

HSE Integrated Ltd.

Consolidated Balance Sheets

(Stated in thousands), (unaudited)

	June 30 2008	December 31 2007
ASSETS		
Current		
Cash and cash equivalents	\$ 249	\$ -
Accounts receivable (note 4)	27,815	24,851
Inventory	221	216
Prepaid expenses and other assets	1,748	1,758
Income taxes recoverable	340	720
	<u>30,373</u>	<u>27,545</u>
Property and equipment	37,802	41,314
Intangible assets	4,057	4,513
	<u>\$ 72,232</u>	<u>\$ 73,372</u>
LIABILITIES		
Current		
Bank indebtedness	\$ -	\$ 616
Accounts payable and accrued liabilities	8,656	8,220
Current portion of deferred gain (note 12)	137	-
Current portion of obligations under capital lease (note 7)	1,274	1,328
Current portion of long-term debt (note 6)	1,200	216
	<u>11,267</u>	<u>10,380</u>
Deferred gain (note 12)	523	-
Obligations under capital lease (note 7)	758	1,453
Long-term debt (note 6)	13,845	14,995
Future income taxes	5,348	5,748
	<u>31,741</u>	<u>32,576</u>
SHAREHOLDERS' EQUITY		
Share capital (note 8)	60,036	60,036
Contributed surplus (note 9)	4,418	4,144
Deficit	(23,963)	(23,384)
	<u>40,491</u>	<u>40,796</u>
	<u>\$ 72,232</u>	<u>\$ 73,372</u>

Commitments and contingencies (note 12 and 15)

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Loss and Retained Earnings (Deficit)

	Three Months ended June 30		Six Months ended June 30	
(Stated in thousands), (unaudited)	2008	2007	2008	2007
REVENUE	\$ 28,087	19,352	\$ 55,656	47,300
COSTS				
Operating and materials	23,440	18,545	45,992	39,175
Selling, general and administrative	2,460	2,598	4,844	5,113
Amortization of property and equipment	1,722	1,647	3,590	3,227
Amortization of intangible assets	198	308	455	616
Stock-based compensation (note 9 & 10)	155	333	290	690
Interest on long-term debt	271	279	538	588
Other interest and bank charges	60	22	90	46
Foreign exchange loss	2	3	-	2
Goodwill impairment	100	-	100	-
Loss on disposal of property and equipment	326	30	326	737
	28,734	23,765	56,225	50,194
LOSS BEFORE INCOME TAXES	(647)	(4,413)	(569)	(2,894)
Income taxes				
Current (recovery)	174	(1,158)	410	(359)
Future reduction	(253)	(142)	(400)	(326)
	(79)	(1,300)	10	(685)
NET LOSS AND COMPREHENSIVE LOSS	(568)	(3,113)	(579)	(2,209)
RETAINED EARNINGS (Deficit), beginning of period	(23,395)	4,822	(23,384)	3,918
RETAINED EARNINGS (Deficit), end of period	\$ (23,963)	1,709	\$ (23,963)	1,709
Loss per share				
Basic and diluted	\$ (0.02)	(0.08)	\$ (0.02)	(0.06)
Weighted average number of shares (note 8)				
Basic	37,568	37,465	37,568	37,465
Diluted	37,572	38,032	37,572	37,882

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Cash Flows

	Three Months ended June 30		Six Months ended June 30	
(Stated in thousands), (unaudited)	2008	2007	2008	2007
Cash provided by (used in)				
Operations				
Net loss	\$ (568)	(3,113)	\$ (579)	(2,209)
Charges to income not involving cash:				
Amortization	1,920	1,955	4,045	3,843
Stock-based compensation	155	333	290	690
Future income tax	(253)	(142)	(400)	(326)
Goodwill impairment	100	-	100	-
Loss on disposal of property and equipment	326	30	326	737
Changes in non-cash working capital (note 13)	2,564	3,811	(2,159)	1,377
Cash provided by operations	4,244	2,874	1,623	4,111
Financing				
Repayment of operating line of credit	(3,711)	-	-	-
Repayment of bank indebtedness	(438)	-	(616)	-
Repayment of obligations under capital lease	(422)	(439)	(749)	(939)
Repayment of long-term debt	(103)	(1,066)	(166)	(2,147)
Issuance of share capital, net of costs	-	-	-	4
Cash used in financing	(4,674)	(1,505)	(1,531)	(3,082)
Investing				
Purchase of property and equipment	(1,139)	(1,359)	(1,661)	(2,815)
Acquisitions	(100)	-	(100)	-
Proceeds from disposal of property and equipment	1,918	229	1,918	620
Cash provided (used in) investing	679	(1,130)	157	(2,195)
Net change in cash and cash equivalents	249	239	249	(1,165)
Cash and cash equivalents, beginning of period	-	5,147	-	6,551
Cash and cash equivalents, end of period	\$ 249	5,386	\$ 249	5,386

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, 2008 and 2007

(Stated in thousands of dollars)

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, 2007, 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, 2007.

