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FISCAL 2011 SECOND QUARTER

Interim Consolidated Financial Statements

March 31, 2011



Commercial Solutions Inc.
Fiscal 2011 Second Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

Administration
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Interim Consolidated Statement of Earnings (Loss), Comprehensive Income (Loss), and Retained Earnings (Deficit)

<i>(Unaudited)</i>	For the Three Months ended March 31st		For the Six Months ended March 31st	
	2011	2010	2011	2010
Revenue	\$ 28,094,634	\$ 23,089,142	\$ 52,506,072	\$ 44,340,378
Cost of goods distributed	20,330,059	16,278,670	38,124,986	31,654,785
Gross margin (\$)	7,764,575	6,810,472	14,381,086	12,685,593
Gross margin (%)	27.6%	29.5%	27.4%	28.6%
Expenses				
Salary and wages	3,877,723	3,564,239	7,432,941	7,131,433
Selling, general and administration	1,248,959	955,794	2,338,167	2,212,145
Rent, occupancy costs and utilities	1,146,597	1,270,239	2,258,507	2,436,087
Professional fees	226,829	105,508	323,353	227,459
Amortization of intangible assets	211,897	182,457	433,218	462,905
Interest on long-term debt	208,765	187,605	401,063	381,721
Amortization of property and equipment	194,924	285,693	388,952	529,352
Interest on bank indebtedness	190,019	218,314	390,232	363,287
Advertising and promotion	57,983	64,858	115,531	125,180
Restructuring costs	-	2,000	-	77,100
Refinancing costs	-	-	-	3,423
	7,363,696	6,836,707	14,081,964	13,950,092
Earnings (loss) before income taxes	400,879	(26,235)	299,122	(1,264,499)
Income tax expense (recovery)	114,491	(8,355)	85,429	(402,743)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 286,388	\$ (17,880)	\$ 213,693	\$ (861,756)
Deficit beginning of period	(22,593,887)	(21,271,685)	(22,521,192)	(20,427,809)
Reclassification of accumulated deficit (Note 6)	22,593,887	-	22,593,887	-
RETAINED EARNINGS (DEFICIT), END OF PERIOD	\$ 286,388	\$ (21,289,565)	\$ 286,388	\$ (21,289,565)
Earnings (loss) per share				
Basic	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.04)
Weighted average number of shares - basic	20,106,817	20,100,806	20,103,780	20,100,806
Diluted	\$ 0.01	\$ (0.00)	\$ 0.01	\$ (0.04)
Weighted average number of shares - diluted	21,820,932	20,100,806	21,703,944	20,100,806

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	As at March 31 2011 <i>(unaudited)</i>	As at September 30 2010 <i>(audited)</i>
Assets		
Current		
Cash	\$ 214,480	\$ 47,847
Accounts receivable	16,905,130	14,645,539
Income taxes receivable	286,522	495,029
Future income taxes	146,427	146,427
Inventory	21,412,790	19,806,759
Prepays	581,217	738,755
	39,546,566	35,880,356
Future income tax asset	600,979	600,979
Property and equipment	2,896,549	3,096,150
Intangible assets	1,552,798	1,793,935
TOTAL ASSETS	\$ 44,596,892	\$ 41,371,420
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 11,133,888	\$ 9,460,903
Accounts payable and accrued liabilities	11,286,679	9,756,276
Deferred tenant inducement	20,000	20,000
Current portion of long-term debt (Note 5)	2,996,323	89,074
Current portion of notes payable	191,135	280,971
	25,628,025	19,607,224
Future income tax liability	474,314	537,371
Deferred tenant inducement	68,333	78,333
Long-term debt (Note 5)	38,687	2,915,583
Notes payable	835,887	928,762
	27,045,246	24,067,273
Shareholders' Equity		
Share capital (Note 6)	15,273,013	37,860,880
Contributed surplus	1,992,245	1,964,459
Retained earnings (deficit) (Note 6)	286,388	(22,521,192)
	17,551,646	17,304,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 44,596,892	\$ 41,371,420

