



BEARINGS & P.T. | SAFETY | FIREFIGHTING | FIELD | INDUSTRIAL | OILFIELD | FALL PROTECTION

**FISCAL 2009 | Second Quarter**  
Interim Consolidated Financial Statements

March 31, 2009



**Demand *Expert* Solutions®**

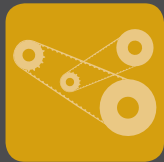
Commercial Solutions Inc.  
Fiscal 2009 Second Quarter Financial Statements

Chief Financial Officer: Rozina Kassam, CA

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

© 2009 Commercial Solutions Inc.

# TABLE OF CONTENTS



**01** Interim Consolidated Balance Sheets ..... **4**



**02** Interim Consolidated Statement of (Loss) Earnings,  
Comprehensive (Loss) Income, and (Deficit) Retained Earnings ..... **5**



**03** Interim Consolidated Statement of Cash Flows ..... **6**



**04** Notes to the Interim Consolidated Financial Statements ..... **7 - 11**



**05** Corporate Information ..... **12**



# Interim Consolidated Balance Sheets

AS AT	March 31, 2009 (unaudited)	September 30, 2008 (audited)
<b>Assets</b>		
Accounts receivable	\$ 16,275,074	\$ 23,093,567
Inventory	28,622,337	28,248,399
Prepays	693,913	756,779
	<b>45,591,324</b>	<b>52,098,745</b>
Long term receivable (Note 3)	999,410	-
Future income tax asset	385,563	385,563
Property and equipment	5,267,921	5,210,762
Intangible assets	2,558,046	3,068,845
Goodwill (Note 4)	-	19,686,124
<b>TOTAL ASSETS</b>	<b>\$ 54,802,264</b>	<b>\$ 80,450,039</b>
<b>Liabilities</b>		
Bank indebtedness (Note 5)	\$ 19,512,839	\$ 18,200,221
Accounts payable and accrued liabilities	8,541,058	14,078,616
Income taxes payable	937,903	936,993
Current portion of deferred tenant inducement	20,000	20,000
Current portion of long term debt	1,053,206	356,397
Current portion of notes payable	-	1,246,023
	<b>30,065,006</b>	<b>34,838,250</b>
Future income tax liability	937,088	1,101,369
Deferred tenant inducement	108,333	118,333
Long term debt	192,261	984,382
Notes payable	1,207,134	594,684
	<b>32,509,822</b>	<b>37,637,018</b>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	37,860,880	37,860,880
Contributed surplus	1,598,668	1,497,802
(Deficit) retained earnings	(17,167,106)	3,454,339
	<b>22,292,442</b>	<b>42,813,021</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 54,802,264</b>	<b>\$ 80,450,039</b>

*See accompanying notes to the interim consolidated financial statements.*

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

(Unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	2009	2008	2009	2008
<b>Revenue</b>	\$ 29,333,030	\$ 37,477,869	\$ 65,121,612	\$ 71,188,710
Cost of goods distributed	21,639,481	26,651,747	47,469,242	50,568,045
<b>Gross margin \$</b>	7,693,549	10,826,122	17,652,370	20,620,665
<b>Gross margin %</b>	26.2%	28.9%	27.1%	29.0%
<b>Expenses</b>				
Impairment of goodwill (Note 4)	19,548,494	-	19,548,494	-
Salary and wages	5,250,222	5,981,989	11,088,633	11,937,146
Rent, occupancy costs and utilities	1,446,052	1,127,171	2,783,015	2,109,060
Selling, general and administration	1,439,606	1,353,279	2,844,007	2,663,622
Amortization on property and equipment	344,114	254,492	695,799	505,247
Amortization on intangible assets	266,971	296,016	476,989	552,032
Interest on bank indebtedness	260,110	274,635	514,452	580,576
Professional fees	212,222	207,716	453,469	431,132
Advertising and promotion	73,609	343,513	306,114	678,560
Interest on long term debt	30,776	92,261	64,289	186,419
	28,872,176	9,931,072	38,775,261	19,643,794
<b>(Loss) earnings before income taxes</b>	(21,178,627)	895,050	(21,122,891)	976,871
Income tax (recovery) expense	(519,198)	283,553	(501,446)	309,425
<b>NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME</b>	\$ (20,659,429)	\$ 611,497	\$ (20,621,445)	\$ 667,446
Retained earnings, beginning of period	3,492,323	17,095,096	3,454,339	17,039,147
<b>(DEFICIT) RETAINED EARNINGS, END OF PERIOD</b>	\$ (17,167,106)	\$ 17,706,593	\$ (17,167,106)	\$ 17,706,593
(Loss) earnings per share - basic	\$ (1.03)	\$ 0.03	\$ (1.03)	\$ 0.03
Weighted average number of shares - basic	20,100,806	20,099,883	20,100,806	20,058,459
(Loss) earnings per share - diluted	\$ (1.03)	\$ 0.03	\$ (1.03)	\$ 0.03
Weighted average number of shares - diluted	20,100,806	20,099,883	20,100,806	20,058,459

