



Demand *Expert* Solutions®



BEARINGS & P.T.



SAFETY



FIREFIGHTING



FIELD



INDUSTRIAL



ENERGY SERVICES

# 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

# FISCAL 2010 Annual Report



## FISCAL 2010 HIGHLIGHTS I - VI

# 1

### Management Discussion and Analysis

Introduction	2
Financial Summary	3
Financial Results	4
Financial Condition, Liquidity and Capital Resources	10
Measures not in Accordance with Generally Accepted Accounting Principles	14
Outlook, Common Shares and Critical Accounting Estimates	15
Risk Factors	16
Summary of Accounting Policies	19
Related Party Transactions	20
Disclosure Controls and Procedures, and Internal Control over Financial Reporting	21
Forward-looking Statement	22

# 2

### Consolidated Financial Statements

Auditor's Report	24
Consolidated Statements of Loss and Comprehensive Loss	25
Consolidated Statements of (Deficit) Retained Earnings	26
Consolidated Balance Sheets	27
Consolidated Statement of Cash Flows	28
Notes to the Consolidated Financial Statements	29

# FISCAL 2010 HIGHLIGHTS

## IN THIS SECTION

---

Company Profile | **I**

---

Directors and Officers | **II - III**

---

Financial Highlights | **IV**

---

Achievements and Opportunities | **V**

---

Corporate Information | **VI**

---

# Commercial Solutions Inc. Company Profile

## Demand Expert Solutions®

This is our corporate motto and represents the expectations and standards we set for ourselves and for our customers. We demand the best from our staff and we expect the best for our customers.

We say “**Demand Expert Solutions®**” and we respond to it with our commitment to providing exceptional customer service and technical support.

### OUR HISTORY

Commercial Solutions has an extensive history of excellence which we have built through organic growth, acquisition, and the services of skilled employees.

Since 1954, operating as Commercial Bearing Service, Commercial Solutions has stood on a foundation of expertise, customer service and providing solutions to the daily challenges faced by our customers. Each addition to our company over the last 60 years has been undertaken with a focus to retain and highlight expertise, and to provide expert solutions to our customers.

Throughout the last 66 years and reaching back through our acquisitions to 1911, our business and employees have been dedicated to our market. As we move past 100 years in business, we look forward to a future of new technology and processes with a continued drive to serve our customers with dedication, expertise and respect.

### FACTS

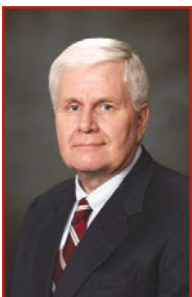
- Commercial is one of Canada's leading independent national distributors of industrial and oilfield supplies
- Commercial offers more than 160,000 items critical to maintenance and repair operations (“MRO”) and Original Equipment Manufacturing (“OEM”) to its customers
- Commercial represents more than 450 leading manufacturers and serves over 11,000 customer accounts
- Commercial's Industrial Supplies component incorporates six divisions providing approximately 140,000 plus products encompassing bearing, power transmission, industrial, safety, agricultural, resource management, survey and janitorial products
- Commercial's Oilfield Parts and Supplies (Energy Services) component incorporates four divisions and provides approximately 20,000 products and specializes in hard to find custom products

## Directors and Officers



**James Barker** | Chairman, President and CEO  
Edmonton, AB

Jim Barker joined Commercial Solutions Inc. group of companies in 1989 as a management consultant. Prior to joining the company, Jim spent 17 years as a senior officer with a large manufacturing and distribution company. He expanded the regional operations of the company to a North American wide distribution company. He sold the company to a Fortune 500 company in 1988. Mr. Barker has been Commercial Solutions Inc.'s Chairman, President and CEO since 2002.



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

Dr. Ken Harrison is a medical doctor with private practice and corporate experience. After 14 years of clinical practice in Alberta and British Columbia, Dr. Harrison joined Dow Chemical Canada and became the Corporate Medical Director for Dow Canada and its affiliates. In addition to clinical occupational medicine services, Dr. Harrison was a member of many Dow's Hydrocarbons and Plastics business teams where he provided medical expertise in human health risk assessment. Dr. Harrison carried global responsibilities for aspects of Dow's Health Services including design and development of international medical services in developing markets. Subsequent to his retirement in 2010, Dr. Harrison continues as a medical consultant. Dr. Harrison is a graduate of the University of Alberta and appointed as an adjunct professor in the Faculty of Medicine and Dentistry at the U of A. Dr. Harrison has served as a director of Commercial Solutions Inc. since 2002.



