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FIELD



INDUSTRIAL



ENERGY SERVICES

FISCAL 2011 SECOND QUARTER

Management Discussion and Analysis

March 31, 2011

NOTE

This discussion and analysis of the financial results of Commercial Solutions Inc. (“Commercial” or the “Company”) is as of May 9, 2011 and should be read in conjunction with the interim consolidated financial statements and accompanying notes. The financial data presented herein has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and in Canadian dollars. Additional information relating to the Company, including the Annual Information Form can be found at the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at www.sedar.com.

FORWARD LOOKING STATEMENT

This Management Discussion and Analysis contains forward looking statements relating to such matters as expected financial performance, business prospects, and development activities and like matters. These statements involve risks and uncertainties, including but not limited to, the risk factors described elsewhere. 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 a statement is made or to reflect the occurrence of unanticipated events, with an exception of securities laws requirements.



Commercial Solutions Inc.
Fiscal 2011 Second Quarter Management Discussion and Analysis

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RESULTS OF OPERATIONS

	For the three months ended March 31st		Increase (Decrease)
	2011	2010	%
Revenue	\$ 28,094,634	\$ 23,089,142	21.7%
Gross margin (\$)	7,764,575	6,810,472	14.0%
Gross margin (%)	27.6%	29.5%	-1.9%
Operating expenses a	6,558,091	5,962,638	10.0%
Earnings before interest, tax, depreciation and amortization expense ("EBITDA") a	1,206,484	847,834	42.3%
Interest expenses and refinancing costs	398,784	405,919	-1.8%
Depreciation and amortization	406,821	468,150	-13.1%
Earnings (loss) before tax	400,879	(26,235)	1628.0%
Income tax expense (recovery)	114,491	(8,355)	1470.3%
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 286,388	\$ (17,880)	1701.7%
Earnings (loss) per share			
Basic	\$ 0.01	\$ (0.00)	
Diluted	\$ 0.01	\$ (0.00)	
Weighted average shares outstanding			
Basic	20,106,817	20,100,806	
Diluted	21,820,932	20,100,806	

	For the six months ended March 31st		Increase (Decrease)
	2011	2010	%
Revenue	\$ 52,506,072	\$ 44,340,378	18.4%
Gross margin (\$)	14,381,086	12,685,593	13.4%
Gross margin (%)	27.4%	28.6%	-1.2%
Operating expenses a	12,468,499	12,209,404	2.1%
Earnings before interest, tax, depreciation and amortization expense ("EBITDA") a	1,912,587	476,189	301.6%
Interest expenses and refinancing costs	791,295	748,431	5.7%
Depreciation and amortization	822,170	992,257	-17.1%
Earnings (loss) before tax	299,122	(1,264,499)	123.7%
Income tax expense (recovery)	85,429	(402,743)	121.2%
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 213,693	\$ (861,756)	124.8%
Earnings (loss) per share			
Basic	\$ 0.01	\$ (0.04)	
Diluted	\$ 0.01	\$ (0.04)	
Weighted average shares outstanding			
Basic	20,103,780	20,100,806	
Diluted	21,703,944	20,100,806	

