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**FISCAL 2010 ANNUAL REPORT**

Management Discussion and Analysis

September 30, 2010

# Message from the Chairman of the Board, President and Chief Executive Officer



## Dear Shareholders,

Today, as I reflect over the past year, the dedication of all of our coworkers in helping us get through this tumultuous period leaves me both proud and humbled when personally witnessing everyone's support and effort that was needed to accomplish our goals this past twelve months. Fiscal 2009 and 2010 were challenging years as we endured the toughest economic environment many of us have ever experienced. Given the challenging economy and the credit crisis, I believe that our performance in F2010 met expectations and I believe that we are entering F2011 in a position of strength. As the crisis evolved, Commercial remained focused on the recovery. In fiscal 2010, we returned to positive EBITDA after EBITDA losses in fiscal 2009. We also generated positive free cash flow which further strengthened our balance sheet. With these accomplishments, we secured a new and improved senior asset-based lending facility over a term of three years effective October 8, 2010.

We, as a Company, have gone through a tremendous number of challenges in the past couple of years. Prior to fiscal 2009, we enjoyed explosive growth at Commercial Solutions; however, the economy of 2009 brought us back to reviewing and identifying our core strengths. Commercial's core strengths are our people and our products. Our people bring their high levels of knowledge and experience to our valued clients with a 'one-stop shop' philosophy in strategic Western Canadian locations. Our diverse and broad product lines meet the needs of customers in different business sectors and help them achieve business success. Throughout the last two years, we have reviewed and renewed our strategy to focus on benefiting from these strengths. Our next step is to start growing the business again. Management has a defined plan and some ambitious goals to accomplish this.

The key to success will be by having our people engaged in delivering increased value, by answering and filling customer requirements quickly whether through stocked products or by outsourcing, and by being cost efficient on each and every transaction. With a wide customer base and diversified industry, we restructured operations to efficiently and effectively service our customers with lower operating costs. To gain operating synergies in our two business components, we consolidated service centres, centralized purchasing, and implemented an expert solution and order centre where our customers have easier access to our product experts through new telephone technology. Part of these changes necessitated building a cohesive culture within the organization - all in the interest of becoming one company, one team and capturing the full value of the strengths of this organization.

In addition, we are fully focused on applying metrics, measures and incentives to assist our employees in delivering results. With this approach we expect to build an accountable, performance driven culture, invest in technology as a tool to create efficiencies and provide information necessary to make decisions more effectively. This is an essential element of our strategy. We need increased productivity from our existing assets before we invest in any significant new expansions.

These are not new focus areas for us. We have long regarded every one of them as being fundamental to our corporate values. What is new is our emphasis on a coordinated approach that ensures that every element of our culture complements and strengthens the others.

Our goal is to increase customer confidence and ensure that they encounter the same standard of excellence each time and at every Commercial Solutions location, and to encourage our employees to gain a better understanding of what is expected from them to succeed, so that they feel comfortable knowing they are able to contribute to their full potential.

Although the tough economic conditions significantly impacted our financial performance over fiscal 2009 and 2010, we believe that it has and will continue to provide us with an opportunity to innovate, create, develop and excel. Over the next months, Commercial will once again strive to achieve ambitious goals leading to business growth. We recognize that the general economic conditions continue to be unsettled but discipline in business operations and commitment to customer requirements will be critical aspects of how we go forward. Our committed people providing customers with needed products will be the focus of all we do to navigate the times ahead and differentiate us from our competitors.

On behalf of Commercial's Board of Directors, I would like to express our appreciation for our employees' hard work, determination and commitment. Over the years, we have assembled a team of talented and loyal employees. Our continued success depends on our ability to motivate and retain our team and to recruit new employees who share our enthusiasm for our future. We would also like to express our appreciation for the support of our shareholders during these difficult market conditions and the continuing support of our customers and suppliers. To all these groups, we express our sincere thanks.

Sincerely,

A handwritten signature in black ink, appearing to read 'James Barker'. The signature is fluid and cursive, with a long horizontal line extending to the right.

James Barker

# Management Discussion and Analysis

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# INTRODUCTION

The following Management Discussion and Analysis is as of December 17, 2010 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 annual Consolidated Financial Statements for September 30, 2010 and their related notes.

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).

## Overview of the Business

Headquartered in Edmonton, Alberta, Commercial is one of Canada’s leading independent national distributors of industrial and oilfield supplies. As at December 17, 2010, it had approximately 240 employees located across its 24 Service Centres in Canada. Commercial offers more than 160,000 items critical to Maintenance Repair Operations (“MRO”) and Original Equipment Manufacturing (“OEM”) to its 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, firefighting, food processing, chemical processing, mining, utilities, agriculture and construction.

The Company has traditionally conducted its operations through two separate business components. The Industrial Supplies component incorporates approximately 140,000 products encompassing bearing, power transmission equipment, industrial, safety, agricultural, resource management, survey, firefighting, 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 approximately 20,000 products and specializes in hard to find custom products. Principal products distributed are oil well pump liners, valves, fittings, gauges and industrial hand tools.

Management has been integrating the operations of the industrial supplies and oilfield parts and supplies components over the last few years into several of its Service Centres and has now completed this process. These integrations offer the potential for operating synergies, but make it difficult to separate operating results by business component.

