



Demand *Expert* Solutions®



BEARINGS & P.T.



SAFETY



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FIELD



INDUSTRIAL



ENERGY SERVICES

**FISCAL 2010 ANNUAL REPORT**

Consolidated Financial Statements

September 30, 2010



**Demand *Expert* Solutions®**

Commercial Solutions Inc.  
Fiscal 2010 Annual Financial Statements

Chief Financial Officer: Rozina Kassam, CA

**Administration**  
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# Consolidated Financial Statements

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# AUDITOR'S REPORT



To the Shareholders of Commercial Solutions Inc.,

We have audited the consolidated balance sheets of Commercial Solutions Inc. as at September 30, 2010 and 2009 and the consolidated statements of loss and comprehensive loss, (deficit) retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada  
December 9, 2010

A handwritten signature in cursive script that reads "Grant Thornton LLP".

"Grant Thornton, LLP"  
Chartered Accountants

# CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	For the Years Ended September 30th	
	2010	2009
<b>Revenue</b>	<b>\$ 89,455,326</b>	<b>\$ 106,023,410</b>
Cost of goods distributed	64,061,006	76,366,569
Gross margin (\$)	25,394,320	29,656,841
Gross margin (%)	28.4%	28.0%
<b>Expenses</b>		
Salary and wages	14,446,491	19,597,394
Rent, occupancy costs and utilities	4,748,635	5,496,866
Selling, general and administration (Note 16)	4,116,258	5,076,631
Amortization of property and equipment	1,272,059	1,170,772
Amortization of intangible assets	927,829	1,120,204
Interest on bank indebtedness	809,130	984,709
Interest on long-term debt	786,103	152,911
Professional fees (Note 16)	385,367	871,155
Refinancing costs (Note 7)	334,774	272,231
Advertising and promotion	303,566	523,667
Restructuring costs	77,100	444,629
Impairment of goodwill (Note 6)	–	19,548,494
	28,207,312	55,259,663
<b>Loss before income taxes</b>	<b>(2,812,992)</b>	<b>(25,602,822)</b>
Income tax recovery (Note 15)	719,609	1,720,674
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (2,093,383)</b>	<b>\$ (23,882,148)</b>
<b>Loss per share (Note 13)</b>		
Basic	<b>\$ (0.10)</b>	<b>\$ (1.19)</b>
Weighted average number of shares – basic	20,100,806	20,100,806
Diluted	<b>\$ (0.10)</b>	<b>\$ (1.19)</b>
Weighted average number of shares – diluted	20,100,806	20,100,806

See pages 7 to 22 for the accompanying notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS

	For the Years Ended September 30th	
	2010	2009
(Deficit) Retained Earnings, Beginning of Year	\$ (20,427,809)	\$ 3,454,339
Net loss	(2,093,383)	(23,882,148)
<b>DEFICIT, END OF YEAR</b>	<b>\$ (22,521,192)</b>	<b>\$ (20,427,809)</b>

See pages 7 to 22 for the accompanying notes to the Consolidated Financial Statements.

# CONSOLIDATED BALANCE SHEETS

	As At September 30th	
	2010	2009
<b>Assets</b>		
Current:		
Cash	\$ 47,847	\$ —
Accounts receivable	14,645,539	12,100,129
Income taxes receivable	495,029	723,740
Future income taxes (Note 15)	146,427	130,667
Inventory	19,806,759	24,557,236
Prepays	738,755	918,242
	35,880,356	38,430,014
Future income tax asset (Note 15)	600,979	656,644
Property and equipment (Note 4)	3,096,150	4,196,770
Intangible assets (Note 5)	1,793,935	2,548,667
<b>TOTAL ASSETS</b>	<b>\$ 41,371,420</b>	<b>\$ 45,832,095</b>
<b>Liabilities</b>		
Current:		
Bank indebtedness (Note 7)	\$ 9,460,903	\$ 16,221,083
Accounts payable and accrued liabilities	9,756,276	7,415,544
Deferred tenant inducement	20,000	20,000
Long-term debt (Note 8)	89,074	894,137
Notes payable (Note 9)	280,971	—
	19,607,224	24,550,764
Future income tax liability (Note 15)	537,371	781,381
Deferred tenant inducement	78,333	98,333
Long-term debt (Note 8)	2,915,583	110,953
Notes payable (Note 9)	928,762	1,192,448
	24,067,273	26,733,879
<b>Shareholders' Equity</b>		
Share capital (Note 10)	37,860,880	37,860,880
Contributed surplus (Note 11)	1,964,459	1,665,145
Deficit	(22,521,192)	(20,427,809)
	17,304,147	19,098,216
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 41,371,420</b>	<b>\$ 45,832,095</b>

Commitments and Contingencies (Note 17) | Subsequent Event (Note 20)

See pages 7 to 22 for the accompanying notes to the Consolidated Financial Statements.

On behalf of the board



Jim Barker, Director



Alan Martin, CA CBV, Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	For the Years Ended September 30th	
	2010	2009
<b>Operating</b>		
Net loss	\$ (2,093,383)	\$ (23,882,148)
Items not affecting cash:		
Amortization of property and equipment and intangible assets	2,199,888	2,290,976
Amortization of transaction cost (Note 8)	155,754	–
Stock-based compensation (Note 12)	101,939	167,343
Amortization of notes payable discount	17,285	(32,796)
Tenant inducement	(20,000)	(20,000)
Future income tax recovery (Note 15)	(204,106)	(709,375)
Impairment of goodwill (Note 6)	–	19,548,494
Non-cash purchase price adjustments (Note 3)	–	(54,632)
	\$ 157,379	\$ (2,692,138)
Change in non-cash operating working capital (Note 14)	5,011,910	10,188,438
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 5,169,287</b>	<b>\$ 7,496,300</b>
<b>Financing</b>		
Repayments on bank indebtedness (Note 7)	(7,530,180)	(5,898,244)
Proceeds from long-term debt (Note 8)	3,000,000	–
Repayments of long-term debt	(134,461)	(436,532)
Repayments of notes payable	–	(400,000)
Refinancing costs on credit facility (Note 7)	(172,045)	(70,000)
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>\$ (4,836,686)</b>	<b>\$ (6,804,776)</b>
<b>Investing</b>		
Purchase of property and equipment	(143,568)	(882,988)
Purchase of intangible assets	(183,226)	(19,790)
Proceeds on disposal of property and equipment	42,040	211,254
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>\$ (284,754)</b>	<b>\$ (691,524)</b>
<b>Increase in Cash and Cash Equivalents During the Period</b>	<b>47,847</b>	<b>–</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>–</b>	<b>–</b>
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 47,847</b>	<b>\$ –</b>