a See page 12 for a further explanation of these non-GAAP measures

Revenue

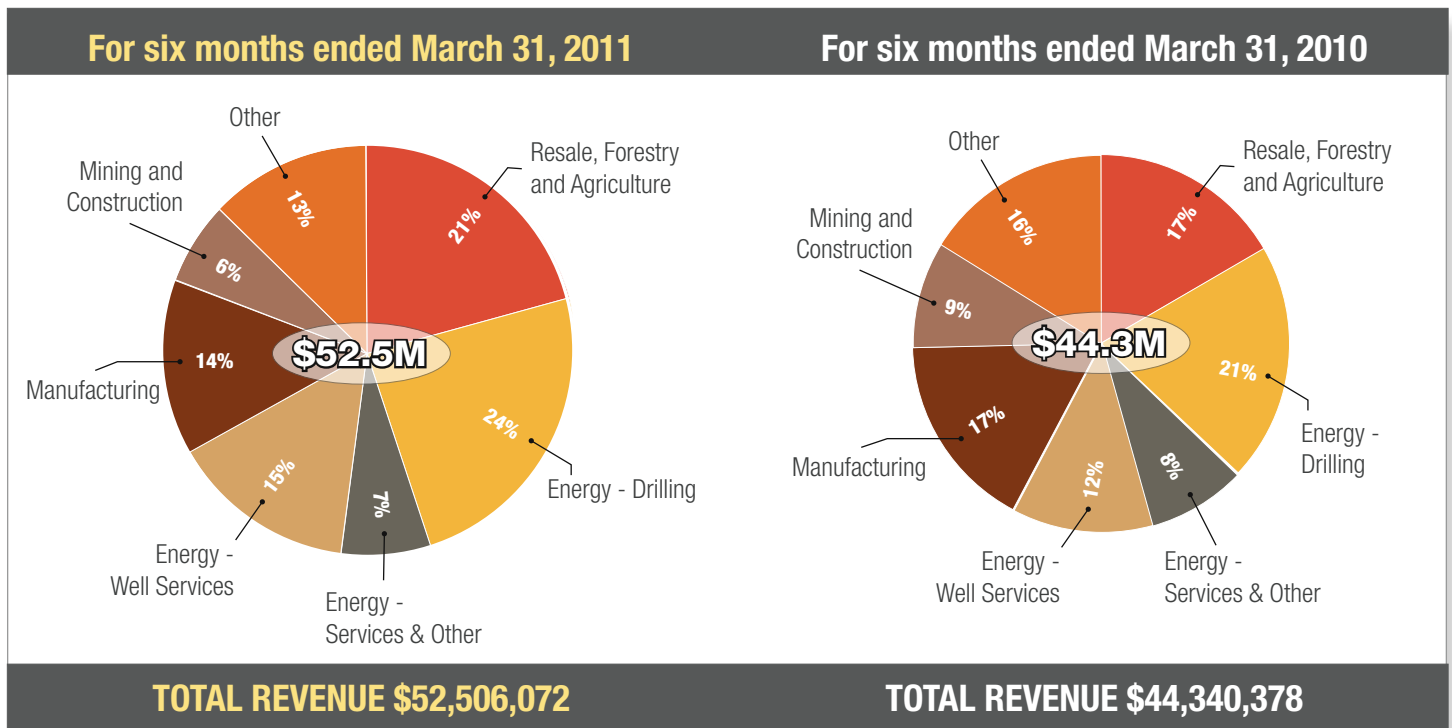
The Company achieved significant growth in revenues in comparison to the same period in the prior year as activity levels in all of the Company's primary markets maintained steady growth in the current quarter, consistent with the preceding two quarters. Revenue growth of 21.7% from same quarter last year was achieved despite the reduced footprint of the Company in Eastern Canada. Normalized for the two branches sold in Eastern Canada late in the second quarter of the prior year, the Company achieved revenue growth of 25.2%.

Revenue has continued to strengthen each quarter for the past three quarters, with the current quarter increasing over the preceding quarter by 15.0%. The increase in revenues is a reflection of the improved economy in all of Commercial's primary markets and the anticipated seasonal improvement in the energy sector.

A significant portion of the Company's revenue is derived from the energy sector which is impacted by the drilling activity in Western Canada. Drilling activity improved in the current quarter in comparison to the preceding quarter and in comparison to the second quarter of the prior year. Rig utilization rates improved significantly, to 68% in the current quarter from 50% in the preceding quarter and from 57% in the second quarter of the prior year. Drilling activity in Western Canada is seasonal, and is significantly impacted by weather conditions which in turn directly impact the Company's revenues. Wet weather and the thawing conditions in April and May hamper rig moves, stalling drilling activity during these months. As a result, demand for the Company's energy products is generally highest in the fall and winter seasons and lowest in the spring season. Demand for energy products is also driven by the level of capital expenditures and maintenance, repair and operating requirements of the customers in the industry. When capital budgets in the energy sector are high, it lessens the seasonal impact of demand for energy related products, and capital expenditures are naturally influenced by oil and gas prices. As crude oil prices have improved substantially since last year, capital budgets for many oil and gas companies have increased correspondingly. Maintenance activities for existing rigs have also increased as many oil and gas companies had previously reduced their regular maintenance during the economic downturn. The Company also interacts with key customers who service oil and gas wells after well completion and production from the reservoir has begun. Well servicing activity is less impacted by weather and is thus less seasonal. The Company expects revenues generated from this sector to increase due to the overall increase in oil production.

Activity in the Company's other primary markets including construction, mining and agriculture has also improved in comparison to same period in the prior year. Forestry and agriculture sectors have increased activity due to improved economic conditions and the impact of global food inventories continuing to tighten. There is a ramp up in activity throughout the resource sectors, other than oil and gas, such as potash and nickel. As well, the Company has successfully increased revenues through sales of its firefighting equipment to municipalities in Western Canada, driven by our continued efforts in expanding this product line.

