834	591,470	396,423
	398,277	289,926	782,600	584,967
Net income (loss) before tax	841,545	197,811	1,351,107	(207,963)
Income taxes	305,556	-	499,910	-
Net income (loss) for the period	535,989	197,811	851,197	(207,963)
Retained earnings, beginning of period	2,188,550	177,668	1,873,342	583,442
Retained earnings, end of period	\$ 2,724,539	\$ 375,479	\$ 2,724,539	\$ 375,479
Basic earnings (loss) per share	\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)
Diluted earnings (loss) per share	\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)
Weighted average common shares outstanding	8,833,405	7,055,628	8,833,405	7,055,628

Commercial Solutions Inc.

Consolidated Statement of Cash Flow

(unaudited)

	Three Months		Six Months	
	Ended March 31		Ended March 31	
	2004	2003	2004	2003
Operating				
Net Income (loss)	\$ 535,989	\$ 197,811	\$ 851,197	\$ (207,963)
Items not involving cash				
Amortization	82,374	93,092	191,130	188,544
Income tax expense	305,556	-	499,910	-
	<u>923,919</u>	<u>290,903</u>	<u>1,542,237</u>	<u>(19,419)</u>
Changes in non-cash working capital	(1,501,114)	(86,300)	(2,143,020)	(815,530)
	<u>(577,195)</u>	<u>204,603</u>	<u>(600,783)</u>	<u>(834,949)</u>
Investing				
Purchase of capital assets	(62,594)	(165,965)	(299,406)	(104,732)
Future income taxes	35,473	-	35,473	-
Cash surrender value of life ins.	-	112,198	-	112,198
	<u>(27,121)</u>	<u>(53,767)</u>	<u>(263,933)</u>	<u>7,466</u>
Financing				
Subordinated debenture, net	(49,950)	(40,575)	2,400,100	(78,589)
Long-term debt, net	(54,682)	(177,553)	(105,617)	(318,089)
Notes payable	(936,583)	-	(1,076,071)	-
Related party advances, net	(10,867)	(365,512)	7,184	(324,454)
	<u>(1,052,082)</u>	<u>(583,640)</u>	<u>1,225,596</u>	<u>(721,132)</u>
Increase (decrease) in cash and cash equivalents during the period	(1,656,398)	(432,804)	360,880	(1,548,615)
Bank indebtedness				
Beginning of period	<u>8,366,733</u>	<u>7,946,339</u>	<u>10,384,011</u>	<u>6,830,528</u>
End of period	\$ 10,023,131	\$ 8,379,143	\$ 10,023,131	\$ 8,379,143

Commercial Solutions Inc.

Notes to the interim Consolidated Financial Statements (unaudited)

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 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.

Reverse takeover – October 1, 2002

Effective October 1, 2002, the Company completed a reverse takeover ("RTO") of Commercial bearing service (1966) Ltd. ("CBS") and a financing for gross proceeds of \$6,390,800. Following the RTO, the Company changed its name to Commercial Solutions Inc. and consolidated its common shares on the basis of five pre-consolidation common shares for one new post consolidation common share.

Seasonality of sales

The Company experiences seasonality in sales for each segment, with the industrial supply segment having the greatest exposure to the seasonality effect. The first quarter is traditionally its weakest. The oilfield parts & supplies segment experiences relatively less seasonality, but peaks in the second quarter. From a consolidation perspective, the second and third quarters are the strongest for the Company.

Subordinated debenture financing

On December 10, 2003, the Company issued a five year, 15% coupon, \$2,500,000 subordinated debenture issued to Roynat Capital, Inc. The Company has the option to retire the debenture after three years with minimal penalty.

Personnel Matters

On March 22, 2004, the Company terminated the employment of its President and CEO, Ron Gibbon. The Company offered Mr. Gibbon as a severance package to continue his current salary and benefit payments each month until March 22, 2006. The monthly payments amount to approximately \$17,000 per month. This proposed severance arrangement was in lieu of notice of termination and/or severance pay under applicable employment standards or other legislation or at common law, and is intended to be in full satisfaction of any and all claims which Mr. Gibbon may have arising out of his employment or its termination.