See accompanying notes to the interim consolidated financial statements.

# Interim Consolidated Statement of Cash Flows

(Unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	2009	2008	2009	2008
Increase (decrease) in cash and cash equivalents				
Net (loss) earnings	\$ (20,659,429)	\$ 611,497	\$ (20,621,445)	\$ 667,446
Items not affecting cash:				
Impairment of goodwill (Note 4)	19,548,494	-	19,548,494	-
Amortization of property and equipment and intangibles	611,025	550,406	1,177,178	1,063,137
Stock based compensation	48,627	76,123	100,866	149,486
Loss (gain) on disposal of property and equipment	60	102	(4,390)	(5,858)
Tenant inducement	(5,000)	(5,000)	(10,000)	(10,000)
Amortization of note payable discount	(53,305)	32,897	(49,495)	64,822
Future income tax recovery	(85,030)	(87,664)	(151,921)	(162,672)
	(594,558)	1,178,361	(10,713)	1,766,361
Changes in non-cash operating working capital	10,043	3,040,834	970,774	1,115,098
Change in long term accounts receivable	180,590	-	(999,410)	-
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(403,925)</b>	<b>4,219,195</b>	<b>(39,349)</b>	<b>2,881,459</b>
Advances (repayments) on bank indebtedness (Note 5)	774,782	(3,241,961)	1,312,618	(1,504,854)
Issuances of common shares, net	-	2,000	-	189,000
Repayments of long term debt	(96,772)	(88,850)	(191,383)	(200,027)
Repayments of notes payable	-	-	(400,000)	(400,000)
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>678,010</b>	<b>(3,328,811)</b>	<b>721,235</b>	<b>(1,915,881)</b>
Purchase of property and equipment	(281,536)	(681,616)	(669,787)	(762,770)
Acquisition / purchase price adjustment	-	(209,734)	(25,000)	(209,734)
Proceeds on disposal of property and equipment	7,451	966	12,901	6,926
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(274,085)</b>	<b>(890,384)</b>	<b>(681,886)</b>	<b>(965,578)</b>
Increase in cash and cash equivalents during the period	-	-	-	-
Beginning of period	-	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Cash taxes paid during the three month period is \$179,324 (2008 - \$6,500) and during the six month period is \$179,324 (2008 - \$6,500)

Cash interest paid during the three month period is \$13,062 (2008 - \$21,823) and during the six month period is \$30,020 (2008 - \$46,435)

Cash assets acquired through capital assets during the three month period are \$NIL (2008 - \$NIL) and during the six month period are \$96,702 (2008 - \$NIL)

*See accompanying notes to the interim consolidated financial statements.*

# Notes to the Interim Consolidated Financial Statements

*(Unaudited)*

FOR SIX MONTHS ENDED MARCH 31, 2009 AND 2008

## 1. BASIS OF PRESENTATION

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 Commercial Solutions Inc. (the "Company") and its wholly owned subsidiaries. These financial statements do not contain all disclosures required by Canadian GAAP for annual audited financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual audited financial statements.