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

Prior to joining Commercial Solutions Inc., Rozina Kassam was the Controller of Finning (Canada), a division of Finning International Inc., an international large equipment dealer which is a publicly traded entity in the Toronto Stock Exchange. Prior to that, she was the Controller of the Fort Saskatchewan Metals Division of Sherritt International Corp., a diversified natural resource company which is also a publicly traded entity. Mrs. Kassam is a Chartered Accountant and earned her designation through her experience at Deloitte and Touche LLP. She graduated from the University of Alberta with a Bachelor of Commerce with Distinction. Mrs. Kassam has been the CFO for Commercial Solutions Inc. since 2008.



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

Over the past 25 years, Daryl Kruper has been President and CEO of Simmax Corp. and its subsidiaries which include an electrical mechanical construction company that he founded as well as a service company focusing primarily on the manufacture, sale and service of power generators and industrial engines. Both companies operate in many different sectors of the Canadian and International economies, including the utility, energy, mining, forestry, and construction industries. Mr. Kruper has served as a director of Commercial Solutions Inc. since 2006.

## Directors and Officers



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

Alan Martin is a Chartered Accountant and a Chartered Business Valuator and runs his own business valuation practice in St. Albert, Alberta. He is a retired partner of PricewaterhouseCoopers (“PwC”) and had been associated with the firm for 35 years. His professional practice since 1978 has principally been business investigations assignments related to dispute analysis, insurance claims, business valuations, forensic accounting and special purpose financial investigations. Mr. Martin has served as a director and Chairman of the Audit Committee of Commercial Solutions Inc. since 2008.



**William Rosser** | Corporate Secretary and Director  
Edmonton, AB

Bill Rosser, a partner in McLennan Ross LLP, practices corporate commercial securities law and has acted as general corporate and commercial counsel to a range of domestic and international corporate clients. Mr. Rosser was the founding chair of the Alberta Foundation for Environmental Excellence and Emerald Awards. He is active as a director and corporate secretary to various public and private entities as well as a trustee of several trusts. Mr. Rosser graduated from the University of Alberta with a Bachelor of Commerce with Distinction (Dean’s List), and a Bachelor of Laws in 1982. Mr. Rosser has been a Commercial Solutions Inc. board member since 2002, and has served in the capacity of Corporate Secretary since 2009.



**Richard Smith** | Director  
Calgary, AB

Richard Smith retired at the end of 2005 as President and CEO of Dow AgroSciences Canada Inc. a wholly owned subsidiary of the Dow Chemical Company. He has also held senior management positions in the life sciences area including human pharmaceuticals, animal health, as well as several commercialization initiatives in plant biotechnology. He is currently Chairman of SemBioSys Genetics (TSX), Director of AVAC and Co-Chair of Bio Alberta. Mr. Smith has served as a director of Commercial Solutions Inc. since 2005.

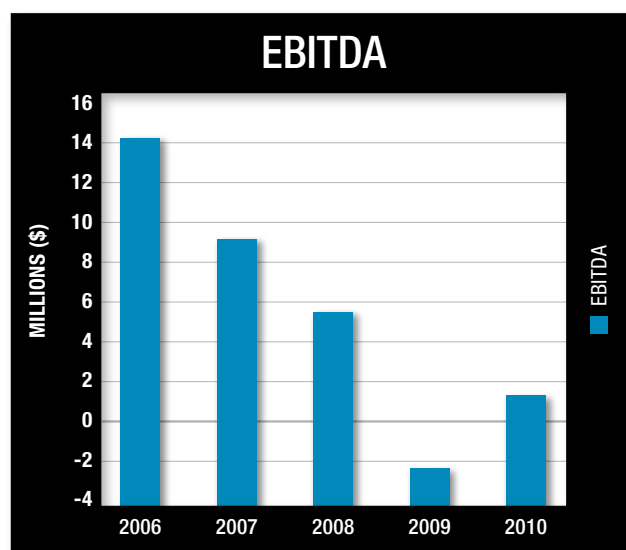
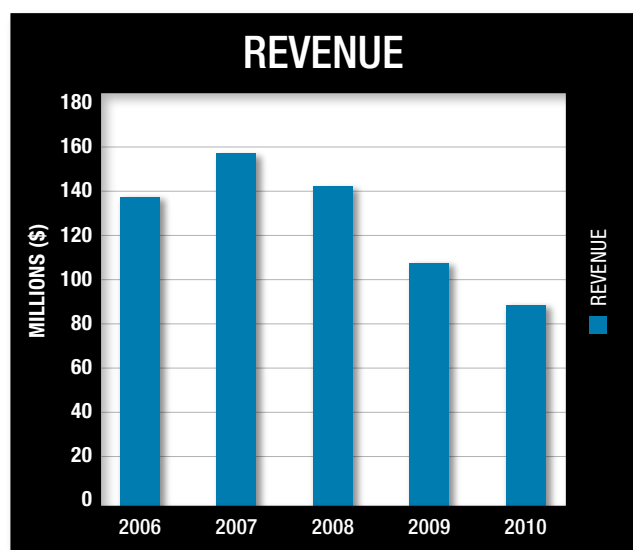
# Financial Highlights

