

HSE Integrated Ltd.

Consolidated Balance Sheets (Unaudited)

(thousands of dollars)	June 30, 2006	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents	\$ 8,926	\$ 382
Accounts receivable	22,047	16,513
Inventory	720	158
Prepaid expenses and deposits	1,319	776
	<u>33,012</u>	<u>17,829</u>
Property and equipment	38,766	25,613
Goodwill	23,228	7,276
Intangible assets	2,534	563
	<u>\$ 97,540</u>	<u>\$ 51,281</u>
LIABILITIES		
Current		
Operating line of credit (Note 3)	\$ —	\$ 1,597
Accounts payable and accrued liabilities	6,421	5,371
Income taxes payable	471	548
Current portion of obligations under capital leases (Note 4)	1,021	247
Current portion of long-term debt (Note 3)	4,136	235
	<u>12,049</u>	<u>7,998</u>
Obligations under capital leases (Note 4)	2,450	382
Long-term debt (Note 3)	14,599	370
Future income taxes	5,320	3,201
	<u>34,418</u>	<u>11,951</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	60,544	38,411
Contributed surplus (Note 6)	841	462
Retained earnings	1,737	457
	<u>63,122</u>	<u>39,330</u>
	<u>\$ 97,540</u>	<u>\$ 51,281</u>

Subsequent event (Note 7)

NOTICE TO READER

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

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Earnings (Loss) and Retained Earnings (Deficit) (Unaudited)

(thousands of dollars, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
REVENUE	\$ 19,924	9,410	\$ 47,388	26,716
COSTS				
Operating and materials	16,826	8,828	36,561	20,078
Selling, general and administrative	1,958	1,426	4,141	2,765
Amortization	1,870	928	3,298	1,716
Stock based compensation	231	94	380	174
Other interest and bank charges	19	59	31	139
Interest on long-term debt	340	56	616	113
	21,244	11,391	45,027	24,985
Earnings (loss) before under noted	(1,320)	(1,981)	2,361	1,731
Gain (loss) on disposal of assets	(272)	(8)	(451)	86
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,592)	(1,989)	1,910	1,817
Income taxes				
Current (recovery)	(109)	264	810	592
Future (reduction)	(410)	(770)	(180)	119
	(519)	(506)	630	711
NET EARNINGS (LOSS)	\$ (1,073)	(1,483)	\$ 1,280	1,106
RETAINED EARNINGS (deficit), beginning of period	2,810	1,213	457	(1,376)
RETAINED EARNINGS (deficit), end of period	\$ 1,737	(270)	\$ 1,737	(270)
Earnings per share				
Basic	\$ (.03)	(.06)	\$.04	.05
Diluted	\$ (.03)	(.06)	\$.04	.05
Weighted average number of shares				
Basic	35,986	23,186	34,219	22,857
Diluted	36,786	23,186	34,510	22,962

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HSE Integrated Ltd.

Consolidated Statements of Cash Flows (Unaudited)

(thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Cash provided by (used in)				
Operations				
Net earnings	\$ (1,073)	(1,483)	\$ 1,280	1,106
Charges to income not involving cash				
Amortization	1,870	928	3,298	1,716
Stock-based compensation	231	94	380	174
Future income tax expense (reduction)	(410)	(770)	(180)	119
Loss on disposal of assets	272	8	451	(86)
Change in non-cash working capital	3,690	4,217	(3,674)	1,346
Cash provided by (used in) operations	4,580	2,994	1,555	4,375
Financing				
Advances (repayment) on operating line of credit	(4,981)	(4,350)	(1,597)	(4,703)
Repayment of demand loans	–	(4,485)	–	(4,850)
Repayment of obligations under capital leases	(297)	–	(577)	–
Increase (decrease) in long-term debt	(1,335)	(332)	17,174	(645)
Issuance of share capital, net of costs	11,931	11,362	13,480	11,401
Cash provided by financing	5,318	2,195	28,480	1,203
Investing				
Purchase of property and equipment	(703)	(330)	(1,150)	(652)
Acquisitions (Note 2)	(4,352)	–	(20,686)	–
Proceeds from disposal of assets	47	47	345	180
Cash used in investing	(5,008)	(283)	(21,491)	(472)
Net increase in cash and cash equivalents	4,890	4,906	8,544	5,106
Cash and cash equivalents, beginning of period	4,036	519	382	319
Cash and cash equivalents, end of period	\$ 8,926	5,425	\$ 8,926	5,425
Supplemental cash flow information				
Income tax paid	\$ 800	19	\$ 800	41
Interest paid	\$ 348	120	\$ 625	257

NOTICE TO READER

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See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

Three and Six Months ended June 30, 2006 and 2005
(stated in thousands of dollars, except per share amounts)

NOTE 1 – NATURE OF BUSINESS

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (the “Company”) have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended December 31, 2005. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the Company for the year ended December 31, 2005.

