

HSE Integrated Ltd.

Consolidated Balance Sheets

(Stated in thousands), (unaudited)	June 30 2007	December 31 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 5,386	\$ 6,551
Short term investments	–	802
Accounts receivable	18,267	23,363
Inventory	804	764
Prepaid expenses and other assets	650	963
Income taxes recoverable	808	–
	<u>25,915</u>	<u>32,443</u>
Property and equipment	42,976	44,745
Goodwill	23,641	23,641
Intangible assets	5,493	6,109
	<u>\$ 98,025</u>	<u>\$ 106,938</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 7,181	\$ 9,540
Income taxes payable	–	1,602
Current portion of obligations under capital leases	1,370	1,458
Current portion of long-term debt (note 3)	225	4,199
	<u>8,776</u>	<u>16,799</u>
Obligations under capital leases	2,188	3,039
Long-term debt (note 3)	14,661	12,834
Future income taxes	7,128	7,454
	<u>32,753</u>	<u>40,126</u>
SHAREHOLDERS' EQUITY		
Share capital (note 4)	61,480	61,471
Contributed surplus	2,083	1,423
Retained earnings	1,709	3,918
	<u>65,272</u>	<u>66,812</u>
	<u>\$ 98,025</u>	<u>\$ 106,938</u>

Subsequent Event (note 7)

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 June 30		Six Months ended June 30	
	2007	2006	2007	2006
REVENUE	\$ 19,352	19,924	\$ 47,300	47,388
COSTS				
Operating and materials	18,545	16,826	39,175	36,561
Selling, general and administrative	2,598	1,958	5,113	4,141
Amortization of property and equipment	1,647	1,636	3,227	2,825
Amortization of intangibles	308	234	616	473
Stock based compensation (note 5)	333	231	690	380
Interest on long-term debt	279	340	588	616
Other interest and bank charges	22	19	46	31
Foreign exchange loss	3	–	2	–
Loss on disposal of property and equipment	30	272	737	451
	23,765	21,516	50,194	45,478
EARNINGS (LOSS) BEFORE INCOME TAXES	(4,413)	(1,592)	(2,894)	1,910
Income taxes				
Current (recovery)	(1,158)	(109)	(359)	810
Future (recovery)	(142)	(410)	(326)	(180)
	(1,300)	(519)	(685)	630
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME	(3,113)	(1,073)	(2,209)	1,280
RETAINED EARNINGS, beginning of period	4,822	2,810	3,918	457
RETAINED EARNINGS, end of period	\$ 1,709	1,737	\$ 1,709	1,737
Earnings (loss) per share				
Basic and diluted	\$ (0.08)	(0.03)	\$ (0.06)	0.04
Weighted average number of shares (thousands)				
Basic	37,465	35,986	37,465	34,219
Diluted	38,032	36,786	37,882	34,510

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Cash Flows

(Stated in thousands) (unaudited)	Three Months ended June 30		Six Months ended June 30	
	2007	2006	2007	2006
Cash provided by (used in)				
Operations				
Net earnings	\$ (3,113)	(1,073)	\$ (2,209)	1,280
Charges to income not involving cash				
Amortization	1,955	1,870	3,843	3,298
Stock-based compensation (note 5)	333	231	690	380
Future income tax expense	(142)	(410)	(326)	(180)
Loss on disposal of property and equipment	30	272	737	451
Change in non-cash working capital	3,811	3,690	1,377	(3,674)
Cash provided by operations	2,874	4,580	4,111	1,555
Financing				
Advances of operating line of credit	–	(4,981)	–	(1,597)
Repayment of obligations under capital leases	(439)	(297)	(939)	(577)
Issuance of long-term debt	–	–	–	17,174
Repayment of long-term debt	(1,066)	(1,335)	(2,147)	–
Issuance of share capital, net of costs	–	11,931	4	13,480
Cash provided by (used in) financing	(1,505)	5,318	(3,082)	28,480
Investing				
Purchase of property and equipment	(1,359)	(703)	(2,815)	(1,150)
Acquisitions	–	(4,352)	–	(20,686)
Proceeds from disposal of property and equipment	229	47	620	345
Cash (used in) investing	(1,130)	(5,008)	(2,195)	(21,491)
Net in cash and cash equivalents	239	4,890	(1,165)	8,544
Cash and cash equivalents, beginning of period	5,147	4,036	6,551	382
Cash and cash equivalents, end of period	\$ 5,386	8,926	\$ 5,386	8,926

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and six month periods ended June 30, 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”) 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 as outlined in note 2. 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 Canadian 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 and six month periods ended June 30, 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 and six months ended June 30, 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 – OPERATING FACILITIES and LONG TERM DEBT

During the quarter, the Company entered an agreement with its current lender for credit facilities. The credit facilities include a \$25 million three-year interest-only revolving facility and a \$7.5 million operating facility. The facilities bear interest at the bank's prime rate (or U.S. base rate) plus up to 0.75 percent, or at bankers' acceptance rates with a variable stamping fee of 1.50 to 2.25 percent. An additional standby fee ranging between 0.20 to 0.35 percent per annum is also required on the unused portion of the credit facilities. The revolving facility matures on June 25, 2010, with an ability to extend the term at the lender's option. The operating facility is renewable annually and is margined to accounts receivable. This facility is subject to covenants that are typical for this type of facility. The credit facilities are collateralized under a general security agreement. Certain costs associated with the new financing facilities have been shown as a reduction of the carrying value of long term debt and will be expensed over the term of the debt using the effective interest rate method.