See pages 7 to 22 for the accompanying notes to the Consolidated Financial Statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Nature of Operations

**Commercial Solutions Inc.** (“**Commercial** or the “**Company**”) is a public company traded on the Toronto Stock Exchange under the symbol CSA. The Company is a national distributor of bearings, power transmission equipment, safety equipment, forestry supplies, firefighting gear, survey supplies, industrial supplies, and oilfield parts and supplies.

## 2. Significant Accounting Policies

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 significant accounting policies used in the consolidated financial statements are as follows:

### (a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Commercial Bearing Service (1966) Ltd, Canglobal Products Ltd, Brightcapital Technologies Ltd, and Outillage B. Et G. Cadieux Ltd. All intercompany balances and transactions are eliminated on consolidation.

### (b) Use of 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 valuation of accounts receivable, the valuation of 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 goodwill, the inputs into the Black-Scholes option pricing model for stock-based compensation, the valuation of intangibles and the carrying value of accrued liabilities. Actual results could differ from these estimates.

### (c) Revenue Recognition

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time the goods are shipped and when reasonable assurance exists regarding the measurement and collection of the consideration received. There are instances where customers will request that the Company bill and hold their shipments until such time as the customers are prepared to receive the goods. Revenue on bill and hold arrangements is recognized when the customer is invoiced for goods that have been packaged and made ready for shipment. The risk of ownership of the goods is assumed by the customer, and the terms and collection experience on the related billings are consistent with all other sales. Provisions for estimated product returns are based on historical experience. The Company monitors returns on an ongoing basis for indications that provisions require assessment. No warranty provision has been provided for in the financial statements as the Company does not offer a warranty on its products but rather relies on the warranties provided by the Company’s suppliers.

### (d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and balance with banks. Bank indebtedness and long-term bank borrowings are considered to be financing activities.

### (e) Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price less estimated selling costs. Cost is determined using the average cost method. Cost includes the direct purchase price of the goods and transportation costs from vendors. Transportation costs within the Company’s Service Centres are expensed as incurred. Management periodically reviews the inventory on a product by product basis in assessing allowances for obsolescence based upon current estimates of future events including economic conditions and growth prospects in the marketplace. Based on this review, a total of \$571,445 was recorded as provision for obsolescence in the current year (2009 – \$608,832). If there is a change in circumstances that gave rise to the provisions, a reversal to these provisions may be made. There were no reversals recorded in the current year (2009 – \$Nil). All inventory adjustments recognized as expenses are disclosed in the statement of loss as costs of good distributed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2. Significant Accounting Policies continued

#### (f) Intangible Assets

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 meet 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 estimated useful lives. Intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if circumstances indicate the intangible might be impaired. The Company has no intangible assets with indefinite useful lives.

Internally generated intangible assets may be recognized when the Company incurs costs related to the development phase of a project. The Company would include costs as intangible assets if the development phase work relates to projects that are expected to complete through available resources, are technically feasible, and that will generate probable future benefits.

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

Customer Relationships	Straight-line – 6 to 7 years
Non-competition Agreements	Straight-line – 3 to 5 years
Trade Names	Straight-line – 1 to 3 years
Computer Software	Declining balance – 30%

#### (g) Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill arising from acquisitions is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company consists of a single reporting unit. A reporting unit comprises business operations with similar economic characteristics and strategies, and is the level of reporting at which goodwill is tested for impairment. A reporting unit is either an operating segment or one level below. In fiscal 2009 the Company has concluded that the carrying value of goodwill is impaired and, as such, wrote-off the entire balance in the third quarter (Note 6).

#### (h) Stock-based Compensation

The Company has a stock-based compensation plan, which is described in Note 12. The Company uses the fair value method of accounting for stock options for employees and directors. The fair value of option grants is calculated on the grant date using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those grants. A corresponding adjustment is recorded through contributed surplus. When options are exercised, the proceeds received by the Company together with the amount in contributed surplus, are credited to share capital.

#### (i) Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the fiscal year. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional common shares from the assumed exercise of outstanding warrants and stock options, if dilutive. For warrants and stock options, the treasury method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the fiscal year.

#### (j) Foreign Currency Translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in foreign currencies are translated at the monthly average rate in effect at the time of the transaction to approximate the rate on the transaction date. Gains or losses on translation are included in earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2. Significant Accounting Policies continued

#### (k) Property and Equipment

Property and equipment are recorded at cost. Rates and bases of amortization applied to write-off the cost less estimated residual or salvage value of property and equipment, whichever is lower, over their estimated useful lives are as follows:

Buildings	4% and 5% declining balance
Leasehold Improvements	20%, Straight-line
Furniture and Fixtures	20%, declining balance
Fencing	10%, declining balance
Equipment under Capital Lease	20%, declining balance
Automotive Equipment	30%, declining balance
Computer Equipment	30%, declining balance

Full amortization is recorded in the month of acquisition and none in the month of disposal.

#### (l) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incident to ownership is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are amortized on a straight-line basis over the term of the lease including free rental periods.

#### (m) Impairment of Long-lived Assets

Long-lived assets are reviewed annually for impairment or whenever events or circumstances raise concerns that their carrying value exceeds the sum of undiscounted cash flows expected from their use and eventual disposal. If an impairment loss is identified, the loss is measured as the amount by which the long-lived asset's carrying value exceeds its estimated fair value. Estimated fair value is determined using the discounted, estimated future cash flows attributable to the use and eventual disposal of the long-lived asset.

