

HSE Integrated Ltd.
Management Discussion and Analysis
For the nine months ended September 30, 2005

The following discussion and analysis is a review of HSE Integrated Ltd.'s, ("HSE" or the "Company"), financial results for the nine months ended September 30, 2005, and should be read in conjunction with the Company's unaudited interim financial statements for this period, as well as with the Company's annual financial information for the most recent fiscal year. All public filings, including the above mentioned information, are filed on SEDAR at www.sedar.com. Unless otherwise disclosed, the financial information presented in this section has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and considers information available to management up to November 25, 2005. Unless otherwise stated, dollar figures presented are expressed in thousands of Canadian dollars and per share figures are in dollars per weighted average common share.

	Three Months Ended Sept. 30, 2005 *	Three Months Ended Sept. 30, 2004	Nine Months Ended Sept. 30, 2005 *	Nine Months Ended Sept. 30, 2004
Revenue	\$ 15,080	\$ 4,719	\$ 41,796	\$ 12,091
Operating expense	11,379	4,214	31,458	10,340
Gross profit	3,701	505	10,338	1,751
Gross profit %	24.5%	10.7%	24.7%	14.5%
Sales, general & administrative expense	1,547	455	4,486	1,144
Net earnings (loss)	786	(227)	1,891	(135)
- per share basic	\$ 0.027	\$ (0.016)	\$ 0.075	\$ (0.013)
- per share diluted	\$ 0.025	\$ (0.016)	\$ 0.074	\$ (0.013)
EBITDA ⁽¹⁾	2,224	109	6,096	673
Operating cash flow ⁽²⁾	2,208	66	5,828	570
Shares outstanding at end of period	29,746,850	14,092,870	29,746,850	14,092,870
Weighted average shares – basic	29,639,907	13,872,359	25,142,767	10,763,532
Weighted average shares – diluted	30,980,553	13,872,359	25,621,957	10,763,532

	As at September 30, 2005	As at December 31, 2004 *
Working capital**	\$12,401	\$ 147
Total assets	49,012	41,896
Long-term liabilities ***	771	4,824

* This table reflects the impact of Restatements more fully described below and in Note 9 to the Company's Interim Consolidated Financial Statements for the quarter ended September 30, 2005.

** Working capital is defined as current assets minus current liabilities

*** Long-term liabilities consist of long-term debt plus the portion of the Company's demand loan which is not due within the next 12 months.

Overview

On a year-over-year basis for the nine-month period ended September 30, HSE has enjoyed a significant increase in revenues, EBITDA, operating cash flow and earnings. This reflects the vastly increased capacity of the Company created through seven acquisitions in 2004, two

acquisitions in the third quarter, and strong business conditions driven by high oil and natural gas prices.

Although industry activity levels as measured by oil and gas well drilling and completion activity were similar in the nine months of 2004 and 2005, the foregoing comparative financial highlights reflect the impact of the Company's significant growth relative to the same period last year. Revenues were up \$29,704 or 246%, net income was \$1,891 as compared to a loss of \$135, operating cash flow increased 922% and basic earnings per share rose to \$0.075 from a loss of \$0.013 for the same period in 2004.

The Company's operating results for the period include three months of high activity, the first quarter ended March 31; the traditional three month seasonal period of low activity, the second quarter ended June 30; and a strong third quarter ended September 30. The high levels of activity in the first quarter fuelled by ongoing high commodity prices ended abruptly in April when the seasonal thaw caused by spring break-up restricted field activity resulting in a sharp reduction in demand for services provided by HSE. Record rainfall throughout much of the areas in which HSE operates hampered the attempts by its customers to proceed with their 2005 oil and gas drilling and development programs during the second quarter.

In the third quarter, the combination of record high commodity prices and new equity capital flowing into the industry led to significantly higher activity and field spending levels by HSE's customers than it had anticipated for the period.

Contributing to the higher than expected revenues, during this period, HSE and business partner Safety Boss responded to two emergency well control services including a significant international project for a Canadian-based E&P client. As the relationship between HSE and Safety Boss enters its second year, it is becoming clear that emergency response services will continue to be an important component of the Company's business mix.

The Company continues to expand its operational capacity rapidly consistent with its strategy of building a "Full Service" safety company of sufficient critical mass to better serve both local and multi-national customers. Management believes that the current business environment in its core wellhead safety service business drives the opportunity to continue this rapid pace of expansion. It is recognized that this expansion results in some short term costs as certain general and administrative and operational infrastructure is added ahead of revenue growth. For instance, during the quarter, the Company opened two new field offices, began major expansions at two others and centralized all major accounting functions in Calgary.

The \$12 million equity financing HSE completed on June 23 enabled the Company to eliminate virtually all of its debt, with the exception of certain capital leases. Interest costs were replaced with minor interest income from holding cash balances. The Company used some of the funds in quarter to fund operations and finance its capital expenditure program including two business acquisitions. However, the funds raised were substantially un-invested in productive assets as at the end of the quarter. As a result, shares issued diluted earnings on a per share basis.