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 to the current period presentation.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the new Canadian accounting standards regarding Financial Instruments – Disclosures, Financial Instruments – Presentation, and Capital Disclosures. The new standards on financial instruments supersede previous disclosure requirements. The new requirements also provide for disclosure of the Company’s capital structure and how it is managed. The Company has added additional disclosure to address the requirements of the new standards related to financial instruments (note 4) and capital management (note 5).

Accounting Standards pending adoption

In February 2008, the CICA Accounting Standards Board (“AcSB”) issued recommendations relating to the recognition, measurement and disclosure of goodwill and intangible assets which will be effective for the Company’s 2009 reporting. The Company is currently assessing the impact of implementing these recommendations.

In February 2008, the “AcSB” confirmed the changeover to International Financial Reporting Standards (IFRS) from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued an “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (“CSA”) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 3 – ACQUISITIONS

On July 1, 2007, the Company acquired the shares of Prairie Wide Safety Ltd. (“PWS”) of Weyburn, Saskatchewan in a business combination 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 price was based upon a predetermined formula, not to exceed \$2.2 million plus the assumption of debt, based upon historical results, with additional consideration contingent upon performance measures achieved in the first year from the acquisition date. The results of operations are included in the accounts from date of acquisition. Consideration and acquisition costs were originally comprised of 100,000 common shares of the Company valued at \$1.64 per share, \$1,884 cash and the assumption of debt.

Additional consideration which was contingent upon performance measures based upon the first year after acquisition, has been reflected in the following table. The additional consideration was \$100 cash, resulting in total cash paid of \$1,984 and an increase in goodwill from \$1,362 to \$1,462. All other amounts remain the same as there is no additional contingent consideration.

Management has, in accordance with the Company’s accounting policy for goodwill, determined a goodwill impairment of \$100.

	Prairie Wide Safety Ltd.
Net assets acquired	
Non-cash working capital	46
Property and equipment	1,365
Intangible assets	152
Goodwill	1,462
Bank indebtedness	(119)
Long-term debt	(392)
Capital lease obligations	(139)
Future income taxes	(227)
	2,148
Consideration paid	
Cash	1,984
Issuance of Common shares	164
	2,148

NOTE 4 – FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s Audit Committee oversees how management monitors compliance with the Company’s risk management practices and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company’s risk management practices are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other accounts receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and its industry life cycle. For the quarter ended June 30, 2008, the Company had one customer that generated sales of more than 10% of Company revenue (2007 – nil). Based on its customer base, the Company does not believe that it has any significant concentrations of credit risk. The Company does not have any off balance sheet credit exposure related to its customers.

The Company has established a credit policy under which each new customer is analyzed individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and trade references. Customers that fail to meet the Company's creditworthiness criteria may transact with the Company only on a prepayment basis. The maximum credit exposure associated with trade accounts receivable is the carrying value.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience, account aging and the oil and gas industry economic cycle. The Company reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability.

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Trade accounts receivable	\$ 28,966	26,006
Allowance for doubtful accounts	(1,151)	(1,155)
Total trade accounts receivable	<u>\$ 27,815</u>	<u>24,851</u>

The aging of trade receivables at the reporting date was:

		<u>June 30, 2008</u>		<u>December 31, 2007</u>	
		Gross	Allowance	Gross	Allowance
Current (0 – 30 days from invoice date)	\$	16,283	-	15,886	-
Past due 1-30 days		6,754	-	5,772	-
Past due 31-90 days		5,013	235	3,473	280
More than 90 days		916	916	875	875
Total	\$	<u>28,966</u>	<u>1,151</u>	<u>26,006</u>	<u>1,155</u>

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 4 – FINANCIAL RISK MANAGEMENT (continued)

The movement in the allowance for doubtful accounts receivables in respect of trade receivables during the period was as follows:

		<u>June 30, 2008</u>	<u>December 31, 2007</u>
Balance at January 1	\$	1,155	427
Impairment loss recognized (recovered)		(4)	728
Balance at end of period	\$	<u>1,151</u>	<u>1,155</u>

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Company's reputation.

