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**FISCAL 2009 | Second Quarter**  
Management Discussion and Analysis

March 31, 2009



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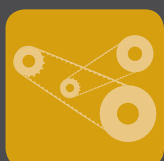
Commercial Solutions Inc.  
Fiscal 2009 Second Quarter Management Discussion and Analysis

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# Introduction

The following Management Discussion and Analysis is as of May 15, 2009 and is provided to assist readers in understanding the financial performance of Commercial Solutions Inc. (“Commercial” or the “Company”) during the periods presented and significant trends that may impact future performance of the Company. This discussion should be read in conjunction with the accompanying unaudited interim March 31, 2009 consolidated financial statements and with the audited consolidated financial statements and Management’s Discussion and Analysis contained in the Company’s annual report for the year ended September 30, 2008.

The financial data presented in this Management Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) except as otherwise noted. The Company’s reporting currency is the Canadian dollar. Commercial is a reporting issuer in Canada in the provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia and New Brunswick. The Company trades on the Toronto Stock Exchange under the symbol CSA. Additional regulatory information relating to Commercial, including the Company’s Annual Information Form, can be found at the System for Electronic Document Analysis and Retrieval (“SEDAR”) web site at [www.sedar.com](http://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 risk 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 statement is made or to reflect the occurrence of unanticipated events, with an exception of securities laws requirements.

## Overview of the Business

Headquartered in Edmonton, Alberta, Commercial is one of Canada’s leading independent industrial distributors and as of May 15, 2009 had 295 employees located across 30 Service Centres in Canada. Commercial offers more than 160,000 items critical to maintenance repair operations (“MRO”) and original equipment manufacturing (“OEM”) customers. The Company represents more than 450 leading manufacturers and serves over 11,000 customer accounts within a broad cross-section of industries, including oil and gas, forestry, food processing, chemical processing, mining and utilities, agriculture and construction.

The Company has traditionally conducted its operations through two separate business components. The Industrial Supplies component incorporates seven divisions providing approximately 140,000 plus products encompassing bearing, power transmission, industrial, safety, agricultural, resource management, survey and janitorial products. In addition, this business component offers technical support, customized inventory controls, materials management services, and customer training. The Oilfield Parts and Supplies component incorporates four divisions provides approximately 20,000 products but specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, gauges and industrial hand tools.

The differentiation between the two business components is due to the differing product offerings. Management has been integrating the operations of the business components into certain of its service centres. The largest integration has been the merger of four Nisku, Alberta divisions, formerly in three separate facilities, into one 55,000 square foot leased building also located in Nisku. These integrations offer the potential for operating synergies, but make it difficult to separate operating results by business component.

## Mission and Growth Strategy

The global financial markets and economic conditions have created overall market contraction and industry volatility for the Company. During this period of uncertainty, Commercial’s primary mission is to reorganize operations in order to reduce operating expenses and optimize operating profit through a series of staffing, branch distribution, and administration modifications and adjustments and re-direct existing sales and distribution strategies into focused market areas.

Commercial has successfully identified, rationalized, and integrated fourteen acquisitions over the last nineteen years and has grown into one of the largest industrial and oilfield parts distributors in Western Canada. While Commercial’s current focus is not on acquisitions, Commercial plans to leverage its industry experience in the mergers and acquisitions arena to successfully manage the current external financial market forces.

# 02 Financial Summary

INCOME STATEMENT for the three months ended March 31

	2009		2008		Increase (Decrease)		
					\$	%	
Revenue	\$	29,333,030	\$	37,477,869	\$	(8,144,839)	-21.7%
Gross margin \$		7,693,549		10,826,122		(3,132,573)	-28.9%
Gross margin %		26.2%		28.9%		n/a	-2.7%
Operating expenses	a	8,421,711		9,013,668		(591,957)	-6.6%
* EBITDA	b	(728,162)		1,812,454		(2,540,616)	-140.2%
Impairment of goodwill		19,548,494		-		19,548,494	100.0%
Depreciation and amortization		611,085		550,508		60,577	11.0%
Interest		290,886		366,896		(76,010)	-20.7%
(Loss) earnings before tax		(21,178,627)		895,050		(22,073,677)	-2466.2%
Income tax (recovery) expense		(519,198)		283,553		(802,751)	-283.1%
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>		<b>\$ (20,659,429)</b>		<b>\$ 611,497</b>		<b>\$ (21,270,926)</b>	<b>-3478.5%</b>
<b>(Loss) earnings per share</b>							
Basic	c	\$ (1.03)	\$	0.03	\$	(1.06)	
Diluted	c	\$ (1.03)	\$	0.03	\$	(1.06)	
<b>Weighted average shares outstanding</b>							
Basic		20,100,806		20,099,883		923	
Diluted		20,100,806		20,099,883		923	

a See page 22 for a further explanation of this non-GAAP measure

b Represents earnings before interest, tax, depreciation, amortization and impairment of goodwill (see page 22 for a further explanation of this non-GAAP measure)

c If the \$19,548,494 impairment of goodwill were excluded from the fiscal 2009 Q2 results, the basic and diluted loss per share would have been (\$0.06)