Overall Performance and Selected Financial Information

Revenue

In its current business model, the Company's business is driven largely by the level of drilling, completion and well servicing activities within the upstream oil and gas sector and to a lesser degree by providing safety services to plants and facilities while they perform maintenance turnaround and shutdown projects. Revenue is earned by providing a variety of worker safety and equipment protection services including onsite safety supervision, gas detection and breathing

equipment rentals and services, firefighting and fire protection, worker shower deluge services, on-site medical services, and safety training.

The level of drilling, completion and well servicing activity during the first nine months of 2005 was comparable to the same period in 2004 and continues to be high on a historical basis buoyed by high commodity prices. HSE's oil company clients undertook a significant amount of activity in the third quarter despite periods of heavy rainfall.

As mentioned above, however, the most significant factor affecting the Company's revenue levels for the first nine months of 2005 compared to same period for 2004, has been the seven acquisitions which were completed between June and December of 2004. The Company's major acquisition, SDS Group Inc., was acquired late in December of 2004 and therefore the revenue stream associated with these assets is reflected the current year numbers but not in the comparative numbers for 2004. Revenues for the first nine months of 2005 were \$41,796 which is up 246% over the \$12,091 for the same period in 2004.

As a result of high activity and the contributing emergency response services previously mentioned, revenue for the three months ended September 30, 2005, rose by \$5,670 or 60% from the preceding quarter and was \$10,360 or 220% higher than the same period in 2004.

Due to high levels of industry activity and expanded equipment and manpower capacity, HSE has been successful in obtaining higher pricing for its field services than those it obtained in 2004. These higher prices have been generally accepted by HSE's customers because the primary cost increases to the Company have been in the areas of labor and fuel, factors that affect all industries operating in Western Canada. The most recent price increases were implemented starting in mid September and are being phased in as existing pricing agreements expire. An important element of the increase has been a surcharge to offset the rising cost of fuel. Although HSE's customers anticipate supplier's costs rising in these areas, we believe that HSE's growing capacity and ability to service more of its customers' needs in more regions with wider breadth of services is giving HSE a competitive advantage relative to its competitors and has helped mitigate potential customer loss that might otherwise have occurred with the price increases. Since the latest price increases were not in place until late in the quarter the full impact of these increases on revenues will not be seen until the fourth quarter.

Operating Expenses and Gross Profit Margin

Operating expense consists of costs directly attributable to the provision of safety and related services to customers. These include wages and benefits for field employees and contractors, equipment rentals and leases, transportation, fuel, consumables, equipment repairs and maintenance and field office administration including field sales.

Operating expense for the nine months ended September 30, 2005 was \$31,458 or 75.3% of revenues as compared to \$10,340 or 85.5% of revenues for the comparable period in 2004. These levels translate to gross margin percentages of 24.7% and 14.5% respectively.

Operating expense for the three months ended September 30, 2005 was \$11,379 or 75.5% of revenues as compared to \$8,828, or 93.8% of revenues, for the previous quarter, and \$4,214 or 89.3% of revenues, for the comparable quarter in 2004. The previously mentioned price increases have contributed to the relative margin gains. In addition, increased revenues have allowed the Company to better allocate equipment resulting in increased utilization without a corresponding increase in fixed costs. Two emergency response projects contributed to the increased margin in the quarter. These services are highly variable, premium priced and were not significant during the same period in 2004.

Sales, General and Administrative Expense

Sales, general and administrative (“SG&A”) expense consists of costs not directly attributable to the provision of services for customers. These include costs generally associated with corporate head office functions and services, administrative personnel, corporate sales and marketing costs, liability insurance, professional fees and investor relations. Many of these costs are relatively fixed in nature and do not vary directly with activity. The main exception to this is revenue-based commission amounts paid to corporate sales staff.

SG&A for the nine months ended September 30, 2005 amounted to \$4,486 or 10.7% of revenue and \$1,547 for the third quarter or 10.3% of revenue. This compares to \$1,144 or 9.5% of revenue and \$455 or 9.6% of revenue for the comparative periods in 2004. The increase year-over-year relative to revenue reflects increased corporate infrastructure and the effect of continuing organizational initiatives. These initiatives include the closing of regional accounting departments and the consolidation of the accounting services team in Calgary, the implementation of a new financial system, and increases in corporate level personnel to effectively manage HSE’s rapidly expanding businesses into 2006.

Amortization

Amortization for the nine months of 2005 was \$2,610. This compares to \$633 for the same period in 2004. The increase in amortization expense reflects the impact of the significantly larger asset base acquired by the Company in 2004. Most of the increase in the capital asset base took place in the second half of the 2004 fiscal year, with the largest increase in December with the SDS Group Inc. acquisition.

