HSE Integrated Ltd.
Management Discussion and Analysis ("MD&A")
For the three month periods ended March 31, 2009 and 2008

The following management discussion and analysis is dated May 12, 2009, and is a review of the financial results of HSE Integrated Ltd. ("HSE", "We", "Our", or the "Company") for the three month periods ended March 31, 2009 and 2008. This MD&A should be read in conjunction with HSE's other 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 May 12, 2009. 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

	Quarter ended March 31, 2009	Quarter ended March 31, 2008	Year-over-year % change
Revenue	**$22,401**	$27,569	-18.7%
Operating and materials	**20,410**	22,552	-9.5%
Operating margin	**1,991**	5,017	-60.3%
Operating margin %	**8.9%**	18.2%	
Selling, general & administrative	**2,207**	2,384	-7.4%
Net loss	**(1,806)**	(11)	-16,318.2%
- per share basic	**(0.05)**	(0.0)	-16,314.8%
- per share diluted	**(0.05)**	(0.0)	-16,314.8%
EBITDA (1)	**(216)**	2,633	-108.2%
EBITDA %	**(1.0%)**	9.6%	
Total assets	**64,554**	77,237	-16.4%
Total long-term liabilities	**$17,506**	$21,670	-19.2%

See Non-GAAP Measures for (1)

Financial Review

Overview

HSE operates in a single industry segment, industrial health and safety. The Company provides a package of integrated 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 shower (decontamination) services; on-site medical services; worker safety training; industrial hygiene services; and safety management and consulting services.

Total revenue for the quarter decreased 18.7% from $27,569 in 2008 to $22,401 in 2009. Operating margin of $1,991 was 8.9% of revenues, down from $5,017 or 18.2% in 2008. SG&A decreased to $2,207 from $2,384 in the prior year, but as a percentage of revenue SG&A increased from 8.6% of revenue in fiscal 2008 to 9.8% in 2009. HSE reported a loss of $1,806 or ($0.05) per share compared to a loss of $11 or ($0.0) per share in the prior year. HSE generated EBITDA of $(216) or (1.0%) of revenue in 2009, down 108.2% from $2,633 or 9.6% of revenue in 2008.

Revenue

The Company currently provides services to customers in two main business areas: Oilfield health and safety ("Oilfield") and Industrial health and safety services ("Industrial"). Oilfield services are provided to customers who operate within the conventional upstream, or "wellhead", sector of the oil and gas industry. This includes oil and gas well exploration, drilling, completion and workover operations. Industrial services are provided to customers operating in a wide variety of other industries, including: non-conventional upstream oil development and production (including oilsands extraction); oil and gas processing and refining; petrochemicals; pulp and paper; utilities; power generation; and diverse manufacturing industries. It also includes worker safety training and safety management and consulting services. The Company tracks billings to customers by defined revenue grouping, but uses a common pool of equipment and manpower resources to provide these services. Management services are provided from a common personnel pool.

The revenue for these revenue groups is shown below:

	Quarter ended March 31, 2009	Quarter ended March 31, 2008	Year over year % change	Quarter ended March 31, 2007	Year over year % change
Oilfield	**$10,260**	$15,961	(35.7)%	$19,799	(19.4)%
Industrial	**12,141**	11,608	4.6%	8,149	42.4 %
Total Revenue	**$22,401**	$27,569	(18.7)%	$27,948	(1.4) %
As a % of Revenue:					
Oilfield	**45.8%**	57.9%		70.8%	
Industrial	**54.2%**	42.1%		29.2%	
Total Revenue	**100.0%**	100.0%		100.0%	

Oilfield

Oilfield revenues in the year decreased by 35.7% in 2009 compared to 2008. The year-over-year decline is due to lower overall activity levels in Western Canada in the first quarter of 2009 in the conventional upstream, or "wellhead", sector of the oil and gas industry: oil and natural gas well drilling, completion and workover (repair and maintenance) operations in the Western Canadian Sedimentary Basin. Compared to the same period in the prior year, this significant revenue decrease was caused by several negative external events including lower oil prices, lower natural gas prices, reduced access to debt and equity capital by Company clients, and the introduction of increased Crown royalties in Alberta, a major market for HSE.