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i>	For the Three Months ended March 31st		For the Six Months ended March 31st	
	2011	2010	2011	2010
Increase (decrease) in cash and cash equivalents				
Operating				
Net earning (loss)	\$ 286,388	\$ (17,880)	\$ 213,693	\$ (861,756)
Items not affecting cash:				
Amortization of property and equipment	194,924	285,693	388,952	529,352
Amortization of intangible assets	211,897	182,457	433,218	462,905
Amortization of transaction cost	68,399	38,939	159,925	77,877
Stock based compensation	53,938	43,555	72,026	59,703
Amortization of notes payable discount	17,289	6,111	17,289	8,702
Tenant inducement	(5,000)	(5,000)	(10,000)	(10,000)
Future income tax recovery	(49,782)	(42,700)	(109,932)	(118,205)
Gain on business acquisition (Note 3)	(99,696)	-	(99,696)	-
	678,357	491,175	1,072,475	148,578
Changes in non-cash operating working capital	(1,282,951)	(1,369,529)	(2,065,927)	2,677,452
TOTAL CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	(604,594)	(878,354)	(993,452)	2,826,030
Financing				
Advances (repayments) on bank indebtedness	317,622	1,198,214	1,966,587	(5,369,358)
Issuances of common shares	3,780	-	3,780	-
Proceeds from long-term debt	-	-	-	3,000,000
Repayments of long-term debt	(23,632)	(17,395)	(47,523)	(76,215)
Repayments of notes payable	(100,000)	-	(200,000)	-
Refinancing costs on credit facility	-	-	(244,837)	-
TOTAL CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	197,810	1,180,819	1,478,007	(2,445,573)
Investing				
Consideration paid on business acquisition (Note 3)	(97,490)	-	(97,490)	-
Purchase of property and equipment	(48,295)	(76,616)	(171,493)	(82,170)
Purchase of intangible assets	(22,158)	(10,883)	(65,676)	(116,028)
Proceeds on disposal of property and equipment	16,737	6,631	16,737	39,338
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES	(151,206)	(80,868)	(317,922)	(158,860)
(Decrease) increase in cash and cash equivalents during the period	(557,990)	221,597	166,633	221,597
Cash and cash equivalents, beginning of period	772,470	-	47,847	-
TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 214,480	\$ 221,597	\$ 214,480	\$ 221,597

Cash taxes recovered during the three month period is \$NIL (2010 – \$270,621) and during the six month period is \$20,145 (2010 - paid \$4,584)

Cash interest paid during the three month period is \$210,076 (2010 - \$136,337) and during the six month period is \$375,396 (2010 - \$227,864)

Capital assets acquired through capital leases during the three month period is \$NIL (2010 - \$41,054) and during the six month period is \$NIL (2010 - \$41,054)

See accompanying notes to the interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the six months ended March 31, 2011 and 2010

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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Commercial bearing service (1966) Ltd., Canglobal Products Ltd., Brightcapital Technologies Ltd., and Commercial Solutions USA LLC. All intercompany balances and transactions are eliminated on consolidation.

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 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, with the exception of the following:

(a) Changes in accounting policies:

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued Business Combinations Section 1582, replacing the former Business Combinations Section 1581, which establishes the standards for the accounting of business combinations. The implementation of section 1582 impacts how business combinations are accounted for, including the application of fair market measurements, the recognition and measurement of goodwill or gain from a bargain purchase, and the expensing of acquisition related costs. The new section applies prospectively to business combinations for which the acquisition date is during fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity early adopting section 1582 must also apply Consolidated Financial Statements, Section 1601, and Non-controlling Interests, Section 1602 at the same time, if applicable. Sections 1601 and 1602 require the non-controlling interest to be included in the equity section, separate from the parent equity.

The Company has elected to early adopt CICA Handbook sections 1582, 1601 and 1602 effective October 1, 2010. The implementation of Section 1582 has impacted the recording of the Canglobal Instruments LLC (“CGI”) business combination (Note 3) and will impact the recording of future business combinations. There has been no impact from the early adoption and implementation of Sections 1601 and 1602.

(b) New accounting policy:

At the Company’s Annual General and Special Meeting held on March 11, 2011 the shareholders approved a new Deferred Share Units (“DSU”) plan. The Company may offer the DSU plan to directors, senior officers, key employees and consultants in order to allow them to participate in the long-term success of the Company and encourage a sense of ownership. DSUs are redeemable upon termination of employment or resignation from the Board, as the case may be. The holder of the DSU has the option of redeeming the DSU in either shares or cash, subject to Board approval.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

DSUs are recorded as a liability if they include the option to redeem in cash. Grants of DSU are recorded at fair value, as salaries and wage expense at the time of grant. The liability is updated to fair value at each subsequent reporting period with changes being recorded in salaries and wage expense. Fair value is calculated based on the quoted market price of the Company's shares on the date of grant and each subsequent reporting date. The liability for DSUs is included in accounts payable and accrued liabilities on the balance sheet.