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries, are stated in Canadian dollars, and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

Certain prior year figures have been reclassified to conform to the current period presentation.

NOTE 2 – ACQUISITIONS

a) On January 10, 2006, the Company completed the acquisition of Key Safety Services Inc. (“Key”) and Key Monitoring Solutions Corp. (“KMS”) in a business combination accounted for as a purchase. Key performs oilfield safety services in Western Canada. KMS provides air quality monitoring services for hydrocarbon drilling and industrial projects. The results of operations are included in the accounts from date of acquisition. Consideration for the acquisition was comprised of 2,400,000 common shares of the Company valued at \$2.64 per share, \$8,250 cash, \$3,390 in promissory notes issued to the vendors, and the assumption of debt.

The following table summarizes the purchase price allocation:

Net assets acquired:	
Non cash working capital	\$ 730
Property and equipment	11,456
Goodwill (no tax basis)	10,594
Intangible assets (no tax basis)	2,264
Long term debt settlement liability	(4,694)
Promissory note settlement liability	(3,390)
Future income tax	(2,374)
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Net Assets Acquired	14,586
Less:	
Treasury shares issued	<hr/> 6,336
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Cash consideration	\$ <u>8,250</u>

HSE Integrated Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

Three and Six Months ended June 30, 2006 and 2005
(stated in thousands of dollars, except per share amounts)

NOTE 2 – ACQUISITIONS (continued)

b) On April 5, 2006 the Company completed the acquisition of Sentry Fire Equipment Ltd. (“Sentry”) in a business combination accounted for as a purchase. Sentry performs fire suppression services for the industrial and commercial markets in southern Ontario. The results of operations are included in the accounts from date of acquisition. Consideration for the acquisition was \$3,600 cash (which includes cash acquired of \$183). The purchase price allocation has not been completed and certain items such as fair value of assets and liabilities as of the acquisition date have not been finalized.

The following table summarizes the purchase price allocation:

Net assets acquired:	
Non cash working capital	\$ 377
Property and equipment	350
Goodwill (no tax basis)	2,707
Long term debt	<u>(17)</u>
Net assets acquired and cash consideration	\$ <u><u>3,417</u></u>

c) On April 21, 2006 the Company completed the acquisition of Front-Line Safety Limited. (“Frontline”) in a business combination accounted for as a purchase. Frontline performs fire and industrial safety services for the petrochemical and mining industries in Atlantic Canada and offshore Canada. The results of operations are included in the accounts from date of acquisition. Consideration for the acquisition was comprised of 666,667 common shares of the company at \$3.47 per share, \$750 of cash and additional contingent consideration to be based upon Frontline operating results for the fiscal year ending August 31, 2006. The purchase price allocation has not been completed and certain items such as fair value of assets and liabilities as of the acquisition date have not been finalized.

The following table summarizes the purchase price allocation:

Net assets acquired:	
Non cash working capital	\$ 265
Property and equipment	399
Goodwill (no tax basis)	2,628
Intangible assets (no tax basis)	180
Future income taxes	6
Long term debt	<u>(318)</u>
Net Assets Acquired	3,160
Less:	
Treasury shares issued	\$ <u><u>2,317</u></u>
Cash consideration	\$ <u><u>843</u></u>

HSE Integrated Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

Three and Six Months ended June 30, 2006 and 2005
(stated in thousands of dollars, except per share amounts)

NOTE 3 – OPERATING LINE OF CREDIT and LONG TERM DEBT

On January 9, 2006 the Company amended its bank credit facilities to replace the facilities outstanding at December 31, 2005 with: a) a \$20,000 non-revolving term debt facility which amortizes over five years from date of draw, bears interest at the bank's prime rate, and is subject to an annual cash flow sweep based on a percentage of earnings before interest, taxes and amortization, b) a \$10,000 (seasonally reduced to \$8,000) operating facility bearing interest at the banks prime rate and c) a \$5,000 revolving term facility which amortizes over five years from date of draw and bears interest at the banks prime rate. The operating facility is subject to margin requirements based on eligible accounts receivable. The credit facilities are secured by general security agreements and require maintenance of certain financial ratios and other covenants.