Services provided in the Oilfield sector are primarily oriented towards supporting the development of natural gas with a higher level of health and safety protection required for the development of sour gas – reserves of natural gas containing hydrogen sulphide – and crude oil containing sour gas. Some oil reservoirs tend to go "sour" over time due to the injection of water for secondary recovery, thus increasing the requirement for safety services. The primary driver of revenue fluctuations in comparative reporting periods relates to a major decline in all forms of conventional oilfield activity in the markets served including drilling, new well completions, and well workover activities.

The overall depressed economic environment for the conventional oil and gas industry has also put pressure on the prices HSE can charge its clients for services provided. To compensate for vastly reduced commodity prices, clients are seeking pricing relief for the input services including health and safety. Therefore, HSE has been forced to adjust its pricing downward in order to maintain clients and market share. In response, HSE has undertaken a series of internal cost reduction measures to maintain an acceptable operating margin. These initiatives will be discussed in detail under the discussion of

Operating Materials Expense and Selling General and Administrative Expense below.

In the first quarter of 2009, the Company's venture with Boots & Coots International Well Control, Inc. – Boots & Coots HSE Services LLC ("BCHSE") – generated its first ongoing revenues as the equipment and service offering was expanded with the arrival of breathing air trailers and trailer-mounted decontamination units in addition to the combination fire/shower units that arrived in West Texas and Oklahoma in the fourth quarter of 2008. Service locations were opened in Odessa, Texas and Oklahoma City. While total revenue generated was modest, the Company is pleased with customer acceptance of the equipment, service and branding in light of the significant oilfield activity downturn that U.S. markets are also experiencing.

Industrial

The Industrial health and safety services component of the Company's total revenue continued to grow in the first quarter of 2009, however at a much slower rate than in the past because of the negative effects of the global recession and sharp reductions in commodity prices into virtually every market and industry in which HSE operates.

Industrial revenue increased $533 (4.6%) to $12,141 from $11,608 in the same period in the prior year. Industrial health and safety services comprised 54.2% of total revenues, up from 42.1% in 2008. This is the first time that Industrial revenues have exceeded Oilfield revenues in the first quarter of the year. Without a significant recovery in Oilfield activity, Industrial revenues will continue to be greater than Oilfield revenues.

The year-over-year Industrial health and safety revenues generated varied widely depending upon the service location. Central and southern Alberta experienced minor declines, while revenue from oilsands operations in Northeast Alberta increased slightly.

Revenues in Ontario from locations in Sudbury, Sarnia, Windsor and Hamilton were down about one-third, but revenue from Atlantic Canada rose by 73% compared to the same period in 2008.

For the period ended March 31, 2009, the Company had one customer representing more than 10% of revenue (2008 – none). The Company had sales of approximately $2.3 million to the customer during the quarter.

Operating and Materials Expense and Operating Margin

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

Operating and materials expense for the quarter ended March 31, 2009 totaled $20,410 or 91.1% of revenue as compared to $22,552 or 81.8% of revenue in 2008. Operating margin for the year declined from $5,017 (18.2% of revenue) in the first quarter of 2008 to $1,991 (8.9% of revenue) in 2009.

The decrease in operating margins is due to a number of factors. The Company's fixed field service location operating costs were spread over a significantly lower revenue base. Based on the strong performance of the Company in the fourth quarter of 2008, HSE also entered the year overstaffed relative to client demand which began to decline sharply early in the new year. As well, BCHSE was still in the startup stage with expenses in advance of revenue.

However, by mid-January it became clear that the economic downturn in all industries and markets was going to be far more severe than management anticipated. Therefore, at the end of January a series of cost reduction measures were implemented, the full impact of which will not be in place until May of 2009. These include layoffs of approximately 10% of full-time staff, salary reductions for all non-field employees

in Western Canada of 5%, salary reductions from 10% to 20% for management and executives, a company-wide hiring freeze without executive approval, and a series of operating costs reductions involving travel, advertising and entertainment expenses. These cost reductions also applied to operations in the United States. During the period, the Company incurred severance costs of $282 associated with the foregoing. The last element of the operating cost reduction is a switch of field service personnel from a monthly base salary and daily job bonus to an hourly pay basis. This will directly link field service personnel expense to revenue for the first time. Management anticipates that, based on its historical revenue mix, these cost reductions, once fully realized, should reduce the average monthly revenue required to achieve break even EBITDA to approximately $6.0 to $6.5 million per month.