#### (n) Income Taxes

Income taxes have been provided using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the accounting bases and tax bases of assets and liabilities, and losses carried forward, and measured using the substantively enacted tax rates under tax laws that will be in effect when the differences are expected to reverse.

Future tax assets are recognized to the extent that the realization of the asset is considered more likely than not.

#### (o) Deferred Tenant Inducement

Deferred tenant inducement represents a cash benefit received from a landlord pursuant to a lease agreement. The tenant inducement is amortized on a straight-line basis against rent expense over the initial term of the related lease.

#### (p) Financial Instruments

##### Classification

All financial assets are classified as one of held-to-maturity, loans and receivables, held-for trading or available-for-sale and all financial liabilities are classified as held-for-trading or other. The Company has made the following classification of its financial assets and liabilities:

##### Loans and Receivables

- Cash
- Accounts receivable

##### Other Financial Liabilities

- Bank indebtedness
- Accounts payable and accrued liabilities
- Long-term debt
- Notes payable

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest method.

Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI"). Financial assets classified as loans and receivables and financial liabilities classified as other are measured at amortized cost, using the effective interest method.

##### Derivatives and Embedded Derivatives

All derivative instruments are recorded on the balance sheet at fair value. Derivatives that are designated and qualify as cash flow hedge has its effective portion of the gains and losses on the hedging item recorded in OCI. The ineffective portion is immediately recognized in income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2. Significant Accounting Policies | Derivatives and Embedded Derivatives continued

The gain or loss is released from accumulated other comprehensive income and recorded when the hedged item affects income. Derivatives that are not formally designated as hedges for accounting purposes are held-for-trading instruments 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.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. As of September 30, 2009 and 2010, the Company had no OCI or accumulated OCI.

#### (q) Changes in Accounting Policies

Effective October 1, 2010, the Company adopted the amendment to CICA section 3862, financial instruments which require additional disclosures on fair value measurements of financial instruments and enhanced liquidity risk disclosures for publicly accountable companies. The application of this section did not have a significant impact on the financial statements.

#### (r) Future Accounting Pronouncements

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with IFRS. Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at

fair value, a requirement to measure non-controlling interest at fair value, and a requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards of preparing consolidated financial statements. Section 1602 specifies that non-controlling interest be treated as a separate component of equity, not as a liability or other item of equity. The new standards will become effective in 2011. Early adoption is permitted. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that may be made in periods subsequent to the date of adoption.

### 3. Acquisitions

For all acquisitions for which there are contingent consideration clauses, the records of the acquired companies are maintained separately for the purposes of calculating the contingent consideration. There were no acquisitions in the current fiscal year.

As part of its acquisition program, the Company has contingent price payment liabilities to Canglobal Products Ltd. and Bright Capital Technology Ltd. ("Canglobal") based on the profitability of the acquired company until December 31, 2010 (Note 17(b)). In the current fiscal year \$30,000 was paid to Canglobal shareholders and officers, which was accrued in the prior fiscal year.

In fiscal 2009, a reversal of a previous accrual of \$201,350 was made on the Cadieux acquisition. As well, there was an adjustment to goodwill for \$8,000 on the Canglobal acquisition to reflect the valuation of accounts receivable.

There were no further purchase price adjustments in fiscal 2009 and fiscal 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 4. Property and Equipment

	As At September 30th, 2010		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 108,500	\$ –	\$ 108,500
Buildings	530,584	153,350	377,234
Automotive	622,432	518,106	104,326
Computer	3,319,665	2,857,942	461,723
Equipment under capital lease	360,064	225,955	134,109
Leaseholds	1,822,943	1,235,010	587,933
Furniture and equipment	4,065,083	2,742,758	1,322,325
<b>TOTAL</b>	<b>\$ 10,829,271</b>	<b>\$ 7,733,121</b>	<b>\$ 3,096,150</b>

	As At September 30th, 2009		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 108,500	\$ –	\$ 108,500
Buildings	530,584	133,497	397,087
Automotive	754,612	565,492	189,120
Computer	3,668,734	3,018,916	649,818
Equipment under capital lease	389,445	192,753	196,692
Leaseholds	1,980,603	1,082,381	898,222
Furniture and equipment	5,005,839	3,248,508	1,757,331
<b>TOTAL</b>	<b>\$ 12,438,317</b>	<b>\$ 8,241,547</b>	<b>\$ 4,196,770</b>

### 5. Intangible Assets

	As At September 30th, 2010		
	Cost	Accumulated Amortization	Net Book Value
Customer relations	\$ 4,358,595	\$ 3,027,547	\$ 1,331,048
Non-competition agreements	385,253	368,286	16,967
Trade names	559,875	559,875	–
Computer software	1,790,040	1,344,120	445,920
<b>TOTAL</b>	<b>\$ 7,093,763</b>	<b>\$ 5,299,828</b>	<b>\$ 1,793,935</b>

	As At September 30th, 2009		
	Cost	Accumulated Amortization	Net Book Value
Customer relations	\$ 4,358,595	\$ 2,346,067	\$ 2,012,528
Non-competition agreements	385,253	334,780	50,473
Trade names	559,875	538,486	21,389
Computer software	1,502,210	1,037,933	464,277
<b>TOTAL</b>	<b>\$ 6,805,933</b>	<b>\$ 4,257,266</b>	<b>\$ 2,548,667</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 6. Goodwill

The Company conducted its goodwill impairment test in fiscal 2009 and recorded an impairment charge of \$19,548,494 representing the entire value of its goodwill. The impairment was primarily the result of general economic downturn, specifically the weakness in the energy sector which is the Company's major market sector, and the decline in the Company's market capitalization.