Interest Expense

Interest and bank charges reflect the cost incurred by the Company for short-term credit, primarily in relation to the bank operating lines of credit and is offset by miscellaneous interest revenue on short-term cash holdings.

The interest and bank charges and interest on long-term debt were down significantly over the previous quarter as primary secured debt was paid out from proceeds of the June 2005 private placement. Surplus cash over the quarter was invested in short-term bankers’ acceptances. Interest on long-term debt reflects primarily interest expense on vehicle leases capitalized.

On a year to date basis both interest and bank charges and interest on long-term debt are higher compared to the same period in 2004. This reflects the larger average debt balances carried until June 2005 as a result of the SDS acquisition in December 2004. The debt balances were paid out in June 2005 with proceeds from the private placement.

Summary of Quarterly Results

Quarter	2005			2004			2003		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$15,080	\$9,410	\$17,306	\$9,086	\$4,719	\$2,681	\$4,690	\$3,626	\$2,928
Net Income	517	(1,483)	2,588	360	(227)	(289)	381	(265)	7
EBITDA	2,224	(845)	4,717	1120	109	(194)	757	115	278
Income (loss) per basic share	\$0.027	\$(0.064)	\$0.115	\$ 0.016	\$(0.016)	\$(0.027)	\$ 0.059	\$(0.052)	\$ 0.004
Income (loss) per diluted share	\$0.025	\$(0.064)	\$0.115	\$0.016	\$(0.016)	\$(0.027)	\$ 0.059	\$(0.052)	\$ 0.004

(The above table reflects the impact of Restatements more fully described below and in Note 9 to the Company's Interim Consolidated Financial Statements for the quarter ended September 30, 2005.)

Like most companies providing field services in the Canadian oil and gas industry, the Company's business has a seasonal component. The Company's safety service business provides services primarily to the drilling, completions and well servicing sector. Because this sector uses equipment that can only access well locations during certain times of the year and because of the effects of weather on field activity, the industry can experience unexpected activity fluctuations. Additionally the Company provides emergency response services which can occur at any time. These services, depending on their nature and extent, can have a material financial impact on the periods in which they occur.

The first quarter is generally the busiest quarter for HSE. During the winter period, HSE's customers are able to drill in locations (primarily in Northern Alberta and British Columbia) which can only be accessed economically by heavy equipment while the ground is frozen. Spring break-up causes a reduction in activity since rigs cannot move between locations due to wet conditions and public road usage bans. Because transportation is so expensive and problematic through April and May, many drilling and service companies use this as a maintenance period. Service companies use this opportunity to undertake major maintenance tasks. As a result, operating results are reduced for most service companies during these months.

During the second and third quarters, most of the Company's business is generated from activities in less remote producing areas such as central and southern Alberta where the road network is better established. Also during these months HSE experiences increased demand for worker training.

The oil and gas industry uses the second and third quarters to perform major plant maintenance procedures called "plant turnarounds". These turnarounds require specialized safety procedures and equipment which HSE provides. HSE is actively developing its industrial safety services business so that in the future, the financial impact of having the Company's business thrust shift from wellsite safety (drilling, completion, workover) to industrial safety (plant shutdowns, turnarounds and maintenance) will be less severe and the quarterly revenue fluctuations less significant.

The final quarter of the year is generally HSE's second busiest in the year. Once the ground freezes, northern locations are once again accessible, and companies try to complete work that has been planned in their annual drilling budgets. However, because of the variability of weather during this time and the impact of the Christmas period, 4th quarter results tend to be the most difficult to predict.

Liquidity and Capital Resources

The Company's principal sources of capital are cash flows from operations, borrowings under an established credit facility with its senior lenders, convertible debentures and equity financing.

Cash flow from operations -

During the nine months of 2005 the Company had cash flow from operating activities of \$5,828. This is an increase of 922% over the \$570 generated during the same period in 2004. The increase reflects the high levels of activity relative to the same period in 2004 together with the contributions from the businesses acquired in late 2004.

Cash flow from financing -

The Company views its revolving lines of credit with its banks as a financing activity. The Company's financing activities in the nine months included scheduled debt repayments and the private placement of 5,263,200 shares from treasury at a price of \$1.90 per share on June 23 resulting in gross proceeds to the Company before fees and expenses of \$12,090,080. Cash flow from operations and the proceeds of the private placement permitted the company to pay down its bank operating lines and bank term lending facilities to zero by June 30. The Company did not have to draw on its facilities in the quarter.

As at September 30, 2005, all companies within the consolidated HSE group were in full compliance with their debt covenants.

Cash flow from investing -

During the first nine months the Company invested a net \$3,586 primarily into infrastructure and field safety equipment as part of a capital replacement program including \$1,718 relating to the acquisition of the safety equipment of Standard Safety and Consulting Services in September. This compares to \$7,350 for the same period in 2004 which included the \$6,400 acquisition of assets from Safety Boss. The Company's capital expenditure program is ongoing and additional expenditures were made in the fourth quarter.