The Company has the following contractual financial liabilities, including interest payments: trade and other payables, bank indebtedness, secured equipment loans, an operating line of credit margined by accounts receivable, a three year credit facility and capital leases for equipment (notes 6 and 7).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income. The Company has minimal transactions in US dollars and therefore minimal exposure. For every 1% change in the prime interest rate would cost the Company \$138 per annum in additional interest expense.

NOTE 5 – CAPITAL MANAGEMENT

The Board's policy is to maintain an appropriate capital base that maintains investor, creditor and market confidence and to sustain future development of the business. The Company seeks to maintain a balance between the level of long-term debt and shareholders' equity to ensure access to capital markets to fund growth and working capital. The Company may occasionally need to increase these levels to facilitate acquisition or expansionary activities.

The Company was in compliance with all externally imposed debt covenants at June 30, 2008.

As at June 30, 2008 and December 31, 2007, these ratios were as follows:

(Stated in thousands, except ratios)

		<u>June 30, 2008</u>	<u>December 31, 2007</u>
Long-term debt	\$	15,045	15,211
Shareholders' equity		40,954	40,796
Total capitalization	\$	<u>55,999</u>	<u>56,007</u>
Long-term debt to total capitalization		<u>0.27</u>	<u>0.27</u>

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 6 – OPERATING FACILITIES and LONG-TERM DEBT

The Company has established credit facilities including a \$25 million three year interest-only revolving facility and a \$7.5 million operating facility.

The credit facilities bear interest at the bank's prime rate (or U.S. base rate) plus up to 2.25%, or at bankers' acceptance rates with a variable stamping fee of 1.50% to 3.75%. An additional standby fee ranging from 0.20% to 0.60% 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. The operating facility is subject to covenants that are typical for this type of facility. The credit facilities are collateralized under a general security agreement.

Deferred financing costs associated with the new financing facilities have been shown as a reduction in the carrying value of long-term debt and will be expensed over the term of the debt using the effective interest rate method.

	June 30	December 31
	2008	2007
Equipment financing contracts bearing interest at rates averaging 3.75% (2007 – 3.13%), payable in blended monthly payments of \$14 (2007 - \$19) secured by specific equipment	\$ 219	\$ 391
Three year interest only revolving credit facility	13,829	13,829
	14,048	14,220
Accrued consideration on share purchase acquisition	1,040	1,040
	15,088	15,260
Less: current portion	(1,200)	(216)
	13,888	15,044
Less: unamortized debt issue costs	(43)	(49)
	\$ 13,845	\$ 14,995

Outstanding principal repayments are due as follows:

	June 30
	2008
Periods ending June 30	
2009	\$ 1,200
2010	13,870
2011	16
2012	2
	15,088

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASE

The amounts due under capital lease arrangements are repayable in blended monthly payments of \$118 (2007 - \$125) and bear interest at rates averaging 5.44% (2007 – 5.50%) per annum. On certain leases, the Company has options to acquire the leased assets at various times throughout term to 2012.

	June 30
Periods ending June 30	2008
2009	\$ 1,392
2010	585
2011	201
2012	31
2013	-
	2,209
Less: interest	(177)
	2,032
Less: current portion	(1,274)
	\$ 758

NOTE 8 – SHARE CAPITAL

a) **Authorized:**

Unlimited number of common shares without par value.

Unlimited number of preferred shares, issuable in series.

b) **Issued and outstanding:**

	June 30, 2008		December 31, 2007	
	Shares (in thousands)	\$ Amount	Shares (in thousands)	\$ Amount
Common shares				
Balance, beginning of period	37,568	\$ 60,036	37,462	\$ 59,862
Changes (net of share issue costs):				
Issued on acquisition of PWS	-	-	100	164
Issued on exercise of options	-	-	6	10
Balance, end of period	37,568	\$ 60,036	37,568	\$ 60,036

c) **Per share amounts:**

Basic per common share amounts are computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted per common share amounts are computed by dividing earnings by the diluted weighted average number of common shares outstanding during the period.