The Company's diversified customer base is a strength that the Company continues to build. The Company has recently increased its efforts in further diversifying the customer base to concentrate on its other primary markets such as mining, construction, manufacturing, resale, services, forestry and agriculture. This diversified customer base lowers the impact of the cyclical and seasonal nature of the energy sector. Further information on the breakdown of the various industry sectors the Company serves is included below.



The Company's diversification strategy also includes widespread locations serving Western Canada. The Company believes the geographic dispersion and strategic location of each of its facilities diversifies the risk of localized weather, as well as economic and market conditions. More recently, Commercial expanded its footprint into Texas, the "hub" of the global oil and gas business. The Company purchased the business of an existing operating company in Pinehurst, Texas and plans to establish this location as the anchor point for Commercial's international sales. The location also facilitates business with some of Commercial's Canadian customers that have operations in Houston, Texas.

Although Commercial anticipates economic improvement going forward, it is not relying solely on a rebound in market activity to grow the business. Commercial remains focused on its sales and marketing programs which include increasing awareness of Commercial's capability in serving its customers. This includes ensuring customers fully appreciate the broad range of products and services that Commercial offers to provide them the best solutions for their operational needs. This allows Commercial the ability to achieve an optimal balance of exposure within the various industry sectors that it serves and build on our strength of providing the industry leading "one-stop-shop" service to our customers across the West.

Earnings before Interest, Tax, Depreciation and Amortization (“EBITDA”)

Improvement in the Company’s EBITDA by 42.3% (\$0.36 million) in comparison to the same quarter in the prior year was the result of increased revenues partially offset by decrease in gross margin rates and higher operating expenses. Further analysis of gross margins and operating expenses are described below.

Gross Margins

Gross margin rates were lower than the prior year primarily due to changes in product mix and increased competitive pricing pressures. A large order related to firefighting products with a lower gross margin was included in the current quarter. Competitive pricing pressures continue in the uncertain market environment, specifically in the energy sector where customers are sensitive to any price movement that may impact their returns. The decreases in these specific margins were partially offset by higher margins from increased sales of products sourced offshore. The Company continues to assess ways to improve margins through review of pricing for revenues and vendor contracts.

Operating Expenses

Operating expenses decreased as a percentage of revenues but increased in dollar amount during the current quarter by 10.0% (\$0.60 million) in comparison to the same quarter in the prior year. The increase is primarily due to the following: 1] increase in salaries and wages by 8.8% (\$0.31 million) due to increase in headcount from 230 to 245, including the employees from our Texas, U.S.A. expansion; reduction in vacation days taken by employees; and, increase in commissions accrued due to higher revenues. Additional headcount and lower vacation days were a direct result of the increase in sales activity during the quarter; 2] increase in allowance for doubtful accounts for \$0.10 million due to additional reserves set for a potential loss from a customer that is currently delinquent in payment; and, 3] higher travel, legal and finders’ fees associated with the acquisition of assets in Texas. The increases in these expenses were partially offset by lower occupancy costs and a gain recognized from the Texas acquisition to account for a bargain purchase.

Major components of the EBITDA variance from the same period in the prior year are as follows:

	Q1	Q2	TOTAL
2010 EBITDA	\$ (371,645)	\$ 847,834	\$ 476,189
Higher gross profit as a result of higher revenues	873,670	1,476,441	2,350,111
Lower gross profit as a result of lower margins	(132,280)	(522,338)	(654,618)
Lower (higher) operating costs	261,258	(597,453)	(336,195)
Lower restructuring costs	75,100	2,000	77,100
2011 EBITDA	\$ 706,103	1,206,484	1,912,587

Interest and Refinancing Expense

Interest expense includes interest on bank indebtedness, long-term debt and notes payable, as well as amortization of transaction costs on closing both the ABL Facility and the two-year mezzanine debt. Interest expense was consistent in the quarter in comparison to the same quarter in the prior year. Refinancing costs were higher in the prior year when the Company was undergoing its debt restructuring. There were no refinancing charges expensed in the current quarter.

Income Taxes

The Company accrued income tax expenses in the current quarter compared to a recovery in the prior year as the Company achieved positive net income. The effective income tax rate for the current quarter is at 28.56% in comparison to 31.85% in the prior year. This is due to decreases in the Federal corporate tax rates.

Net Earnings (Loss) and Comprehensive Income (Loss)

The Company achieved net earnings and comprehensive income in the quarter compared to losses in the comparative period in the prior year primarily due to higher EBITDA partially offset by income tax expense.