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

These interim financial statements, in all material respects (except as disclosed in Note 2), follow the same accounting policies and methods of application as the annual audited financial statements of the preceding fiscal year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### New Accounting Policy

Effective October 1, 2008, the Company began to utilize forward exchange contracts to hedge against changes in the value of the U.S. dollar relative to the Canadian dollar. The Company uses this hedging instrument only in connection to its exposure on cash and liabilities denominated in U.S. dollars and does not use them for trading or speculative purposes. For accounting purposes, the Company has the option to formally designate eligible hedging relationships between hedging instruments (i.e. the forward exchange contract) and a hedged item (i.e. liability denominated in U.S. dollars). This exercise involves an assessment of whether the hedging instrument is highly effective in offsetting the changes in the fair value or cash flows associated with the hedged item. If assessed as highly effective at inception and on an ongoing basis, the Company may apply hedge accounting. For derivatives accounted for under cash flow hedge accounting, the effective portion of the gains and losses on the hedging item are recorded in other comprehensive income. The ineffective portion is immediately recognized in income. The gain or loss is released from accumulated other comprehensive income and recorded when the hedged item affects income. Hedges that are not formally designated as hedges for accounting purposes are designated as held-for-trading and gains and losses are recorded directly in net earnings. The Company has designated its forward exchange contracts as held-for-trading. The derivative instrument is measured at fair value and all adjustments to fair value are included in selling, general and administrative expenses with the liability recorded in accounts payable and accrued liabilities.

The notional value of the forward contract is USD 1,837,514 with a term to maturity of approximately six weeks from the inception of the contract. The fair value adjustment related to this derivative instrument is a loss of \$61,060 for derivatives held as at March 31, 2009 (2008 - \$NIL) and is included in selling, general and administrative expenses.

### Changes in Accounting Policies

Effective October 1, 2008, the Company adopted the new CICA standard Section 3031, "Inventories". This new standard provides additional guidance concerning measurement, classification, and disclosure. The standard allows for the reversal of previous write-downs to net realizable value when there is a change in the circumstances giving rise to the impairment. There were no adjustments to inventories in the adoption of this section. The amount of inventory recognized as expense is the equivalent to the total costs of goods distributed as disclosed in the statement of earnings.

## Notes to the Interim Consolidated Financial Statements (cont'd)

---

Effective October 1, 2008, the Company adopted CICA Section 3064 "Goodwill and Intangible Assets". This standard supersedes Sections 3062, "Goodwill and Intangible Assets", and 3450, "Research and Development Costs". The new section establishes standards for the recognition, measurement, and disclosure of goodwill, intangible assets, and research and development costs. It also includes requirements for recognizing internally generated intangibles. There were no adjustments to goodwill and intangible assets in the adoption of this section.

### Future Accounting Pronouncements

In February 2008, the 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 the fiscal year 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

### 3. LONG TERM RECEIVABLE

The long term receivable represents an outstanding balance with a large international customer that will be settled in full through a deferred payment plan. The total outstanding amount receivable is approximately \$1,825,000 and thirty percent of this will be settled within this fiscal year with the remaining seventy percent to be settled through equal monthly payments up to December 2010. A financing fee at prevailing lending rates is charged on the monthly outstanding balance effective February 1, 2009. Management has not made a provision for this receivable as it believes it to be fully collectible.

### 4. GOODWILL

Goodwill was partially adjusted in the current period due to the re-evaluation of contingent payments on the February 29, 2008 acquisition of Outillage B et G Cadieux Inc. ("Cadieux"). The contingent payment was accrued at the time of acquisition based on the Company's assessment of Cadieux achieving certain levels of annual pre-tax earnings over the following three years. As a result of the general economic downturn, the Company believes these targets will not be attained and hence has reversed the liability. The adjustment is a reduction to Goodwill of \$145,630 and a reduction to intangible assets for \$33,809 with a corresponding reduction to notes payable.

The Company conducted an interim goodwill impairment test due to the changes in the economic environment since its last impairment test in Q3 of fiscal 2008. As a result, an impairment charge of \$19,548,494 (2008 - \$NIL) was recorded to write off the entire value of its goodwill. The impairment is primarily the result of the general economic downturn, specifically the weakness in the energy sector which is the Company's major market sector, and the recent decline in the Company's market capitalization.

### 5. BANK INDEBTEDNESS

The Company currently has consolidated credit facilities (the "facility") with the Canadian Imperial Bank of Commerce (the "Lender") which provides a \$23,000,000 operating line of credit and a \$1,260,000 acquisition line. As of March 31, 2009, \$19,512,839 (September 30, 2008 - \$18,200,221) was drawn on the operating line, which is classified as bank indebtedness on the balance sheet; \$956,667 (September 30, 2008 - \$1,096,667) was drawn on the acquisition line, which is classified as current portion of long term debt on the balance sheet.

