

## HSE Integrated Ltd. Management Discussion and Analysis (“MD&A”) For the Quarter and Year To Date Ended June 30, 2008 and 2007

The following management discussion and analysis is dated August 13, 2008, and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Company”) for the quarter and year to date ended June 30, 2008 and 2007. This should be read in conjunction with the documents filed on SEDAR at www.sedar.com. Unless otherwise disclosed, the financial information presented in this discussion has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and takes into consideration information available to management up to August 13, 2008. Unless otherwise stated, dollar figures presented are expressed in thousands of Canadian dollars and per-share figures in dollars per weighted-average common share. The following MD&A contains forward-looking information and statements. We refer you to the end of the MD&A for the disclaimer on forward-looking statements.

### Selected Financial Information

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Quarter Over- Quarter % Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Year Over Year % Change
Revenue	\$ 28,087	\$ 19,352	45.1%	\$ 55,656	\$ 47,300	17.7%
Operating and materials	23,440	18,545	26.4%	45,992	39,175	17.4%
Operating margin	4,647	807	475.8%	9,664	8,125	18.9%
Operating margin %	16.5%	4.2%		17.4%	17.2%	
Selling, general & administrative	\$ 2,460	\$ 2,598	(5.3%)	\$ 4,844	\$ 5,113	(5.3%)
Net loss	(568)	(3,113)	81.8%	(579)	(2,209)	73.8%
- per share basic & diluted	(0.02)	(0.08)	75.0%	(0.02)	(0.06)	66.7%
EBITDA <sup>(1)</sup>	\$ 2,187	\$(1,791)	222.1%	\$ 4,820	\$ 3,012	60.0%
EBITDA %	7.8%	(9.2%)		8.7%	6.4%	
Total assets				\$72,232	\$ 98,025	(26.3%)
Total long-term liabilities				20,474	23,977	(14.6%)

See Non-GAAP Measures for <sup>(1)</sup>

### Financial Review

#### Revenue

HSE operates in a single industry segment, which involves providing an integrated package of asset, worker and community safety protection services including: on-site safety supervision; gas detection; fixed and mobile air quality monitoring; breathing equipment rentals and services; fixed and mobile firefighting and fire protection services and equipment; worker decontamination (shower) services; on-site medical services; worker safety training; and safety management and consulting services.

For the three months ended June 30, 2008, the Company had one customer representing more than 10% of revenue (June 30, 2007 – nil).

The Company currently provides services to its customers in two main business areas: Oilfield Services (“Oilfield”) and Industrial Services (“Industrial”). Oilfield is the conventional upstream, or “wellhead”, sector of the oil and gas industry. Industrial represents non-conventional upstream oil development and production including oilsands extraction, oil and gas processing and refining plants and facilities, petrochemicals, pulp and paper, utilities, power generation, diverse manufacturing industries, worker safety training, and safety management and consulting services. The Company had previously separately disclosed revenue for air quality monitoring (“Environment”), but has now grouped these services into either the Industrial or Oilfield market in which these services are deployed.

The revenue for these customer groups is shown below:

	<b>Quarter ended June 30, 2008</b>	Quarter ended June 30, 2007	Quarter ended June 30, 2006
Oilfield	\$ 8,667	\$ 6,486	\$ 13,253
Industrial	19,420	12,866	6,671
<b>Total Revenue</b>	<b>28,087</b>	19,352	19,924
As a % of Revenue:			
Oilfield	30.9%	33.5%	66.5%
Industrial	69.1%	66.5%	33.5%
<b>Total Revenue</b>	<b>100.0%</b>	100.0%	100.0%
	<b>Six months ended June 30, 2008</b>	Six months ended June 30, 2007	Six months ended June 30, 2006
Oilfield	\$ 24,628	\$ 26,285	\$ 36,642
Industrial	31,028	21,015	10,747
<b>Total Revenue</b>	<b>55,656</b>	47,300	47,389
As a % of Revenue:			
Oilfield	44.3%	55.6%	77.3%
Industrial	55.7%	44.4%	22.7%
<b>Total Revenue</b>	<b>100.0%</b>	100.0%	100.0%

### Oilfield

Oilfield revenues in the quarter experienced a 33.6% gain compared to the second quarter of 2007, and a 34.6% decline as compared to the second quarter of 2006. The year over year gain from 2007 to 2008 is due to increased overall activity levels within the conventional upstream, or "wellhead", sector of the oil and gas industry: oil and natural gas well drilling, completion and work-over (repair and maintenance) operations. Growth factors for the Company included an operation in Saskatchewan resulting from an acquisition on July 1, 2007; increased capacity in British Columbia; and a shorter "spring breakup" than in 2007 across all of Western Canada which permitted more activity during this period. Services provided in the Oilfield sector are primarily oriented towards supporting the development of natural gas, particularly sour gas containing hydrogen sulphide. The primary driver of revenue fluctuations in the three comparative reporting periods relates to an increase or reduction in natural gas drilling and work-over activity caused primarily by significant fluctuations in natural gas prices and external factors such as interest rates, currency exchange rates, equity and debt markets, weather, seasonality, and federal and provincial taxation and royalty policies.