TRAILING TWELVE MONTHS AND SEASONAL NATURE OF BUSINESS

The tables presented below provide an opportunity for insight into the results of the trailing twelve months. Up to 50% of the Company's revenues are related to the energy industry in Western Canada. Activity in this industry is seasonal with fall and winter periods being the busiest and spring being the slowest due to spring thaw; therefore, the Company incurs a seasonal decline in its third quarter. During fiscal 2010, the impact of the weather on overall revenues was minimized as a result of the overall decline in activity in the energy sector from the global economic recession.

<i>In thousands of dollars</i>	FISCAL 2009		FISCAL 2010				FISCAL 2011	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	\$ 20,749	\$ 20,153	\$ 21,251	\$ 23,089	\$ 21,964	\$ 23,151	\$ 24,411	\$ 28,095
Gross margin (\$)	5,715	6,289	5,875	6,810	5,972	6,737	6,617	7,765
Gross margin (%)	27.5%	31.2%	27.6%	29.5%	27.2%	29.1%	27.1%	27.6%
Operating expenses a	7,218	7,317	6,247	5,963	5,947	5,921	5,910	6,558
EBITDA a	(1,503)	(1,028)	(372)	(848)	25	816	706	1,206
NET (LOSS) EARNINGS	\$ (1,619)	\$ (1,641)	\$ (844)	\$ (18)	\$ (676)	\$ (556)	\$ (73)	286
Basic (loss) earnings per share	\$ (0.08)	\$ (0.08)	\$ (0.04)	\$ (0.00)	\$ (0.03)	\$ (0.03)	\$ (0.00)	0.01
Diluted (loss) earnings per share	\$ (0.08)	\$ (0.08)	\$ (0.04)	\$ (0.00)	\$ (0.03)	\$ (0.03)	\$ (0.00)	0.01

a See page 12 for a further explanation of these non-GAAP measures

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Commercial continues to maintain its strong balance sheet by focusing on effectively managing its working capital and overall debt. The following table summarizes key consolidated financial position data:

	As as March 31st	
	2011	2010
Total current assets	\$ 39,546,566	\$ 36,268,148
Total current liabilities	25,628,025	19,671,176
NET INVESTMENT IN WORKING CAPITAL	\$ 13,918,541	\$ 16,596,972
TOTAL ASSETS	\$ 44,596,892	\$ 43,008,554
TOTAL TANGIBLE ASSETS	\$ 43,044,094	\$ 41,295,296
Bank indebtedness	11,133,888	11,621,726
Accounts payable	11,286,679	7,954,332
Current portion of long-term debt	2,996,323	75,118
Current portion of notes payable	191,135	-
Long-term debt	38,687	2,891,180
Notes payable	835,887	1,201,151
Future income tax liability	474,314	663,176
TOTAL DEBT	\$ 26,956,913	\$ 24,406,683
KEY RATIOS		
Debt to tangible asset ratio	0.63	0.59
Working capital ratio	1.54	1.84
Days sales in receivables	51.87	53.70
Inventory turns	3.52	2.50
Days purchases in payables	46.63	49.50

a Total debt excludes Deferred tenant inducement as it does not represent future cash outflows.

The Company's primary capital needs are for the purchase of inventory, and the funding of accounts receivable, debt service payments and capital expenditures. As working capital levels may vary primarily due to seasonal fluctuations and timing of payments and receipts, the Company utilizes its operating credit facility which assists with the timing of cash flows as required.

Long-term debt is made up of finance contracts totaling \$112,887 and mezzanine debt of \$2,922,123 (net of transaction costs). The mezzanine debt agreement was closed on October 8, 2009 for gross proceeds of \$3,000,000 repayable in two years, maturing on October 8, 2011. The Company is currently pursuing new financing alternatives to the mezzanine loan with the objective of improving cash flow through lower interest expense while funding new growth opportunities.

Net investment in working capital ratio decreased in comparison to the prior year primarily due to the reclassification of the mezzanine debt from long-term to current liability. As well, a portion of notes payable was reclassified to current liability based on renegotiated terms from the last quarter of fiscal 2010. Debt to tangible asset ratio increased primarily due to the increased funding required to stock products in preparation for a busier summer season in comparison to prior year.

On October 8, 2010, the Company closed on an Asset-Based Lending Facility (“ABL Facility”) with Bank of America N.A.. The ABL Facility provides a \$16,000,000 senior secured operating line and has a maturity of three years. The borrowing base is calculated as a percentage of specified value of eligible inventory and accounts receivable.

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.

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 as interest on bank indebtedness over the term of the loan.