\* EBITDA is defined as earnings before interest, tax, depreciation, amortization, and impairment of goodwill

# Financial Summary (cont'd)

## INCOME STATEMENT for the six months ended March 31

	2009		2008		Increase (Decrease)		
					\$	%	
Revenue	\$	65,121,612	\$	71,188,710	\$	(6,067,098)	-8.5%
Gross margin \$		17,652,370		20,620,665		(2,968,295)	-14.4%
Gross margin %		27.1%		29.0%		n/a	-1.9%
Operating expenses	a	17,475,238		17,819,520		(344,282)	-1.9%
EBITDA	b	177,132		2,801,145		(2,624,013)	-93.7%
Impairment of goodwill		19,548,494		-		19,548,494	100.0%
Depreciation and amortization		1,172,788		1,057,279		115,509	10.9%
Interest		578,741		766,995		(188,254)	-24.5%
(Loss) earnings before tax		(21,122,891)		976,871		(22,099,762)	-2262.3%
Income tax (recovery) expense		(501,446)		309,425		(810,871)	-262.1%
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>		<b>\$ (20,621,445)</b>		<b>\$ 667,446</b>		<b>\$ (21,288,891)</b>	<b>-3189.6%</b>
<b>(Loss) earnings per share</b>							
Basic	c	\$ (1.03)		\$ 0.03		\$ (1.06)	
Diluted	c	\$ (1.03)		\$ 0.03		\$ (1.06)	
<b>Weighted average shares outstanding</b>							
Basic		20,100,806		20,058,459		42,347	
Diluted		20,100,806		20,058,459		42,347	

- a See page 22 for a further explanation of this non-GAAP measure
- b Represents earnings before interest, tax, depreciation, amortization and impairment of goodwill (see page 22 for a further explanation of this non-GAAP measure)
- c If the \$19,548,494 impairment of goodwill were excluded from the fiscal 2009 Q2 results, the basic and diluted loss per share for the six months would have been (\$0.05)

## BALANCE SHEET as at March 31

	2009		2008		Increase (Decrease)		
					\$	%	
Current assets	\$	45,591,324	\$	54,396,019	\$	(8,804,695)	-16.2%
Property and equipment		5,267,921		4,875,265		392,656	8.1%
Other assets		3,943,019		38,600,580		(34,657,561)	-89.8%
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>54,802,264</b>	<b>\$</b>	<b>97,871,864</b>	<b>\$</b>	<b>(43,069,600)</b>	<b>-44.0%</b>
Current liabilities	\$	28,991,800	\$	34,735,305	\$	(5,743,505)	-16.5%
Current portion of long term debt		1,073,206		2,172,109		(1,098,903)	-50.6%
Long term liabilities		2,444,816		3,988,939		(1,544,123)	-38.7%
<b>TOTAL LIABILITIES</b>		<b>32,509,822</b>		<b>40,896,353</b>		<b>(8,386,531)</b>	<b>-20.5%</b>
Share capital		37,860,880		37,860,880		-	0.0%
(Deficit) retained earnings & contributed surplus		(15,568,438)		19,114,631		(34,683,069)	-181.4%
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>22,292,442</b>		<b>56,975,511</b>		<b>(34,683,069)</b>	<b>-60.9%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>\$</b>	<b>54,802,264</b>	<b>\$</b>	<b>97,871,864</b>	<b>\$</b>	<b>(43,069,600)</b>	<b>-44.0%</b>

- † Further to the goodwill impairment charge of \$ 19,548,494 to income this quarter, there was a \$15,000,000 goodwill impairment charge in Q3 of the prior year.

# 03 Financial Results

Earnings before interest, tax, depreciation, amortization and impairment of goodwill ("EBITDA") for the three and six months ended March 31, 2009 were below comparable periods primarily due to lower sales revenue and gross margins offset partially by lower operating expenses. The decrease in revenue is primarily the result of continued weakness in the energy sector which is a key portion of the Company's customer base. To offset this, the Company is realizing the benefits of cost cutting initiatives implemented over the last six months. This has resulted in substantial reduction of its operating expenses versus comparable periods.