To meet growing industry demand in British Columbia and Saskatchewan, equipment and personnel were redeployed from Alberta generating increases in Oilfield revenue. This trend should continue as customers redeploy capital to these markets because of new discoveries and more attractive fiscal regimes for oil and gas development.

HSE has experienced some pricing pressure with customers caused primarily by additional capacity added by competitors and overall industry reduction in demand. As conventional oil and gas exploration and production has become less profitable for E&P companies because of lower gas prices and higher overall operating costs, there has been pressure to sustain profitability by asking vendors like HSE to provide products and services at flat or lower prices.

### Industrial

The Company continues its successful business diversification strategy, and reports a 50.9% (\$6,554) increase in Industrial revenues in the second quarter when compared to the prior year, and an almost 191.1% (\$12,749) increase when compared to the similar period in 2006.

The continuing growth in Industrial revenues is from increased demand for safety equipment and services from oil and gas processing facilities, thermal heavy oil recovery, and oilsands extraction and construction projects in Alberta; safety services, fire suppression, gas detection and breathing air equipment rental services to diverse industrial and commercial markets in British Columbia, Alberta, and Ontario; safety services for the refining, mining, offshore drilling and production and other industries in Atlantic Canada; and worker safety training and safety consulting services in all markets.

The second quarter of 2008 was characterized by a significant increase in processing plant (oilfield and industrial) shutdown and turnaround safety services which tend to take place in the spring and fall of the year. The Company's increased revenue in this area is a combination of repeat business from satisfied clients from prior years, a more focused marketing effort in this area, increased expertise in this specialized area through the addition of some key operations and marketing personnel, more service contracts for services on a continuous basis, and growing customer acceptance of HSE as a viable provider of these services.

A significant portion of the increase in Industrial revenues came from continued growth in demand for a growing range of HSE's services to oilsands construction, extraction and processing operations in Northeast Alberta based from Fort McMurray. This geographic area experienced growth rates of 62% over the prior year, and 558% when compared to the same period in 2006. In the second quarter of 2008, revenue from this region represented 16% of total revenue.

Equipment and services delivered in Central and Atlantic Canada, and the North Eastern United States, is classified as Industrial revenue. Revenue from these areas in the first six months of 2008 was \$10.3 million and has increased by 103% when compared to 2007.

Building upon the acquisitions completed in April 2006, and increased demand created by more aggressive marketing efforts in new and existing markets, the Company continues to gain customer recognition as a capable, qualified and reliable provider of safety services.

Prior to HSE, no single industrial safety services company in Canada has ever been able to offer its clients the capacity and diversity of services from a single source. The continued growth of Industrial safety revenues reflects both customer acceptance of HSE as a capable and reliable vendor and validates the Company's business model that this is an essential and viable business.

### **Operating and Materials Expense and Operating Margin**

Operating and materials expense consists of costs directly attributable to the delivery of safety and related services to customers. These include: wages and benefits for field employees and contractors; equipment rentals and leases; field service centre property costs; transportation; fuel; consumables; equipment repairs and maintenance; and field office administration including field sales.

Operating and materials expense for the quarter ended June 30, 2008 totaled \$23.4 million or 83.5% of revenue as compared to \$18.5 million or 95.8% of revenue in 2007. Operating margin for the quarter increased from \$0.8 million or 4.2% of revenue in 2007, to \$4.6 million or 16.5% of revenue in 2008.

The significant increase in operating margin is due to higher revenue in all business categories and increased utilization of all the Company's capital assets compared to the same period in the prior year. Higher input costs (such as fuel) negatively impacted the quarter.

## **Selling, General and Administrative Expense**

Selling, general and administrative (“SG&A”) expense consists of costs not directly attributable to the delivery of services to customers. These include costs generally associated with the following; corporate head-office functions and services; administrative personnel; corporate sales and marketing costs; liability insurance; professional fees; and investor relations expenses.