## OPERATING DATA

YEARS ENDED SEPTEMBER 30TH	FISCAL 2010	FISCAL 2009	FISCAL 2008
Revenue	\$ 89,455,326	\$ 106,023,410	\$ 143,425,182
EBITDA*	\$ 1,316,903	\$ (2,353,501)	\$ 5,554,892
Net loss	\$ (2,093,383)	\$ (23,882,148)	\$ (13,584,808)
Basic earnings per share	\$ (0.10)	\$ (1.19)	\$ (0.68)
Free cash flow**	\$ 4,884,533	\$ 6,804,776	\$ (1,071,996)

\* **EBITDA** – Earnings Before Interest, Taxes, Goodwill Impairment, Depreciation and Amortization

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



## KEY RATIOS

AS AT SEPTEMBER 30TH	FISCAL 2010	FISCAL 2009	FISCAL 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

# Achievements and Opportunities

## ACHIEVEMENTS

### 1. SIGNIFICANTLY IMPROVED EBITDA

From an EBITDA loss of \$2.4 million in the prior year to positive EBITDA of \$1.3 million in the current year.

### 2. POSITIVE FREE CASH FLOW

Achieved positive free cash flow of \$4.9 million through operating costs reductions and working capital management.

### 3. SENIOR LENDING FACILITY SECURED

Secured a \$16 million senior lending facility over a term of three years effective October 8, 2010

### 4. INCREASED REVENUES WITH LESS SERVICE CENTRES

Despite reduction in Service Centres, revenues in the third and fourth quarters of fiscal 2010 increased by \$4.21 million (10.3%) in comparison to the same periods in the prior year.

## OPPORTUNITIES

- The economy 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 fiscal 2010 results.
- Growing activity in Alberta, British Columbia and Saskatchewan due to improved commodity prices particularly due to activity in the Alberta oilsands and development of both British Columbia's vast shale gas deposits and Saskatchewan's oil and other natural resources.
- New technology in the conventional oil industry has the potential to attract many oil companies to invest in regions serviced by Commercial.
- Continue to focus on cost savings and efficiencies.
- Continue to maintain a strong balance sheet.



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.

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. 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.



Jim Barker  
Chairman, President and CEO

# Corporate Information

## ISO 9001: 2008 Certified

Commercial Solutions has an ongoing commitment to quality assurance in our products and services. Our internal procedures follow ISO international quality management standards and we are proud to say that all locations are ISO certified.

ISO 9001:2008 certification shows that we follow consistent, documented business procedures. Our goal is to use the ISO quality management system to provide systematic support for our staff and the best possible service to our customers.

## OUR QUALITY POLICY STATEMENT

“Commercial Solutions’ group of companies is committed to provide quality products and technical services support that meet or exceed specified requirements while continually improving the effectiveness of our quality management system. This commitment will be achieved through the establishment of quality objectives and strong working relationships with our customers and suppliers.”