	<u>2006</u>
Equipment financing contracts bearing interest at rates ranging from 0% to 9.50%, payable in blended monthly payments of \$32 secured by specific equipment.	\$ 953
Term loans as noted above, payable in quarterly principal payments of \$988	<u>17,782</u>
	<u>18,735</u>
Less current portion	<u>(4,136)</u>
	<u>\$ 14,599</u>

NOTE 4 – OBLIGATIONS UNDER CAPITAL LEASE

The amounts due under capital lease agreements are repayable in blended monthly payments of \$104 and bear interest at rates varying from 5.8% to 19.9% per annum. At the end of each lease, the Company has purchase options to acquire the leased assets due at various times from July 2006 to May 31, 2011.

HSE Integrated Ltd.

Notes to the Interim Consolidated Financial Statements (Unaudited)

Three and Six Months ended June 30, 2006 and 2005
(stated in thousands of dollars, except per share amounts)

NOTE 5 – SHARE CAPITAL

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

- b) **Issued and outstanding:**

Common shares	2006	
	Shares (‘000s)	Amount (1)
Balance, January 1	29,915	\$ 36,559
Changes (net of share issue costs):		
Private placement	550	1,375
Issued on acquisition of shares	2,400	6,336
Issued on exercise of agent’s warrants	75	158
Issued on conversion of warrants	38	90
Issued on exercise of options	5	6
Balance, March 31	32,983	\$ 44,524
Private placement	3,300	11,350
Issued on acquisition of shares	667	2,317
Issued on exercise of agent’s warrants	370	704
Issued on exercise of options	30	40
Balance, June 30	37,350	\$ 58,935

Warrants	2006	
	Units (‘000s)	Amount
Balance, January 1	3,182	\$ 1,628
Converted to common shares	(38)	(19)
Balance, March 31 and June 30	3,144	\$ 1,609

Agent’s Warrants	2006	
	Units (‘000s)	Amount
Balance, January 1	445	\$ 224
Converted to common shares	(75)	(38)
Balance, March 31	370	\$ 186
Converted to common shares	(370)	(186)
Balance, June 30	–	\$ –

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Notes to the Interim Consolidated Financial Statements (Unaudited)

Three and Six Months ended June 30, 2006 and 2005
(stated in thousands of dollars, except per share amounts)

NOTE 5 – SHARE CAPITAL (continued)

Warrants

By way of private placement the Company previously issued 6,363,200 units. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire a common share at a price of \$2.40 at any time on or before June 23, 2007.

Agent's warrants entitles the holder to acquire a common share at a price of \$1.90 at any time on or before June 23, 2006.

Private placements

On February 7, 2006 the Company completed a private placement of equity with the Company's employees pursuant to which 550,000 common shares were issued at the price of \$2.50 per share for proceeds of \$1,375. The shares are subject to a statutory four month hold period.

On April 26, 2006, the Company completed a private placement of equity pursuant to which 3,300,000 common shares were issued at the price of \$3.55 per share for net proceeds of \$11,350. The shares are subject to a statutory four month hold period.

Options

On June 5, 2006 the Company issued 100,000 options to purchase common shares of the Company at the June 5th, 2006 closing price of \$2.52.

NOTE 6 – CONTRIBUTED SURPLUS

	<u>2006</u>
Balance, January 1	\$ 462
Stock compensation expense – employee options	<u>149</u>
Balance March 31, 2006	611
Stock compensation expense – employee options	231
Exercise of stock options	(1)
Balance, end of year	\$ 841

NOTE 7 – SUBSEQUENT EVENT

On July 1 2006 the Company completed the acquisition of Bear's Safety and Rescue Services Ltd. ("Bear's") of Bonnyville, Alberta in a business combination accounted for as a purchase. Bear's provides industrial safety services to upstream oil and gas processing facilities, refineries, and petrochemical plants in northeast Alberta and has provided safety supervision to drilling operations in northern Canada and internationally. Consideration for the acquisition was \$800 cash and the issuance of 100,000 common shares at a price of \$3.29 per share. The purchase price allocation has not been completed and certain items such as fair value of assets and liabilities as of the acquisition date have not been finalized.