SG&A for the quarter ended June 30, 2008 totaled \$2.5 million, which represents a 5.3% reduction from the same period in the prior year. This was achieved despite a 45% increase in revenue during the period. On a year-to-date basis, SG&A is down 5.3% year over year while revenues have increased by 17.7%. This is in line with the Company’s ongoing fixed cost reduction and efficiency initiatives which have been underway since the second quarter of 2007.

## **EBITDA and Net Earnings (Loss)**

Reflecting a 45% increase in revenues for the quarter June 30, 2008 compared to the prior year, EBITDA (see “Non-GAAP Measures”) increased to \$2.2 million from \$(1.8) million in Q2 2007, an improvement of \$4.0 million. This was caused by significant revenue increases and higher equipment utilization rates in all areas. This was also assisted by tightly controlled SG&A and field fixed cost expenses.

Total amortization for the quarter was \$1.9 million. This was comprised of \$1.7 million in property and equipment amortization, and \$0.2 million in intangible asset amortization. Property and equipment amortization has increased by \$0.1 million when compared to the prior year due to previous investments in property and equipment and from similar assets acquired through acquisitions.

Stock-based compensation for the quarter was \$0.2 million (2007 - \$0.3 million).

Interest on long term debt in the quarter decreased slightly from the same period in the prior year, and other interest and bank charges increased slightly. Decreased interest from obligations under capital leases was offset by some increases due to a draw on the operating line of credit early in the reporting period and an increase of non-interest bank and finance charges.

For the second quarter of 2008, the loss on disposal of property and equipment was \$326 as compared to a loss of \$30 for the same period in the prior year. Asset divestitures in the period were the result of an ongoing review of all the capital assets of the Company to ensure optimal utilization and ongoing commercial viability. Non-essential assets were sold in a sale / leaseback arrangement resulting in a deferred gain.

HSE had an income tax recovery of approximately \$(0.1) million in the second quarter, which represents an improvement from the \$(1.3) million recovery recorded for the same period in the prior year primarily due to increased profitability.

The net loss for the second quarter was \$0.6 million, which represents an increase compared to a net loss of \$3.1 million for the same period in 2007. The greatly reduced loss is due to higher levels of revenue and EBITDA.

## 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 lender, and equity financing.

The Company, through the conduct of its operations, has undertaken certain outstanding contractual obligations as noted in the following table:

Years ended December 31,	2008	2009	2010	2011	2012	Total
Capital lease obligations	\$702	1,094	296	111	6	\$2,209
Vehicle operating leases	845	1,507	1,419	739	21	4,531
Property & other leases	1,509	2,597	2,015	1,267	707	8,095
Long-term debt	88	1,138	13,853	9	-	15,088
Total contractual obligations	\$3,144	6,336	17,583	2,126	734	\$29,923

### ***Cash Provided by Operations***

Cash provided by operations in the quarter was \$4.2 million as compared to cash provided by operations of \$2.9 million for the same period in the prior year. The primary cause for the change was a higher level of earnings. Working capital improved to \$19.2 million at June 30, 2008 from \$18.4 million at March 31, 2008 and \$17.2 million at December 31, 2007. Approximately 3% of accounts receivable is aged greater than 90 days, the full amount of which has been provided for in the allowance for doubtful accounts.

### ***Cash Used in Financing and Investing***

During the quarter, the Company paid down its operating line of credit by \$3.7 million. This leaves \$7.5 million available for future use. The Company also made scheduled debt reductions of \$1.0 million toward capital lease and other long term debt obligations.

Purchases of property and equipment for the quarter amounted to \$1.1 million, the majority of which was revenue generating safety services rental equipment.

### ***Liquidity***

The Company's credit facilities include a \$25 million three-year interest-only revolving facility and a \$7.5 million operating facility. 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 credit facilities are subject to covenants that are typical for this type of facilities, and are collateralized under a general security agreement.

At June 30, 2008, the draw against the revolving facility was \$14.0 million and the Company was in compliance with its financial covenants and continues to maintain a favourable relationship with its primary lender.

## **Outlook**

### Oilfield

Due to a steady increase in the price of crude oil, a significant recovery in the price of natural gas, and resolution of some of the “unintended consequences” of Alberta’s new Crown royalty regime intended to come into effect January 1, 2009, demand for Company equipment and services from clients in the Oilfield sector in Alberta – HSE’s largest market – is improved compared to the prior year. Indications from Company clients are that their capital programs – particularly for natural gas – will be steady or increased in the second half of 2008 compared to the second half of 2007. This will benefit the Company and should increase demand for, and utilization of, the larger capital assets specifically oriented towards natural gas drilling, completion and development. Recent announcements of increased capital budgets for natural gas development in Alberta give the Company some confidence that the period of lowest demand for its specialized assets and services for this market segment has passed.