The ABL Facility includes an opportunity for Commercial to increase the loan to \$20,000,000 to fund future growth provided Commercial continues to be in compliance with all covenants on a pro-forma basis, after giving effect to the increase in the borrowing amount. As at March 31, 2011, the Company was in compliance with all covenants and maintained fund availability at over \$2,500,000. Although not a covenant that has been triggered, the Company reviews its minimum tangible net worth which was \$16,435,105 as at March 31, 2011, well beyond the minimum requirement of \$14,500,000. The Company believes that the ABL Facility will provide sufficient access to capital both for current needs and future growth.

Management continues to monitor and implement strict controls over the Company’s investment in working capital. The Company specifically focuses on its investments in inventory and accounts receivable through the following programs:

Inventory: The Company is committed to aggressive ongoing inventory management efforts that work towards the goal of minimizing inventory balances while still meeting customers’ needs. This includes strong centralized inventory purchasing, opportunity-based distribution to Service Centre’s and an asset recovery program where inventory with lower than average turnover is put through a different marketing plan to increase likelihood of sale. Due to the progress with these initiatives, the Company has increased its inventory turnover from 2.52 to 3.52 over the last twelve months.

Accounts Receivable: Management deals with credit risk by utilizing an effective credit-granting process, maintaining appropriate credit administration, measurement and monitoring processes. As well, more attentive communication with customers on a frequent basis involving multiple levels of the corporation has aided in understanding customer needs and viability. This has proven to facilitate timely collection.

Summary of Cash Flows

The following table highlights the Company's cash flows during the period:

	For the three months ended March 31st		For the six months ended March 31st	
	2011	2010	2011	2010
Total cash (used in) from operations	\$ (604,594)	\$ (878,354)	\$ (993,452)	\$ 2,826,030
Total cash from (used in) financing	197,810	1,180,819	1,478,007	(2,445,573)
Total cash used in investing	(151,206)	(80,868)	(317,922)	(158,860)
Free cash flow*	(658,310)	(959,222)	(1,213,884)	2,667,170

*Free cash flow is a non-GAAP measure and is defined as cash provided by (used in) operating activities less net capital expenditures. Note: Investment in assets through business acquisitions is excluded in the calculation of free cash flows.

The Company's cash outflow in operating activities in the current quarter was a result of positive operating cash flows of \$0.7 million more than offset by increase in investment on working capital of \$1.3 million. Investment in working capital varies primarily due to timing of accounts receivables, prepaids, and accounts payables. Working capital needs are usually higher at the end of second quarter due to increase in accounts receivable from the increased sales during the quarter. During the six months ended March 31 of the prior year, working capital levels were decreased as the Company continued its efforts on reducing inventory levels. Based on current and forecasted demand, Commercial does not plan to further decrease inventory levels but continues to work on managing levels through an intimate understanding of market requirements. Cash used in investing activity reflects investment in the current business acquisition, as well as required leasehold improvements and enhanced computer systems. Cash used in operating and investment activities were funded through the Company's ABL Facility.

Intangibles

Intangible assets decreased during the six months ended March 31, 2011 due to amortization of intangibles partially offset by the addition of software and the intangibles acquired through the Company's newly formed subsidiary, Commercial Solutions USA LLC ("CSU").

During the quarter, CSU acquired the inventory, capital assets, intangible assets and ongoing business processes of a Pinehurst, Texas entity, Canglobal Instruments LLC ("CGI"), for total cash consideration of \$97,490 (USD 100,000). 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.

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.

Share Capital

Commercial has authorized an unlimited number of common shares and an unlimited number of preferred shares with no par value. As at March 31, 2011 the Company had 20,114,806 common shares outstanding (September 30, 2010- 20,100,806). The increase in number of common shares was due to exercised stock options during the current quarter.

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.

The shareholders also approved a new Deferred Share Units ("DSU") Plan at the March 11, 2011 meeting. 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. DSUs are recorded as a liability if they include the option to redeem in cash. The liability is recorded at fair value at date of grant, and updated to fair value at each subsequent reporting period until the DSU is exercised. Fair value is calculated based on the quoted market price of the Company's shares on the date of grant, and each subsequent measurement date. During the quarter, 40,000 DSUs were granted which vested immediately. Commercial records the cost of the DSU Plan as salary and wages expense and the liability for DSUs is included in accounts payable and accrued liabilities on the balance sheet.

The Board of Directors may grant DSUs and options to purchase shares up to a maximum of 10% of common shares outstanding. Maximum allowable grants under these plans as at March 31, 2011 was 2,011,481 of which 1,259,800 is outstanding stock options and 40,000 is outstanding DSUs for a total of 1,299,800 (September 30, 2010 -1,310,167). Of the total options to purchase shares, 875,258 are exercisable as at March 31, 2011 (September 30, 2010- 675,278).