## Mission and Growth Strategy

Commercial is committed to building sustaining value to its shareholders through disciplined management of its operations and a commitment to growing business in a capital efficient manner.

Over the last twenty years, Commercial has successfully identified, rationalized, and integrated fourteen acquisitions. It has grown into one of the largest industrial and oilfield parts distributors in Western Canada. Commercial has achieved its growth with a disciplined acquisition strategy and undertaking measured and strategic organic growth. Commercial’s growth through acquisition and successful integration of companies enable it to have its Service Centres act as “one-stop shops”. This provides customer benefits through a wide variety of products as well as essential services and technical expertise.

The Company intends to achieve ongoing expansion through organic growth and selective acquisitions. As well, the Company continues to work on its program of diversifying its customer base within various industry sectors.

# FINANCIAL SUMMARY

## Results of Operations

The Company closed fiscal 2010 with revenues at \$89.5 million, approximately 15.6% lower in comparison to the prior fiscal year. However, the reductions in operating costs by 24.8% more than offset the lower revenues. This resulted in a significant improvement in Earnings before Interest, Tax, Depreciation, and Amortization (“EBITDA”) by \$3.7 million with current year EBITDA at \$1.3 million compared to an EBITDA loss of \$2.4 million in the prior fiscal year.

The global economic and financial market challenges continued to significantly impact the Company’s revenues in fiscal 2010. To mitigate the impact of declining revenues, the Company took aggressive measures both in fiscal 2009 and fiscal 2010 in reducing its operating costs. This was accomplished by restructuring operations which resulted in a number of branch consolidations, reductions in employee head count, salary rollbacks, and lower discretionary expenses.

INCOME STATEMENT	For the Years Ended September 30th		
	2010	2009	2008
<b>Revenue</b>	<b>\$ 89,455,326</b>	\$ 106,023,410	\$ 143,425,182
Gross margin (\$)	<b>25,394,320</b>	29,656,841	41,636,763
Gross margin (%)	<b>28.4%</b>	28.0%	29.0%
Operating expenses	<b>a 24,077,417</b>	32,010,342	36,081,871
<b>EBITDA</b>	<b>a 1,316,903</b>	(2,353,501)	5,554,892
Depreciation and amortization, net of gain on disposal of property and equipment	<b>2,199,888</b>	2,290,976	1,990,180
Interest expenses	<b>1,595,233</b>	1,137,620	1,424,725
Refinancing costs	<b>334,774</b>	272,231	–
Impairment of goodwill	<b>–</b>	19,548,494	15,000,000
Loss before tax	<b>(2,812,992)</b>	(25,602,822)	(12,860,013)
Income tax recovery (expense)	<b>719,609</b>	1,720,674	(724,795)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (2,093,383)</b>	\$ (23,882,148)	\$ (13,584,808)
<b>Loss Per Share</b>			
Basic	<b>b \$ (\$0.10)</b>	\$ (1.19)	\$ (0.68)
Diluted	<b>b \$ (\$0.10)</b>	\$ (1.19)	\$ (0.68)
<b>Weighted Average Shares Outstanding</b>			
Basic	<b>20,100,806</b>	20,100,806	20,079,633
Diluted	<b>20,100,806</b>	20,100,806	20,079,633

**a** See page 14 for a further explanation of these non-GAAP measures.

**b** If the \$19,548,494 impairment cost of goodwill were excluded from the fiscal 2009 results, the basic and diluted loss per share for the year would have been (\$0.21). If the \$15,000,000 impairment cost of goodwill were excluded from the fiscal 2008 results, the basic and diluted earnings per share for the year would have been \$0.07.

# FINANCIAL RESULTS

## Revenue

Revenues were lower in the current fiscal year by \$16.6 million primarily due to the lower activity in first and second quarters in comparison to the same periods in the prior year. The decrease of \$20.8 million during the first two quarters was partially offset by a total of \$4.2 million increase in revenues in the third and fourth quarters of fiscal 2010 in comparison to the same periods 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. Revenues in the first half of the current fiscal year were lower than the comparative period in the prior year primarily due to lower natural gas drilling activity in Western Canada. Despite low gas prices early in fiscal 2009, the brunt of the drilling and exploration cuts were put into effect later in fiscal 2009 which significantly impacted the Company's revenues in the latter half of fiscal 2009. The Company faced negative growth over several quarters as a result of low drilling activity and decline in its other primary markets due to the weakness in overall global economy. During the downturn, the Company performed profitability analysis for all Service Centres that contributed lower than targeted EBITDA's. This analysis resulted in mergers, closures and sales of a total of eleven Service Centres over fiscal years 2009 and 2010, representing 30% of total Service Centres from fiscal 2008.

Activity levels in all of the Company's primary markets have since shown growth. Despite the decreased number of Service Centres, revenues have increased as sales have grown steadily from the lowest level since the last quarter of fiscal 2009. Revenues from the energy sector have increased as drilling activity levels in Western Canada have improved. The increase in revenues is also attributable to the focused effort by the Company in increasing its top-line results through enhanced sales and marketing programs.

Sales and marketing programs include increased communication with Commercial's customers, focusing on the Company's ability to provide a "one-stop shop" benefit through its breadth of product offerings.