Due to the current economic state, management performed an interim goodwill impairment test in the current quarter and determined an impairment charge was required. Management also performed the review of the fair value of intangible assets and determined that the fair value exceeded the carrying value; therefore, no impairment charge was required.

## Revenue

The year over year reduction in sales is primarily the result of decreased sales in the second quarter of 2009 when compared to the same period in the prior year. A significant portion of the Company's revenues are directly impacted by the level of exploration and development activity carried on by its customers in the natural gas industry. Natural gas drilling activity is cyclical and seasonal and is directly affected by a variety of factors, including weather, world crude oil prices and North American natural gas prices, access to capital markets and government policies. Since natural gas prices continue to be at depressed levels and access to capital for new projects has been limited over the last few months, drilling activity has significantly declined. The average number of active rigs counts in Western Canada over the three months ended March 31, 2009 was at 36.0% compared to 56.0% in the previous year per the Canadian Association of Oilwell Drilling Contractors. As well, sales activity in the Company's other primarily markets (i.e. forestry, agriculture and mining) continued to decline compared to the prior year due to the continued weakness in overall global economy.

## Gross Margin

The decrease in the three and six months consolidated gross margin percentages compared to prior periods is primarily due to the product mix within the Oilfield Parts and Supplies components. Sales trended towards larger dollar items which traditionally attract lower margins. As well, the general economic downturn has caused the Company to react to customer pricing pressures as quoting prior to ordering has become more prevalent. Partially offsetting the decrease in gross margins is an increase in sourcing and sales of higher margin offshore products. The Company is actively focused on growing sales of these product lines.

## Operating Expenses

	For the three months ended March 31		
	2009	2008	Change
<b>* OPERATING EXPENSES (\$'S)</b>			
Salary and wages	\$ 5,250,222	\$ 5,981,989	-12.2%
Selling, general and administration	1,439,606	1,353,279	6.4%
Rent, occupancy costs and utilities	1,446,052	1,127,171	28.3%
Advertising and promotion	73,609	343,513	-78.6%
Professional fees	212,222	207,716	2.2%
<b>TOTAL</b>	<b>\$ 8,421,711</b>	<b>\$ 9,013,668</b>	<b>-6.6%</b>
	<b>2009</b>	<b>2008</b>	
<b>OPERATING EXPENSES (AS A % OF SALES)</b>			
Salary and wages	17.9%	16.0%	
Selling, general and administration	4.9%	3.6%	
Rent, occupancy costs and utilities	4.9%	3.0%	
Advertising and promotion	0.3%	0.9%	
Professional fees	0.7%	0.6%	
<b>TOTAL</b>	<b>28.7%</b>	<b>24.1%</b>	

\* See page 22 for a further explanation of this non-GAAP measure.

# Financial Results (cont'd)

## Operating Expenses (cont'd)

	For the six months ended March 31		
	2009	2008	Change
<b>* OPERATING EXPENSES (\$'S)</b>			
Salary and wages	\$ 11,088,633	\$ 11,937,146	-7.1%
Selling, general and administration	2,844,007	2,663,622	6.8%
Rent, occupancy costs and utilities	2,783,015	2,109,060	32.0%
Advertising and promotion	306,114	678,560	-54.9%
Professional fees	453,469	431,132	5.2%
<b>TOTAL</b>	<b>\$ 17,475,238</b>	<b>\$ 17,819,520</b>	<b>-1.9%</b>
	<b>2009</b>	<b>2008</b>	
<b>OPERATING EXPENSES (AS A % OF SALES)</b>			
Salary and wages	17.0%	16.8%	
Selling, general and administration	4.4%	3.7%	
Rent, occupancy costs and utilities	4.3%	3.0%	
Advertising and promotion	0.5%	1.0%	
Professional fees	0.7%	0.6%	
<b>TOTAL</b>	<b>26.9%</b>	<b>25.1%</b>	

\* See page 22 for a further explanation of this non-GAAP measure.

Management has been focusing on reducing operating costs given the current economic conditions. This has been accomplished by closely monitoring and controlling all discretionary expenses and also by implementing the following:

- merged five branches into existing service centres;
- implemented a 5.0% company-wide salary roll-back effective January 2009;
- cancelled fiscal 2008 performance bonuses and suspended fiscal 2009 bonuses; and,
- suspended certain employee benefits until current economic conditions improve.