On October 8, 2009, the Company issued 1,200,000 warrants as part of the agreement on the mezzanine debt. As at March 31, 2011, no warrants have been exercised. 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. The warrants were treated as transaction costs of the debt and were recorded as part of contributed surplus. The fair value of the warrants was calculated as \$197,375 at inception using the Black-Scholes pricing model.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“GAAP”)

The following measures included in this report do not have a standardized meaning under GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. There have been no changes in the composition of these non-GAAP financial measures when compared to Commercial’s previously disclosed measures.

EBITDA is not a concept recognized by GAAP; however, it is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. The following table is a reconciliation of EBITDA to net loss for the periods presented in this MD&A:

	For the three months ended March 31st		For the six months ended March 31st	
	2011	2010	2011	2010
Net earnings (loss) and comprehensive income (loss)	\$ 286,388	\$ (17,880)	\$ 213,693	\$ (861,756)
Add:				
Income tax expense (recovery)	114,491	(8,355)	85,429	(402,743)
Depreciation and amortization	406,821	468,150	822,170	992,257
Interest expenses and refinancing costs	398,784	405,919	791,295	748,431
EBITDA	\$ 1,206,484	\$ 847,834	\$ 1,912,587	\$ 476,189

Operating expenses as presented on page 3 is not a concept recognized by GAAP as it does not include amortization expense and similar type expenses related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the March 31, 2011 consolidated financial statements:

	For the three months ended March 31st		For the six months ended March 31st	
	2011	2010	2011	2010
Operating expenses	\$ 6,558,091	\$ 5,962,638	\$ 12,468,499	\$ 12,209,404
Add:				
Depreciation and amortization	406,821	468,150	822,170	992,257
Interest expenses and refinancing costs	398,784	405,919	791,295	748,431
TOTAL EXPENSES	\$ 7,363,696	\$ 6,836,707	\$ 14,081,964	\$ 13,950,092

OUTLOOK

Commercial's outlook for the remainder of the fiscal year is optimistic. The economy is recovering and the activity in the energy sector is increasing. Provided that energy commodity prices hold up or improve, Commercial expects to see continued strengthening of financial results. Commercial believes that it is well positioned to grow both organically and through selective acquisitions due to its fiscally streamlined operations and the strength in its balance sheet.

Commercial generates significant revenues from the energy sector in Western Canada which is largely dependent on the price of oil and gas. Land sales in Western Canada, which is a good indicator of future activity in the energy sector, continue to outpace the prior year's volume and price. Rig counts and rig utilization rates have improved, mainly driven by favourable oil prices compared to the prior year. Further, capital and maintenance expenditures in Western Canada are rebounding from decade low levels in 2009.

Although economic data suggests the demand for conventional natural gas drilling and its related services will remain low for the foreseeable future due to unfavourable natural gas prices, Commercial is cautiously optimistic that the increased activity for conventional oil drilling will offset the decline in activity in the natural gas sector.

Revenues generated from the Company's other primary markets including construction, mining and agriculture also continue to improve due to a general rebound in the economy, coupled with the Company's focused efforts on customer service and diversification. There is a ramp up in activity throughout the resource sectors, other than oil and gas, such as potash and nickel. Construction and infrastructure, including contractors for the oil and gas markets, are also experiencing substantial recovery. Additionally there is an improved outlook for the agricultural markets due to strong crop prices. Commercial is encouraged about the overall activity levels going forward and believes pricing pressures may begin to ease as uncertainty in the economy begins to fade. However, the Company foresees future challenges in hiring qualified labour in Western Canada which could reduce the rate of increase in activity. The Company looks forward to building its presence in the U.S.A. through its recent business acquisition of an entity in Pinehurst, Texas. Although a modest investment, Commercial is committed to taking on expansion opportunities with new and existing customers in the region by positioning key sales personnel in Houston.

While Commercial anticipates continued recovery in most of its primary markets, the Company also views the recovery cautiously to ensure its revitalization will be sustained. Demand for capital and maintenance programs and increases in drilling activity in the energy sector are expected to continue to grow, provided commodity prices hold at current levels or improve. If prices weaken, drilling activity levels may drop and the improving demand for capital equipment could be derailed. Commercial believes that it has improved its ability to manage the economic environment over the last two years with an aggressive program to alter the Company's cost structure by increasing the ratio of variable versus fixed operating costs. The Company will remain focused on staffing, asset management, discretionary spending and capital investment to continue its flexibility in adjusting to the economic environment and at the same time, allow it to capitalize on opportunities going forward.