Included in operating expenses is an addition to the provision for doubtful accounts of $95 to reflect increased collection risks as a result of the deterioration in the general business environment. The allowance for doubtful accounts receivable was $1,490 (6% of trade accounts receivable) at the end of 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 totaled $2,207 (9.8% of revenue), down from $2,384 (8.6% of revenue) in the prior year. Personnel costs declined as staff numbers declined year-over-year and the impact of salary reductions on March 1, 2009 came into effect. Temporary staff hired in 2008 as part of various accounting system conversions were no longer needed in 2009. Travel and advertising costs declined as part of a company-wide initiative to reduce all costs in response to reduced operating levels. Offsetting the SG&A cost reductions achieved by the foregoing was the inclusion of expenses related to BCHSE for the first time in 2009.

EBITDA and Net Loss

EBITDA (see "Non-GAAP Measures") in the quarter decreased from $2,633 in the first quarter of 2008 to ($216) in the current quarter. The EBITDA decrease was primarily because of significant revenue declines in the Oilfield business area. However, operating expenses and SG&A, which include a significant fixed cost component, did not decline in proportion. As well, severance costs from staff reductions in the first quarter of 2009 further reduced EBITDA.

Total amortization for the quarter was $1,739, down from $2,125 in 2008. Property and equipment amortization declined compared to the prior year at $1,611 (down from $1,868) as the Company controlled the pace of capital additions during 2008 and the first quarter of 2009. Intangible assets amortization declined to $128 from $257 in 2008 as certain amortization periods expired during 2008, particularly for non-competition provisions.

Stock-based compensation for the quarter was $50 (2008 – $135). The decrease is primarily due to a reduction in the number of outstanding unvested options.

Interest on long term debt and other interest and bank charges decreased from $297 in 2008 to $149 in 2009. Interest on the Company's variable rate bank debt decreased as interest rates dropped. On average, the Company's average borrowing rate was approximately 3.7% lower in the first quarter of 2009 than in the equivalent quarter in 2008. This saved the company approximately $100 in interest charges. As well, the Company had significantly lower levels of overall debt throughout the current quarter than it had in the first quarter of 2008. Capital lease obligations at March 31, 2009 were $1,514 lower than at March 31, 2008. Long-term debt was reduced by $3,459 compared to March 31, 2008. As well, the Company had a net cash position in 2009 versus an operating line draw totaling $4,149 at the end of the first quarter of 2008.

For the first quarter of 2009, the loss on disposal of property and equipment was $93 with proceeds on sale of $209. Partially offsetting the loss is the amortization of a deferred gain on sale / leaseback of assets as discussed in the 2008 annual MD&A. The remainder of asset divestitures consisted of retirement of vehicles replaced through the Company's fleet management program.

HSE had a $440 income tax recovery for the quarter versus an income tax expense of $89 for 2008. The change can be attributed primarily to a decrease in taxable income in the year.

Net loss for the quarter was $1,806 or $(0.05) per share versus a loss of $11 or ($0.0) per share in 2008. The year-over-year decline was primarily due to the decrease in EBITDA as described above.

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 contractual obligations as noted in the following table:

Years ended December 31,	2009	2010	2011	2012	2013	Total
Capital lease obligations	$ 633	265	111	5	–	$1,014
Vehicle operating leases	1,824	2,349	1,621	433	6	6,233
Property & other leases	2,203	2,339	1,483	1,011	695	7,731
Long-term debt	55	10,854	818	–	–	11,727
Total contractual obligations	$4,715	15,807	4,033	1,449	701	$26,705

Liquidity

In the quarter ended June 30, 2007, HSE entered into an agreement with its current lender (a Canadian Chartered Bank) for credit facilities that provide the Company with increased financial flexibility to pursue strategic opportunities as they arise. The credit facilities include a $25 million three-year interest-only revolving facility and a $7.5 million operating facility. The revolving facility may be drawn upon by way of Canadian dollar prime based loans, US dollar base rate based loans, bankers' acceptances, LIBOR loans or letters of credit.

Depending upon the ratio of HSE's consolidated senior debt to 12-month trailing EBITDA (as defined in the agreement), the facilities bear interest at the bank's prime rate (or U.S. base rate) plus a margin varying between 0.25% and 1.50%, or at bankers' acceptance rates with a stamping fee of 1.75% to 3.00%. An additional standby fee ranging from 0.35% to 0.65% per annum is also required on any unused portion of the credit facilities. Based on the results to March 31, 2009, the margin on the Company's bankers' acceptance based debt for the second quarter of 2009 is 2.50%.