As a result of the above implementations, operating expenses decreased by 6.6% from the comparable quarter last year and by 7.0% from the prior quarter.

The reductions outlined above stem from reduction in salaries and wages and advertising and promotion. Partially offsetting this decrease is an increase in rent, occupancy costs and utilities due to inflationary increases and incremental costs from larger, newer, updated facilities for the Nisku, Drayton Valley and Lloydminster locations. This expense incorporates longer term commitments, making it difficult to reduce costs given the current economic slowdown. Professional fees remained relatively the same, as the Company enters into the final phases of its securities rules compliance with internal controls over financial reporting.

## Interest Expense

The decrease in interest expense is due to a decrease in the notes payables balance in comparison to the prior year. During the latter half of fiscal 2008, \$1,321,667 of notes payables matured which bore interest rates at fair market values ranging from 6.0% to 15.0%. The interest on the short term loan also decreased due to lower bank base rates in comparison to the prior year.

## Income Taxes

The Company's fiscal 2009 year to date effective tax rate is 31.85%. The \$19,548,494 goodwill impairment charge is not tax deductible.

# Financial Results (cont'd)

## Net Earnings and Weighted Average Shares Outstanding

The Company had a net loss in comparison to net earnings in the prior period primarily due to the goodwill impairment charge as well as lower sales and gross margins partially offset by lower operating costs in the current year.

## Trailing Twelve Months and Seasonal Nature of Business

The following "Financial Results - Summary of Quarterly Data" provides an opportunity for insight into the trailing twelve months results. The Company has experienced a decline in sales over the last twelve months as its two key markets, oil and gas and forestry slowed down. The decline in the forestry market started earlier in the 2008 calendar year.

Approximately 50.0% of the Company's sales are related to the energy industry. Typically, the oil and gas industry slows down in April and May due to spring thaw, therefore the Company incurs a seasonal decline in its third quarter.

### SUMMARY OF QUARTERLY DATA

	FISCAL 2008		FISCAL 2009		TOTAL
	Q3	Q4	Q1	Q2	
Revenue	\$ 33,921,608	\$ 38,314,864	\$ 35,788,582	\$ 29,333,030	\$ 137,358,084
Gross margin \$	9,689,904	11,326,194	9,958,821	7,693,549	38,668,468
Gross margin %	28.6%	29.6%	27.8%	26.2%	28.2%
Operating expenses	<b>a</b> 9,069,986	9,202,325	9,053,527	8,421,711	35,747,549
EBITDA	<b>b</b> 619,918	2,123,869	905,294	(728,162)	2,920,919
<b>NET (LOSS) EARNINGS</b>	<b>\$ (15,071,350)</b>	<b>\$ 819,096</b>	<b>\$ 37,984</b>	<b>\$ (20,659,429)</b>	<b>\$ (34,873,699)</b>
Basic (loss) earnings per share	\$ (0.75) <b>c</b>	\$ 0.04	\$ 0.00	\$ (1.03) <b>d</b>	<b>(1.74) e</b>
Diluted (loss) earnings per share	\$ (0.75) <b>c</b>	\$ 0.04	\$ 0.00	\$ (1.03) <b>d</b>	<b>(1.74) e</b>

**a** See page 22 for a further explanation of this non-GAAP measure

**b** Represents earnings before interest, tax, depreciation, amortization and impairment of goodwill (see page 22 for a further explanation of this non-GAAP measure)

**c** If the \$15,000,000 impairment of goodwill were excluded from the fiscal 2008 Q3 results, the basic and diluted earnings per share would have been \$0.00

**d** If the \$19,548,494 impairment of goodwill were excluded from the fiscal 2009 Q2 results, the basic and diluted loss per share would have been (\$0.06)

**e** If both the Q3 2008 and the Q2 2009 impairment of goodwill were excluded from the above results, the trailing twelve months basic and diluted loss per share would have been (\$0.02)

# Financial Results (cont'd)

## SUMMARY OF QUARTERLY DATA (CONT'D)

	FISCAL 2007		FISCAL 2008		TOTAL
	Q3	Q4	Q1	Q2	
Sales	\$ 36,238,836	\$ 35,594,663	\$ 33,710,841	\$ 37,477,869	\$ 143,022,209
Gross margin \$	9,777,069	10,569,774	9,794,543	10,826,122	40,967,508
Gross margin %	27.0%	29.7%	29.1%	28.9%	28.6%
Operating expenses	<b>a</b> 9,027,123	8,892,547	8,805,852	9,013,668	35,739,190
EBITDA	<b>b</b> 749,946	1,677,227	988,691	1,812,454	5,228,318
<b>NET (LOSS) EARNINGS</b>	<b>\$ (204,624)</b>	<b>\$ (298,951)</b>	<b>\$ 55,949</b>	<b>\$ 611,497</b>	<b>\$ 163,871</b>
Basic (loss) earnings per share	\$ (0.01)	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.03
Diluted (loss) earnings per share	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.03	\$ 0.04

