

# HSE Integrated Ltd.

## Consolidated Balance Sheets

(Stated in thousands), (unaudited)	June 30 2009	December 31 2008
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 5,923	\$ 1,114
Accounts receivable (note 4)	16,662	25,740
Inventory	240	222
Prepaid expenses and other assets	1,356	1,897
	<u>24,181</u>	<u>28,973</u>
Property and equipment	33,042	36,173
Intangible assets	3,522	3,788
	<u>\$ 60,745</u>	<u>\$ 68,934</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 5,206	\$ 8,096
Income taxes payable	607	363
Current portion of obligations under capital lease	426	922
Current portion of long-term debt (note 3)	35	98
Current portion of deferred gain	137	137
	<u>6,411</u>	<u>9,616</u>
Deferred gain	387	455
Obligations under capital lease	197	370
Long-term debt (note 3)	11,600	11,628
Future income taxes	4,278	5,278
	<u>22,873</u>	<u>27,347</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	60,040	60,040
Contributed surplus	4,663	4,559
Deficit	(26,870)	(23,136)
Accumulated other comprehensive income	39	124
	<u>37,872</u>	<u>41,587</u>
	<u>\$ 60,745</u>	<u>\$ 68,934</u>

Contingencies (note 9)  
Subsequent event (note 3)

See accompanying notes to the consolidated financial statements.

## HSE Integrated Ltd. Consolidated Statements of Loss

(Stated in thousands), (unaudited)	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
<b>REVENUE</b>	\$ <b>19,566</b>	28,087	\$ <b>41,967</b>	55,656
<b>COSTS</b>				
Operating and materials	<b>18,145</b>	23,440	<b>38,555</b>	45,992
Selling, general and administrative	<b>1,872</b>	2,460	<b>4,079</b>	4,844
Amortization of property and equipment	<b>1,554</b>	1,722	<b>3,165</b>	3,590
Amortization of intangible assets	<b>138</b>	198	<b>266</b>	455
Stock-based compensation (note 7)	<b>99</b>	155	<b>149</b>	290
Interest on long-term debt	<b>103</b>	271	<b>234</b>	538
Other interest and bank charges	<b>17</b>	60	<b>35</b>	90
Foreign exchange loss	<b>12</b>	2	<b>11</b>	-
Goodwill impairment	-	100	-	100
Loss on disposal of property and equipment	<b>126</b>	326	<b>219</b>	326
	<b>22,066</b>	28,734	<b>46,713</b>	56,225
<b>LOSS BEFORE INCOME TAXES</b>	<b>(2,500)</b>	(647)	<b>(4,746)</b>	(569)
Income taxes				
Current provision	-	174	-	410
Future reduction	<b>(572)</b>	(253)	<b>(1,012)</b>	(400)
	<b>(572)</b>	(79)	<b>(1,012)</b>	10
<b>NET LOSS</b>	\$ <b>(1,928)</b>	(568)	\$ <b>(3,734)</b>	(579)
Loss per share				
Basic and diluted	\$ <b>(0.05)</b>	(0.02)	\$ <b>(0.10)</b>	(0.02)
Weighted average shares outstanding				
Basic	<b>37,576</b>	37,568	<b>37,576</b>	37,568
Diluted	<b>37,576</b>	37,568	<b>37,576</b>	37,568

See accompanying notes to the consolidated financial statements.

## HSE Integrated Ltd.

### Consolidated Statements of Other Comprehensive Loss

(Stated in thousands),(unaudited)	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
<b>Net Loss</b>	\$ (1,928)	(568)	\$ (3,734)	(579)
Other comprehensive loss				
Foreign currency loss on translating financial statements of self-sustaining foreign operations	(43)	-	(85)	-
<b>Other comprehensive loss</b>	<b>\$ (1,971)</b>	<b>(568)</b>	<b>\$ (3,819)</b>	<b>(579)</b>

## Consolidated Statements of Deficit and Accumulated Other Comprehensive Income

(Stated in thousands),(unaudited)	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
<b>Deficit, beginning of period</b>	\$ (24,942)	(23,395)	\$ (23,136)	(23,384)
Net Loss	(1,928)	(568)	(3,734)	(579)
<b>Deficit, end of period</b>	<b>\$ (26,870)</b>	<b>(23,963)</b>	<b>\$ (26,870)</b>	<b>(23,963)</b>
<b>Accumulated other comprehensive income, beginning of period</b>	\$ 82	-	\$ 124	-
Foreign currency loss on translating financial statements of self-sustaining operations	(43)	-	(85)	-
<b>Accumulated other comprehensive income, end of period</b>	<b>\$ 39</b>	<b>-</b>	<b>\$ 39</b>	<b>-</b>

See accompanying notes to the consolidated financial statements.