Since early fiscal 2010, the following revenue and profitability growth programs have been initiated:

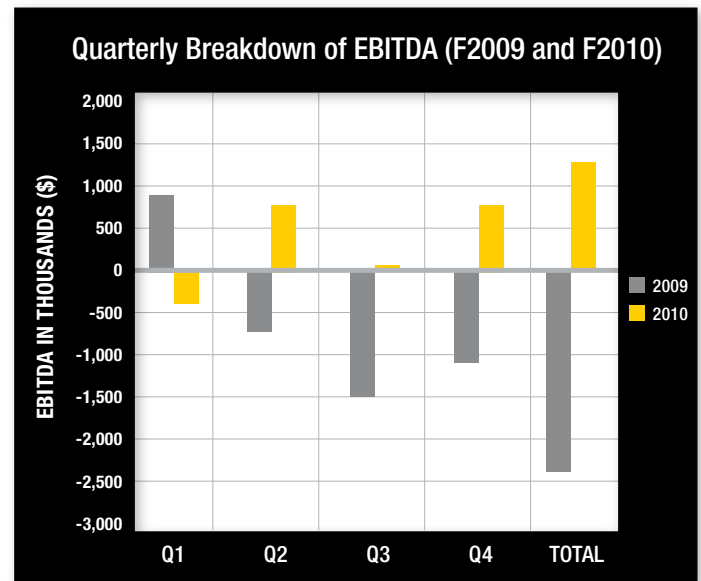
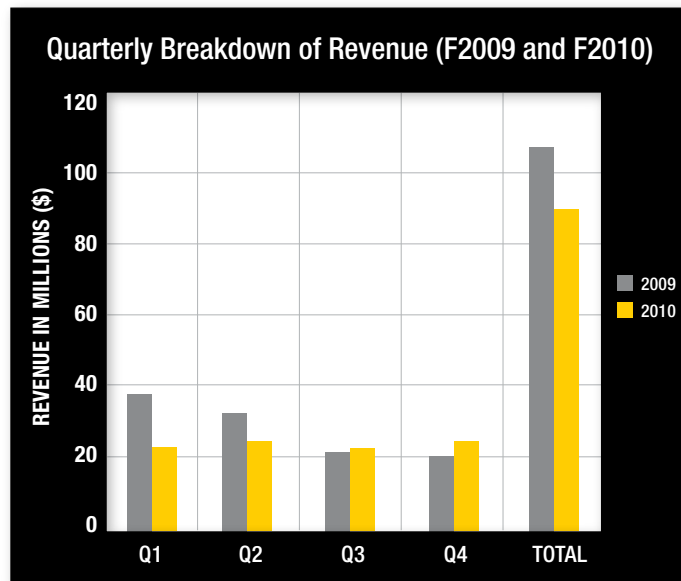
- a corporate marketing video that is shared with our existing and potential customers to communicate the products and services the Company offers and how the Company can serve many of their operational needs through the diversified inventory available
- an enhanced telephone system that allows Commercial's centralized industry experts and inside sales personnel to directly take customer calls. Since a large portion of the Company's orders are placed through the phone, this enhancement is beneficial to Commercial's customers as product inquiry and orders are addressed more efficiently
- greater emphasis on the Vendor Managed Inventory Program where the Company manages stock levels at customer sites assisting them in managing their non-core activities
- sales compensation plans to focus on growth and diversity. Accounts assigned to sales representatives are based on targeting revenue growth from various industry sectors to achieve revenue diversification

The goal of these initiatives is to serve Commercial's customers with a broad range of products and services that provide the best solutions for their operational needs while Commercial achieves an optimal balance of exposure within the various industry sectors that it serves. The Company expects that future revenue and profitability will continue to be enhanced as these programs are fully implemented.

## FINANCIAL RESULTS CONTINUED

### Earnings before Interest, Tax, Goodwill Impairment Charge, Depreciation and Amortization (“EBITDA”)

Despite the lower revenues in the current fiscal year in comparison to the prior fiscal year, the Company reported a significant improvement in EBITDA. This is primarily due to a significant decrease in operating costs through aggressive cost cutting measures initiated by management over the last two years, which more than offset decrease in gross margins. Further analysis of gross margins and operating costs are described below.



#### Gross Margin

The current year’s consolidated gross margin percentage is consistent with the prior year. Gross margins can sometimes vary depending on product mix and foreign exchange rates. Over the year, gross margins were impacted by large equipment sales that generally realize lower margins; however, the decrease was offset by review of certain product lines where product costs were reassessed to improve margins. The Company also realized higher margins on products sourced offshore.

#### Operating Expenses

Management took some aggressive measures in the past two fiscal years to reduce the operating costs to come in line with the reduced revenue levels. Operating costs continued to decrease over the current fiscal year as the Company fully realized the benefits of the actions taken.

