

HSE Integrated Ltd.

Consolidated Balance Sheets

(Stated in thousands), (unaudited)	March 31 2007	December 31 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 5,147	\$ 6,551
Short term investments	810	802
Accounts receivable	24,642	23,363
Inventory	771	764
Prepaid expenses and other assets	884	963
	<u>32,254</u>	<u>32,443</u>
Property and equipment	43,524	44,745
Goodwill	23,641	23,641
Intangible assets	5,801	6,109
	<u>\$ 105,220</u>	<u>\$ 106,938</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 7,567	\$ 9,540
Income taxes payable	2,384	1,602
Current portion of obligations under capital leases	1,399	1,458
Current portion of long-term debt	4,161	4,199
	<u>15,511</u>	<u>16,799</u>
Obligations under capital leases	2,598	3,039
Long-term debt	11,791	12,834
Future income taxes	7,270	7,454
	<u>37,170</u>	<u>40,126</u>
SHAREHOLDERS' EQUITY		
Share capital (note 3)	61,480	61,471
Contributed surplus	1,748	1,423
Retained earnings	4,822	3,918
	<u>68,050</u>	<u>66,812</u>
	<u>\$ 105,220</u>	<u>\$ 106,938</u>

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Earnings and Retained Earnings

(Stated in thousands, except per share amounts) (unaudited)	Three Months ended March 31	
	2007	2006
REVENUE	\$ 27,948	\$ 27,465
COSTS		
Operating and materials	20,631	19,734
Selling, general and administrative	2,515	2,183
Amortization of property and equipment	1,580	1,189
Amortization of intangibles	308	239
Interest on long-term debt	309	68
Stock based compensation	357	149
Other interest and bank charges	23	222
Foreign exchange gain	(1)	–
Loss on disposal of property and equipment	707	179
	26,429	23,963
EARNINGS BEFORE INCOME TAXES	1,519	3,502
Income taxes		
Current	799	919
Future	(184)	230
	615	1,149
NET EARNINGS AND COMPREHENSIVE INCOME	904	2,353
RETAINED EARNINGS, beginning of period	3,918	457
RETAINED EARNINGS, end of period	\$ 4,822	\$ 2,810
Earnings per share		
Basic and diluted	\$ 0.02	\$ 0.07
Weighted average number of shares (thousands)		
Basic	37,465	30,277
Diluted	37,568	33,504

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Cash Flows

(Stated in thousands) (unaudited)	Three Months ended March 31	
	2007	2006
Cash provided by (used in)		
Operations		
Net earnings	\$ 904	\$ 2,353
Charges to income not involving cash		
Amortization	1,888	1,428
Stock-based compensation	357	149
Future income tax expense	(184)	230
Loss on disposal of property and equipment	707	179
Change in non-cash working capital	(2,464)	(7,285)
Cash provided by (used in) operations	1,208	(2,946)
Financing		
Advances of operating line of credit	–	3,384
Repayment of obligations under capital leases	(500)	–
Issuance of long-term debt	–	21,721
Repayment of long-term debt	(1,052)	–
Issuance of share capital, net of costs	4	1,549
Cash provided by (used in) financing	(1,548)	26,654
Investing		
Purchase of property and equipment	(1,456)	(4,017)
Acquisitions	–	(16,334)
Proceeds from disposal of property and equipment	392	298
Cash used in investing	(1,064)	(20,053)
Net in cash and cash equivalents	(1,404)	3,655
Cash and cash equivalents, beginning of period	6,551	381
Cash and cash equivalents, end of period	\$ 5,147	\$ 4,036

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three month periods ended March 31, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 1 – NATURE OF BUSINESS

Nature of business

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (the “Company” or “We”) 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, 2006, except where any change has been noted in the interim financial statements. 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, 2006.

