

**HSE Integrated Ltd.**  
**Management Discussion and Analysis (“MD&A”)**  
**For the three and nine months ended September 30, 2008 and 2007**

The following management discussion and analysis is dated November 12, 2008, and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Company”) for the quarter and nine months ended September 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 November 12, 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 September 30,		Quarter Over Quarter % Change	Nine Months ended September 30,		Period Over Period % Change
	2008	2007		2008	2007	
Revenue	\$ 28,202	\$ 23,578	19.6%	\$ 83,857	\$ 70,878	18.3%
Operating and materials	22,408	20,113	11.4%	68,400	59,287	15.4%
Operating margin	5,794	3,465	67.2%	15,457	11,591	33.4%
Operating margin %	20.5%	14.7%		18.4%	16.4%	
Selling, general & administrative	\$ 2,936	\$ 2,089	40.5%	\$ 7,780	\$ 7,202	8.0%
Net earnings (loss)	396	(15,920)	102.5%	(183)	(18,129)	101.0%
- per share basic and diluted	0.01	(0.42)		0.00	(0.48)	
EBITDA <sup>(1)</sup>	\$2,858	\$ 1,376	107.7%	\$7,677	\$ 4,389	74.9%
EBITDA %	10.1%	5.8%		9.2%	6.2%	
Total assets				\$ 71,544	\$ 84,256	(15.1%)
Total long-term liabilities				20,004	23,969	(16.5%)

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; pre-employment health testing; and safety management and consulting services.

Total revenue for the three months ended September 30, 2008 was \$28.2 million, an increase of 19.6% from \$23.6 million for the same period in 2007. For the nine-months ended September 30, 2008, revenue rose to \$83.9 million, an 18.3% increase from \$70.9 million in the prior year. For the reporting quarter ended September 30, 2008, the Company had no customers representing more than 10% of revenue.

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

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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:

	Three Months ended September 30,		Quarter Over Quarter % Change	Nine Months ended September 30,		Period Over Period % Change
	2008	2007		2008	2007	
Oilfield	\$12,039	11,722	2.7%	36,666	38,007	(3.5%)
Industrial	\$16,163	11,856	36.3%	47,191	32,871	43.6%
Total Revenue	\$28,202	\$23,578	19.6%	\$83,857	\$70,878	18.3%

As a % of Revenue:

Oilfield	42.7%	49.7%	43.7%	53.6%
Industrial	57.3%	50.3%	56.3%	46.4%
Total Revenue	100.0%	100.0%	100.0%	100.0%

Oilfield - Canada

Oilfield revenues increased by 2.7% in the third quarter of 2008 compared to 2007. The year over year increase is due to higher overall activity levels in the conventional upstream, or "wellhead", sector of the oil and gas industry which includes oil and natural gas well drilling, completion and work-over (repair and maintenance) operations. However, for the nine-month period Oilfield safety services revenues declined by 3.5%. This reflects the overall decline in the drilling of new wells in the first half of the 2008 fiscal year.

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 previous 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, and federal and provincial taxation and royalty policies. In the past three years, new conventional oil and gas well drilling activity levels declined sharply from 2006 to 2007 and, with the exception of the third quarter, declined further in 2008. Well workover and stimulation activities on existing wells have followed a similar pattern. Higher crude oil and natural gas prices in the second and third quarters of 2008 had a positive impact on overall spending and drilling activity in the third quarter. However, the decline in commodity prices as the third quarter progressed and ended will likely result in reduced investment activity going forward.

To meet growing industry demand in British Columbia and Saskatchewan, equipment and personnel were redeployed from Alberta generating increases in Oilfield revenue of 70.6% and 153.2% respectively in these markets compared to the same period in the prior year. The third quarter of 2007 is the first period in which HSE had substantial operations in Saskatchewan due to the acquisition of Prairie Wide Safety Ltd. in Weyburn, Saskatchewan, effective July 1, 2007.

In the first half of the year, HSE had experienced some pricing pressure with customers caused primarily by additional capacity added by competitors and an 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.

However, these pricing pressures stabilized in the third quarter due to the higher commodity prices, increased demand for equipment and services, and an industry-wide shortage of qualified manpower to

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respond to increased demand on short notice. Shortages of manpower and other critical mechanical components required for the drilling and completion of new wells such as casing and stimulation materials restrained overall activity in this sector during the third quarter at lower levels than might have been achieved otherwise. HSE experienced manpower capacity constraints in delivering Oilfield safety services in the third quarter and may have been able to generate higher revenues had more qualified personnel been available.