## FINANCIAL RESULTS CONTINUED

### ("EBITDA") | Operating Expenses continued

OPERATING EXPENSES (\$'S) *	For the Years Ended September 30th		
	F2010	F2009	F2008
Salary and wages	\$ 14,446,491	\$ 19,597,394	\$ 23,727,011
Rent, occupancy costs and utilities	4,748,635	5,076,631	4,606,831
Selling, general and administration	4,116,258	5,496,866	5,940,652
Professional fees	385,367	871,155	900,761
Advertising and promotion	303,566	523,667	906,616
Restructuring costs	77,100	444,629	–
<b>TOTAL</b>	<b>\$ 24,077,417</b>	<b>\$ 32,010,342</b>	<b>\$ 36,081,871</b>
OPERATING EXPENSES (AS A % OF REVENUE) *	F2010	F2009	F2008
Salary and wages	16.1%	18.5%	16.5%
Rent, occupancy costs and utilities	5.3%	4.8%	3.2%
Selling, general and administration	4.6%	5.2%	4.1%
Professional fees	0.4%	0.8%	0.6%
Advertising and promotion	0.3%	0.5%	0.6%
Restructuring costs	0.1%	0.4%	0.0%
<b>TOTAL</b>	<b>26.8%</b>	<b>30.2%</b>	<b>25.0%</b>

\* See page 14 for a further explanation of this non-GAAP measure.

Cost reduction actions taken over the past two years resulted in a decrease of \$12 million annually from fiscal 2008 levels. The following summarizes the actions taken:

- implementation of a 5% company-wide salary roll-back effective January 2009
- reduction in fiscal 2009 and fiscal 2010 bonuses
- suspension of certain employee benefits effective January 2009 until economic conditions improve
- termination of 120 employees representing 33.3% of workforce from end of fiscal 2008
- reduction in the number of Service Centres through closures, mergers and sales resulting in decreased rent, occupancy and utilities costs by 13.6% from the prior year. The increase in costs in fiscal 2009 from fiscal 2008 represents incremental facility costs that came with acquisitions and four larger and newer facilities
- strong controls over all discretionary expenses which reduced selling, general and administrative expenses by 18.9% from the prior year
- reduction in professional fees by 55.8% from the prior year primarily due to reduction in consulting fees related to the assessment of the Company's internal controls for financial reporting and initial assessment of the impact to the Company's reporting under International Financial Reporting Standards ("IFRS"). Both of these projects were completed in fiscal 2009. As well, legal fees were reduced as there were lower levels of restructuring and termination of employees in fiscal 2010 in comparison to the prior year. Commercial will incur further IFRS project costs in the next couple of years

## FINANCIAL RESULTS CONTINUED

### ("EBITDA") continued

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

	Q1	Q2	Q3	Q4	Sept. 30th, Year to Date
<b>EBITDA, Prior Year</b>	<b>\$ 905,294</b>	<b>\$ (728,162)</b>	<b>\$ (1,502,993)</b>	<b>\$ (1,027,640)</b>	<b>\$ (2,353,501)</b>
(Lower) higher gross profit as a result of (lower) higher sales	(4,045,280)	(1,637,664)	334,605	935,716	(4,412,623)
(Lower) higher gross profit as a result of (lower) higher margins	(38,420)	754,587	(78,307)	(487,758)	150,102
Lower operating costs	2,871,806	2,461,073	1,271,641	960,876	7,565,396
(Higher) lower restructuring costs	(65,045)	(2,000)	–	434,574	367,529
<b>EBITDA, Current Year</b>	<b>\$ (371,645)</b>	<b>\$ 847,834</b>	<b>\$ 24,946</b>	<b>\$ 815,768</b>	<b>\$ 1,316,903</b>

### Interest Expense

Interest expense includes interest on bank indebtedness, long-term debt and notes payable, as well as amortization of transaction costs on long-term debt. Interest expense related to long-term debt is higher in the current fiscal year in comparison to the prior fiscal year primarily due to the addition of mezzanine debt and its related amortized transaction costs.

As well, interest rates increased on bank indebtedness based on the renewed credit facility during the year (see "Financial Position, Liquidity and Capital Resources"). However, the increase was more than offset by a significant decrease in bank indebtedness due to the partial pay-down by the new mezzanine debt of \$3,000,000 and a reduction in working capital investment and operating costs.

### Refinancing Costs

Refinancing costs represent costs associated with the review of alternate financing over the year and renegotiations on the notes payables.

### Impairment of Goodwill

The Company conducted its goodwill impairment test in the second quarter of fiscal 2009 due to changes in the economic environment since its last impairment test in the third quarter of fiscal 2008. As a result, an impairment charge of \$19,548,494 was recorded in fiscal 2009 to write-off the entire value of its goodwill.

The impairment was primarily the result of the general economic downturn, specifically the weakness in the energy sector which is the Company's major market sector, and the decline in the Company's market capitalization.

### Income Taxes

The Company's fiscal 2010 year to date effective tax rate is 28.56% (2009 – 31.85%). The \$19,548,494 goodwill impairment charge in fiscal 2009 was not tax deductible. Reduction in rate from the prior year is primarily due to the reduced federal and provincial tax rates.

### Net Loss, Comprehensive Loss and Weighted Average Shares Outstanding

The Company had a lower net loss and comprehensive loss in the current fiscal year in comparison to the prior year primarily due to the goodwill impairment charge in the prior year. Normalized for this charge, net loss and comprehensive loss improved by approximately \$2.2 million, which is primarily due to the significant improvement in the current year's EBITDA, lower depreciation expense, partially offset by higher interest expense and lower tax recoveries.

Over the current fiscal year, there were no stock options or share purchase warrants exercised.