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 collateralized under a general security agreement. They are also subject to a senior debt to EBITDA ratio covenant, a current ratio covenant, an interest coverage covenant, and various positive and negative covenants that are typical for this type of facility. At March 31, 2009, the Company was in compliance with all of these covenants. However, there is a risk that, depending on levels of activity, the Company may fail to comply with its debt covenants within the next twelve month period. Anticipating a continuation of the challenging business environment for Oilfield health and safety services for the remainder of 2009 and possibly 2010, the Company approached its senior secured lender in the first quarter to discuss modifying its bank credit facility. Based on the Company's substantial current and fixed assets relative to total debt, the

lender has proposed amending the facility. Discussions are underway and expected to be completed prior to June 30, 2009.

At the end of the first quarter, the draw against the revolving facility was $10,829, and there was no draw against the operating facility. At March 31 the Company had cash on hand of $1,061.

Cash Provided by (Used in) Operations

Cash provided by operations in the quarter was $581 in 2009 compared to ($2,623) for 2008. Reduced revenue levels in the quarter resulted in negative EBITDA and break-even operating cash flow excluding changes in working capital. However, collections of accounts receivable improved significantly when compared to 2008 as transition issues with the implementation of a new billing system effective January 1, 2008 delayed cash collections during the first quarter of 2008

Cash Provided by (Used in) Financing and Investing

During the quarter, the Company had no need to draw on its operating line. The Company also made scheduled debt reductions of $388 towards capital lease and other long term debt obligations.

Purchases of property and equipment for the year amounted to $464, the majority of which was revenue generating health safety services rental equipment. Proceeds from disposal of property and equipment were $209.

Working Capital

At March 31, 2009, the Company had working capital (not including current portion of long-term debt obligations) of $19,519. This compares to $20,514 on December 31, 2008 and $19,902 at March 31, 2008. The change from December 31, 2008 relates to changes in non-cash working capital as collections of receivables during the quarter were partially offset by reductions in payables and accruals. The change from the balance at the end of the first quarter of 2008 related to improved cash position offset by reductions in non-cash working capital, particularly accounts receivable. The Company's cash position improved from a draw of $4,149 at the end of the first quarter 2008 to cash on hand of $1,061 in 2009.

Outlook

In the last half of the 2008 fiscal year, the world economy entered a period of unprecedented financial turmoil resulting in recessionary business conditions in most markets in which the Company operates. In addition, commodity prices that determine the financial health of many of HSE's main clients (petroleum, natural gas, minerals, wood products, pulp and paper) declined sharply.

Although these negative economic changes took place in 2008, the full impact did not become material to HSE until the first quarter of 2009. Early in January it became apparent that the recession in 2009 was going to be deeper than management and many experts and analysts had predicted. The result was the abrupt shutdown of major capital projects and industrial facilities ranging from partially constructed oilsands plants to nickel mines to steel mills to automobile assembly plants. For the oilfield service sector in western Canada, the active drilling rig count peaked in the third week of January then began to decline steadily resulting in the lowest drilling rig utilization and number of wells drilled in this century.

Oilfield

Drilling, completion and workover activity in Canada declined sharply in the fourth quarter of 2008 and the first quarter of 2009. The current outlook for new wells drilled in Canada in 2009 by the Canadian Association of Oilwell Drilling Contractors ("CAODC") released on February 20, 2009 forecasts a total of only 11,176 wells being drilled this year. This is half the levels of drilling activity experienced in 2006 and

the lowest level of wells drilling since 1993. Since this forecast was released in February, the price of oil has held relatively stable but the price of natural gas has continued to decline. HSE will approach the remainder of 2009 with extreme caution and the view that the February CAODC forecast may be optimistic.

A similar, though not as dramatic, downturn has taken place in the United States. While this doesn't directly affect the activities of BCHSE because capacity is so limited relative to total market opportunity, the focus on cost cutting does make the introduction of new services like worker and asset protection more difficult. Client recognition of the Boots & Coots brand as a credible supplier of safety services is positive. However, the timing of introducing a new service that increases costs in any way is challenging.

In response to the foregoing, HSE has undertaken every meaningful cost reduction strategy it can while still maintaining the core technical staff and delivery capability required to remain in the business and service clients when activity improves.