During 2006 and first quarter 2007, the Company had the following bank credit facilities:

- a) a \$20,000 non-revolving installment credit facility which amortized over five years from date of draw, bearing interest at the bank's prime rate, and was subject to an annual cash flow sweep of 25% of earnings before interest, amortization and taxes less interest paid and repayments of revolving and non-revolving principal.
- b) A \$10,000 (seasonally reduced in June to November to \$8,000) operating facility bearing interest at the bank's prime rate. This facility was subject to margin requirements based on eligible accounts receivable.
- c) A \$5,000 revolving installment credit facility which amortized over five years from date of draw and bears interest at the bank's prime rate.

The credit facilities were secured by general security agreements and required maintenance of certain financial ratios and other covenants.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and six month periods ended June 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 3 – OPERATING LINE OF CREDIT and LONG TERM DEBT (continued)

	June 30 2007	December 31 2006
Equipment financing contracts bearing interest at rates averaging 1.44% (2006 – 1.44%), payable in blended monthly payments of \$27 (2006 - \$27) secured by specific equipment.	\$ 307	\$ 438
Non-revolving credit facility loan as noted above, payable in quarterly principal payments of \$988 (2006 – quarterly principal payments of \$988)	–	15,805
Three-year interest only revolving credit facility	13,830	–
	<u>14,137</u>	16,243
Accrued consideration on share purchase acquisition	790	790
	<u>14,927</u>	17,033
Less current portion	(225)	(4,199)
	<u>14,702</u>	12,834
Less unamortized debt issue costs	(41)	–
	<u>\$ 14,661</u>	<u>\$ 12,834</u>

Outstanding principal repayments are due as follows:

2007	\$ 118
2008	945
2009	34
2010	<u>13,830</u>
	14,927
Less: current portion	(225)
	<u>\$ 14,702</u>

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NOTE 4 – 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, December 31, 2006	37,462	\$ 59,862
Issued on exercise of options	3	9
Balance, end of period	37,465	\$ 59,871

Warrants	2007	
	Units (in thousands)	Amount
Balance, December 31, 2006	3,144	\$ 1,609
Forfeited on expiry	(3,144)	(1,609)
Balance, end of period	–	\$ –

NOTE 5 - STOCK-BASED COMPENSATION PLANS

Options

On January 16, 2007, the Company issued 60,000 options to key senior managers of the Company to purchase common shares 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.

On May 15, 2007, the Company issued 327,500 options to senior managers and officers of the Company to purchase common shares of the Company at the May 15, 2007 closing price of \$1.62. The fair value of the options issued was \$451.

Deferred share unit plan

Effective November 13, 2006, the Company adopted 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

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commencing after the Director's termination date. On January 16, 2007, 15,000 deferred share units were granted to non-executive directors. The units were revalued at June 30, 2007 and the recovery recorded in income.

NOTE 6 – 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 periods ended June 30, 2007 and 2006, the Company had no customer representing more than 10% of revenue.

Revenue by customer group is as follows:

	Three Months ended		Six Months ended	
	June 30		June 30	
	2007	2006	2007	2006
Oilfield	\$ 4,992	11,904	\$ 21,346	33,701
Industrial	12,602	6,521	20,143	10,420
Environment	1,758	1,499	5,811	3,267
Total Revenue	\$ 19,352	19,924	\$ 47,300	47,388

As a % of Revenue:

Oilfield	25.8%	59.8%	45.1%	71.1%
Industrial	65.1%	32.7%	42.6%	22.0%
Environment	9.1%	7.5%	12.3%	6.9%
Total Revenue	100.0%	100.0%	100.0%	100.0%

NOTE 7 – SUBSEQUENT EVENT

On July 1, 2007, the Company acquired Prairie Wide Safety Ltd. ("PWS") of Weyburn, Saskatchewan in a business combination to be accounted for using the purchase method. PWS serves the hydrocarbon producing region of southeast Saskatchewan by providing complete oilfield and industrial safety services to drilling, completion, well servicing and field processing operations. The purchase consideration will be determined based upon a predetermined formula not to exceed \$2.2 million based upon historical results, with additional consideration contingent upon performance measures achieved in the first year from the acquisition date. The consideration will also be subject to adjustments based upon working capital and long term debt levels, and will be a combination of cash, the assumption of debt, and the issuance of 100,000 common shares. The purchase price allocation has not been completed and certain items such as fair value of assets and liabilities and estimates for contingent consideration as of the acquisition date have not been finalized.