## FINANCIAL RESULTS CONTINUED

### Trailing Twelve Months and Seasonal Nature of Business

The tables below provide an opportunity for insight into the trailing twelve months results. The Company has experienced a decline in revenues over the last eighteen months primarily due to the decline in activity in the oil and gas sector. Approximately 50% 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. However, as activity in the oil and gas industry has been generally low, the seasonality impact of the spring thaw has lessened in comparison to fiscal years prior to fiscal 2009.

#### Summary of Quarterly Data

<b>FISCAL 2010</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>TOTAL</b>
Revenue	\$ 21,251,236	\$ 23,089,142	\$ 21,963,853	\$ 23,151,095	\$ 89,455,326
Gross margin (\$)	5,875,121	5,875,121	5,971,697	6,737,030	25,394,320
Gross margin (%)	27.6%	29.5%	27.2%	29.1%	28.4%
Operating expenses	a 6,246,766	5,962,638	5,946,751	5,921,262	24,077,417
<b>EBITDA</b>	a (371,645)	847,834	24,946	815,768	1,316,903
<b>NET LOSS</b>	\$ (843,876)	\$ (17,880)	\$ (676,083)	\$ (555,544)	\$ (2,093,383)
Basic loss per share	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.10)
Diluted loss per share	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ (0.03)	\$ (0.10)

a See page 14 for a further explanation of these non-GAAP measures.

<b>FISCAL 2009</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>TOTAL</b>
Sales	\$ 35,788,582	\$ 29,333,030	\$ 20,749,108	\$ 20,152,690	\$ 106,023,410
Gross margin (\$)	9,958,821	7,693,549	5,715,399	6,289,072	29,656,841
Gross margin (%)	27.8%	26.2%	27.5%	31.2%	28.0%
Operating expenses	a 9,053,527	8,421,711	7,218,392	7,316,712	32,010,342
<b>EBITDA</b>	a 905,294	(728,162)	(1,502,993)	(1,027,640)	(2,353,501)
<b>NET EARNINGS (LOSS)</b>	\$ 37,984	\$ (20,659,429)	\$ (1,619,260)	\$ (1,641,443)	\$ (23,882,148)
Basic loss per share	\$ 0.00	\$ (1.03)	\$ (0.08)	\$ (0.08)	\$ (1.19)
Diluted loss per share	\$ 0.00	\$ (1.03)	\$ (0.08)	\$ (0.08)	\$ (1.19)

a See page 14 for a further explanation of these non-GAAP measures.

## FINANCIAL RESULTS CONTINUED

## Fourth Quarter Results

INCOME STATEMENT	For the Three Months Ended September 30th		
	F2010	F2009	INCREASE (DECREASE) %
Revenue	\$ 23,151,095	\$ 20,152,690	14.9%
Gross margin (\$)	6,737,030	6,289,072	7.1%
Gross margin (%)	29.1%	31.2%	-2.1%
Operating expenses	a 5,921,262	7,316,712	-18.3%
EBITDA	a 815,768	(1,027,640)	179.4%
NET LOSS	\$ (555,544)	\$ (1,641,443)	-65.8%
Basic earnings per share	\$ (0.03)	\$ (0.08)	
Diluted earnings per share	\$ (0.03)	\$ (0.08)	

a See page 14 for a further explanation of these non-GAAP measures.

Results in the last quarter of the current fiscal year show a significant improvement in EBITDA from the same period in the prior year due to higher revenues and lower operating costs. Improvements and the stability of oil prices have led to improved oilfield and oilsands sales in comparison to the same period last year. However, revenues were lower than anticipated due to poor weather over the last few weeks of September in Western Canada which resulted in poor drilling conditions. It is anticipated that some drillers may add additional rigs for the last quarter of the calendar year to catch up on delayed drilling plans.

Gross margin in the current quarter is at normal levels compared to high levels achieved in the same period last year. In the prior year, freight recoveries and sales of offshore products were higher than average due to certain large sales. Additionally, competitive price pressures have increased in the current fiscal year.

Operating costs have decreased substantially from the levels last year. Operating costs continued to decrease each quarter this year as the Company continued to realize the benefits of its aggressive cost cutting measures taken earlier. In the current quarter, the Company realized further savings primarily due to the decrease in its fixed costs as the long-term commitments on the closed and merged facilities matured.

CASH FLOW STATEMENT	For the Three Months Ended September 30th	
	2010	2009
Total cash from operations	\$ (738,138)	\$ 1,308,092
Total cash from financing	780,382	(1,299,148)
Total cash from investing	(76,572)	(8,944)
Free Cash Flow *	(814,710)	1,299,148

\* Free Cash Flow is a non-GAAP measure and is defined as cash provided (used in) operating activities less net capital expenditures.