Effective April 1, 2009, the government of Alberta introduced drilling activity royalty credits and a one-year reduced royalty period that expires March 31, 2010. The purpose was to spur drilling activity and employment. The two elements of the program significantly improve the economics of conventional oil and gas exploration and development drilling. Reduced drilling and service costs have also improved investment economics. However, because of continued tight equity and debt markets, the only companies that can take full advantage of the stimulus are companies with strong balance sheets and/or discretionary internal cashflow. Because of depressed share prices, an attractive way to replace reserves for E&P companies is through acquisition, not drilling. This redirection of capital to acquisitions from drilling and production will further impair the Company's opportunities to provide health and safety services.

Saskatchewan and British Columbia have not been spared the effects of the downturn. The price of oil was down to $US 33 a barrel in early December. This resulted in an activity downturn in the first quarter in the Bakken light oil play in southeast Saskatchewan. With oil seemingly stable in the $US 50 a barrel range in the past month, plus the Canadian dollar declining to the US$ 0.80 range, the economics of continued development of this play have improved. This appears promising for HSE's Weyburn location. Activity in British Columbia is heavily weighted towards natural gas. While the Montney and Horn River shale gas plays continue to look geologically promising, it is unlikely that activity in northeast B.C. will be robust until gas prices improve.

While some HSE clients have indicated their intention to take advantage of the improved economics and start drilling when weather permits in late May or June, the outlook for the second and third quarters of the current fiscal year for Oilfield health and safety services is not encouraging. The Company will focus on maximizing opportunities with active customers and on cost control measures until business improves.

Industrial

The outlook for the Company's Industrial health and safety services varies significantly because of the variety of markets and industries in which HSE operates.

Oilsands remains promising for several reasons. While the cancellation or postponement of major capital projects – some partly constructed – for oilsands extraction and heavy oil upgrading is well known, there are positive developments. Overall synthetic heavy oil producing is rising because two major projects that have been under construction for four years – CNRL Horizon and OPTI-Nexen Long Lake – have come on stream. The Company continues to market aggressively to major producers. As a result, HSE believes it can continue to expand its presence and revenues from the oilsands regions of northeast Alberta on the production side, regardless of the sharp reduction in capital projects. Lower oil prices have focused oilsands developers on costs. Outsourcing all or more of essential health and safety services can yield cost-savings without compromising worker or asset protection.

Other Industrial safety work in western Canada – primarily plant shutdown and turnaround services – has declined in 2009 as facility operators conserve cash and push these necessary maintenance and repair expenditures into the future. While regulators will permit some delays, much of this work can only be pushed out one year. In the past two years, HSE has established itself as a major player in this market. However, HSE received notification that some of the work that was scheduled for the second quarter of 2009 has been postponed. Further, very competitive pricing has emerged resulting in HSE losing some work to competitors that it had previously secured. The Company's view is that the competition's prices were so low in some cases that losing the work will not damage HSE's short-term financial performance. Failure to perform by competitors could also ensure HSE secures this work in the future.

HSE's Ontario client base is diverse and is affected by the recession in different ways. The shutdown of mines and steel plants because of low mineral and product prices will have a negative impact on the Company, but the energy processing plants such as refineries and petrochemical plants will continue to operate and will require ongoing health and safety services. HSE's total market presence in Ontario relative to the opportunity remains quite small. While 2009 will be a challenging year, the future for this market remains promising.

The Atlantic region of Canada remains a bright spot for HSE in 2009. The Company's new service location in St. John's, Newfoundland-Labrador ("NL") will serve the offshore oil and gas industry and act as a regional base for large industrial projects in industries like hydro-electric construction projects, mining and mineral processing. To this end HSE has delivered medical equipment and services to a mining project, and has secured a new client for offshore drilling. Atlantic offshore projects are proceeding and HSE believes it has the opportunity to participate in these projects.

While HSE did increase total Industrial health and safety revenues in the first quarter of 2009, the postponement or loss of plant shutdown and turnaround contracts in western Canada in the second quarter will negatively impact total revenues for the year. Whether or not HSE will enjoy Industrial services revenue growth in 2009 after five consecutive years of expansion is unknown at this time.