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

## CORPORATE OFFICE

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

## 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 West  
Toronto, ON, Canada M5V 3L2

## SHARE CAPITAL

Issued: 20,100,806 common shares

# 1

## Management Discussion and Analysis

### IN THIS SECTION

---

Introduction	2
Financial Summary	3
Financial Results	4
Financial Condition, Liquidity and Capital Resources	10
Measures not in Accordance with Generally Accepted Accounting Principles	14
Outlook, Common Shares and Critical Accounting Estimates	15
Risk Factors	16
Summary of Accounting Policies	19
Related Party Transactions	20
Disclosure Controls and Procedures, and Internal Control over Financial Reporting	21
Forward-looking Statement	22

# 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 with their related notes thereto on pages 25 - 44.

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:

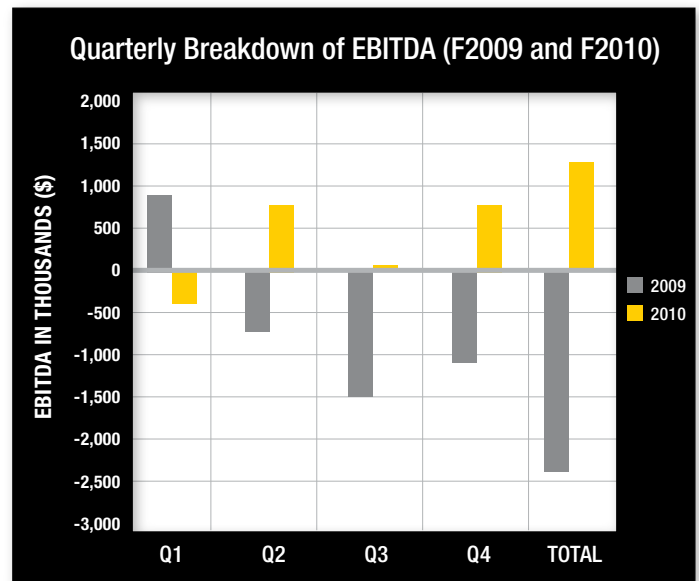
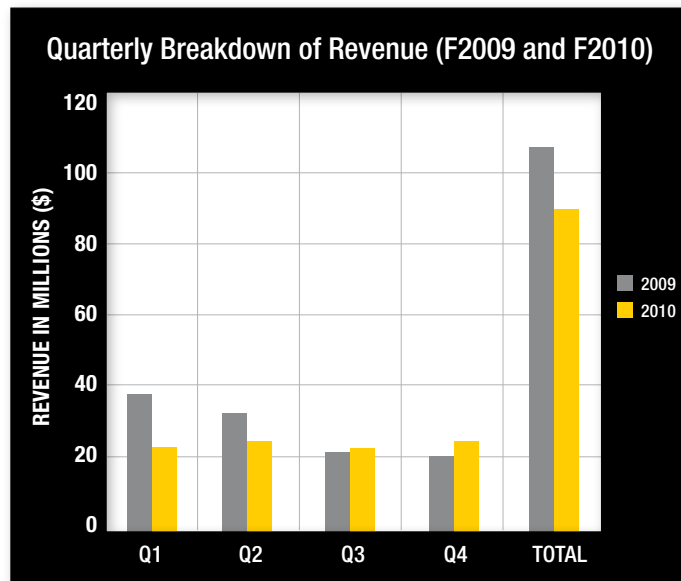
- a corporate marketing video that is shared with our existing and potential customers to communicate the products and services the Company offers and how the Company can serve many of their operational needs through the diversified inventory available
- an enhanced telephone system that allows Commercial's 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.

# 2

## Consolidated Financial Statements

### IN THIS SECTION

---

Auditor's Report | **24**

---

Consolidated Statements of Loss and  
Comprehensive Loss | **25**

---

Consolidated Statements of (Deficit) Retained Earnings | **26**

---

Consolidated Balance Sheets | **27**

---

Consolidated Statement of Cash Flows | **28**

---

Notes to the Consolidated Financial Statements | **29**

---

# 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 black ink 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
	<b>28,207,312</b>	<b>55,259,663</b>
<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	<b>20,100,806</b>	<b>20,100,806</b>
Diluted	<b>\$ (0.10)</b>	<b>\$ (1.19)</b>
Weighted average number of shares – diluted	<b>20,100,806</b>	<b>20,100,806</b>

See pages 29 to 44 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 29 to 44 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 29 to 44 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 29 to 44 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
<b>Balance, Beginning of Year</b>	<b>\$ –</b>	<b>\$ 19,686,124</b>
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	<b>\$ 160,410</b>	\$ 188,423
(ii) Mezzanine debt - net of transaction costs	<b>2,844,247</b>	–
(iii) Acquisition loan	–	816,667
	<b>3,004,657</b>	1,005,090
Less current portion	<b>89,074</b>	894,137
<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>	<b>1,192,448</b>
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.



**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.