The Company will also remain focused on its core strengths, which are its people and its products. Specific strategies that the Company will continue to emphasize for the current fiscal year include: ongoing improvements to customer service, further diversification of its customer base, and building an accountable, performance driven culture within the organization. Commercial's long-term strategy is to build sustaining value for its shareholders

through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. Over the years, Commercial has grown successfully into one of the largest industrial and oilfield parts distributors in Western Canada. Commercial intends to continue with this growth model through organic growth and selective acquisitions.

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. The Board and management of the Company take prudent measures to mitigate risks which may affect the Company.

There have been no significant changes to existing risk factors or new key risks identified from the key risks disclosed in the Company's Annual Information Form and Management Discussion and Analysis for the year ended September 30, 2010.

CRITICAL ACCOUNTING ESTIMATES

In preparing the Company's consolidated financial statements in conformity with GAAP, 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 valuation of accounts receivable and inventory, the recognition of the appropriate amount of future tax assets and liabilities, the value of notes payable, the assumptions included in the calculation to determine the carrying value of intangibles, the inputs into the Black-Scholes option pricing model for stock-based compensation, and the carrying value of accrued liabilities. Actual results could differ from these estimates.

FUTURE ACCOUNTING PRONOUNCEMENTS

In February 2008, the Accounting Standards Board of Canada (AcSB) confirmed that the use of International Financial Reporting Standards (IFRS) will be required for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company anticipates implementation of this standard in its first quarter of fiscal year 2012 and is currently evaluating the impact of its adoption on the consolidated financial statements.

The Company has developed an IFRS implementation plan that attempts to address both the impact of the current IFRS standards and the potential for change through the convergence date. The Company's convergence plan consists of three phases: Diagnostic, Development, and Implementation. The Company has completed the Diagnostic phase and is currently working on the Development phase. Both the Development and Implementation phases are planned to be completed before December 31, 2011 to achieve timely reporting of its fiscal 2012 first quarter results under IFRS standards. Key aspects of the activities under each of these phases and established timelines for each phase are presented below.

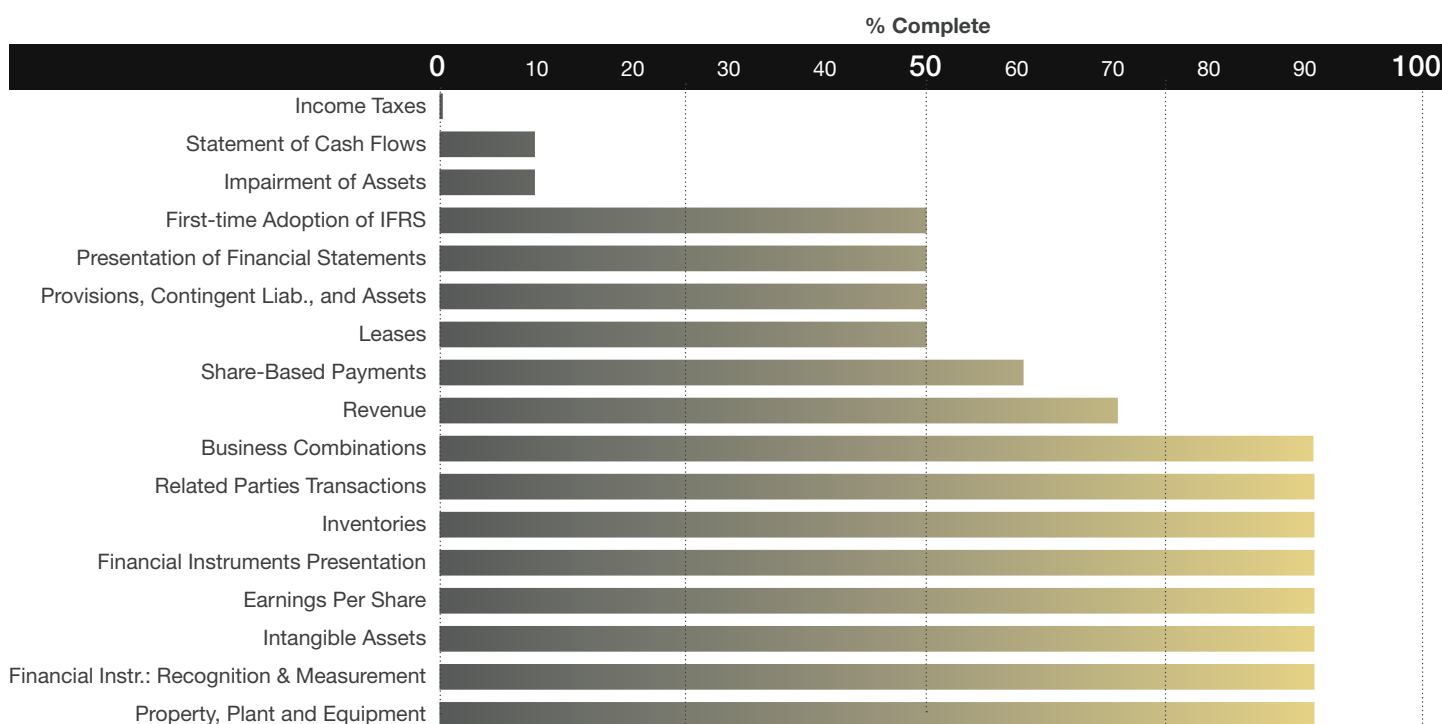
Diagnostic (completed):