**a** See page 22 for a further explanation of this non-GAAP measure

**b** Represents earnings before interest, tax, depreciation and amortization (see page 22 for a further explanation of this non-GAAP measure)

# Financial Condition and Liquidity

## Cash from Operations

For the three months ended March 31, 2009, the Company experienced net operating cash outflow primarily due to operating losses offset by a reduction in the investment in working capital as inventory levels decreased. On a year to date basis, operating cash inflows approximated its cash outflows as operating losses were offset by timing of accounts payable payments.

The downturn in the economy coupled with the tight credit market has resulted in one of the Company's large international customers seeking to settle its outstanding balance in full over a deferred payment plan. The total outstanding amount receivable from this customer is approximately \$1,825,000. Terms of the deferred payment plan are: thirty percent of the receivable 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 will be charged on the outstanding balance. Management has not provided for this receivable as it believes the balance is fully collectible. The receivable amount to be collected after March 31, 2010 has been reclassified as a long term asset on the balance sheet.

For the remainder of the receivables, the collection rate improved over the prior period due to management's focus on natural gas drilling and forestry customers. The days of purchases in payables have decreased in comparison to the same period last year due to improved processes in the purchases and payables system.

Investment in inventory has decreased in Q2 2009 as management continues to implement initiatives such as: vendor returns; re-allocation of products to branches with the greatest opportunity of sales; and, restrictions on purchasing inventory at the branch level. These initiatives resulted in a decrease in inventory of 4.3% from Q1 2009. Inventory turnover is relatively constant; however, management anticipates a reduction in inventory turnover in the short term due to the recent sharp decline in demand. Given the inventory reduction initiatives outlined above, the inventory dollar value will continue to decrease over a period of time to achieve inventory turnover at acceptable levels.

## Working Capital

The Company continues to generate funds from operations sufficient to meet its primary monthly obligations. The Company's primary capital needs have been the purchase of inventory, and the funding of accounts receivable, debt service payments and capital expenditures. However, 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. This credit facility, which was due for renewal in April 2009 has now been extended to May 31, 2009 (see "Senior operating credit facility and long term debt" and "Liquidity risk" sections for further information on the debt and related risks).

In recent months, global markets have experienced a significant downturn due to the ongoing worldwide financial crisis. This situation may have an impact on the Company's ability to obtain a credit facility on similar terms. Management will continue to monitor the impact of potential changes in the credit markets making necessary adjustments and continue to work on minimizing its working capital requirements. As well, reducing operating costs will be of primary focus (see "Outlook").

WORKING CAPITAL RATIOS	MARCH 31		SEPTEMBER 30
	2009	2008	2008
Working capital ratio	1.52	1.47	1.50
Days sales in receivables	55.9	61.0	57.3
Inventory turns	3.5	3.5	3.5
Days purchases in payables	50.0	58.1	53.5

Although the Company's net working capital as at March 31, 2009 decreased to \$15,524,427, the working capital ratio improved to 1.52 from 1.47 on March 31, 2008. The dollar decrease is primarily due to lower receivables as sales have decreased and the improvement in the ratio is due to a more than proportionate decrease in accounts payable and current portion of notes payable. The decrease in current liabilities is offset by an increase in current portion of long term debt to reflect the imminent maturity of the acquisition loan.

# Financial Condition and Liquidity (cont'd)

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Inventory turnover ratio – see “Cash from Operations”.

## Commitments

Commercial has assumed various contractual obligations and commitments in the normal course of operations and financing activities. There have been no significant developments since year end.

## Intangibles

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of intangible assets acquired in a business combination that meets the specified criteria for recognition apart from goodwill is allocated to the individual assets acquired based on their estimated fair values.

Intangible assets with finite useful lives are amortized over their useful lives. Commercial has no assets with indefinite useful lives.

The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Customer relationships	Straight-line – 6 - 7 years
Non-competition agreements	Straight-line – 3 - 5 years
Trade name	Straight-line – 1 - 3 years

Intangibles decreased from September 30, 2008 primarily due to amortization. Management conducted an interim test of intangible assets in the fiscal 2009 second quarter due to the change in economy since its last annual assessment in Q3 of fiscal 2008. Each fair value test of intangibles incorporated estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rates and terminal values. Based on the assessment, the carrying value of the intangible asset approximates its fair value.

## Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets of acquired businesses. Goodwill is tested for impairment annually or more frequently when an event or circumstance occurs that indicates goodwill might be impaired. When the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value is based on market capitalization, estimates of normalized earnings, price earnings multiples, cash flow, discount rates and terminal values. Such estimates require judgment.

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 that time based on the Company’s best estimate 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.

As well, in the current period, 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 was recorded to write off the entire value of its goodwill. The impairment charge was driven by continuing adverse macroeconomic factors that contributed to an overall reduction in equity market conditions which negatively impacted the Company’s stock price. The impairment charge is non-cash, and will not affect the Company’s operations, liquidity, cash flows, or the Company’s borrowing availability under a senior operating credit facility.

## Property and Equipment

The fiscal 2009 Q2 investment in property and equipment primarily centered on improvements to the management information system and facility upgrades.

# Financial Condition and Liquidity (cont'd)

## Senior Operating Credit Facility and Long Term Debt

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, 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 the monthly undrawn amount.

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.

# Outlook

The current upheaval in global credit markets has impacted the Company's customers as they assess the impact on their businesses and capital and maintenance expenditure programs. A significant component of the Company's revenue depends on the level of exploration and development activity for natural gas in Western Canada, as well as activity in the forestry, agricultural and mining sectors. All of these industries continue to face instability.

Industry expectations for natural gas drilling in 2009 reflect the current economic uncertainty through reduced activity in Western Canada as measured by the number of wells drilled. North American natural gas storage levels remain high, creating downward pressure on commodity pricing. The Canadian forest industry continues to face challenges, with a turnaround expected only once the U.S. housing market strengthens. Agricultural and mining sectors have also been affected by the economic downturn.

In these uncertain and volatile conditions, management continues to concentrate its efforts on adjusting the Company's cost structure. Fiscal 2008 was a year in which management focused on restructuring operations while maintaining the Company's Canada-wide branch network. Fiscal 2009 started with a further review of Commercial's strategy given further industry contraction. As a result, significant cost reduction programs were implemented which has resulted in a decrease in operating costs by 7.0% in the current quarter from Q1 2009. While management continues to review the operating structure, the current implemented programs are expected to reduce annualized operating costs by approximately \$6 million.

The Company's primary objectives with the above initiatives are the protection and improvement of the Company's EBITDA and cash position. Management is prepared to take additional measures should the revenues continue to deteriorate.

The current global economic and financial crisis has reduced liquidity in financial markets, restricted access to financing and caused pressures from customers to reduce selling prices. These conditions are expected to impact the performance of the economy going forward. It is uncertain what the short-term impact of this instability will have on industries and the Company. However, management is addressing its operating costs and coupled with the strong Western Canadian market share, believes the Company is well positioned to manage through the crisis.

Commercials' business units have successfully operated through cyclical industry conditions in the past due to strong customer and vendor relationships. Although current conditions are challenging, over the medium and long term, management is optimistic the Company will be favourably positioned to take advantage of available market share once markets recover.

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# Common Shares

Commercial has authorized an unlimited number of common shares with no par value. As at May 15, 2009 the Company had 20,100,806 common shares outstanding.

The Board of Directors may grant options to purchase up to 1,608,064 common shares. As of May 15, 2009, options to purchase 1,241,267 common shares were outstanding at an average exercise price of \$1.95 per common share.

# 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. All businesses are subject to risk and the Board and management of the Company take prudent measures to mitigate any risks by which the Company may be affected.

## Dependence on Market Economic Conditions

The demand for the products distributed by the Company can vary in accordance with general economic cycles. In addition, the industry sectors that are served by the Company, including the construction, oil and gas, forestry, agricultural and mining sectors, are cyclical in nature. The strategy of the Company is to mitigate these risks by serving various business sectors of the industrial supply industry and maintaining tight controls over operating expenses. Also, since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy could have a material adverse effect on the Company's financial condition and results of operations.

## Alberta Royalty Regime

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a new royalty regime that introduced new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The new royalty regime was implemented effective January 1, 2009. The implementation of the royalty regime in Alberta is subject to certain risks and uncertainties.

The calculation and collection of royalties is based on price and volume sensitive rates of the natural resources. These rates may have an impact on capital expenditures related to drilling exploration which could negatively impact the business and cash flow of the Company.