2. SEASONALITY OF OPERATIONS

A significant portion of the Company's revenue is exposed to the energy sector and therefore displays seasonality. Typically, the energy sector 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.

3. ACQUISITION OF THE BUSINESS OF CANGLOBAL INSTRUMENTS LLC ("CGI")

On March 1, 2011, the Company, through its newly formed subsidiary, Commercial Solutions USA LLC, acquired the inventory, capital assets, intangible assets and ongoing business processes of a Pinehurst, Texas entity, CGI, for total cash consideration of \$97,490 (USD 100,000). Total transaction costs related to the acquisition were \$71,465 which includes legal and finders' fees. Transaction costs were expensed as incurred, in accordance with Note 1(a).

The Company has determined that the acquisition meets the definition of a business combination which requires that the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. In the case of CGI, the inventory, capital assets and intangibles are substantially all of the required inputs to operate the business. In addition, the Company also acquired the business processes including management, location and assembled workforce.

As a result, the Company applied the acquisition method of accounting where the identifiable assets acquired and liabilities assumed are recognized and measured, along with a gain from a bargain purchase. Net identifiable assets acquired and liabilities assumed and recorded at estimated fair market values are as follows:

	Fair Market Value
Inventory	\$ 76,060
Capital Assets	34,595
Intangible assets	126,406
Future income tax liability	(39,875)
	\$ 197,186

The intangible assets are comprised of customer relationships of \$126,405 and will be amortized straight line over their estimated useful life of five years.

The fair value of \$197,186 for the assets acquired and liabilities assumed exceeds the purchase price of \$97,490 which results in a bargain purchase. The gain on the bargain purchase of \$99,696 has been recorded in the income statement as part of selling, general and administrative expense in the current period.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. BANK INDEBTEDNESS

As at September 30th 2010, the Company had a consolidated credit facility (the "Facility") with the Canadian Imperial Bank of Commerce (the "Lender") which provided a \$15,000,000 operating line of credit of which \$9,460,903 was drawn as at that date.

On October 8, 2010, the Company entered into a new \$16,000,000 senior secured Asset-Based Lending Facility (the "ABL Facility") with the Bank of America, N.A. and repaid the outstanding indebtedness in full to the Lender amounting to \$8,716,195. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. The ABL Facility includes an opportunity for the Company to increase the facility to \$20,000,000 to fund future growth provided the Company continues to be in compliance with all covenants on a pro-forma basis, after accounting for the increase in the borrowing amount.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The ABL Facility bears interest at prime plus 1.50% (September 30, 2010 - prime plus 3.50%) or bankers' acceptance rate plus 3.25% (September 30, 2010 - bankers' acceptance rate plus 5.75%), and, a standby fee of 0.05% (September 30, 2010 - 1.00%) on unused amounts of the ABL Facility. The ABL Facility includes monitoring fees, recorded as interest on bank indebtedness, of \$34,466 (2010-\$NIL) for the three months ended March 31, 2011 and \$69,466 (2010 - \$NIL) for the six months ended March 31, 2011.

Significant financial covenants of the ABL Facility include (i) margin requirements between loans and certain receivables and inventory balances, (ii) availability block of \$1,000,000, and (iii) a springing covenant where minimum net tangible worth of \$14,500,000 is triggered if fund availability is lower than \$2,500,000. These covenants are to be measured monthly. As at March 31, 2011, the Company was operating within its covenants.

As at March 31, 2011, \$11,432,598 was drawn on the ABL Facility, net of transaction costs of \$298,710 for a balance of \$11,133,888. The Company incurred a total of \$423,382 as transaction costs directly related to closing the ABL Facility of which \$244,837 was paid in the current year. All transaction costs are netted against the amount drawn on the ABL Facility and amortized to net earnings as interest on bank indebtedness over the term of the loan.

5. LONG-TERM DEBT

Long-term debt as at March 31, 2011 is made up of: finance contracts totaling \$112,887 (September 30, 2010 - \$160,410) with a current portion at \$74,200 (September 30, 2010 - \$89,074); and mezzanine debt of \$2,922,123, net of transaction costs of \$77,877 (September 30, 2010 - \$2,844,247), repayable on October 8, 2011 and recorded as current liability in the current period.