HSE’s strategy will be to continue to monitor demand and redeploy capital assets in other markets (either in Industrial applications or areas with higher Oilfield activity) in order to achieve asset utilization rates that will generate a more satisfactory return on invested capital than the Company has achieved in recent reporting quarters.

Due to attractive fiscal regimes and new discoveries of hydrocarbons in British Columbia and Saskatchewan, demand for the Company’s Oilfield equipment and services in these markets will continue to grow.

### United States Expansion

As announced on May 7, 2008, HSE continues to pursue the expansion of its Oilfield safety services division in the continental United States through a new company called Boots & Coots HSE Services, LLC. (“BCHSE”), jointly owned by HSE (90%) and Boots & Coots International Well Control, Inc. (“Boots & Coots”) (10%). In the second quarter, progress was made in launching this new venture including incorporation of the operating entity, selection of a joint Board of Directors, development of operating policies and procedures, review of opportunities available from Boots & Coots existing facilities, budgets, recruiting and training strategies, ongoing marketing, insurance and regulatory matters, and other undertakings congruent with starting up a new operation in another country.

Initially, BCHSE will provide fire protection and worker decontamination services during well stimulation operations. This will involve the relocation of the necessary specialized and proprietary capital assets, designed and manufactured by HSE in Canada, to selected US markets. The first equipment, a high capacity fire/shower combination unit, is scheduled to be shipped to the Boots & Coots service location in Decatur, Texas, in mid-August. The Decatur location, northwest of Fort Worth, Texas, services the active Barnett Shale gas play in the region. Other equipment has been identified for shipment in the third and fourth quarters of 2008. Management is seeking shop and services facilities in two other markets to continue the expansion plans for the 2008 fiscal year, and is actively recruiting field service personnel for these markets. The President of BCHSE, Jarvis Jackson, has relocated to Houston, Texas.

The Company believes that the U.S. market will remain active for natural gas drilling, and that gas development companies and their subcontractors are ready to embrace a higher level of worker and asset safety protection services than they have in the past. The Company is optimistic that by transferring capital assets to the U.S. it will achieve higher utilization levels for currently under-utilized capital assets than it will without this initiative. HSE is also confident that it has chosen the right strategic partner to accelerate growth in this market at a greater rate than HSE would have accomplished on its own.

### *Industrial*

Based on the success in significantly growing the Industrial segment of the business in 2008, the Company now believes that it can continue to grow in this large and diverse marketplace for many years. During the second quarter of 2008, two new service locations were opened in Ontario, one in Sudbury and one in Hamilton. Both have the characteristics of successful Industrial safety markets that include heavy and safety-intensive industry, a proven existing client base, a diverse potential client base, and a lack of competitors offering the capacity and scope of services like those offered by HSE. The Company believes Sudbury and Hamilton will eventually join Saint John, New Brunswick, as successful “greenfield” service locations, with greenfield defined as a new service centre opened without an acquisition. Saint John was opened in early 2006 and in only two years has grown to the point that it accounted for 9.4% of total revenues in the first six months of the current fiscal year.

HSE introduced a new service in the second quarter from its Bonnyville, Alberta location – a mobile safety equipment service unit. Building upon its partnership with Levitt-Safety, a leading independent supplier of safety equipment, this service unit travels to remote processing plants and facilities and services their essential safety equipment on-site. Based on immediate commercial success and customer demand, a second unit is under construction for two other markets in Alberta. A new service from an existing service location will meet the Company’s overall goal of increasing revenue without increasing direct fixed costs, resulting in improving operating margins over time.

Another market that continues to demonstrate opportunity is Fort McMurray and the growing bitumen upgrading facilities planned or under construction north and east of Edmonton near the Company’s Fort Saskatchewan service location. The Company now works in some capacity for every major oilsands operator and is now regularly included in all bid and tender processes for upcoming oilsands extraction and upgrading construction projects. To service these opportunities, the Company continues to invest in expertise, capacity and infrastructure to maximize its future opportunities from oilsands and non-conventional heavy oil development.