# HSE Integrated Ltd

## Consolidated Statements of Cash Flows

	Three Months ended June 30		Six Months ended June 30	
(Stated in thousands), (unaudited)	2009	2008	2009	2008
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net loss	\$ (1,928)	(568)	\$ (3,734)	(579)
Charges to income not involving cash:				
Amortization	1,692	1,920	3,431	4,045
Stock-based compensation	99	155	149	290
Future income tax	(572)	(253)	(1,012)	(400)
Goodwill impairment	–	100	–	100
Loss on disposal of property and equipment	126	326	219	326
Changes in non-cash working capital (note 8)	5,932	2,564	6,877	(2,159)
Cash provided by operations	5,349	4,244	5,930	1,623
<b>Financing</b>				
Repayment of operating line of credit	–	(3,711)	–	–
Repayment of bank indebtedness	–	(438)	–	(616)
Repayment of obligations under capital lease	(318)	(422)	(669)	(749)
Repayment of long-term debt	(67)	(103)	(104)	(166)
Issuance of share capital, net of costs	–	–	–	–
Cash used in financing	(385)	(4,674)	(773)	(1,531)
<b>Investing</b>				
Purchase of property and equipment	(437)	(1,139)	(901)	(1,661)
Acquisitions	–	(100)	–	(100)
Proceeds from disposal of property and equipment	312	1,918	521	1,918
Cash provided by (used in) investing	(125)	679	(380)	157
Cash flow from operating, financing and investing activities	4,839	249	4,777	249
Effect of exchange rate on cash and cash equivalents	23	–	32	–
<b>Net change in cash and cash equivalents</b>	<b>4,862</b>	<b>249</b>	<b>4,809</b>	<b>249</b>
Cash and cash equivalents, beginning of period	1,061	–	1,114	–
Cash and cash equivalents, end of period	\$ 5,923	249	\$ 5,923	249

See accompanying notes to the consolidated financial statements.

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

---

### NOTE 1 – BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (“HSE” or “the Company”) have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended December 31, 2008, except as outlined in note 2. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements and certain disclosures which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the Company for the year ended December 31, 2008.

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries which, with the exception of Boots & Coots HSE Services LLC (owned 90%), are wholly owned. Unless otherwise specified all amounts are stated in thousands of Canadian dollars except for per-share amounts, which are stated in dollars per weighted-average share.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). In preparing these consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

HSE’s business has two offsetting seasonal components. Revenue for Oilfield health and safety services is historically highest in the 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.

---

### NOTE 2 – CHANGE IN ACCOUNTING POLICIES

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.

#### **Accounting Standards pending adoption**

In February 2008, the 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 an “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (“CSA”) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. In March 2009, the AcSB issued a second exposure draft regarding the adoption of IFRS. This exposure draft clarified the definition of publicly accountable enterprises, proposed to provide additional introductory material for the CICA Handbook as part of the adoption of IFRS, and updated the IFRS standards to be included in the CICA Handbook to include those standards which had changed since the initial omnibus exposure draft was issued.

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

---

### NOTE 2 – CHANGE IN ACCOUNTING POLICIES (continued)

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.

In January 2009, the AcSB issued three new recommendations regarding business combinations, consolidated financial statements and non-controlling interests. While these standards are effective for fiscal years beginning on or after January 1, 2011, early adoption is permitted provided that all three standards are adopted simultaneously. The Company is currently in the process of evaluating the new standards. The new standards include:

- Section 1582, which will replace Section 1581, deals with accounting for business combinations. The new standard harmonizes Canadian accounting standards with IFRS 3 – Business Combinations. Section 1582 is applicable prospectively to business combinations entered into after adoption.
- Sections 1601 and 1602 together will replace existing section 1600. Section 1601 provides standards for the preparation of consolidated financial statements, while section 1602 provides standards with respect to accounting for non-controlling interests in subsidiaries. The new standard harmonizes Canadian accounting standards with proposed revisions to IAS 27 – Consolidated and Separate Financial Statements. It makes changes to the circumstances under which the Company must consolidate an entity, as well as to disclosure requirements.

### NOTE 3 – OPERATING FACILITIES and LONG-TERM DEBT

During the first and second quarter of 2009, the Company's credit facilities included a \$25 million three-year interest-only revolving facility and a \$7.5 million operating facility. The revolving facility had a maturity date of June 25, 2010 with an ability to extend the term at the lender's option. The operating facility was renewable annually on June 24 and was margined to accounts receivable. Both the operating facility and the revolving facility were subject to certain covenants including a covenant regarding the ratio of senior debt to cash flows (as defined in the agreement), a current ratio covenant, an interest coverage covenant and certain other positive and negative covenants that are typical for these types of facilities. The credit facilities were collateralized under a general security agreement.

On July 29, 2009, the Company amended its existing credit facilities with its current lender. The amended facility replaces the facilities described above with a single \$15 million operating facility. The amended facility matures July 27, 2010. The amended credit facility bears interest at the bank's prime rate (or U.S. base rate) plus a fixed margin or at bankers' acceptance rates with a fixed stamping fee. An additional standby fee is also required on any unused portion of the credit facilities. The amended facility is margined to property and equipment and accounts receivable. It is subject to certain covenants including a covenant regarding the ratio of total liabilities to net worth (as defined in the agreement), a current ratio covenant, an interest coverage covenant and other positive and negative covenants. The credit facility continues to be collateralized under a general security agreement. The Company complied with all covenants required under the amended credit facility.