Liquidity –

During the remainder of 2005, the balance of the proceeds from the June 23 private placement, the available lines under the Company's credit facilities and internally generated cashflow will be more than adequate to finance its capital expenditure program. HSE also has sufficient capital to fund further acquisitions or capital expenditures should they arise.

Off Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements other than typical operating leases for equipment entered into in the normal course of business.

Related Party Transactions

During the nine months ended September 30, 2005, the Company had the following transactions with related parties. These transactions are measured at exchange amounts, which approximate an arm's length equivalent:

A company controlled by an officer of HSE subcontracted the provision of certain goods and services to HSE. During the period, HSE billed this company \$1,093 in respect of the goods and services provided. At September 30, 2005, the entire amount was outstanding to HSE. During the quarter, HSE also purchased operating supplies from this company and shared certain marketing

expenses for a total cost of \$13 of which was outstanding in its entirety as at September 30, 2005. Prices for products and services between the two companies are on standard commercial terms at market-based rates.

In the third quarter of 2005 the Company paid rent for shop facilities in the amount of \$62 to a company related to an officer and director of the company.

Acquisitions

CRS Technologies (1990) Inc., Confined Space Response Services Inc.

On July 11, 2005 the Company completed the previously announced acquisition of the shares of CRS Technologies (1990) Inc. and Confined Space Response Services Inc., ("CRS"), industrial safety companies headquartered in Sarnia, Ontario with operations in Windsor, Brockville, Dartmouth and Detroit, Michigan. The total consideration was \$1.5 million comprised of \$500 cash and up to \$1,000 in common shares of HSE at \$1.70 per share or up to 588,236 common shares. In the fourth quarter, upon final determination of working capital balances, an additional \$91 in cash consideration will be paid. Half the shares or 294,118 were issued at closing and were subject to the statutory four-month hold period as per the regulations of the TSX Venture Exchange. The remaining 294,118 will be issued on the first, second and third anniversaries of the closing, subject to certain business continuity conditions.

The CRS acquisition was a strategic move for HSE in its efforts to diversify its business into counter-cyclical plant and industrial safety services which utilize essentially the same personnel and assets as currently employed by HSE. The CRS companies meet these criteria. Historically, the busiest three months of the year for CRS are April, May and June, the period during which the traditional oilfield safety services are the slowest.

The Company will be accelerating its industrial development strategy in 2006 and will be starting with the CRS group as its Central Canadian base in this regard.

Assets of Standard Safety and Consulting Services (1978) Ltd.

On September 6, 2005 HSE acquired the oilfield safety assets of Standard Safety and Consulting Services (1978) Ltd. ("Standard") of Edmonton, Alberta for a final determined consideration of \$1.7 million. The Standard transaction supplied HSE with increased inventory of modern and well-maintained air breathing equipment, access to new markets and clients, an excellent service and maintenance facility in Edmonton geographically located in the centre of all upstream petroleum operations in western Canada, and a new industrial training facility in the major oilfield drilling and service base of Nisku, Alberta.

Transactions Announced Subsequent to September 30, 2005

Sutherland's First Aid & Oilfield Services (595073 B.C. Ltd).

On October 4, 2005 HSE announced it had entered into a non-binding Letter of Intent to acquire the shares of the foregoing company. No purchase price was disclosed. Based in Fort St. John, B.C., Sutherland's is a strong regional player in the area of wellsite safety services. This acquisition is expected to close in the fourth quarter. The founder will be joining HSE in a management position.

Bluestar EMS Ltd. and Bluestar EMS Safety Ltd.

On October 25, 2005 HSE announced it had entered into a non-binding Letter of Intent to purchase the shares of the foregoing companies for a total consideration of \$1.36 million comprised of \$906,667 in cash and \$453,333 in common shares of HSE at the greater of the 10-day weighted average share prices of HSE on the TSX Venture Exchange at closing or \$2.70 per share. Based in Medicine Hat, Alberta, the Bluestar companies are strong regional players in the areas of wellsite safety services and industrial training. This acquisition is expected to close in the fourth quarter of 2005. The founder will be joining HSE in a management position.

Restatement of Financial Statements

During the third quarter, the Company determined that adjustments were required to the purchase price allocations of certain 2004 acquisitions which resulted in an increase to goodwill and a corresponding increase to future income tax liability. The Company's 2004 Consolidated Financial Statements, and Interim Consolidated Financial Statements for the quarters ended March 31 and June 30, 2005 have been restated to reflect those allocations. The reader is referred to Note 9 of the Company's Interim Consolidated Financial Statements for the quarter ended September 30 for analysis of these restatements.