During the last quarter of the current fiscal year, Commercial had an increase in working capital investment primarily due to the increase in accounts receivable as revenues improved, partially offset by higher net income and timing of payment of accounts payable. The investment in working capital was funded by the increase in the operating line of credit.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

KEY BALANCE SHEET DATA	As at September 30th		
	2010	2009	2008
Total current assets	\$ 35,880,356	\$ 38,430,014	\$ 52,098,745
Total current liabilities	19,607,224	24,550,764	34,838,250
<b>NET INVESTMENT IN WORKING CAPITAL</b>	<b>\$ 16,273,132</b>	<b>\$ 13,879,250</b>	<b>\$ 17,260,495</b>
<b>TOTAL TANGIBLE ASSETS</b>	<b>\$ 39,577,485</b>	<b>\$ 43,283,428</b>	<b>\$ 57,695,070</b>
Bank indebtedness	9,460,903	16,221,083	22,119,327
Accounts payable	9,756,276	7,415,544	11,096,503
Current portion long-term debt	89,074	894,137	356,397
Current portion notes payable	280,971	–	1,246,023
Long-term debt	2,915,583	110,953	984,382
Notes payable	928,762	1,192,448	594,684
Future income tax liability	537,371	781,381	1,101,369
<b>TOTAL DEBT</b>	<b>\$ 23,968,940</b>	<b>\$ 26,615,546</b>	<b>\$ 37,498,685</b>

KEY RATIOS	As at September 30th		
	2010	2009	2008
Debt to tangible asset ratio	0.61	0.61	0.65
Working capital ratio	1.83	1.57	1.50
Days sales in receivables	52.3	57.2	57.3
Inventory turns	3.0	2.7	3.5
Days purchases in payables	47.1	52.3	53.8

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

On December 9, 2009, the Company secured a Restated Credit Facility with the Canadian Imperial Bank of Commerce (the "Lender") which provides a \$15,000,000 operating line of credit for monthly renewal up to October 31, 2010. The new facility rolled in the previous operating line of credit of \$12,457,348 and the acquisition line of \$770,002 for a total of \$13,227,350 on the closing date.

The Company also closed on a two-year term mezzanine debt agreement for \$3,000,000 on October 8, 2009. This loan injection was a condition precedent to the Restated Credit Facility agreement. Proceeds from the mezzanine debt were used to partially pay down the

previous operating line with the Lender and supplement working capital requirements.

Both working capital and debt to tangible asset ratios, metrics used to measure how much of the Company's assets are financed through debt, remain at healthy levels. Secured debt to tangible asset ratios continue to improve lenders' risk profile. Management makes a concentrated effort to monitor and implement strict controls over the Company's investment in working capital to ensure sufficient debt capacity for future growth.

Over the year, Commercial's draw on its operating line of credit was reduced by a further \$6.8 million representing a 41% reduction from closing balance in fiscal 2009 (reduction of 27% in fiscal 2009 from fiscal 2008 balance). This reduction was partially due to the pay down through the proceeds from the mezzanine debt. The remaining decrease was due to lower operating and capital expenditures and reduced working capital investment.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES CONTINUED

The Company specifically focuses on its investments in inventory and accounts receivable through the following programs:

**Inventory:** The Company is committed to aggressive ongoing inventory management efforts that work towards the goal of minimizing inventory balances while still meeting the customers' needs. This includes strong centralized inventory purchasing, opportunity-based distribution to Service Centres and an asset recovery program where inventory with lower than average turnover is put through a different marketing plan to increase the likelihood of sale. These initiatives have reduced inventory balances by 40% from the peak level of \$30,000,000 in February 2009.

**Accounts Receivable:** Management recognizes that as a result of more difficult credit conditions, the Company may experience increased difficulty receiving payments from its customers. Management pro-actively manages this risk by operating under a sound credit-granting process and maintaining appropriate credit administration, measurement and monitoring process. As well, more attentive communication with customers on a more frequent basis involving multiple levels of the corporation has aided in understanding customer needs and viability. This has proven to facilitate timely collection.

As at September 30, 2010, the Company was operating within its bank covenants with the Lender. These covenants are monitored and reported on a monthly basis. Covenants include: (i) margin requirements between loans and certain receivables and inventory balances, (ii) a minimum working capital ratio of 1.35, and (iii) a maximum trailing twelve month adjusted negative 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.

Subsequent to the current fiscal year, on October 8, 2010, the Company entered into a new \$16,000,000 senior secured Asset-Based Lending Facility (the "ABL Facility") with the Bank of America, N.A. and repaid the outstanding indebtedness with the Lender in full which amounted to \$8,716,195. The ABL Facility has a maturity term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. The ABL Facility includes an opportunity for 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.

Significant financial covenants on the ABL 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 assessed asset-based lending structures as better suited for Commercial as it allows the Company to take advantage of its strong balance sheet. As well, this structure supports companies that operate with fluctuating earnings or cash flows related to varying sector activity and seasonality. The Company is very pleased with the closing of the three-year term ABL Facility with Bank of America, N.A. as it will provide Commercial with the liquidity to meet its existing and anticipated future needs and allow management to focus its efforts on the growth opportunities in the markets the Company serves.

### Summary of Cash Flows

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

	For the Twelve Months Ended September 30th		
	2010	2009	2008
Total cash from operations	\$ 5,169,287	\$ 7,496,300	\$ 476,404
Total cash from financing	(4,836,686)	(6,804,776)	1,531,730
Total cash from investing	(284,754)	(691,524)	(2,008,134)
<b>Free cash flow *</b>	<b>4,884,533</b>	<b>6,804,776</b>	<b>(1,071,996)</b>

\* Free cash flow is a non-GAAP measure and is defined as cash provided by (used in) operating activities less net capital expenditures. It excludes cash used in investing activities that relate to acquisitions.