The financial covenants include (i) margin requirements between loans and certain receivables and inventory balances, (ii) debt servicing, and (iii) senior funded debt to earnings before interest, tax, depreciation and amortization and impairment of goodwill ("EBITDA"). The credit facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The facility bore interest at prime plus 1%, with a sliding scale that increases based on financial covenants and a standby fee of 0.25% on unused amounts of the facility.

## Notes to the Interim Consolidated Financial Statements (cont'd)

As at December 31, 2008, the Company was not in compliance with the debt servicing ratio. In February 2009, the Lender agreed to waive the covenant default and amended the lending agreement to reflect the interest rate at prime plus 3.5% and standby fee of 0.75% on the monthly undrawn facility and required that principal payments on notes payables be deferred until after December 31, 2009. As at March 31, 2009, the Company was not in compliance with both the debt servicing ratio and the senior funded debt to EBITDA. For the six months ending March 31, 2009, the debt servicing ratio was 0.59:1.00 which is below the minimum covenant ratio of 1.10:1.00 and the senior funded debt to EBITDA ratio was 6.11:1.00 which is above the maximum covenant ratio of 4.00:1.00. The Company is in compliance with its margin requirements between loans and certain receivables and inventory balances. The Lender has waived the covenants breached for the six months ending March 31, 2009 and has reduced the operating line of credit to \$23,000,000 from \$25,000,000. The reduced amount sufficiently meets the Company's operational requirements.

The facility matured in April 2009, but the Lender has provided an extension up to May 31, 2009 for the Company to complete its evaluation of financing alternatives. The Company is currently reviewing different lending structures, such as asset based lending and traditional lending, and is expected to finalize financing arrangements before the end of May 2009. Should no financing alternatives be identified before May 31, 2009, there is no guarantee the Lender will provide a further extension which may reduce the Company's financial flexibility.

### 6. SHARE CAPITAL

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

	Outstanding	Exercisable
Common shares	20,100,806	n/a
Employee and director compensation options	1,241,267	892,167

The following table summarizes information on stock option transactions for the six months ending March 31, 2009:

	Stock options	Weighted average exercise price
Outstanding, as at September 30, 2008	1,388,017	\$ 2.08
Granted	70,000	0.25
Forfeited and expired	(216,750)	2.21
<b>OUTSTANDING AS AT MARCH 31, 2009</b>	<b>1,241,267</b>	<b>\$ 1.95</b>

The significant assumptions made in the calculation of the weighted average fair value of the options granted during the period using the Black-Scholes options pricing model are as follows:

	March 31, 2009
Risk-free interest rate	2.86%
Expected life	5 years
Expected volatility	72.14%
Weighted Average Fair Value per option	\$0.25

# Notes to the Interim Consolidated Financial Statements (cont'd)

## 7. CAPITAL MANAGEMENT

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

- safeguarding the entity's ability to continue as a going concern; and,
- increase shareholder value.

In the management of capital, the Company includes bank indebtedness, long term debt, notes payable, and share capital 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.

As at March 31, 2009, the Company breached its externally imposed debt covenants requirement, specifically, the debt servicing and the senior debt to EBITDA ratio, as per Note 5. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	March 31, 2009	September 30, 2008	Financial covenant
Working capital ratio*	1.52	1.50	n/a
Senior funded debt to adjusted EBITDA ratio **	6.11	3.34	maximum of 4.00
Debt servicing ratio***	0.59	1.16	minimum of 1.10

\* "Working capital ratio" is defined as current assets divided by current liabilities

\*\* "Senior funded debt to adjusted EBITDA ratio" is defined as the ratio of senior secured and interest bearing debt to adjusted EBITDA. "Adjusted EBITDA" is defined as EBITDA plus qualified acquired EBITDA. "Qualified acquired EBITDA" means normalized EBITDA for any company acquired during the period and is subject to the lender's approval. Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. EBITDA is a key measure used by management to evaluate the Company's performance and is used in measuring compliance with certain debt covenants.