Financial Instruments and Other Instruments

The Company has estimated the fair value of its financial instruments, which include cash and cash equivalents, receivables, operating line of credit, payables and accruals, demand loan, and long-term debt. The Company used valuation methodologies and market information available as at year-end and has determined that the carrying amounts of such financial instruments approximate fair value in all cases. The Company is exposed to interest rate risk to the extent that it has an operating line of credit and demand loans that carry a variable rate of interest. Notwithstanding this, it is management's opinion that the Company's exposure to interest rate, currency or credit risk arising from these financial instruments is not significant.

Outlook

Because of high oil and natural gas prices, demand for HSE's services remains very robust. The outlook for drilling and completion activity in western Canada for the remainder 2005 and into 2006 appears to be very positive. The Company expects these activity levels to persist so long as commodity prices remain strong.

Since the Company was refinanced and restructured in October of 2003, its objective was to become the largest and most respected supplier of industrial safety and related services to petroleum and other resource industries. It intended to pursue a multi-faceted strategy to increase capacity, expand its market to upstream and non-petroleum industry applications including environmental services, to stabilize revenues and earnings on a quarterly basis by diversifying its customers base, and build on its expertise by providing its customers with a broader suite of safety services and solutions. Management believes that its intended plan continues to succeed and that the financial impact of its strategy as measured by earnings will continue to be realized in 2006 and beyond.

Forward Looking Statements

This report may contain statements which are considered to be forward-looking under applicable securities laws. Such statements are subject to known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

Non GAAP Measures

This report contains the following measures which are not standardized under GAAP and therefore may not be comparable with similar measures presented by other companies:

- (1) EBITDA is defined as net income before provisions for interest, taxes, stock-based compensation, amortization and gains or losses on the sale of property and equipment.
- (2) Operating Cash Flow is calculated as EBITDA less interest and current tax expense.

HSE Integrated Ltd.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2005 Final	December 31, 2004 Final (Restated)
Assets		
Current		
Cash and cash equivalents	\$ 3,046,161	\$ 318,781
Receivables	14,245,036	11,945,834
Inventory	141,315	148,462
Prepays and deposits	422,503	270,874
Future income tax recoverable	902,892	989,434
Other assets	11,450	11,450
	18,769,357	13,684,835
Property and equipment and other intangible assets	22,996,139	22,186,031
Goodwill (Note 9)	7,246,021	6,026,054
	\$ 49,011,517	\$ 41,896,920
Liabilities		
Current		
Operating lines of credit	\$ -	\$ 4,702,927
Payables and accruals	5,161,585	3,421,016
Income taxes payable	919,443	146,211
Demand term loans due within the year (Note 4)	-	1,489,591
Current portion of long-term debt	287,482	417,511
	6,368,510	10,177,256
Demand term loans due beyond 1 year (Note 4)	-	3,360,408
	6,368,510	13,537,664
Long-term debt	770,515	1,463,542
Future income taxes (Note 9)	2,856,149	2,914,900
	9,995,174	17,916,106
Shareholders' Equity		
Capital stock (Note 5)	37,828,442	25,150,994
Contributed surplus	672,214	205,929
Retained Earnings (Deficit) (Note 9)	515,687	(1,376,109)
	39,016,343	23,980,814
	\$ 49,011,517	\$ 41,896,920

See accompanying notes to the interim financial statements

NOTICE TO READER

These interim financial statements have not been reviewed by the Company's auditors but have been reviewed and approved by the Audit Committee and the Board of Directors



HSE Integrated Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS & RETAINED EARNINGS (DEFICIT)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenue	\$ 15,079,721	\$ 4,719,107	\$ 41,795,622	\$ 12,090,731
Expenses				
Operating	11,379,097	4,213,620	31,457,597	10,339,592
Selling general and administrative	1,546,881	454,584	4,485,886	1,143,541
Amortization	893,813	294,084	2,610,190	633,421
Interest and bank charges	(1,129)	31,551	137,406	64,158
Interest on long-term debt	17,185	11,574	130,487	38,385
	13,835,847	5,005,413	38,821,566	12,219,097
Earnings (loss) before undernoted	1,243,874	(286,306)	2,974,056	(128,366)
(Gain) loss on sale of property and equipment	185,782	(7,879)	99,595	(3,461)
	185,782	(7,879)	99,595	(3,461)
Earnings (loss) before income taxes	1,058,092	(278,427)	2,874,461	(124,905)
Income taxes				
Current	228,458	14,348	820,037	14,348
Future (recovery) (Note 9)	43,525	(65,317)	162,628	(4,317)
	271,983	(50,969)	982,665	10,031
Net earnings (loss)	\$ 786,109	\$ (227,458)	\$ 1,891,796	\$ (134,936)
Earnings (loss) per share (\$/share) (Notes 5, and 9)				
Basic	\$ 0.027	\$ (0.016)	\$ 0.075	\$ (0.013)
Diluted	\$ 0.025	\$ (0.016)	\$ 0.074	\$ (0.013)
Weighted average number of shares (Note 5)				
Basic	29,639,907	13,872,359	25,142,767	10,763,532
Diluted - Treasury Method	30,980,553	13,872,359	25,621,957	10,763,532
Deficit beginning of the period (Note 9)	\$ (270,422)	\$ (1,508,612)	\$ (1,376,109)	\$ (1,601,134)
Net earnings (loss) (Note 9)	786,109	(227,458)	1,891,796	(134,936)
Retained Earnings (Deficit) end of period	\$ 515,687	\$ (1,736,070)	\$ 515,687	\$ (1,736,070)