The Company generated positive cash flows from operating activities primarily through disciplined management of working capital. Cash flows from operating activities are used to reduce bank indebtedness.

Cash outflow for financing activities reflect the proceeds of \$3,000,000 from mezzanine debt and the positive cash flows from operating activities which were used to reduce bank indebtedness.

Cash flows used for investing activity related to capital expenditures and intangible asset additions primarily centered on improvements in the management information systems. These expenditures are budgeted to continue at low levels in comparison to prior years with the objective of maximizing free cash flow.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES CONTINUED

### Long-term Debt

Long-term debt relates to 1) mezzanine debt of \$3,000,000 repayable on October 8, 2011, secured by a general security agreement in second position bearing an interest rate of 18% per annum; and, 2) 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.

The mezzanine debt was closed during the current fiscal year, on October 8, 2009, as a condition precedent to the Restated Credit Facility agreement with the Lender. 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. 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.

### Notes Payable

Notes payable relate to the balances owing to shareholders of previously acquired companies being Rig Products Inc., Excel Bearings Inc., Canglobal Products Ltd., and Bright Capital Technology Ltd. Repayment terms to the shareholders have been extended from the original terms as required by the senior credit facility lenders. As at September 30, 2010, revised terms were established with the note holders where interest expense was increased from 6% to 9% effective June 2011 for Rig Products Inc. and Excel Bearings Inc. and August 2011 for Canglobal Products Ltd. and Bright Capital Technology Ltd. Principal payments are amortized over the next three years with final payment due on December 31, 2013.

### 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

### Intangibles

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. Intangible assets are recognized when the resource is identifiable, controllable by the Company, and which future economic benefits are expected to flow to the Company. The cost of intangible assets acquired in a business combination that meet the specified criteria for recognition 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 be completed through available resources, are technically feasible, and 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%

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES CONTINUED

### Intangibles continued

Intangibles decreased from September 30, 2009 primarily due to amortization, net of additions of computer software. Management conducted an annual test of intangible assets in fiscal 2010. 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 fair value of the intangible assets exceeds its carrying 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 second quarter of fiscal 2009 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 was 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 second quarter of fiscal 2009, the Company conducted a goodwill impairment test due to the changes in the economic environment. As a result, an impairment charge of \$19,548,494 was recorded to write-off the entire remaining value of its goodwill. The impairment charge was driven by continuing adverse macro-economic factors that contributed to an overall reduction in equity market conditions which negatively impacted the Company's stock price. The impairment charge was non-cash, and did 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 2010 investment in property and equipment primarily centered on required facility upgrades.

### 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 term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. The ABL Facility includes an opportunity for 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 \$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.

## 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, may not 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 Canadian 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 Years Ended September 30th		
	F2010	F2009	F2008
<b>Net Loss and Comprehensive Loss</b>	<b>\$ (2,093,383)</b>	<b>\$ (23,882,148)</b>	<b>\$ (13,584,808)</b>
Add:			
Impairment of goodwill	–	19,548,494	15,000,000
Depreciation and amortization, net gain / loss on disposal of property and equipment	<b>2,199,888</b>	2,290,976	1,990,180
Interest	<b>1,595,233</b>	1,137,620	1,424,725
Refinancing costs	<b>334,774</b>	272,231	–
Income tax (recovery) expense	<b>(719,609)</b>	(1,720,674)	724,795
<b>EBITDA</b>	<b>\$ 1,316,903</b>	<b>\$ (2,353,501)</b>	<b>\$ 5,554,892</b>

Operating expenses 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 to total expenses for each of the periods presented in this MD&A:

	For the Years Ended September 30th		
	F2010	F2009	F2008
<b>Operating Expenses</b>	<b>\$ 24,077,417</b>	<b>\$ 32,010,342</b>	<b>\$ 36,091,831</b>
Add:			
Impairment of goodwill	–	19,548,494	15,000,000
Depreciation and amortization, net gain on disposal of property and equipment	<b>2,199,888</b>	2,290,976	1,990,180
Refinancing costs	<b>334,774</b>	272,231	–
Interest	<b>1,595,233</b>	1,137,620	1,414,765
<b>TOTAL EXPENSES</b>	<b>\$ 28,207,312</b>	<b>\$ 55,259,663</b>	<b>\$ 54,496,776</b>

# OUTLOOK, COMMON SHARES AND CRITICAL ACCOUNTING ESTIMATES

## Outlook

The economic and industry environment that challenged the Company in the previous two years have started to show modest improvement which is reflected in the latter half of the current fiscal year's results. Revenues have increased by 10.3% over the last two quarters in comparison to the same period in the prior year. This increase is primarily the result of increased activity in the oil and gas industry and general improvement in the Company's other primary markets, including mining, agriculture and forestry.

The Company's primary industry sector is the energy sector in Western Canada. Commercial has a total of 23 branches in Alberta, British Columbia and Saskatchewan. There is renewed activity in these provinces particularly in the oilsands, conventional oil and gas (mainly oil), and forestry sectors. With oil prices having improved and stabilized and with the Alberta royalty rate decrease, activity at the Alberta oilsands has recently been rekindled and is expected to grow in the years ahead. We anticipate growth in both British Columbia and Saskatchewan as well due to British Columbia's vast shale gas deposits and development of Saskatchewan's resources including oil and potash. Additionally, new technologies in the conventional oil industry could be important in recovering reserves in mature fields throughout Western Canada. This has the potential to attract many oil companies to invest in these provinces due to the attractive economics in producing oil in these regions.