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 9 – CONTRIBUTED SURPLUS

	June 30		December 31
	2008		2007
Balance, beginning of period	\$ 4,144	\$	1,423
Stock compensation expense	274		1,116
Exercise of stock options	-		(4)
Warrants – expired	-		1,609
Balance, end of period	\$ 4,418	\$	4,144

NOTE 10 - STOCK-BASED COMPENSATION PLANS

Incentive stock option plan

Information about outstanding stock options is as follows:

	June 30		December 31	
	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,379,998	\$ 2.15	1,924,501	\$ 2.24
Granted	735,000	0.99	667,500	1.71
Exercised	-	-	(5,333)	1.06
Forfeited	(90,164)	1.85	(206,670)	2.12
Outstanding, end of period	3,024,834	\$ 1.87	2,379,998	\$ 2.15
Exercisable at end of period	1,430,820	\$ 2.15	996,143	\$ 2.06

The following table summarizes information about stock options outstanding at June 30, 2008:

Options outstanding	Exercise prices \$	Weighted average remaining life in years	Number exercisable
763,000	0.50-1.05	4.72	28,000
246,667	1.06-1.60	1.65	246,667
1,195,167	1.61-2.15	2.94	609,498
330,000	2.16-2.70	2.54	219,996
490,000	2.71-4.50	2.75	326,659
3,024,834	1.87	3.21	1,430,820

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 10 - STOCK-BASED COMPENSATION PLANS (continued)

Deferred share unit plan

The Company has 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 commencing after the Director's termination date.

On January 16, 2007, 15,000 deferred share units were granted to non-executive directors. On May 22, 2008, an additional 15,000 deferred share units were granted. The units were valued and re-valued at June 30, 2008 and resulted in a total expense of \$16 (June 30, 2007 was a recovery of \$1).

NOTE 11 – RELATED PARTY TRANSACTIONS

During the quarter, the Company had the following transactions with related parties, all of which are measured at exchange amounts, which approximate an arm's length equivalent at fair market value:

- Included in accounts receivable is a non-interest bearing promissory note of \$49 (2007 – \$49) which is due from an officer and Director of the Company. This note is payable on demand. In the second quarter of 2008, the Company paid rent and property taxes to a corporation related to this same Officer and Director of the Company in the amount of \$105 (2007 – \$101). The rent is for a regional office.
 - In the second quarter of 2008, the Company paid rent and property taxes of \$78 (2007 – \$78), and \$nil (2007 – \$12) for regional offices to two different corporations. Different members of senior management of the Company control each corporation.
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NOTE 12 - COMMITMENTS

The Company leases certain shop and office space and vehicles and equipment under operating leases for periods ending between 2008 and 2013. Future minimum lease payments under these leases in each of the next five years are as follows:

Periods ending June 30	Rental facilities	Operating leases	Total
2009	\$ 2,899	1,601	4,500
2010	2,315	1,479	3,794
2011	1,634	1,130	2,764
2012	894	318	1,212
2013	649	2	651

In May 2008, the Company sold three of its buildings as part of a sale/lease back arrangement. The net proceeds on the sale were \$1.7 million, resulting in gains on sale of \$0.7 million. The resulting gains have been deferred and will be amortized over the remaining lives of the leases.

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three and six month periods ended June 30, 2008 and 2007

(Stated in thousands of dollars)

NOTE 13- SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Increase (decrease) in non-cash working capital from operations				
Short term investments	\$ -	810	\$ -	802
Accounts receivable	2,885	6,376	(2,964)	5,096
Inventory	(2)	(32)	(5)	(40)
Prepaid expenses and other assets	(143)	234	10	313
Income tax recoverable/payable	150	(3,192)	380	(2,410)
Accounts payable and accrued liabilities	(326)	(385)	420	(2,384)
Net change in non-cash working capital	\$ 2,564	3,811	\$ (2,159)	1,377

NOTE 14 – 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 quarter ended June 30, 2008, the Company had one customer representing more than 10% of revenue (June 30, 2007 – nil).

Revenue by customer group is as follows:

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Oilfield	\$ 8,667	6,486	\$ 24,628	26,285
Industrial	19,420	12,866	31,028	21,015
Total Revenue	\$ 28,087	19,352	\$ 55,656	47,300

As a % of Revenue:

Oilfield	30.9%	33.5%	44.3%	55.6%
Industrial	69.1%	66.5%	55.7%	44.4%
Total Revenue	100.0%	100.0%	100.0%	100.0%

NOTE 15 – CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees, and third parties. Management believes that adequate provisions have been recorded in the accounts where applicable. Although it may not be possible to estimate accurately the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material effect on the financial position of the Company.