	For the Years Ended September 30th	
	2010	2009
Balance, Beginning of Year	\$ —	\$ 19,686,124
Purchase price adjustments	—	(137,630)
Impairment of goodwill	—	(19,548,494)
<b>BALANCE, END OF YEAR</b>	<b>\$ —</b>	<b>\$ —</b>

### 7. Bank Indebtedness

As at September 30th, 2009, the Company had a consolidated credit facility (the "Facility") with the Canadian Imperial Bank of Commerce (the "Lender") which provided a \$17,500,000 operating line of credit and a \$1,260,000 acquisition line.

On December 9, 2009, the Company entered into a Restated Credit Facility (the "Restated Facility") with the Lender that provided the Company with a \$15,000,000 operating line of credit for monthly renewal up to October 31, 2010. Proceeds from the Restated Facility on closing date were \$13,227,350 which were used to pay out the previous operating line of \$12,457,348 and acquisition line of \$770,002. As at September 30, 2010, \$9,460,903 (September 30, 2009 – \$16,221,083) was drawn on the Restated Facility.

The Restated Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The Restated Facility bears interest at prime plus 4.5% (September 30, 2009 – prime plus 3.5%) or bankers' acceptance rate plus 5.75% (September 30, 2009 – bankers' acceptance rate plus 4.5%), and, a standby fee of 1% (September 30, 2009 – 0.75%) on unused amounts of the Restated Facility.

The financial covenants of the Restated Facility include (i) margin requirements between loans and certain

receivables and inventory balances, (ii) minimum working capital ratio of 1.35, and (iii) maximum trailing twelve month adjusted negative earnings before interest, tax, depreciation and amortization ("EBITDA") as follows: a) at closing date, \$4,000,000; b) at March 31, 2010, \$2,000,000; c) at June 30, 2010, \$1,000,000; and, d) at September 30, 2010 and thereafter, \$nil. These covenants are to be measured monthly.

Additional covenants on the Restated Facility include a maximum capital expenditure of \$750,000 in any trailing twelve month period and no principal payments on the notes payable and the mezzanine loan over the term of the agreement. As at September 30, 2010, the Company was operating within its covenants.

Subsequent to September 30, 2010, the Company entered into a new \$16,000,000 senior secured Asset-Based Lending Facility (the "ABL Facility") with the Bank of America, N.A. and repaid the outstanding indebtedness in full to the Lender amounting to \$8,716,195 (Note 20).

### 8. Long-term Debt

	As At September 30th	
	2010	2009
(i) Finance contracts	\$ 160,410	\$ 188,423
(ii) Mezzanine debt - net of transaction costs	2,844,247	—
(iii) Acquisition loan	—	816,667
	<b>3,004,657</b>	<b>1,005,090</b>
Less current portion	<b>89,074</b>	<b>894,137</b>
<b>TOTAL</b>	<b>\$ 2,915,583</b>	<b>\$ 110,953</b>

- (i) Finance contracts - secured by certain equipment bearing interest at rates up to 5.9% (2009 – 6.4%) repayable in monthly installments of \$8,219 (2009 – \$7,186) including interest maturing May 2011 through December 2014 (2009 – November 2012).
- (ii) Mezzanine debt - on October 8, 2009, the Company closed on a mezzanine debt agreement of \$3,000,000. The loan injection was a condition precedent to the Restated Facility (Note 7). The mezzanine debt is repayable in two years, maturing October 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 8. Long-term Debt | (ii) Mezzanine Debt continued

The closing was comprised of subordinated secured promissory notes earning 18% per annum and are secured in second position to the Lender by a general security agreement covering all present and after acquired property and postponements of claims from related parties. Upon close, 1,200,000 warrants were granted to the lenders. Each whole warrant entitles the holder to purchase one Common Share of the Company at a price of \$0.31 per share for a period of three years, expiring October 8, 2012.

The common shares to be issued upon exercise of the warrants were subject to a four month statutory hold period from the date of grant.

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 with the following assumptions: risk-free interest rate of 2.86%, dividend yield of nil, volatility factor of the expected market price of the Company's common shares of 75% and an expected life of the warrants of three years.

The Company incurred further transaction costs of \$114,132 related to the closing of the transaction. All transaction costs are netted against the long-term debt and amortized to net earnings as interest on long-term debt over the term of the loan.

- (iii) Acquisition loan - secured by a general security agreement and assignment of property and equipment, repayable in monthly installments of \$23,333 (2009 – \$23,333) plus interest.

Minimum principal repayments expected in each of the next four fiscal years based on the terms above are as follows:

YEAR	REPAYMENTS
2011	\$ 89,074
2012	\$ 2,905,223
2013	\$ 8,838
2014	\$ 1,522

### 9. Notes Payable

	For the Years Ended September 30th	
	2010	2009
Due to certain shareholders and officers from the Rig Products Inc. acquisition (Note 9 (i))	\$ 162,916	\$ 143,804
Due to certain shareholders and officers from the Excel Bearings Inc. acquisition (Note 9 (ii))	146,625	129,424
Due to certain shareholders and officers from the Canglobal Products Ltd. and Bright Capital Technology Ltd. acquisition (Note 9 (iii))	900,192	919,220
	<b>1,209,733</b>	1,192,448
Less current portion	<b>280,971</b>	–
<b>TOTAL</b>	<b>\$ 928,762</b>	<b>\$ 1,192,448</b>

The notes payable are related to the Company's acquisition program.

- (i) Unsecured and bearing interest at an effective rate of 9% per annum (2009 – 15%), repayable as follows: \$50,000 on each of the following dates: December 27, 2011, June 27, 2012 and the remaining \$16,667 repayable in full on June 27, 2013. The interest bearing note payable to shareholders and officers of Rig Products Inc. was originally due on June 27, 2009 in the amount of \$166,667 (2009 – \$166,667) at an interest rate of 6%. The payment of this note has been renegotiated as per the requirement of the ABL Lender (Notes 7 and 20). The interest rate is at 6% up to June 27, 2011 and increases to 9% thereafter until repaid in full. The notes' carrying value of \$162,916 (2009 – \$143,804) is determined using an effective rate of 9% (2009 – 15%).
- (ii) Unsecured and bearing interest at an effective rate of 9% per annum (2009 – 15%), repayable as follows: \$50,000 on each of the following dates: December 6, 2011, June 6, 2012 and December 6, 2012. The interest bearing note payable to shareholders and officers of Excel Bearings Inc. was originally due on June 6, 2009 in the amount of \$150,000 (2009 – \$150,000) at an interest rate of 6%. The payment of this note has been renegotiated as per the requirement by the ABL Lender (Notes 7 and 20). The interest rate is at 6% up to June 6, 2011 and increases to 9% thereafter until repaid in full.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 9. Notes Payable I (ii) continued

The notes' carrying value of \$146,625 (2009 – \$129,424) is determined using an effective rate of 9% (2009 – 15%).