HSE remains the only company of its type servicing diverse industries across Canada with a broad, integrated suite of services that cost-effectively assist our clients in fulfilling their obligation to protect their workers, their assets and the communities in which they operate. Because HSE is the largest company of its type and the first to provide its unique integrated services package – and demand continues to grow – the Company is clearly meeting a need in the marketplace that has always existed but has never been satisfied by a single vendor. At this time HSE does not know of any major competitors in any markets in which it operates that are contemplating delivering the same service suite on a similar scale, nor is the Company aware of any major competitor that intends to compete directly against HSE in its chosen space or markets.

Supplying Industrial safety services and equipment is different than Oilfield safety services and equipment in that it has a higher component of labor and a lower component of equipment rentals. While this results in a generally lower operating margin, it is also much less capital intensive than the Oilfield side of the business. The Company believes that the Industrial sector offers greater revenue predictability, decreased cyclicalities, and attractive returns on invested capital.

### *Future Growth*

The improved financial performance of the Company in the second quarter of 2008 compared to 2007 has also improved its financial flexibility going forward. The growth in the Industrial division in the past two years has been almost completely organic because the Company has made no acquisitions in this segment since the second quarter of 2006. Should demand for Oilfield safety services remain at the same levels as the previous 12 months and the Industrial division remain stable, the Company believes it has adequate internal cashflow to meet all debt obligations, maintain its existing capital asset base in good working order, and generate free cash for expansion.

Another continuing initiative is increasing operating margins. While the Company is confident it has SG&A under control, there still exists opportunities to increase profit margins at the field operating level through a combination of increased Oilfield asset utilization, better purchasing and cost control at the field operations levels, and the continued upgrading of the business management capabilities of field service management team. The Company continues to work on these areas on an ongoing basis with the objective of increased profit margins going forward.

A key element of continuing to grow the Industrial component will be access to manpower. In the past year the Company has made significant strides in creating and staffing its Human Resources and Staff Development departments and is the best equipped it has ever been to meet this opportunity.

### Quarterly Results

	2008			2007			2006			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue:										
Oilfield	<b>8,667</b>	\$15,961	15,879	11,722	6,486	19,799	18,672	20,737	13,253	23,389
Industrial	<b>19,420</b>	11,608	10,585	11,856	12,866	8,149	7,526	6,215	6,671	4,076
Total revenue	<b>28,087</b>	\$27,569	\$26,464	\$23,578	\$19,352	\$27,948	\$26,198	\$26,952	\$19,924	\$27,465
Net earnings (loss)	<b>(568)</b>	(11)	(9,173)	(15,920)	(3,113)	904	984	1,197	(1,073)	2,353
EBITDA <sup>(1)</sup>	<b>2,187</b>	2,633	2,601	1,376	(1,790)	4,802	4,341	4,283	1,140	5,548
Income (loss) per share – basic and diluted	<b>\$(0.02)</b>	\$0.00	\$(0.25)	\$(0.42)	\$(0.08)	\$0.02	\$0.03	\$0.03	\$(0.03)	\$ 0.07

See Non-GAAP Measures for <sup>(1)</sup>

HSE's business has a seasonal component. Revenue from Oilfield services tends to be highest in the first and fourth quarters and lower in the second quarter because this sector uses equipment that cannot access remote well locations during certain times of the year. For Industrial services revenue, the second and third quarters tend to be higher due to greater levels of safety service projects supporting scheduled facility maintenance and repair activities at client sites.

### 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 quarter, 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 also 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.

### Critical Accounting Policies and Estimates

HSE prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed periodically, and actual results may differ from

those estimates under different assumptions or conditions. Management must use its judgment related to uncertainties in order to make these estimates and assumptions.

The accounting policies and estimates believed to require the most difficult, subjective or complex judgments and which are material to the Company's financial reporting results include: allowance for doubtful accounts, intangible assets, impairment of long lived assets, depreciation and amortization of property and equipment, and future income tax liabilities. A full description of these accounting policies and estimates can be found in HSE's 2007 Annual Report.

### **Accounting Pronouncements**

Effective January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. The adoption of the new standards resulted in additional note disclosure requirements. For a description of the principal changes due to the adoption of the accounting standards and for further details on changes in significant accounting policies, see note 2 to the unaudited Consolidated Financial Statements for the period ended June 30, 2008.

In February 2008 the CICA 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 CICA Accounting Standards Board ("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 the "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.

Therefore, the Company must be in a position to report its results and comparatives in accordance with IFRS beginning January 1, 2011. The Company is assessing the potential impacts of this transition and developing its project plan accordingly.