Oilfield – United States

Activity in the third quarter related to the Company's business arrangement with Boots & Coots International Well Control, Inc. – Boots & Coots HSE Services LLC ("BCHSE") – focused on logistics such as asset transfers, recruitment of personnel, securing of operating facilities and other activities associated with setting up a new business operation. The first safety equipment was transferred from HSE to BCHSE in the United States and management and field personnel were recruited and hired. This operation generated its first revenue in Texas in the third quarter, but the amount was not material. In October, service shop space was secured and the first stand-alone field service location opened in Midland-Odessa, Texas. BCHSE generated an operating loss in the third quarter of approximately \$0.2 million.

Industrial

The Company continues its successful business diversification strategy, and reported a 36.3% or \$4.3 million increase in Industrial revenues in the third quarter compared to the prior year. For the first nine months, the increase was \$14.3 million or 43.6%. For the first nine months Industrial safety services comprised 56.3% or over half of total revenues for the first time. Going forward, it is likely that Industrial revenues will continue to be greater than Oilfield revenues.

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, 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 third quarter of 2008 was characterized by steady revenue growth in all markets for HSE's expanding Industrial safety services suite in most service locations. This is from a combination of repeat business from satisfied clients from prior years, a more focused marketing effort, increased expertise through the addition of experienced 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. HSE offered Industrial Hygiene consulting and advisory services to its clients for the first time in the third quarter. Based on favorable customer response, this essential but highly specialized worker protection service will be an important element of the HSE Industrial health, safety and environment services suite going forward.

Growth in two specific Industrial markets continued in the third quarter in a manner which the Company believes to be sustainable.

In the oilsands regions of northeast Alberta – serviced from Fort McMurray and Bonnyville – Industrial safety services revenues in the third quarter rose 73.5% to \$5.9 million from \$3.4 million in the prior year. This is based upon HSE continuing to provide quality services and the growing acceptance by oilsands developers of having core safety services provided by an expert third-party vendor as an alternative to internal initiatives. A new operations and training facility in Bonnyville, opened in the first quarter, has increased this location's capacity to service the local market, and Bonnyville's new mobile safety equipment service unit contributed meaningful revenues in the third quarter for the first time.

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 third quarter of 2008 was \$6.3 million,

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an increase of 64.7% compared to 2007. New locations in Sudbury, Ontario and Hamilton, Ontario, which were opened in the second quarter of 2008, contributed revenue for the first time.

**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 September 30, 2008 totaled \$22.4 million or 79.4% of revenue as compared to \$20.1 million or 85.3% of revenue in 2007. Operating margin for the quarter increased from \$3.5 million or 14.7% of revenue in 2007 to \$5.8 million or 20.5% of revenue in 2008.

The significant increase in operating margin is due to higher Industrial safety services revenue and increased utilization of all the Company's capital and manpower assets compared to the same period in the prior year. Higher fuel costs 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 September 30, 2008 totaled \$3.0 million, which represents a 40.5% or \$0.8 million increase from the same period in the prior year. While overall staffing and salary levels remained stable, the year-over-year increase was related to one-time executive severance expenses and an upward adjustment of the accruals for performance bonuses, under HSE's existing executive bonus plan and based upon the improved overall financial performance of the Company in 2008. For the nine-month period SG&A expenses have increased by 8.0% compared to the prior year for the same reason. The one-time expenses accounted for approximately 90% of the nine month period increase in SG&A. However, as a percentage of total revenue for the nine-month period, SG&A is down to 9.3% of revenue compared to 10.2% in 2007.

**EBITDA and Net Earnings**

Reflecting a 19.6% increase in revenues for the quarter ended September 30, 2008 compared to the prior year, EBITDA (see "Non-GAAP Measures") increased to \$2.9 million from \$1.4 million in Q3 2007, an improvement of \$1.5 million or 107.7%. This was caused by significant revenue increases for Industrial safety services, higher equipment and manpower utilization rates.

Total amortization for the quarter was \$1.8 million, a decline of \$0.2 million from the same period in 2007. This was comprised of \$1.6 million in property and equipment amortization, and \$0.2 million in intangible asset amortization.

Interest on long term debt and bank charges in the quarter decreased slightly from the same period in the prior year. Decreased interest from obligations under capital leases was offset by some increases due to an increase of non-interest bank and finance charges.