- (iii) Unsecured and bearing interest at an effective rate of 9% per annum (2009 – 6%), repayable as follows: \$100,000 on each of the following dates: October 31, 2010, March 31, 2011 and August 31, 2011 and the remaining \$619,220 repayable in full on December 31, 2013. The interest bearing note payable to shareholders and officers of Canglobal was originally due in equal payments of \$459,610 on August 31 of 2009 and 2010. The payments were renegotiated as per the requirements of the ABL Lender (Notes 7 and 20). Due to the deferral of the payments, the Company paid \$45,000 as penalties to the shareholders and officers of Canglobal in fiscal 2010 (accrued for in fiscal 2009) and a further \$100,000 has been accrued in the current fiscal year to be paid out over fiscal 2011. The interest rate is at 6% up to August 31, 2011 and increases to 9% thereafter until repaid in full. The notes' carrying value of \$900,191 (2009 – \$919,220) is determined using an effective rate of 9% (2009 – 6%).

A discount rate of 9% utilized on the above notes as opposed to the 6% coupon rate is based on management's assessment of the fair value of these notes as at September 30, 2010. The discount rate was commensurate with the interest rate on arm's length debt obtainable by the Company with similar terms and security as at September 30, 2010. The 9% is the agreed upon rate between all note holders effective June 2011.

In the prior year, the discount rates ranged from 6% to 15% which were based on management's assessment of the fair value of the notes at the time of acquisition. For each notes payable, the Company assessed the total consideration issued on acquisition which consisted of cash, Company shares, notes payable and purchase price adjustments based on future earnings. Management determined the relative risks of the total consideration issued (as opposed to each instrument individually) to arrive at the discount rate used. As the original terms of the notes matured, management updated the assessment with current renegotiated terms.

### Notes Payable Payment Schedule:

YEAR	PAYMENTS
2011	\$ 280,971
2012	\$ 192,874
2013	\$ 116,667
2014	\$ 619,221

## 10. Share Capital

### (a) Common Shares Authorized

Unlimited number of voting common shares

### (b) Common Shares Issued

	Number of Shares	Amount
Balance, September 30, 2009 and 2008	20,100,806	\$ 37,860,880
Shares issued on exercises of options (by employees, directors and agents)	–	–
<b>BALANCE, SEPTEMBER 30, 2010</b>	<b>20,100,806</b>	<b>\$ 37,860,880</b>

### (c) Share Purchase Warrants

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2009	–	\$ –
Granted and fully exercisable	1,200,000	0.31
<b>BALANCE, SEPTEMBER 30, 2010</b>	<b>1,200,000</b>	<b>\$ 0.31</b>

As at September 30, 2010, there were 1,200,000 warrants outstanding that were issued as part of the mezzanine debt (2009 – nil) (Note 8). The fair value of the warrants are calculated as \$197,375 at inception using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 2.9%, dividend yield of nil, volatility factor of the expected market price of the Company's common shares of 75% and an expected life of the warrants of three years. The remaining contracted life of the warrants is 4 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 10. Share Capital continued

#### (d) Restricted Shares

As part of the shares that formed the consideration on acquisitions, restrictions existed regarding the time before the shares may be sold.

During fiscal 2010, restrictions on the final 80,645 restricted shares were terminated or expired (2009 – 102,383). As at September 30, 2010, the restricted shares balance was nil.

#### (e) Stock Option Plan

The Company has established a stock option plan for its directors, executive officers, employees, and other key personnel. The Board of Directors may designate which directors, officers, employees, and other key personnel of the Company are to be granted options. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. An option granted under the stock option plan may vest at such times as the Board of Directors of the Company may determine at the time of granting, subject to the rules of any stock exchange or other regulatory body having jurisdiction. Options are not assignable.

The exercise price of each option is at minimum of the volume weighted average price of the Company's common shares on the last 5 days that the Company's stock traded prior to the date of grant. The Company considers this value as the fair value at the date of grant.

An option's maximum term is ten years. Options are generally vested with one third becoming exercisable after 12 months of the grant date and another one third after 24 months. The options become fully exercisable after 36 months.

Provision is made for accelerated vesting in certain circumstances and early termination in the event of death or cessation of employment.

During the 2010 Annual and Special General Meeting, the shareholders approved that the Board of Directors may grant options to purchase up to 10% of common shares outstanding (2,010,081 shares), (September 30, 2009 – 1,608,064 common shares at 8% of the outstanding common shares).

As of September 30, 2010, under the current option plan the Board of Directors was authorized to grant options for up to 2,010,081 (2009 – 1,608,064) common shares of which 1,310,167 options had been granted (2009 – 1,012,600).

A summary of the status of the Company's stock option plan for the periods presented and changes during the periods ended on those dates are outlined below.