Although management believes that the worst of the crisis is over and economic conditions are improving, Commercial does not anticipate a significant improvement in market conditions until the prices of natural gas and crude oil are sustained at higher levels. At current prices, Commercial's customers continue to be focused on improving their returns on capital investment through reducing their costs. This impacts Commercial's gross margin due to increased price competition. Further, employment rates in these provinces confirm that most companies continue to be cautious in substantial increases in capital investment.

While market conditions steadily improve, Commercial is focused on growing its business through new sales and marketing programs that will improve customer service and increase market share. These programs also target increasing sales to existing customers through promoting the "one-stop shop" capability that Commercial offers. The Company will continue to monitor its cost structure to ensure alignment with revenues.

With these in place and a lower investment in working capital, the Company will strive to successfully serve its customers at a lower cost and be well prepared to take advantage of the economic recovery.

Commercial's mission and growth strategy is to build sustaining value for its shareholders through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. Over the years, Commercial has grown successfully into one of the largest industrial and oilfield parts distributor in Western Canada. Commercial intends to continue with this growth model through organic growth and selective acquisitions.

## Common Shares

Commercial has authorized an unlimited number of common shares with no par value. As at December 17, 2010 the Company had 20,100,806 common shares outstanding.

During the 2010 Annual and Special General Meeting, the shareholders approved that the Board of Directors may grant options to purchase up to 10% (2009 – 8%) of outstanding common shares.

As of September 30, 2010, under the current option plan, the Board of Directors may grant options to purchase up to 2,010,081 common shares, of which 1,310,167 options had been granted at a weighted average exercise price of \$0.85 per common share.

## 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 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 intangibles, the inputs into the Black-Scholes option pricing model for stock based compensation, and the carrying value of accrued liabilities. Actual results could differ from these estimates.

# 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 diverse 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 and revised subsequently in the current fiscal year. The implementation of revisions of the royalty regime in Alberta may present 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 production and drilling 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 Risk

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 and 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.

## RISK FACTORS CONTINUED

### Customer and Credit Risk continued

The Company's largest customer (operating predominantly in the Western Canadian drilling industry) comprises approximately 4.72% (2009 – 4.65%) of the Company's total sales in the current year and represented 7.38% (2009 – 2.47%) of accounts receivable as at September 30, 2010. 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.

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, Commercial's history has demonstrated that customers typically pay within 45 to 60 days. 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:

	As At 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>

### 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 minimum USD 1,025,000 with a maximum of \$2,050,000 with a

terms to maturity ranging from 30 to 90 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 (2008 – loss of \$262,536). Based on 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).

### 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% 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.

## RISK FACTORS CONTINUED

### 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	–	–	–
Operating leases	277,446	116,461	41,117	3,294
Premises leases	2,579,620	2,228,939	2,007,065	2,010,847
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>\$ 22,444,290</b>	<b>\$ 5,443,497</b>	<b>\$ 2,173,687</b>	<b>\$ 2,634,884</b>

### Interest Rate Risk

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).

# SUMMARY OF ACCOUNTING POLICIES

## New Accounting Policies

Effective October 1st, 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.

## 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.

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

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

Key aspects of the activities under each of these phases and established time lines for each phase are as follows:

### Diagnostic (completed):

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

### Development (April 2010 to June 2011):

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

### Implementation (June 2011 to December 2011):

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

## RELATED PARTY TRANSACTIONS

During the 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, Mr. William Rosser, 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 was 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, Mr. James Barker, 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, Mr. Don Caron, has significant influence.
- (d) The Company paid directors' fees and expenses of \$91,638 (2009 – \$90,090) to four (2009 – four) independent directors, namely: Dr. Kenneth Harrison, Mr. Daryl Kruper, Mr. Alan Martin, and, Mr. Richard Smith.

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

# DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer 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 year covered by the annual 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 year covered by the annual 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
- (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.

## Evaluation of Effectiveness

As required by National Instrument 52,109, Certification of Disclosure in Issuer’s Annual and Interim Filings (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation and testing of the effectiveness of the design and operation of the Company’s DC&P and ICFR were conducted as of September 30, 2010, by and under the supervision of management, including the CEO and CFO. In making the assessment of the effectiveness of the Company’s internal control over financial reporting, management used the criteria set forth by COSO in Internal Control – Integrated Framework. The evaluation included documentation review, inquiries, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and internal control over financial reporting were effective as of September 30, 2010.

It should be noted that while the Company’s CEO and CFO 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.

## FORWARD-LOOKING STATEMENT

This Management Discussion and Analysis contains forward-looking statements relating to such matters as expected financial performance, business prospects, and development activities and like matters. These statements involve risks and uncertainties, including but not limited to, the risk factors described elsewhere. Actual results could differ materially from those projected as a result of these risks and should not be relied upon as a prediction of future events. Commercial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, with an exception of securities laws requirements.

# 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.