For the third quarter of 2008, the loss on disposal of property and equipment was \$0.1 million. 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 on-going commercial viability.

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HSE generated a profit of \$0.4 million in the third quarter or \$0.01 per share compared to a loss of (\$15.9 million) or (\$0.42) per share in the previous year. The reported loss in 2007 reflected a required one-time impairment charge to goodwill carried on the balance sheet relative to the market capitalization of the company on September 30, 2007, and lower levels of revenue and profitability in the reporting period.

**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. Working capital at September 30, 2008 was \$20.3 million.

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	\$328	1,024	289	112	7	\$1,760
Vehicle operating leases	414	1,526	1,440	747	21	4,148
Property & other leases	751	2,795	2,203	1,315	787	7,851
Long-term debt	42	1,138	13,854	8	-	15,042
Total contractual obligations	\$1,535	6,483	17,786	2,182	815	\$28,801

***Cash provided by (used in) operations***

Cash provided by operations in the quarter was \$3.0 million as compared to the cash used in operations of \$3.0 million for the same period in the prior year. The primary cause for the change is higher levels of profitability. Management has maintained a provision for doubtful accounts to \$1.3 million as recognition of the potentially challenging environment faced primarily by smaller customers in all markets across Canada.

***Cash provided by (used in) financing and investing***

During the quarter, the Company used its operating line from time to time but at September 30, 2008, the Company held cash or cash equivalents of \$2.0 million. This leaves \$7.5 million available on the operating line for future use. The Company also made scheduled debt reductions of \$0.5 million toward capital lease and other long term debt obligations.

***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 these types of facilities, and are collateralized under a general security agreement.

At September 30, 2008, the draw against the revolving facility was \$13.8 million. The Company has available to it the full \$7.5 million operating facility and \$11.2 million on the revolving facility.

The Company was in compliance with all of its debt covenants at September 30, 2008.

## **Outlook**

### Oilfield - Canada

The highly cyclical nature of the conventional upstream oil and gas industry in the Western Canadian Sedimentary Basin – the sector served by HSE’s Oilfield safety services - was illustrated once again in the quarter ended September 30, 2008. The period began with record high oil prices and the highest natural gas prices in two years. During the quarter, clients responded with increased spending and drilling activity compared to 2007. The main operational issue for the Company’s clients was a lack of skilled manpower and shortages of certain equipment and materials required to service a sharp activity increase in the third quarter.

However, the period ended with oil and gas prices down by about half and world financial markets in distress. Equity values for publicly traded energy-related companies declined sharply. While interest rates are lower due to Canadian and international governments reducing key lending rates, credit and liquidity for debt financing has become a critical issue on a global basis.

Therefore, a level of uncertainty has returned to this sector for the short and medium term caused by negative indicators that were not on the horizon as little as 90 days ago when this report was written for the quarter ended June 30, 2008. On October 27, 2008, the Canadian Association of Oilwell Drilling Contractors (“CAODC”) released its updated 2008 drilling activity forecast for western Canada and its first estimates for 2009. The CAODC indicated that for 2008 there would be 20% less wells drilled than 2007, and in 2009 there would be a further decline of 6% from 2008 levels. The areas where activity would stay steady or increase are British Columbia and Saskatchewan due to attractive fiscal regimes and new resource plays, while drilling in Alberta would continue to decline because, “the uncertainty associated with the new royalty program continues to drive away investment”.

However, in the short term the signal from HSE’s clients is that they will be relatively busy and therefore HSE’s Oilfield safety services revenues should remain at historical levels at least until the second quarter of 2009. In recent years HSE has invested extensively in new equipment and, through diversification, has maintained field staff levels. HSE has also continued to focus on service quality. Management believes this commitment to excellence is being recognized by our clients and therefore could give the Company a competitive advantage going forward.

The Company’s strategy will be to focus on quality service and continue to find ways to drive efficiency by monitoring costs and redeploying, capital assets in the various Oilfield markets in which it operates (British Columbia, Alberta, Saskatchewan, USA) and Industrial markets in order to achieve the highest possible asset utilization rates.