Mr. Gibbon rejected the offer by the Company and there exists a dispute between Mr. Gibbon and the Company as to the terms of the severance arrangement. For the second quarter ended March 31, 2004, the Company has accrued for \$200,000 which represents half of the total severance and termination package offered. Management believes that its offer to Mr. Gibbon is at the higher end of severance and termination settlements traditionally awarded given the circumstances with Mr. Gibbon.

Mr. Gibbon has been replaced by Mr. Jim Barker, who previously acted as Chairman of the Company. In addition to being Chairman, Mr. Barker acted as a consultant to the Company and received a monthly payment of \$12,500. This amount has not changed upon the assumption of Mr. Barker's new role.

Commercial Solutions Inc.

Notes to the interim Consolidated Financial Statements

(unaudited)

Stock based compensation

As required per the CICA's new standard for stock-based payments for options granted after the adoption date, disclosure of the impact on earnings and earnings per share, as if the fair value based method of accounting for the share-based compensation had been applied, is shown in the chart below. Such impact, using a weighted average fair value of \$0.14 per option for the 1,307,200 options granted for the quarter ended March 31, 2004, would approximate the following pro forma amounts.

	Three months ended March 31, 2004	Six months ended March 31, 2004
Pro forma net Income (loss)	\$ 488,911	\$ 757,040
Proforma earnings (loss) per share - basic	0.06	0.09
Proforma earnings (loss) per share - diluted	0.05	0.08

	Three months ended March 31, 2003	Six months ended March 31, 2003
Pro forma net Income (loss)	\$ 159,387	\$ (284,812)
Proforma earnings (loss) per share - basic	0.02	(0.04)
Proforma earnings (loss) per share - diluted	0.02	(0.04)

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 Company experiences seasonality in sales for each segment, with the industrial supply segment having the greatest exposure to the seasonality effect. The first quarter is traditionally its weakest. The oilfield parts & supplies segment experiences relatively less seasonality, but peaks in the second quarter. From a consolidation perspective, the second and third quarters are the strongest for the Company.

The following table presents information about reportable segment profit and loss:

	Three months ended March 31, 2004			
	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated
Revenue	\$ 16,733,379	\$ 3,677,654	\$ (46,267)	\$ 20,364,766
Segment profit (loss)	835,463	851,336	(9,253)	1,677,546
General corporate expenses				437,724
Amortization				82,374
Interest expense				315,903
Income before income taxes				<u>\$ 841,545</u>
Identifiable assets	\$ 24,697,280	\$ 5,911,223	\$ (29,208)	\$ 30,579,295
Corporate assets				8,868,490
Total assets				<u>\$ 39,447,785</u>
Capital expenditures	\$ 62,594	\$ -		\$ 62,594

Commercial Solutions Inc.

Notes to the interim Consolidated Financial Statements (unaudited)

Segmented information (con't)

	Six months ended March 31, 2004			
	Industrial Supplies	Oilfield Parts & Supplies	Intersegment Transactions	Consolidated
Revenue	\$ 31,763,049	\$ 7,585,245	\$ (128,597)	\$ 39,219,697
Segment profit (loss)	1,186,313	1,661,622	(25,718)	2,822,217
General corporate expenses				688,510
Amortization				191,130
Interest expense				591,470
Income before income taxes				<u>\$ 1,351,107</u>
Identifiable assets	\$ 24,697,280	\$ 5,911,223	\$ (29,208)	\$ 30,579,295
Corporate assets				<u>8,868,490</u>
Total assets				<u>\$ 39,447,785</u>
Capital expenditures	\$ 288,471	\$ 10,935		\$ 299,406

Comparative segment information has not been disclosed as the Company was operating within one segment in the comparative quarter. The oilfield parts & supplies segment was acquired effective May 1, 2003.



Corporate Information

Officers and Directors

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

Eric Sauze, CA CFA
Chief Financial Officer
Edmonton, Alberta

Ken Harrison
Director
Edmonton, Alberta

Mary Ellen Neilson
Director
Calgary, Alberta

Ron Gibbon
Director
Edmonton, Alberta

Don Caron
Secretary and Director
Edmonton, Alberta

James Taylor
Director
Regina, Saskatchewan

Bill Rosser
Director
Edmonton, Alberta

Corporate Office

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Auditors

Grant Thornton LLP
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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: 8,833,405 common shares
Issued: 983,760 preferred shares

Web Site

www.commercialsolutions.ca