\*\*\* "Debt servicing ratio" is the ratio of EBITDA less cash taxes to the sum of (i) debt service requirements; and, (ii) unfunded capital expenditures. "Debt service requirements" are defined as the scheduled principal and interest payments on senior funded debt and notes payable. "Unfunded capital expenditures" are capital expenditures that are not specifically financed with long term debt.

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

## 8. STOCK BASED COMPENSATION

The Company recorded stock based compensation expense and a corresponding increase in contributed surplus in the amount of \$48,627 (2008 - \$76,123) for the three months ending March 31, 2009 and \$100,866 (2008 - \$149,486) for the six months ending March 31, 2009.

### 9. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short and long term borrowings, forward exchange contracts, and any other amounts that will result in future cash outlays.

#### Financial Instruments – Carrying Values

The Company has determined that the fair value of its short-term financial assets, including accounts receivable, and financial liabilities, including accounts payable and accrued liabilities and financial derivatives, approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments. The fair value of the Company's bank indebtedness also approximates its respective carrying amounts due to the floating rate nature of the debt. The long term receivable approximates its carrying value as these balances include finance charges at prevailing market rates.

The fair value of the notes payable and the long term debt obligations are estimated based on current rates available to the Company for similar debt of the same remaining maturities. The estimated fair value of the notes payable and long term debt as at March 31, 2009 is \$2,507,902 (September 30, 2008 - \$3,199,641). If the Company paid out the loans at March 31, 2009 a pretax loss of \$34,730 (2008- \$18,155) would occur. These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible.

#### Financial Risk Management

The Company has exposure to credit, interest rate, and foreign currency risks. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

The Company manages its credit risks through the credit application process and through setting the credit limits. Provisions for uncollectible accounts are made in the allowance for doubtful accounts. Total provisions as at March 31, 2009 was \$760,174 (September 30, 2008 - \$493,388). Accounts receivable balances that are past their contractual terms as at March 31, 2009 total \$9,124,628 (September 30, 2008 - \$9,718,602). Management monitors the accounts receivable balances closely which have resulted in a decrease in the days the balances are outstanding in comparison to the prior year. As a result, management does not consider the amount past its contractual terms as uncollectible, with the exception of the amount that has been provided for as uncollectible.

There have been no substantive changes to the Company's exposure to financial instruments' risks, its objectives, policies and processes for managing those risks or methods used to measure them since September 30, 2008 with the exception of management of foreign currency risk as outlined in Note 2 under "new accounting policy". Foreign exchange loss for the three months ending March 31, 2009 is \$23,289 (2008 - gain of \$81,008). For the six months ending March 31, 2009, the Company recorded foreign exchange gain of \$41,195 (2008 - \$205,219).

Further discussion on risk management practices are included in the Management Discussion and Analysis on pages 16 and 17.

### 10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

# 05 Corporate Information

## Officers and Directors

Jim Barker  
President, Chairman and Director  
Edmonton, Alberta

Eric Sauze, CA CFA  
Chief Operating Officer  
Edmonton, Alberta

Rozina Kassam, CA  
Chief Financial Officer  
Edmonton, Alberta

Dr. Ken Harrison  
Director  
Edmonton, Alberta

Richard Smith  
Director  
Calgary, Alberta

Alan Martin, CA CBV  
Director  
St. Albert, Alberta

Bill Rosser  
Corporate Secretary and Director  
Edmonton, Alberta

Daryl Kruper  
Director  
Edmonton, Alberta

## Corporate Office

4203 - 95 Street  
Edmonton, Alberta T6E 5R6  
Ph.: (780) 432-1611  
Fax: (780) 462-0807

## Auditors

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

## Shares Listed

Toronto Stock Exchange  
Trading Symbol – “CSA”

## Transfer Agent

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

## Bankers

Canadian Imperial Bank of Commerce  
10102 Jasper Avenue  
Edmonton, Alberta  
T5J 1W5

## Share Capital

Issued: 20,100,806 common shares

## Website

[www.commercialsolutions.ca](http://www.commercialsolutions.ca)







**1 888 522 9822 | [www.commercialsolutions.ca](http://www.commercialsolutions.ca)**



**BEARINGS & P.T. | SAFETY | FIREFIGHTING | FIELD | INDUSTRIAL | OILFIELD | FALL PROTECTION**

ISO 9001:2000 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.