### Oilfield – United States

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 third quarter significant progress was made in setting up operations in selected U.S. markets. The President of BCHSE, Jarvis Jackson, relocated from Canada to the head office in Houston, Texas. The first two fire/shower combination units were transferred from HSE to BCHSE. More equipment is scheduled to be shipped in the fourth quarter. The first stand-alone facility was opened in Midland-Odessa, Texas, the heart of the Permian Basin oil and gas fields of West Texas and Mexico. A manager was hired and field personnel were recruited and trained. BCHSE generated its first revenue in September on a safety supervision project at an oil and gas processing facility, however the amount was not material for financial reporting purposes. Going forward, BCHSE intends to open field service centers in Oklahoma and Wyoming.

The fall in natural gas and crude oil prices and the turmoil in international financial markets has created a situation where high levels of drilling activity in the United States in 2008 – particularly for natural gas – may not be sustained in 2009. However, the Company believes that the oil and gas industry in the United States is ready to embrace and pay for higher levels of worker safety and asset protection regardless of total drilling activity or commodity prices. Because BCHSE is offering a safety solutions product at a time when demand for such a service is rising, a drilling activity downturn is not likely to materially impair customer demand in the same way that it would if this service was mature and therefore directly impacted by total activity levels.

### Industrial

The Company's continuing growth in Industrial safety services revenues reinforces HSE's belief that it has developed a unique and valuable solution for industrial asset owners and operators that can assist them to fulfill their obligation to protect workers, assets and the community in a manner that is equal to or superior to in-house initiatives in terms of cost and service quality.

The growth opportunities in this area are to some degree manpower constrained in that a key ingredient to the value proposition for customers is the Company's ability to supply trained and knowledgeable safety professionals. The growth of Industrial safety services in Western Canada in recent years has been achieved to a large degree by redeploying expert safety technicians with a background in Oilfield safety procedures to Industrial markets. HSE now has a large contingent of technical personnel in Western Canada that routinely work back and forth between Oilfield and Industrial applications. Every location in the west today routinely performs Industrial safety services for a diverse and growing range of clients. In Central and Eastern Canada, the Company is developing a growing pool of safety professionals that has recently been augmented by personnel transferring from Western operations.

The uncertainty in the overall business environment caused by the recent challenges in world financial markets will most likely have a negative impact on the capital programs and spending behavior of customers for HSE's Industrial safety services. However, because this client base is so diverse in terms of industry and geography – and the overall opportunity is so large – the Company is cautiously optimistic that this area should continue to grow in 2009 and beyond.

That new oilsands project development and heavy oil upgrader construction activity will slow down in Alberta has been well publicized. However, HSE's presence in this market relative to the overall size of the current operating customer base is quite modest. This will provide the Company with opportunities to grow regardless of how many new oilsands and heavy oil upgrader projects proceed in the short and medium term. At this time and based upon information from existing clients, HSE has no reason to believe it cannot increase its revenues and market share in this area.

In all markets, HSE's client base tends to be oriented towards essential products like wood, steel, food, minerals, petrochemicals, refined petroleum products, chemicals, and utilities. HSE's client base is not oriented towards industries or businesses directly affected by discretionary consumer spending such as housing, retail or travel. For some clients, outsourcing health, safety and environment requirements to an expert service provider like HSE may be more cost-effective than current internal initiatives. Difficult economic conditions could be a catalyst for some clients to consider a new approach to how they manage this essential aspect of their business.

Because of overall economic conditions, whether or not HSE can continue to grow Industrial safety services at the high pace it has for the past two years in the short and medium term is uncertain. However, when the size of the total opportunity relative to HSE's market share is taken into consideration, the Company believes its revenues and cashflow from this area should at minimum be stable in the remainder of 2008 and all of 2009. Growth is still possible for Industrial Safety Services in the current business environment.

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HSE remains the only company of its type servicing diverse industries across Canada that is clearly meeting a need in the marketplace that has always existed but has never been satisfied by a single, outsource 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.

*Future Growth*

The continued improved financial performance of the Company in the third quarter of 2008 compared to 2007 has improved its financial flexibility and strength going forward in what has become in a short period a challenging business climate resulting from recent global credit issues. HSE's overall philosophy on employing debt as a tool for growth has been to strike a balance between accessing expansion capital at the lowest possible cost while maintaining relatively conservative levels of debt in order to be able to operate normally during the full business cycle. The Company's financial conservatism will serve it well in the remainder of 2008 and all of 2009. The Company does not believe it carries excessive debt at the present time, as the balance sheet continues to strengthen because of improved financial performance.