## Volatility of Industry Conditions

The Company's existing business areas largely depend upon the level of exploration and development activity for crude oil and natural gas in Western Canada. Oil and natural gas industry conditions are influenced by numerous factors over which the Company has no control, including: oil and natural gas prices; levels of international demand; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the discovery rates of new oil and natural gas reservoirs; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing. The Company's client base also includes agricultural industries including food processing, pulp and paper, and mining and metals; all of which are subject to variations in world commodity pricing.

## Supply-Side Risks

The Company distributes industrial products manufactured or supplied by a number of major suppliers. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

## Customer Risk

Although the Company distributes industrial products to more than 11,000 customers, the Company's largest customer (operating predominantly in the Western Canadian drilling industry) comprises approximately 6.0% of the Company's total sales in the current period and represented 2.0% of accounts receivable as at March 31, 2009. As is customary in the industrial products distribution industry, the Company does not have long-term contracts with any of its major customers. As a result, the loss of any of the Company's major customers could have a material adverse effect upon the Company's results of operations and financial condition.

# Risk Factors (cont'd)

## Credit Risk

The Company extends credit facilities to its customers which are unsecured. Although the Company has a system of credit management in place, there is a risk that some of the Company's customers may not be able to meet their obligations when they become due. The loss of a large receivable would have a substantial adverse effect on the Company's profitability. Provisions for uncollectible accounts are made in the allowance for doubtful accounts. Total provisions as at March 31, 2009 were \$760,174 (September 30, 2008 - \$493,388). Accounts receivable balances that are past their contractual terms as at March 31, 2009 are \$9,124,628 (September 30, 2008 - \$9,718,602). Management does not consider this amount as uncollectible as management is thorough in the process of reviewing credit limits and works closely with the customers to ensure collection.

A portion of the accounts receivable balance that is past its contractual terms represents amount receivable from a large international customer who will be settling the full balance on an agreed upon deferred payment plan. Total amount of this receivable is approximately \$1,825,000 of which approximately \$1,333,000 will be settled in 2010 in equal monthly payments. A financing fee at prevailing lending rates will be charged on the monthly outstanding balance as part of the payment plan. Management has not provided for this receivable as it believes the balance is fully collectible.

## Foreign Currency Risk

The Company has cash or bank overdrafts and accounts payable and accrued liabilities denominated in foreign currencies which exposes the Company to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. Effective fiscal 2009, the Company initiated a program of hedging this risk by purchasing U.S. dollar forward exchange contracts. The notional value of the forward contract not yet settled at March 31, 2009 is USD 1,837,514 with a term to maturity of approximately six weeks from the inception of contract. The fair value adjustments related to this derivative instrument is a loss of \$61,060 for the current period (2008 - \$NIL) and is included in selling, general and administrative expenses. The liability related to this adjustment is included in accounts payable and accrued liabilities. Total foreign exchange gain for the six months ended March 31, 2009 is \$41,195 (2008 - \$205,218). If the foreign exchange rate had been 10% less favourable for the Canadian dollar during the six months ended March 31, 2009, with all other variables held constant, net (loss) earnings would have (increased) decreased by approximately \$61,937 (2008 - \$250,160).

## Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Global financial markets and economic conditions have been disrupted and volatile. The debt and equity capital markets have been distressed. These factors, together with the repricing of credit and the current weak economic conditions have made, and will likely continue to make, it difficult to obtain cost effective financing. In addition, the cost of obtaining money from the credit markets has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to the Company's current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavourable terms, the Company may be unable to implement its business plans, or to take advantage of business opportunities, or respond to competitive pressures, any of which could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

The Company's current credit facility contains financial covenants that are based on the trailing twelve months of EBITDA. From the six months ended March 31, 2009, the Company breached two of its externally imposed debt covenants, specifically the debt servicing ratio and the senior funded debt to EBITDA covenants. 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. The current credit facility matured in April 2009 and 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 complete the evaluation before the end of May 2009. The Company's ability to access the maximum revolving demand loan value of \$23,000,000 during this time remains unrestricted. 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.

## Interest Rate Risks

The Company has floating rate debt, which is subject to interest rate cash flow risk. The required cash flow to service the debt will fluctuate as a result of the changes in market rates. If the interest rate on the Company's loan balance as at March 31, 2009 had increased by 1.0%, with all other variables held constant, net (loss) earnings would have (increased) decreased by approximately \$188,565 (2008 - \$179,131) for the year.