- Identify key differences between current Canadian GAAP and IFRS and categorize potential impacts as high, medium and low
- Allocate and train appropriate resources to the convergence project

Development (April 2010 to September 2011):

- Research specific accounting differences identified in the initial accounting phase; see status bar below
- Identify transition options under IFRS 1 (IFRS 1 is for companies that adopt IFRS for the first time. It allows for these companies to elect for certain exemptions in order to not apply each IFRS section on a retrospective basis); see status bar below
- Identify potential impacts on applicable functions, including financial statements, accounting policies and processes, performance metrics, business and operations management, banking arrangements, information systems, control environment and internal and external communications; see status bar below
- Communicate findings to executive management, Board of Directors, audit committee and external auditors

The following chart highlights the status of the major deliverables for the first three points above:



Based on work completed to date, Commercial does not anticipate significant financial or operational impacts from conversion to IFRS including changes to financial statements, accounting policies, performance metrics, business and operations management, banking arrangements, information systems, control environment and internal and external communications.

Implementation (September 2011 to December 2011)

- Quantify the impact of accounting differences identified in the development phase
- Finalize transitional (IFRS 1) and ongoing accounting policy choices
- Prepare an opening balance sheet as at October 1, 2010 and comparative periods over fiscal 2011 and related note disclosures
- Prepare required MD&A disclosures
- Communicate findings to executive management, Board of Directors, audit committee, external auditors; and external stakeholders, including the investment community and bankers

RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2011, the Company entered into the following related party transactions:

- a) Legal fees of \$280,097, (2010- \$117,363) were paid to a law firm for corporate matters of which a director, Mr. William Rosser, is a partner. Of this amount, \$90,331 (2009 \$44,396) is included in accounts payable. Included in this amount is \$150,051, which was paid to this law firm as part of closing the ABL Facility (2010- \$75,000- finder's fee for the closing of the mezzanine debt).
- b) Management consulting fees of \$76,750 (2010- \$67,563) were paid to a company, 371070 Alberta Ltd., over which an officer and director, Mr. Jim Barker, has significant influence.
- c) The Company paid directors' fees and expenses of \$37,407 (2010 - \$44,619) to its four (2010 - four) independent directors, namely: Dr. Ken Harrison, Mr. Daryl Kruper, Mr. Alan Martin, and Mr. Richard Smith.

In management's opinion, these transactions are all in the normal course of operations and are recorded at the exchange value, which was the amount of consideration established and agreed to by the related parties.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being made known to the appropriate individuals. In addition, the CEO and CFO are responsible to design internal controls over financial reporting or cause them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Disclosure Controls and Procedures ("DC&P")

An evaluation of the effectiveness of the Company's DC&P was conducted on March 31, 2011, by and under the supervision of the Company's management, including the CEO and CFO. Based on this valuation, the CEO and CFO have concluded that the DC&P were effective as at March 31, 2011.

Internal Controls and Procedures (“ICFR”)

The Company’s management, including the CEO and the CFO, has evaluated the design of the Company’s ICFR using the framework and criteria established in the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company’s ICFR as at March 31, 2011 were effective.

Management has concluded that the consolidated financial statements fairly represent the Company’s consolidated financial position and consolidated results of operations as at and for the three months and the six months ended March 31, 2011.

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

Grant Thornton LLP
1401 Scotia Place 2
10060 Jasper Avenue
Edmonton, AB, Canada T5J 3R8

SHARES LISTED

Toronto Stock Exchange
Trading Symbol – “CSA”

TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 - 8th Avenue SW
Calgary, AB, Canada T2P 3S8

BANKERS

Bank of America, N.A.
Simcoe Place, 200 Front Street W.
Toronto, ON, Canada M5V 3L2

SHARE CAPITAL

Issued: 20,144,806 common shares

CORPORATE OFFICE

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Edmonton, AB, Canada T6E 5R6
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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.