The steady growth in Industrial safety services in the past two years has been completely organic. The Company has made no acquisitions in this sector since the second quarter of 2006. This growth has been achieved because HSE has filled a customer need not previously identified by other suppliers. Despite the macroeconomic challenges today, there is no reason for the Company to believe this growth cannot continue, although the rate of growth could slow.

The Company will continue to focus on efficiency and improved operating margins on day-to-day business. Over the course of the current fiscal year the Company has developed new field location management tools intended to assist operations personnel in focusing more on sales and job quality. Management believes further gains in operating margins can be achieved through better support systems, improved communication and manager training with the objective of increased profit margins going forward.

A key element of continuing to grow the Industrial component will be access to manpower. A major focus of the Company in the remainder of 2008 and all of 2009 will be Human Resources and Staff Development. The Company understands the ultimate rate determining step on its growth will be its ability to attract, train and retain the industry's most capable team of safety professionals.

**Quarterly Results**

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue:								
Oilfield	<b>12,039</b>	8,667	\$15,961	15,879	11,722	6,486	19,799	18,672
Industrial	<b>16,163</b>	19,420	11,608	10,585	11,856	12,866	8,149	7,526
Total revenue	<b>\$28,202</b>	\$28,087	\$27,569	\$26,464	\$23,578	\$19,352	\$27,948	\$26,198
Net earnings (loss)	<b>396</b>	(568)	(11)	(9,173)	(15,920)	(3,113)	904	984
EBITDA <sup>(1)</sup>	<b>2,858</b>	2,187	2,633	2,601	1,376	(1,790)	4,802	4,341
Income (loss) per share – basic and diluted	<b>\$0.01</b>	\$(0.02)	\$0.00	\$(0.25)	\$(0.42)	\$(0.08)	\$0.02	\$0.03

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

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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 thousand (2007 - \$49 thousand) which is due from a Director of the Company. This note is payable on demand. In the third quarter of 2008, the Company also paid rent to a corporation related to the same Director of the Company in the amount of \$61 thousand (2007 – \$61 thousand). The rent is for a regional office.
- In the third quarter of 2008, the Company also paid rent of \$79 thousand (2007 – \$79 thousand), for a regional office to a corporation. A Senior Manager of the Company controls the 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 is 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 quarter ended September 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.

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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.

The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS exemptions. The Company expects to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by first quarter of 2009

**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 September 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 third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Common Shares Outstanding**

At November 12, and September 30, 2008, there were 37,575,675 common shares of HSE outstanding. At 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, foreign exchange gains or losses, gains or losses on the

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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 Nine Months Ended September 30	2008	2007
Net earnings (loss)	<b>\$(183)</b>	\$(18,129)
Add (deduct):		
Amortization	<b>5,866</b>	5,847
Impairment of goodwill	<b>100</b>	15,000
Stock-based compensation	<b>313</b>	876
Interest and bank charges	<b>916</b>	943
Foreign exchange loss	<b>4</b>	24
Loss on disposal of property and equipment	<b>454</b>	836
Income tax	<b>207</b>	(1,008)
<b>EBITDA</b>	<b>\$7,677</b>	\$4,389

**Quarterly EBITDA Calculation**

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net earnings (loss)	<b>\$396</b>	<b>\$(568)</b>	<b>\$(11)</b>	\$(9,173)	\$(15,920)	\$(3,113)	\$904	\$984
Add (deduct):								
Amortization	<b>1,821</b>	<b>1,920</b>	<b>2,125</b>	2,243	2,004	1,955	1,888	2,458
Impairment of goodwill and intangible assets	-	<b>100</b>	-	10,505	15,000	-	-	-
Stock-based compensation	<b>23</b>	<b>155</b>	<b>135</b>	255	186	333	357	285
Interest and bank charges	<b>288</b>	<b>331</b>	<b>297</b>	311	309	302	332	403
Foreign exchange loss (gain)	<b>4</b>	<b>2</b>	<b>(2)</b>	12	22	3	(1)	(93)
Loss (gain) on disposal of property and equipment	<b>129</b>	<b>326</b>	-	103	99	30	707	(26)
Income taxes	<b>197</b>	<b>(79)</b>	<b>89</b>	(1,655)	(324)	(1,300)	615	330
<b>EBITDA</b>	<b>\$2,858</b>	<b>\$2,187</b>	<b>\$2,633</b>	\$2,601	\$1,376	\$(1,790)	\$4,802	\$4,341

**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

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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).