	As at September 30th, 2010	
	Stock Options	Weighted Average Exercise Price
<b>Balance, Beginning of Year</b>	<b>1,012,600</b>	<b>\$ 1.62</b>
Granted	617,000	0.29
Forfeited and expired	(319,433)	2.21
<b>Balance, End of Year</b>	<b>1,310,167</b>	<b>\$ 0.85</b>
<b>Options Exercisable, End of Year</b>	<b>675,278</b>	<b>\$ 1.23</b>

  

	As at September 30th, 2009	
	Stock Options	Weighted Average Exercise Price
<b>Balance, Beginning of Year</b>	<b>1,388,017</b>	<b>\$ 2.08</b>
Granted	70,000	0.25
Forfeited and expired	(445,417)	2.82
<b>Balance, End of Year</b>	<b>1,012,600</b>	<b>\$ 1.62</b>
<b>Options Exercisable, End of Year</b>	<b>625,933</b>	<b>\$ 2.21</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 10. Share Capital | (e) Stock Option Plan continued

#### Outstanding Options

SEPTEMBER 30TH, 2010		
Exercise Price	Number Outstanding	Remaining Contractual Life (Years)
\$ 0.46	48,000	4.8
0.35	40,000	4.5
0.27	512,500	4.3
0.25	40,000	3.5
0.25	40,000	3.2
0.63	496,667	3.0
1.19	30,000	2.5
3.37	39,000	2.0
6.75	59,500	1.0
8.25	4,500	0.8
<b>TOTAL</b>	<b>1,310,167</b>	

SEPTEMBER 30TH, 2009		
Exercise Price	Number Outstanding	Remaining Contractual Life (Years)
\$ 0.25	40,000	4.5
0.25	40,000	4.2
0.63	640,000	4.0
1.19	30,000	3.5
2.21	40,000	3.2
2.50	30,000	0.5
2.58	18,000	0.7
3.37	45,000	3.0
3.50	10,000	1.0
3.80	20,000	1.3
6.65	10,000	2.2
6.75	64,500	2.0
8.25	25,100	1.8
<b>TOTAL</b>	<b>1,012,600</b>	

### 11. Contributed Surplus

	For the Years Ended September 30th	
	2010	2009
Balance, Beginning of Year	\$ 1,665,145	\$ 1,497,802
Fair value at date of grant of options to employees and directors	101,939	167,343
Fair value at date of grant of warrants to mezzanine lenders	197,375	—
<b>BALANCE, END OF YEAR</b>	<b>\$ 1,964,459</b>	<b>\$ 1,665,145</b>

### 12. Stock-based Compensation

For stock options granted to employees and directors after October 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 2 to the financial statements. The fair value of common shares is determined at the grant date using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the fair value amount in contributed surplus is added to share capital.

The Company recorded in salary and wages stock-based compensation expense and a corresponding increase in contributed surplus in the amount of \$101,939 for the year ending September 30, 2010 (2009 - \$167,343).

The following table represents the significant assumptions made in the calculation of the weighted average fair value of the options granted:

Weighted Average Fair Value	2010	2009
Risk-free interest rate	2.5%	2.8% to 4.2%
Expected life	4 years	4 years
Expected volatility	71% to 81%	45% to 70%
Expected dividend yield	Nil	Nil

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 13. Loss per Share

The following table sets forth the computation of basic and diluted loss per share:

	For the Years Ended September 30th	
	2010	2009
<b>Numerator for basic and diluted earnings per share:</b>		
Net loss attributable to common shareholders	\$ (2,093,383)	\$ (23,882,148)
<b>Denominator for basic and diluted earnings per share:</b>		
Weighted average number of common shares	20,100,806	20,100,806
Basic earnings per share	20,100,806	20,100,806
Diluted earnings per share	20,100,806	20,100,806
<b>BASIC LOSS PER SHARE</b>	<b>\$ (0.10)</b>	<b>\$ (1.19)</b>
<b>DILUTED LOSS PER SHARE</b>	<b>\$ (0.10)</b>	<b>\$ (1.19)</b>

The outstanding stock options as at September 30, 2010 are non-dilutive in fiscal 2010 and 2009 but may be dilutive in the future.

### 14. Supplemental Cash Flow Information

	For the Years Ended September 30th	
	2010	2009
<b>Change in non-cash operating working capital:</b>		
Accounts receivable	\$ (2,545,410)	\$ 10,993,438
Income tax receivable	228,711	(723,740)
Inventory	4,750,477	3,691,163
Prepays	237,400	(91,463)
Accounts payable and accrued liabilities	2,340,732	(2,743,967)
Income tax payable	-	(936,993)
<b>TOTAL</b>	<b>\$ 5,011,910</b>	<b>\$ 10,188,438</b>
<b>Non-cash transactions</b>		
Capital assets purchased under capital lease	\$ 59,781	\$ 100,842
Fair value of warrants to mezzanine lenders	197,375	-
Purchase price adjustments:		
Goodwill (Note 6)	\$ -	\$ (137,630)
Future income tax (Note 15)	-	(12,360)
Intangible assets (Note 3)	-	(33,809)
Notes payable (Note 3)	-	201,350
<b>Interest and income taxes paid</b>		
Cash interest paid	\$ 649,161	\$ 1,100,717
Cash income taxes (recovered) paid	\$ (734,723)	\$ 669,714

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 15. Income Taxes

Major components of income tax recovery are as follows:

	For the Years Ended September 30th	
	2010	2009
Current	\$ 515,503	\$ 1,011,299
Future	204,106	709,375
<b>TOTAL</b>	<b>\$ 719,609</b>	<b>\$ 1,720,674</b>

Income tax recovery differs from the amount computed by applying the combined statutory provincial and federal income tax rates to the respective years' earnings or loss before income taxes. These differences result from the following items:

	For the Years Ended September 30th	
	2010	2009
Expected income tax recovery at 28.56% (2009 – 31.85%)	\$ 803,390	\$ 8,154,499
(Increase) decrease resulting from:		
Goodwill impairment	–	(6,231,610)
Non-deductible expenses	(69,716)	(123,691)
Tax rate differential	18,293	(83,623)
Provincial capital tax	(1,871)	(13,250)
Effect of foreign tax rates	(8,560)	(5,369)
Other	(13,483)	21,279
Non-taxable portion of capital gains	(8,444)	2,439
<b>INCOME TAX RECOVERY</b>	<b>\$ 719,609</b>	<b>\$ 1,720,674</b>

A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not. There were no valuation allowances recorded for both fiscal 2010 and 2009.