The mezzanine debt agreement was closed on October 8, 2009 for a two-year term. The closing was comprised of subordinated secured promissory notes earning 18.0% per annum and are secured in second position to the ABL Facility 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 Company incurred 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. SHARE CAPITAL

(a) Common Shares

At the Company's AGM, the Company obtained shareholder approval to reclassify the deficit of \$22,593,887 as at December 31, 2010 to reduce share capital. The reclassification provides users of the Company's financial statements with a statement more in keeping with the current economic condition of the Company. The revised balance sheet will more appropriately reflect the Company's ongoing operations, whereas the previous presentation reflected an accumulated deficit which primarily resulted from the write down of goodwill in fiscal years 2008 and 2009. The reclassification of the deficit allows the Company to continue business, as if making a fresh start, with a balance sheet that reflects appropriately the future prospects of the Company. During the quarter ended March 31, 2011, the charge of deficit to share capital was made, and share capital was adjusted to \$15,273,013 from \$37,860,880 as at December 31, 2010.

The accounting entry described above will not impact shareholder rights, privileges or obligations and will not result in cash flow or change in total Shareholders' Equity.

	Number of Shares	Amount
Balance, September 30, 2010	20,100,806	\$ 37,860,880
Shares issued on exercises of options (by employees, directors and agents)	14,000	6,020
Reclassification of accumulated deficit	-	(22,593,887)
BALANCE, MARCH 31, 2011	20,114,806	\$ 15,273,013

(b) Stock option plan:

	For the six months ended March 31st			
	2011		2010	
	Stock Options	Stock Option Weighted Average Exercise Price	Stock Options	Stock Option Weighted Average Exercise Price
Outstanding, as at September 30	1,310,167	\$ 0.85	1,012,600	\$ 1.62
Granted	-	-	569,000	0.27
Exercised	(14,000)	0.27	-	-
Forfeited and expired	(36,367)	1.92	(136,100)	3.05
OUTSTANDING AS AT MARCH 31	1,259,800	\$ 0.83	1,445,500	\$ 0.96

(c) Deferred shares units ("DSU")

Effective March 11, 2011 the Shareholders approved a DSU plan for directors, senior officers, key employees and consultants. DSUs are redeemable upon termination of employment or resignation from the Board, as the case may be. They may be redeemed by the holder in either shares or cash, subject to Board approval.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

On March 11, 2011 the Company issued 40,000 (2010-NIL) DSUs. The fair value of the DSUs of \$42,000, as measured based on the closing price of the shares on the balance sheet date, was recorded as salaries and wages expense and included in accounts payable.

(d) Warrants

	For the six months ended March 31st			
	2011		2010	
	Warrants	Warrants Weighted Average Exercise Price	Warrants	Warrants Weighted Average Exercise Price
Outstanding, as at September 30	1,200,000	\$ 0.31	-	\$ -
Granted	-	-	1,200,000	0.31
OUTSTANDING AS AT MARCH 31	1,200,000	\$ 0.31	1,200,000	\$ 0.31

(e) Stock-based compensation

Stock based compensation is recorded as part of salaries and wage expense.

	For the three months ended March 31st		For the six months ended March 31st	
	2011	2010	2011	2010
Stock Options	\$ 11,938	\$ 43,555	\$ 30,026	\$ 59,703
Deferred Shares Units	42,000	-	42,000	-
	\$ 53,938	\$ 43,555	\$ 72,026	\$ 59,703

7. CAPITAL MANAGEMENT

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

- ensuring 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;
- ensuring the Company has capital and capacity to support the long-term growth strategy, and,
- maximizing 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 March 31, 2011, the Company was in compliance with its externally imposed debt covenant requirements (Note 4). The Company monitors these requirements on a monthly basis.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Jim Barker | Edmonton, AB
President, Chairman, CEO and Director

Dr. Ken Harrison | Edmonton, AB
Director

Rozina Kassam, CA | Edmonton, AB
Chief Financial Officer

Daryl Kruper | Sherwood Park, AB
Director

Alan Martin, CA CBV | St. Albert, AB
Director

William Rosser, LL.B. | Edmonton, AB
Corporate Secretary and Director

Richard Smith | Calgary, AB
Director

AUDITORS

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SHARES LISTED

Toronto Stock Exchange
Trading Symbol – “CSA”

TRANSFER AGENT

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Calgary, AB, Canada T2P 3S8

BANKERS

Bank of America, N.A.
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SHARE CAPITAL

Issued: 20,144,806 common shares

CORPORATE OFFICE

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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.