# Critical Accounting Estimates

In preparing the Company's consolidated financial statements in conformity with Canadian 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 valuations of short-term and long-term accounts receivable, inventory, future tax assets, carrying value of goodwill, stock based compensation, intangibles and accrued liabilities. Actual results could differ from these estimates. There were no significant changes in estimates over the first quarter of fiscal year 2009, with the exception of estimates of the carrying value of goodwill which resulted in an impairment charge eliminating the full value of the recorded goodwill.

# Summary of 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 hedged item (i.e. liability denominated in U.S. dollars). This exercise involves an assessment on 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 its 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 Policy

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.

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 Canadian Accounting Standards Board (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.

# Related Party Transactions

During the six months ended March 31, 2009, the Company entered into the following related party transactions:

- a) Legal fees of \$164,699 (2008 - \$279,706) were paid to a law firm for corporate matters of which a director, Mr. William Rosser, is a partner. Of this amount, \$NIL (2008 - \$NIL) is included in accounts payable.
- b) Management consulting fees of \$83,854 (2008 - \$81,607) were paid to a company, 371070 Alberta Ltd., over which an officer and director, Mr. Jim Barker, has significant influence.
- c) Management consulting fees of \$30,000 (2008 - \$30,183) were paid to a company, Western America Venture Management Inc., over which a former director, Mr. Don Caron, has significant influence.
- d) The Company paid directors' fees of \$44,726 (2008 - \$16,764) to four (2008 - four) of its independent directors, namely: Dr. Ken Harrison, Mr. Daryl Kruper, Mr. Alan Martin, and Mr. Richard Smith.
- e) In fiscal 2006, a note payable with a face value of \$1,600,000, and fair value of \$1,450,284 related to a purchase price adjustment on a previous acquisition was accrued to several executives of the Company and their spouses (executives of the Company: Mr. Henry Kilbach, Mr. Peter Lechuck, Mr. Doug Kilbach, Mr. Jeff Veeneman and Mr. Greg Berg). The executives and their spouses were previous shareholders of the acquired company. During the current period, \$400,000 (2008 - \$400,000) of the note payable was paid. There is no outstanding balance related to this note as at March 31, 2009 (March 31, 2008 - \$400,000).

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 and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Company.

The Chief Executive Officer and Chief Financial Officer have, as at the end of the period covered by the interim filings, designed such DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. In addition, these DC&P have been designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within time periods specified in securities legislation.

The Chief Executive Officer and Chief Financial Officer have, as at the end of the period covered by the interim filings, also designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. ICFR includes those policies and procedures that:

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the Company; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company is required under National Instrument 52-109 to use a control framework to design its ICFR. The Company has used the Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), which is a control framework that has been established by a group that has followed due-process procedures, including the broad distribution of the framework for public comment.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's DC&P and ICFR provide reasonable assurance, they do not guarantee that the DC&P and ICFR will prevent all errors and fraud because those controls and procedures can only provide reasonable assurance, not absolute assurance. A control system, no matter how well conceived or operated cannot provide absolute assurance because there are inherent limitations in all control systems. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

# Measures not in Accordance with Generally Accepted Accounting Principles

The following measures included in this report do not have a standardized meaning under Canadian 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 previously disclosed measures:

EBITDA is not a concept recognized by generally accepted accounting principles (GAAP), however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:

	For the three months ended March 31		For the six months ended March 31	
	2009	2008	2009	2008
Net (loss) earnings and comprehensive (loss) income	\$ (20,659,429)	\$ 611,497	\$ (20,621,445)	\$ 667,446
Add:				
Income tax (recovery) expense	(519,198)	283,553	(501,446)	309,425
Impairment of goodwill	19,548,494	-	19,548,494	-
Depreciation and amortization	611,085	550,508	1,172,788	1,057,279
Interest	290,886	366,896	578,741	766,995
<b>EBITDA</b>	<b>\$ (728,162)</b>	<b>\$ 1,812,454</b>	<b>\$ 177,132</b>	<b>\$ 2,801,145</b>

Operating expenses as presented on pages 7 and 8 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, 2009 consolidated financial statements:

	For the three months ended March 31		For the six months ended March 31	
	2009	2008	2009	2008
Operating expenses	\$ 8,421,711	\$ 9,013,668	\$ 17,475,238	\$ 17,819,520
Add:				
Impairment of goodwill	19,548,494	-	19,548,494	-
Depreciation and amortization	611,085	550,508	1,172,788	1,057,279
Interest	290,886	366,896	578,741	766,995
<b>TOTAL EXPENSES</b>	<b>\$ 28,872,176</b>	<b>\$ 9,931,072</b>	<b>\$ 38,775,261</b>	<b>\$ 19,643,794</b>

# 13 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)**



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