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 generally accepted accounting principles (“GAAP”). Management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

The Company’s business is seasonal in nature with the highest activity in the winter months (first and fourth fiscal quarters) and the lowest activity during spring break up (second fiscal quarter) due to road weight restrictions and reduced accessibility to remote work areas.

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

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.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants regarding the recognition, measurement, disclosure and presentation of financial instruments. Under these standards, financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments, be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated accounts receivable as “loans and receivables”, which are measured at amortized cost. Short-term investments have been designated as “held-for-trading”, which are measured at fair values with changes in such value included in earnings. Accounts payable and accrued liabilities and long-term debt are classified as “other financial liabilities” which are measured at amortized cost.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three month periods ended March 31, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 2 – CHANGE IN ACCOUNTING POLICIES (continued)

We have classified previously deferred financing costs of \$29 included in prepaid expenses and other assets as unamortized debt issues costs, which now reduces the carrying value of the long-term debt. The debt issue costs will be accreted to the carrying value of long-term debt using the effective interest method. Comparative amounts for prior periods have not been restated.

The Company also adopted as of January 1, 2007 new standards with respect to comprehensive income. The new standards require a statement of comprehensive income, if there are items that give rise to comprehensive income or loss. The Company did not identify any such items giving rise to comprehensive income or loss in the three months ended March 31, 2007, or that would result in an adjustment to opening balances for accumulated other comprehensive income or loss.

The Company was also required to adopt new accounting standards with respect to hedging activities. As the Company does not currently have a hedging program that is impacted by this accounting standard, the adoption of these standards has no impact on the financial statements.

Two new Canadian accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008 about the Company's financial instruments as well as its capital and how it is managed.

NOTE 3 – 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	2007	
	Shares (in thousands)	Amount
Balance, beginning of period	37,462	\$ 59,862
Issued on exercise of options	3	9
Balance, end of period	<u>37,465</u>	<u>\$ 59,871</u>

Warrants	2007	
	Units (in thousands)	Amount
Balance, beginning and end of period	<u>3,144</u>	<u>\$ 1,609</u>

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three month periods ended March 31, 2007 and 2006
(stated in thousands of dollars, except share amounts)

NOTE 4 - STOCK-BASED COMPENSATION PLANS

Options

On January 16, 2007 the Company issued 60,000 options to key senior managers of the Company at the January 16, 2007 closing price of \$1.75. The fair value of the options issued was \$59.

On January 25, 2007 the Company issued 320,000 options to senior managers and officers of the Company to purchase common shares of the Company at the January 25, 2007 closing price of \$1.80. The fair value of the options issued was \$323.

Deferred share unit plan

The Company adopted effective November 13, 2006 a deferred share unit (DSU) plan for non-executive directors. Under the terms of the plan, DSUs awarded will vest immediately and will be settled with cash in the amount equal to the closing price of the Company's common shares on the redemption date specified by the Director upon tendering their resignation from the Board. The redemption date must be after the date on which the notice of redemption is filed with the Company and before December 15 of the first calendar year commencing after the Director's termination date.

On January 16, 2007, 15,000 deferred share units were granted to non-executive directors.

NOTE 5 – SEGMENT INFORMATION

Management has determined that the Company operates in a single industry segment, which involves the provision of industrial health, safety and environmental monitoring services. Substantially all of the Company's operations, assets, revenues, and employees are in Canada. For the period ended March 31, 2007 the Company had one customer representing more than 10% of revenue, (2006 – nil).

Revenue by customer group is as follows:

	<u>March 31</u> <u>2007</u>	<u>March 31</u> <u>2006</u>
Oilfield	\$ 16,354	\$ 21,797
Industrial	7,541	3,899
Environment	4,053	1,769
Total Revenue	<u>\$ 27,948</u>	<u>\$ 27,465</u>
As a % of Revenue:		
Oilfield	58.5%	79.4%
Industrial	27.0%	14.2%
Environment	14.5%	6.4%
Total Revenue	<u>100.0%</u>	<u>100.0%</u>