HSE Integrated Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Increase (decrease) in cash equivalents	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Operations				
Net earnings (loss) (Note 9)	\$ 786,109	\$ (227,458)	\$ 1,891,796	\$ (134,936)
Amortization	893,813	294,084	2,610,190	633,421
Stock-based compensation	70,029	58,530	243,697	64,941
Future income taxes (Note 9)	43,525	(65,317)	459,357	(4,317)
Loss (gain) on sale of property and equipment	185,782	(7,879)	99,595	(3,461)
Change in non-cash working capital	(1,111,300)	(606,495)	234,616	(575,946)
	867,958	(554,535)	5,242,522	(20,298)
Financing				
Repayment on operating lines of credit, net	(50,000)	541,891	(4,752,927)	(257,420)
Repayment of demand loans	-	1,637,324	(4,849,999)	1,490,024
Repayment of long-term debt	(269,515)	(79,182)	(914,006)	(237,425)
Issue of share capital, net of costs	186,766	(5,519)	11,587,909	6,622,667
	(132,749)	2,094,514	1,070,977	7,617,846
Investing				
Purchase of property and equipment and other assets	(892,104)	(348,189)	(1,543,770)	(723,325)
Acquisitions (Note 8)	(2,357,309)	(1,337,183)	(2,357,740)	(6,849,335)
Proceeds on sale of property and equipment	135,020	103,535	314,960	222,915
	(3,114,393)	(1,581,837)	(3,586,119)	(7,349,745)
Net increase in cash and cash equivalents	(2,379,184)	(41,858)	2,727,380	247,803
Cash and cash equivalents, Beginning of period	5,425,345	596,331	318,781	306,670
End of period	\$ 3,046,161	\$ 554,473	\$ 3,046,161	\$ 554,473
Cash interest paid	\$ 16,056	\$ 44,184	\$ 267,893	\$ 116,462
Cash taxes paid	\$ 61,326	\$ -	\$ 101,559	\$ -

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements (Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

1. Basis of Presentation

These unaudited interim consolidated financial statements of HSE Integrated Ltd. ("HSE" or "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada, following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended December 31, 2004. Not all disclosures required for annual financial statements are presented here. These interim financial statements should be read in conjunction with the annual financial statements, notes to the financial statements and management's discussion and analysis included in the Company's Annual Report for the year ended December 31, 2004.

2. Nature of operations

HSE is an oilfield and industrial safety services Company incorporated in Alberta. In addition to its head office in Calgary, HSE operates from eleven service centres located in major producing areas of Western Canada. With the acquisition of CRS Technologies (1990) Inc. and Confined Space Response Services Inc. (see Note 8 - Acquisitions), HSE acquired an additional four service centres in Central Canada and one in the United States. Core business areas include provision of safety supervision personnel, rental of breathing apparatus and associated equipment for personnel operating in high hazard environments, fire/shower units for worker and equipment protection where flammable or corrosive substances are employed, safety training, on-site medical services, and hazardous gas detection and monitoring.

3. Seasonality of operations

The largest component of the Company's safety service business supports drilling, completions and well servicing in the oil and gas sector. This sector experiences seasonal fluctuations as it relies on the use of heavy equipment that can only access well locations during certain times of the year. Unseasonal weather can also result in unexpected activity fluctuations.

The first quarter is generally the busiest quarter as our customers take advantage of frozen conditions to access locations that are otherwise inaccessible economically (primarily in Northern Alberta and British Columbia). Spring break-up causes a significant reduction in activity across the sector during the second quarter and continues until lands have dried out. Activity builds gradually throughout the summer and fall until the start of the winter drilling season.

The Company's emergency response services are highly variable in nature and in extent and can materially impact results of operations in the periods in which these services are called upon.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements (Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

4. Credit Facility

On August 12, 2005 the Company replaced its existing credit facilities with a single new credit facility with a Canadian chartered bank. The facility consists of:

An operating line of credit, payable on demand, to a maximum of \$10.1 million dollars.

A non-revolving demand instalment facility to a maximum of \$4.9 million subject to minimum draws of \$1 million repayable in equal instalment over 5 years from the date of the initial draw. The facility is subject to a stand-by fee of 0.75% per annum based on the unused portion.

A revolving demand instalment facility to a maximum of \$5 million subject to minimum draws of \$0.75 million.