### **Business Risks**

The activities the Company undertakes involve a number of risks and uncertainties, some of which are: business cyclicalities, availability of qualified staff and litigation and contingencies. Additional risks and uncertainties that the Company may be unaware of, or that were determined to be immaterial, may also become important factors that affect the Company. A discussion on the business risks faced by the Company can be found in HSE's 2007 Annual Report.

### **Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosure of material information, and are effective as at June 30, 2008.

## Management's Report on Internal Control over Financial Reporting

The CEO and CFO of HSE Integrated Ltd. are responsible for designing internal controls over financial reporting or causing them to be designed under supervision. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There have been no changes in the Company's internal control over financial reporting during the first half of 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## Common Shares Outstanding

At August 13, 2008, there were 37,575,675 common shares of HSE outstanding. At June 30, 2008 and December 31, 2007, there were 37,567,675 common shares outstanding.

## Non-GAAP Measures

This report makes reference to EBITDA, a measure that is not recognized under generally accepted accounting principles. Management believes that, in addition to net earnings, EBITDA is a useful supplementary measure. EBITDA provides investors with an indication of earnings before provisions for interest and bank charges, taxes, amortization and goodwill impairment, foreign exchange gains or losses, gains or losses on the disposal of property and equipment, and the non-cash effect of stock-based compensation expense. Investors should be cautioned that EBITDA should not be construed as an alternative to net earnings determined by GAAP as an indication of the Company's performance. HSE's method of calculating EBITDA may differ from that of other companies and accordingly may not be comparable to measures used by other companies.

## EBITDA Calculation

For the Six Months Ended June 30	2008	2007
Net loss	<b>\$(579)</b>	\$(2,209)
Add (deduct):		
Amortization and goodwill impairment	<b>4,145</b>	3,843
Stock-based compensation	<b>290</b>	690
Interest and bank charges	<b>628</b>	634
Foreign exchange loss (gain)	<b>-</b>	2
Loss on disposal of property and equipment	<b>326</b>	737
Income tax	<b>10</b>	(685)
EBITDA	<b>\$4,820</b>	\$3,012

## Quarterly EBITDA Calculation

	2008			2007			2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net earnings (loss)	<b>\$(568)</b>	<b>\$(11)</b>	\$(9,173)	\$(15,920)	\$(3,113)	\$904	\$984	\$1,197
Add (deduct):								
Amortization	<b>1,920</b>	<b>2,125</b>	2,243	2,004	1,955	1,888	2,458	1,862
Impairment of goodwill and intangible assets	<b>100</b>	–	10,505	15,000	–	–	–	–
Stock-based compensation	<b>155</b>	<b>135</b>	255	186	333	357	285	312
Interest and bank charges	<b>331</b>	<b>297</b>	311	309	302	332	403	346
Foreign exchange loss (gain)	<b>2</b>	<b>(2)</b>	12	22	3	(1)	(93)	–
Loss (gain) on disposal of property and equipment	<b>326</b>	–	103	99	30	707	(26)	(19)
Income taxes	<b>(79)</b>	<b>89</b>	(1,655)	(324)	(1,300)	615	330	585
<b>EBITDA</b>	<b>\$2,187</b>	<b>\$2,633</b>	\$2,601	\$1,376	\$(1,790)	\$4,802	\$4,341	\$4,283

## Forward-Looking Statements

This report contains forward-looking information and statements within the meaning of applicable securities laws. These forward-looking statements concern, among other things, the Company's prospects, expected revenues, expenses, profits, financial position, strategic direction, and growth initiatives, all of which are subject to risks, uncertainties and assumptions. These forward-looking statements are identified by their use of terms and phrases such as *expect, anticipate, estimate, believe, may, will, intend, plan, continue, project, objective* and other similar terms and phrases. These statements are based on certain assumptions and analyses made by the Company based on its experience and assessment of current conditions, known trends, expected future developments and other factors it believes are appropriate under the circumstances. Such statements are subject to numerous external variables, both known and unknown, such as changes in commodity prices for natural gas and oil, changes in drilling activity, weather conditions, industry-specific and general economic conditions and exchange rate fluctuations. If any of these risks and uncertainties materializes or if assumptions are incorrect, actual results may differ materially from those expressed or implied in the forward-looking statements. The forward-looking statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information and statements.

The forward-looking information and statements contained in the MD&A speak only as of the date of this MD&A, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

## Additional Information

Additional information relating to HSE is available under our profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) and at [www.hseintegrated.com](http://www.hseintegrated.com).