Cost Control and Short-Term Outlook

As a result of the precipitous decline in activity and revenues in most markets in which HSE operates, early in the quarter the Company undertook a major review of fixed and variable operating costs and implemented a series of initiatives described above under Operating Expenses and SG&A. The Company is confident that once these expense and operating costs reductions are fully implemented, they will permit HSE to generate a positive cashflow at lower revenue levels than prior years.

Management believes it has taken all the prudent steps necessary to bring operating expenses in line with revenue for the remainder of 2009 while still maintaining the technical capability essential for quality service and sufficient capacity to be able to fill the known order book and client demand. However, should there be a sharp increase in client demand in the short term, HSE will not have enough service personnel to respond quickly. Management regards this as an appropriate trade-off for the current business environment.

In the first quarter of 2009, HSE's diversified business model allowed the Company to maintain 81.3% of revenues from the same period in 2008. Considering the overall state of the economy, management regards this as reasonably successful, a testament to the high value clients place on HSE's services, and the determination of management and sales personnel to continually reach into new markets and industries. At the present time and for the business outlook as it appears today, management believes it has taken the appropriate cost reduction initiatives to put expenses in line with revenue.

That said, it would appear that the downward path of the economy has stabilized in the sense that most major financial and commodity markets have reached or approached some sort of bottom. Combined with the opportunities for growth described above that HSE has in several markets, the Company is cautiously optimistic that it is stable in the current business environment, has the financial strength to maintain its

operations until business improves, and has not impaired its ability to benefit from a recovery by cutting staff too far or divesting major divisions or assets to stay in business.

Quarterly Results

	2009	**2008**				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$22,401**	$29,905	$28,202	$28,087	$27,569	$26,464	$23,578	$19,352
Net earnings (loss)	**(1,806)**	431	396	(568)	(11)	(9,173)	(15,920)	(3,113)
EBITDA [1]	**(216)**	2,713	2,858	2,187	2,633	2,601	1,376	(1,790)
Income (loss) per share – basic and diluted	**(0.05)**	$0.01	$0.01	$(0.02)	$0.00	$(0.25)	$(0.42)	$(0.08)

See Non-GAAP Measures for [1]

HSE's business has two offsetting seasonal components. Revenue for Oilfield health and safety services is historically highest in first and fourth quarters and lowest in the second quarter because this sector uses equipment that can only access well locations during certain times of the year and because of the effects of weather on field activity. Industrial revenue includes a mix of year-round contracts and "turnarounds" – scheduled major maintenance projects and repair activities on client facilities. These turnarounds tend to be scheduled during the second and third quarters to avoid the possibility of adverse effects from freezing weather. As a result, Industrial revenue tends to be highest in the second and third quarters.

Revenue by quarter for the last eight quarters is as follows

	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oilfield	**$10,260**	$14,597	$12,039	$8,667	$15,961	$15,879	$11,722	$6,486
Industrial	**12,141**	15,308	16,163	19,420	11,608	10,585	11,856	12,866
Total revenue	**$22,401**	$29,905	$28,202	$28,087	$27,569	$26,464	$23,578	$19,352

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:

- During the first quarter of 2009, the Company paid rent for a regional office to a corporation related to a Director of the Company in the amount of $57 (2008 – $57)
- During the first quarter of 2009, the Company also paid rent of $74 (2008 – $74) for a regional office to a corporation controlled by a Senior Manager of the Company.

Critical Accounting Policies and Estimates

HSE prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets, 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, impairment of long-lived assets, amortization of property and equipment, and future income tax liabilities. A full description of the methods for determining these accounting policies and estimates, as well as the risks related to the possible effects of changes in these policies and estimates, can be found in HSE's 2008 Annual Report.

Accounting Pronouncements

On January 1, 2009 the Company adopted the revised Canadian accounting standards regarding Goodwill and Intangible Assets. These standards provide guidance with respect to the recognition, measurement and disclosure of goodwill and intangible assets. The provisions of the new standards relating to the definition of intangible assets and their initial recognition have been changed to coincide with those in the equivalent International Financial Reporting Standard. This change had no effect on the Company's reported results.

International Financial Reporting Standards

The CICA's Accounting Standards Board has confirmed that IFRS will be adopted as Canadian GAAP for publicly accountable entities in Canada for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Company must be in a position to report its results, including its comparative results for the 2010 fiscal year, in accordance with IFRS beginning January 1, 2011.