#### Temporary Differences

The tax effects of temporary differences that give rise to the Company's future income tax assets and liabilities are as follows:

	For the Years Ended September 30th	
	2010	2009
<b>Future Income Tax Assets, Current</b>		
Inventory	\$ 146,427	\$ 130,667
<b>Future Income Tax Assets, Long-term</b>		
Loss carry-forwards	\$ 495,533	\$ 435,980
Financing costs	40,742	160,122
Deferred tenant inducements	25,867	31,667
Exploration expenses	25,677	28,875
Obligations under capital leases	13,160	–
<b>Total Future Income Tax Assets, Long-term</b>	<b>\$ 600,979</b>	<b>\$ 656,644</b>
<b>Future Income Tax Liabilities</b>		
Intangibles	\$ 351,828	\$ 564,724
Capital assets – deficiency of undepreciated capital cost compared to net carrying value	178,351	204,060
Other	7,192	12,597
<b>Total Future Income Tax Liabilities</b>	<b>\$ 537,371</b>	<b>\$ 781,381</b>
<b>NET FUTURE INCOME TAX LIABILITIES</b>	<b>\$ 210,035</b>	<b>\$ 5,930</b>

As at September 30, 2010, the Company had non-capital losses available for a carry-forward of \$1,905,896 (2009 – \$1,676,845), of which \$164,043 will expire in 2027, \$1,248,708 will expire in 2029, and \$493,145 will expire in 2030. For financial reporting purposes a future tax asset has been recognized in respect of these carry-forwards.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 16. Related Party Transactions

During the year, the Company entered into the following related party transactions:

- (a) Legal fees of \$275,187 (2009 – \$296,041) were paid to a law firm for corporate matters of which a director is a partner. Of this amount, \$12,921 (2009 – \$97,339) is included in accounts payable. Included in this amount is a finder's fee of \$75,000 which was paid to this law firm for the closing of mezzanine debt of \$3,000,000 on October 8, 2009. Of the \$3,000,000 cash proceeds, \$2,500,000 of the proceeds were sourced through this law firm.
- (b) Management consulting fees of \$130,563 (2009 – \$169,348) were paid to a company, 371070 Alberta Ltd., over which an officer and director has significant influence.
- (c) Management consulting fees of \$Nil (2009 – \$30,000) were paid to a company, Western America Venture Management Inc., over which a former director has significant influence.
- (d) The Company paid directors' fees and expenses of \$91,638 (2009 – \$90,090) to four (2009 – four) independent directors.

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.

### 17. Commitments and Contingencies

#### (a) Commitments

Under various lease agreements, the Company will be required to make annual lease payments. Future minimum lease payments are as follows:

YEAR	Operating Leases	Premises Leases
2011	\$ 277,446	\$ 2,613,631
2012	\$ 116,461	\$ 2,228,939
2013	\$ 41,117	\$ 2,007,065
2014	\$ 3,294	\$ 2,010,847
2015	\$ –	\$ 2,047,713

#### (b) Contingencies

The Company is involved in various claims and litigations arising in the normal course of business. While the outcome of these matters are uncertain and there is no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse impact on its financial position, results of operations or liquidity. Therefore, no provision for these claims and litigations has been included in these financial statements.

The Canglobal acquisition on August 31, 2007 includes an agreement where potential future payments may be made to previous shareholders based on pre-tax earnings on December 31, 2009 and 2010. In accordance with Canadian GAAP, future contingent consideration is not recognized as part of the cost of the purchase until the consideration is earned as the outcome cannot be determined beyond a reasonable doubt at the time of the acquisition.

### 18. Capital Management

The objectives of the Company's capital management program are to:

- ensure that there is financial capacity to support the operations through the seasonal periods and cyclical years with sufficient capability to manage unforeseen operational and industry developments
- ensure the Company has capital and capacity to support the long-term growth strategy
- maximize shareholder value

The Company uses a combination of debt and equity financing to help achieve its objectives. The percentage levels of each capital component may change as the Company attempts to take advantage of prevailing market conditions. The Company is not subjected to capital requirements imposed by a regulator.

During the year ended September 30, 2010, the Company was in compliance with its externally imposed debt covenant requirements. The Company monitors these requirements on a monthly basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 18. Capital Management continued

In the management of capital, the Company includes the following in the definition of capital:

	As At September 30th, 2010	
Bank indebtedness	\$	9,460,903
Long-term debt	\$	3,004,657
Notes payable	\$	1,209,733
Shareholders' equity	\$	17,304,147

### 19. 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.

#### (a) Financial Instruments – Carrying Values

	For the Years Ended September 30th	
	2010	2009
<b>FINANCIAL ASSETS</b> (classified as loans and receivables)		
Cash	\$ 47,847	\$ –
Accounts receivable	\$ 14,645,539	\$ 12,100,129
<b>FINANCIAL LIABILITIES</b> (classified as other financial liabilities)		
Bank indebtedness	\$ 9,460,903	\$ 16,221,083
Accounts payable and accrued liabilities	9,756,275	7,415,544
Long-term debt	3,004,657	1,005,090
Notes payable	1,209,733	1,192,448

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 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 values of the notes payable and long-term debt as at September 30, 2010 was assessed to be equivalent to its book value of \$4,214,390. 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.

#### (b) Financial Instruments – Income and Expense

	For the Years Ended September 30th	
	2010	2009
<b>Interest Expense:</b>		
Bank indebtedness	\$ 809,130	\$ 984,709
Long-term debt	684,876	105,470
Notes payable	101,227	47,441
<b>Bad Debt Expense (Recovery), Net</b>	<b>\$ 90,109</b>	<b>\$ (282,200)</b>

#### (c) Financial Risk Management

The Company has exposure to credit, interest rate, liquidity 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.

##### (i) Credit Risk

The Company extends credit facilities to its customers which are unsecured. The Company manages its credit risk relating to these receivables through credit approval and monitoring procedures. Credit limits are established based on trade information, payment history, credit score, credit rating and financial analysis where possible. 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.