Both the operating and non-revolving facilities are for general corporate purposes whereas the revolving facility is to finance corporate acquisitions and capital expenditures on safety equipment.

Funds will be advanced under the facilities as needed. Each facility bears interest at the bank's prime rate.

The facilities are subject to certain margin restrictions, financial covenants, and the maintenance of certain financial ratios. The advances are secured by a General Security Agreement issued by the Company and each of its subsidiaries, and a Subsidiary Guarantee by each subsidiary.

As at September 30, 2005, the Company had not drawn upon the facility.

5. Capital Stock

a) Authorized: Unlimited number of common shares without par value.
Unlimited number of preferred shares, issuable in series.

b) Common shares issued:

	Number	Amount ⁽¹⁾
Balance December 31, 2004	22,509,427	\$ 25,150,994
Issued on private placement	6,636,200	11,250,318
Issued on acquisitions	588,236	998,019
Cancellation of holdback shares	(20,946)	(31,628)
Issued on the exercise of options	32,000	36,750
Issue on the conversion of debentures	274,933	412,397
Adjustment of 2004 issue costs		11,592
Balance September 30, 2005	29,746,850	\$ 37,828,442

(1) All amounts are net of share issue costs and applicable future income tax.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

c) The Company completed a 5:1 stock consolidation on August 31, 2004. All common share and related per share amounts have been restated to reflect the share consolidation.

d) Stock options:

	Shares	Price
Outstanding at beginning of year	467,000	\$ 1.49
Granted	428,000	1.59
Exercised	(32,000)	0.93
Forfeited	(71,000)	1.57
Outstanding at September 30 2005	792,000	\$ 1.56

During the quarter 20,000 stock options were granted at an exercise price of \$2.00 per share. Also, by way of the private placement which concluded on June 23, 2005, the Company sold 6,363,200 units each consisting of 1 common share of the Company and ½ of a warrant to purchase one common share of the Company at \$1.90 prior to June 23, 2007. In connection with the private placement, the Company also issued 445,424 warrants to its Underwriter, each warrant entitling the Underwriter to purchase 1 common share of the Company at a price of \$1.90 prior to June 23, 2006.

The following tables summarize the stock options and purchase warrants outstanding as at September 30, 2005

Stock Options:

Exercise Price \$	Options Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
0.500	8,000	2.76	8,000
0.750	2,000	1.92	2,000
1.050	20,000	3.66	6,667
1.250	52,000	1.37	45,333
1.400	50,000	4.62	-
1.500	35,000	3.83	11,667
1.600	275,000	4.34	-
1.625	280,000	3.73	93,333
1.690	50,000	4.44	-
2.000	20,000	4.78	-
1.557	792,000	3.90	167,000

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

Purchase Warrants:

Exercise Price \$	Options Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
1.900	3,627,024	1.60	3,627,024

The Company uses the Black Scholes model for calculating the fair value of the stock options and warrants issued and records the appropriate expense and contributed surplus. The value is based on the fair value of the options at the date of grant for the options. The assumptions used in the model include a risk-free rate of 4.00%, volatility of 121.95%, and an estimated hold period prior to exercise equal to the life of the option which is 5 years.

6. Related party transactions

During the quarter ended September 30, 2005, the Company had the following transactions with related parties. These transactions are measured at amounts agreed to by the parties, which approximate an arm's length equivalent:

A company controlled by an officer and director of HSE subcontracted the provision of certain goods and services to HSE. During the quarter, HSE billed this company \$1,092,746 in respect of the goods and services provided. At September 30, 2005, the entire amount was outstanding to HSE. During the quarter, HSE also purchased operating supplies from this company and participated in shared marketing expenses at a total cost of \$12,982. At September 30, 2005, \$12,982 remained outstanding to that company. Prices for product and services between the two companies are based upon standard commercial terms and market-based rates. .

During the quarter, the Company paid rent for shop facilities in the amount of \$61,854 to a company related to an officer of the company.

Included in long term debt is a note payable to an officer and director of the company in the amount of \$216,000. The note relates to a dividend declared by the subsidiary prior to its acquisition by HSE. The note is payable on demand no sooner than July 1, 2006.

7. Comparative amounts

Certain amounts have been restated to conform to presentation adopted in the current period. See also Note 9.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

8. Acquisitions

- a) Effective July 11 2005 HSE acquired all of the issued and outstanding shares of CRS Technologies (1990) Inc. and Confined Space Response Services Inc. (collectively "CRS") for total consideration of \$ 1.5 million dollars. The purchase price was comprised of \$500,000 in cash and 294,118 HSE common shares at a deemed price of \$1.70 at closing. An additional 294,118 HSE common shares at a deemed price of \$1.70 will be released from escrow over the course of three years upon CRS meeting certain business conditions. The purchase and sale agreement included a provision whereby the purchase price would be increased or decreased to the extent that the final determination of net working capital as defined in the agreement was greater than or less than an agreed amount. The purchase price has accordingly been increased by \$ 90,857, payable in cash. The purchase price, including \$55,059 in acquisition costs allocated to capital assets, has been allocated as follows:

Current Assets	\$ 617,821
Capital Assets:	
Safety equipment	635,529
Vehicles	114,054
Other property and equipment	140,701
	<hr/>
	890,284
Liabilities	(586,921)
Future income taxes	(178,127)
Goodwill	902,859
Net Assets Acquired	<hr/>
	\$ 1,645,916

- b) Effective September 6, 2005, the Company completed its previously announced acquisition of the key assets and related oilfield safety services business of Standard Safety and Consulting Services (1978) Ltd. of Edmonton, Alberta for final consideration of \$1,706,335 in cash. The purchase price, including \$12,410 in acquisition costs allocated to capital assets, has been allocated as follows:

Capital Assets:	
Safety equipment	\$ 1,356,441
Other property and equipment	88,170
	<hr/>
	1,444,611
Goodwill	274,134
Net Assets Acquired	<hr/>
	\$ 1,718,745

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

9. Restatement

During the third quarter the Company determined that adjustments were required to the purchase price allocations of certain 2004 acquisitions which resulted in an increase in goodwill and a corresponding increase in future income tax liability. These adjustments do not affect cash flows.

The effect of recognizing these adjustments, on the Company's previously reported December 31, 2004 consolidated financial statements, is as follows:

December 31 2004:

	As Reported	Adjustment	As Restated
Goodwill	\$ 5,061,054	\$ 965,000	\$ 6,026,054
Future income tax liability	1,732,900	1,182,000	2,914,900
Retained earnings (deficit)	(1,159,109)	(217,000)	(1,376,109)
Future income tax expense (recovery)	(149,670)	217,000	67,330
Net earnings (loss)	442,025	(217,000)	225,025
Earnings per share			
Basic	\$.037	\$ (.018)	\$.019
Diluted	\$.037	\$ (.018)	\$.019

The comparative 2004 figures included in these interim consolidated financial statements have been restated to give effect to the above noted adjustments.

The effect, after recognizing these adjustments, on the Company's previously reported 2005 interim consolidated financial statements for March 31 and June 30 2005 is as follows:

March 31, 2005:

	Three Months ended March 31, 2005		
	As Reported	Adjustment	As Restated
Goodwill	\$5,061,054	\$ 965,000	\$ 6,026,054
Future income tax liability	1,811,477	1,122,700	2,934,177
Retained earnings (deficit)	1,369,979	(157,699)	1,212,280
Future income tax expense (recovery)	947,985	(59,301)	888,686
Net earnings (loss)	2,529,088	59,301	2,588,389
Earnings (loss) per share			
Basic	\$ 0.112	\$.003	\$ 0.115
Diluted	\$ 0.112	\$.003	\$ 0.115

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(Unaudited)

As at September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004

9. Restatement (continued)

June 30, 2005:

	Three Months ended June 30			Six Months Ended June 30		
	As Reported	Adjustment	As Restated	As Reported	Adjustment	As Restated
Goodwill	\$5,061,485	\$ 965,000	\$6,026,485	\$5,061,485	\$ 965,000	\$6,026,485
Future income tax liability	1,637,705	1,063,398	2,701,103	1,637,705	1,063,398	2,701,103
Retained earnings (deficit)	(172,024)	(98,398)	(270,422)	(172,024)	(98,398)	(270,422)
Future income tax expense (recovery)	(710,280)	(59,301)	(769,581)	237,705	(118,602)	119,103
Net earnings (loss)	(1,542,003)	59,301	(1,482,702)	987,085	118,602	1,105,687
Earnings (loss) per share						
Basic	\$ (.067)	\$.003	\$ (.064)	\$.043	\$.005	\$.048
Diluted	\$ (.067)	\$.003	\$ (.064)	\$.043	\$.005	\$.048

The year to date cumulative figures included in these interim financial statements include the effects of the above noted adjustments.

As these changes do not affect cash flows, Statements of Cash Flows have not been restated.

10. Subsequent event

On October 25, 2005 the Company announced that it entered into a non-binding Letter of Intent ("LOI") to acquire the shares of Bluestar EMS Ltd. and Bluestar EMS Safety Ltd. (hereinafter collectively referred to as "Bluestar") of Medicine Hat, Alberta. Bluestar provides on site-first aid services, breathing air safety services and industrial safety training in southeastern Alberta and other markets. The purchase price shall be \$1,360,000 comprised of \$906,667 in cash and \$453,333 in common shares of HSE at the greater of the 10 day weighted average trading price of HSE on the TSX Venture Exchange at the date of closing or \$2.70 per share. The transaction is conditional upon several conditions precedent including completion of satisfactory due diligence by HSE, the approval of the Board of Directors of HSE, and the approval of the TSX Venture Exchange. It is expected that the transaction will close in the fourth quarter.