With the assistance of external consultants, the Company has started an IFRS conversion project and is currently in the process of evaluating the impact of the change to IFRS on the results of our operations, financial position and disclosures. The Company expects to complete its assessment of the major differences between existing Canadian GAAP and IFRS as they apply to our particular circumstances, and to establish a project plan for the conversion by the end of the second quarter of 2009.

Financial and Other Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, obligations under capital leases and long-term debt. The carrying value of these instruments approximates their fair value either because of their short maturities or because the interest rates to which they are subject approximate market rates.

The Company is exposed to the following risks as a result of its use of financial instruments:

- credit risk
- liquidity risk
- market risk

These risks, and the Company's method of mitigating the risks, are described in the Management Discussion and Analysis included in the Company's 2008 Annual Report.

Business Risks

The activities the Company undertakes involve a number of risks and uncertainties, some of which are: economic and market events including disruptions in international credit markets and reductions in macroeconomic activity; business cyclicality within the industries in which HSE's customers operate; availability of qualified staff; competitive conditions including pricing pressures; risks of customer credit default; deterioration in the financial condition of financial institutions and insurance companies that HSE deals with; availability of financing at competitive rates; changes in foreign exchange rates and interest rates 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 of the business risks faced by the Company are included in the Management Discussion and Analysis included in the Company's 2008 Annual Report.

Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Common Shares Outstanding

At May 12, 2009 and December 31, 2008 there were 37,575,675 common shares of HSE outstanding. At March 31, 2009, the Company had options outstanding to issue 2,447,831 shares at a weighted average exercise price of $1.88 per share. Of these options, 1,452,145 were exercisable. At May 12, 2009, there were 2,993,832 options outstanding at a weighted average exercise price of $1.56 per share. Of these options, 1,529,816 were exercisable.

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 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 quarters ended March 31	**2009**	2008
Net loss	**$(1,806)**	$ (11)
Add (deduct):		
Amortization	**1,739**	2,125
Stock-based compensation	**50**	135
Interest and bank charges	**149**	297
Foreign exchange gain	**(1)**	(2)
Loss on disposal of property and equipment	**93**	–
Income tax	**(440)**	89
EBITDA	**$ (216)**	$2,633

Quarterly EBITDA Calculation

	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net earnings (loss)	**$(1,806)**	$ 431	$ 396	$ (568)	$ (11)	$(9,173)	$(15,920)	$(3,113)
Add (deduct):								
Amortization	**1,739**	1,399	1,821	1,920	2,125	2,243	2,004	1,955
Impairment of goodwill and intangible assets	**–**	–	–	100	–	10,505	15,000	–
Stock-based compensation	**50**	95	23	155	135	255	186	333
Interest and bank charges	**149**	200	288	331	297	311	309	302
Foreign exchange loss (gain)	**(1)**	(35)	4	2	(2)	12	22	3
Loss on disposal of property and equipment	**93**	193	129	326	–	103	99	30
Income taxes	**(440)**	430	197	(79)	89	(1,655)	(324)	(1,300)
EBITDA	**$ (216)**	$2,713	$2,858	$2,187	$2,633	$2,601	$1,376	$(1,790)

Forward-Looking Statements

Certain statements in this MD&A constitute forward-looking information and statements (collectively “forward-looking 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 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such forward-looking statements use such words as *expect, anticipate, estimate, believe, may, will, would, could, might, intend, plan, continue, ongoing, project, objective, should* and other similar terms and phrases. This forward-looking information reflects the Company’s current expectations regarding future events and operating performance based on assumptions and analyses made by the Company based on its experience and an assessment of current conditions, known trends, expected future developments and other factors which management believe to be appropriate under the circumstances.

The forward-looking statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: economic conditions within Canada and the United States, both in general and within specific industries; demand for the Company’s services by customers in various industries and geographic locations; pricing levels for the Company’s services; commodity prices; foreign currency exchange rates; interest rates; access to financing; the Company’s future operating results and financial condition; and competition within particular markets or for particular services.

Forward-looking statements involve significant risks and uncertainties and should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, the factors discussed above and other risk factors discussed herein and listed from time to time in the Company’s reports and public disclosure documents including its annual report, annual information form and other filings with securities commissions in Canada as reported under the Company’s profile at www.sedar.com.

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward-looking statements contained in this MD&A speak only as of the date of this MD&A, and the Company assumes no 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 and at www.hseintegrated.com.