In fiscal 2010, the Company's largest customer accounted for approximately \$4,192,468 or 4.72% (2009 – \$4,940,873 or 4.65%) of total revenue, and comprised \$1,049,090 or 7.38% (2009 – \$302,652 or 2.47%) of accounts receivable as at September 30, 2010.

Accounts receivable that are past their contractual terms of 30 days as at September 30, 2010 are \$6,897,999 (September 30, 2009 – \$5,950,054). However, given the customer base, customers typically pay in 45 days.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 19. Financial Instruments | (i) Credit Risk continued

Management does not consider the amount over 30 days, net of provisions for uncollectible accounts, as uncollectible as management is thorough in the process of reviewing credit limits and works closely with the customers to ensure collection. Historically, bad debts as a percentage of revenue are less than 1%.

Provisions for uncollectible accounts are made in the allowance for doubtful accounts. Balances in the allowance for doubtful accounts are as follows:

	For the Years Ended September 30th	
	2010	2009
<b>Balance, Beginning of Year</b>	<b>\$ 295,354</b>	<b>\$ 493,388</b>
Bad debt expense (recovery)	<b>90,109</b>	(282,200)
Accounts written-off and other adjustments	<b>(75,463)</b>	84,166
<b>BALANCE, END OF YEAR</b>	<b>\$ 310,000</b>	<b>\$ 295,354</b>

#### (ii) 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. The Company uses derivatives as part of its policy to manage these exposures. The Company uses both forward contracts and options for U.S. dollar purchases to manage this risk. The notional values of the forward contracts and options not yet settled at September 30, 2010 is a minimum USD of \$1,025,000 with a maximum of \$2,050,000 with terms to maturity ranging 30 to 90 days from the inception of contract (2009 – \$1,200,000 with terms to maturity of approximately 30 days from the inception of contract). The fair value adjustments related to this derivative instrument is a gain of \$11,368 (2009 – loss of \$1,000) and is included in selling, general and administrative expenses. The offset to liability related to this adjustment is included in accounts payable and

accrued liabilities. Total foreign exchange gain for the year is \$55,069 (2009 – loss of \$262,536). Based on the September 30, 2010 balances of assets and liabilities denominated in foreign currency, if the Canadian dollar had strengthened by 10%, with all other variables held constant, net loss would have increased by approximately \$96,399 (2009 – \$35,627).

#### (iii) 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. During fiscal years 2009 and 2010, the Company reduced its bank indebtedness by 45% compared to fiscal 2008 levels after considering the mezzanine debt. The Company achieved this through stringent cash management which required reduction of operating costs and inventory levels. Subsequent to September 30, 2010, the Company successfully closed a \$16,000,000 three-year term asset-based credit facility that is forecasted to meet current and future working capital needs. The new credit facility has also been pre-approved to grow to \$20,000,000 if supported by the Company's working capital.

The Company will require capital to finance its future growth and to pay down its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit availability from the new credit facility is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's availability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants. Although the Company does not anticipate difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 19. Financial Instruments | (iii) Liquidity Risk continued

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.

Commercial has assumed various contractual obligations and commitments in the normal course of operations and financing activities. The Company will be required to settle these obligations as follows:

	2011	2012	2013	2014
Bank indebtedness	\$ 9,460,903	\$ –	\$ –	\$ –
Accounts payable	9,756,276	–	–	–
Long-term debt	89,074	2,905,223	8,838	1,522
Notes payable	280,971	192,874	116,667	619,221
<b>TOTAL</b>	<b>\$ 19,587,224</b>	<b>\$ 3,098,097</b>	<b>\$ 125,505</b>	<b>\$ 620,743</b>

#### (iv) Interest Rate Risks

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to minimize its interest costs. The variable interest debt 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 average loan balance for the year ended September 30, 2010 had increased by 1%, with all other variables held constant, net loss would have increased by approximately \$128,410 (2009 – \$162,211).

### 20. Subsequent Event

Subsequent to fiscal 2010, Commercial entered into a new \$16,000,000 senior secured ABL Facility with the Bank of America, N.A. The ABL Facility has a maturity date of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable.

The ABL Facility includes an opportunity for 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 the closing date, October 8, 2010, the total amount drawn on the ABL Facility was \$8,716,195 which represented full repayment of the previous credit facility with the Canadian Imperial Bank of Commerce.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties.

The restated credit facility bears interest at prime plus 1.5% or bankers' acceptance rate plus 3.25%, and, a standby fee of 0.5% on unused amounts of the facility.

Significant financial covenants of the facility include (i) margin requirements between loans and certain receivables and inventory balances, (ii) availability block of \$1,000,000; and, (iii) minimum net tangible worth of \$14,500,000 if fund availability is lower than \$2,500,000. These covenants are to be measured continuously.

The Company has incurred \$130,814 (2009 – \$70,000) in fiscal 2010 in transaction costs with the asset-based lender related to fee deposit and due diligence work on the ABL Facility. This cost has been recorded as prepaid expenses and will be amortized over the term of the loan once effective. It is expected that a further estimated \$270,000 will be paid subsequent to year end. Previously capitalized fees of \$70,000, not directly related to the ABL Facility, have been expensed in the current year.

### 21. Comparative Figures

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

# CORPORATE INFORMATION

## OFFICERS AND DIRECTORS

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

**Dr. Ken Harrison | Edmonton, AB**  
Director

**Rozina Kassam | Edmonton, AB**  
Chief Financial Officer

**Daryl Kruper | Sherwood Park, AB**  
Director

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

**William Rosser | 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:** 20,100,806 common shares

## CORPORATE OFFICE

**Commercial Solutions Inc.**  
4203 - 95th Street  
Edmonton, AB, Canada T6E 5R6  
Ph.: (780) 432-1611 | Fax: (780) 462-0807

## 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**



**ENERGY SERVICES**



**Commercial Solutions Inc. Fiscal 2010 | Annual Report**

Chief Financial Officer: Rozina Kassam, CA  
Administration: 4203-95 Street, Edmonton AB T6E 5R6 | Toll Free: 1-888-522-9822

**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. For full details about our operating divisions and areas of expertise, please visit our website.