Deferred financing costs associated with the credit facility have been shown as a reduction in the carrying value of long term debt and are being expensed over the term of the debt using the effective interest rate method.

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

---

### NOTE 3 – OPERATING FACILITIES and LONG-TERM DEBT (continued)

	June 30 2009	December 31 2008
Equipment financing contracts bearing interest at rates averaging 4.2% (2008 – 2.93%), payable in blended monthly payments of \$5 (2008 – \$12) secured by specific equipment.	\$ 54	\$ 131
Interest only credit facility	<u>10,829</u>	10,829
	<u>10,883</u>	10,960
Accrued consideration on share purchase acquisition	810	810
	<u>11,693</u>	11,770
Less current portion	<u>(35)</u>	(98)
	<u>11,658</u>	11,672
Less unamortized debt issue costs	<u>(58)</u>	(44)
	<u>\$ 11,600</u>	\$ 11,628

Under the terms of the amended credit facility described above, outstanding principal repayments are due as follows:

Calendar years:	
2009	\$ 21
2010	10,854
2011	<u>818</u>
	<u>11,693</u>
Less: current portion	<u>(35)</u>
Long-term portion before unamortized debt issue costs	<u>\$ 11,658</u>

---

### NOTE 4 – FINANCIAL RISK MANAGEMENT

#### Overview

The Company is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

#### Credit risk

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

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

### NOTE 4 – FINANCIAL RISK MANAGEMENT – (continued)

The Company's accounts receivable are due from customers in a variety of industries including a significant proportion with customers operating in the energy and manufacturing industries. The ability of customers within the energy industry to pay us is partially affected by fluctuations in the price they receive for various hydrocarbon products. Customers in both these industries may also face particular challenges in their ability to secure debt and equity financing. The maximum credit exposure associated with trade accounts receivable is the carrying value.

The Company follows a credit policy under which the Company reviews each new customer individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and trade references. Customers that fail to meet the Company's credit worthiness criteria may transact with the Company only on a prepayment basis. On an on going basis, the Company also reviews the payment patterns of its existing customers and the customers' continued credit worthiness.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance by reviewing individual accounts past due for collectability, historical write-off experience, and overall account aging. The Company reviews its allowance for doubtful accounts on a continuous basis as new information becomes available and reviews past due amounts at least monthly.

	<b>June 30, 2009</b>	December 31, 2008
Trade accounts receivable	\$ 17,872	27,145
Allowance for doubtful accounts	<b>(1,210)</b>	(1,405)
Total trade accounts receivable	<b>\$ 16,662</b>	25,740

The aging of trade receivables is as follows:

	<b>June 30, 2009</b>		December 31, 2008	
	<b>Gross</b>	<b>Allowance</b>	Gross	Allowance
Current (0 – 30 days from invoice date)	\$ 10,086		13,465	–
Past due 1-30 days	<b>3,249</b>	<b>45</b>	6,633	–
Past due 31-90 days	<b>3,296</b>	<b>215</b>	5,949	481
More than 90 days	<b>1,241</b>	<b>950</b>	1,098	924
Total	<b>\$ 17,872</b>	<b>1,210</b>	27,145	1,405

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

	<b>2009</b>	2008
<b>Balance, April 1</b>	\$ 1,490	1,153
Bad debt provision	<b>106</b>	–
Write-offs net of recoveries	<b>(386)</b>	(2)
<b>Balance, June 30</b>	<b>\$ 1,210</b>	1,151

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

---

### NOTE 5 – RELATED PARTY TRANSACTIONS

During the quarter, the Company had the following transactions with related parties, all of which are measured at exchange amounts:

- During the second quarter of 2009, the Company paid rent and property taxes for a regional office to a corporation related to a Director of the Company in the amount of \$103 (2008 – \$105)
- During the second quarter of 2009, the Company also paid rent of \$74 (2008 – \$78) for a regional office to a corporation controlled by a Senior Manager of the Company.

### NOTE 6 – SEGMENT INFORMATION

Management has determined that the Company operates in a single industry segment, which involves the provision of industrial health, safety and environmental monitoring services. Substantially all of the Company's operations, assets, revenues, and employees are in Canada. For the quarter ended June 30, 2009, the Company had one customer representing more than 10% of revenue (June 30, 2008 – one). The Company had sales of approximately \$2.4 million to the customer during the quarter (June 30, 2008 - \$3.3 million).

At June 30, 2009 US operations comprised less than 1% of revenues and assets of the Company.

The Company provides services to two main groups of customer industries. "Oilfield" services are provided to customers in the conventional upstream, or "wellhead", sector of the oil and gas industry. "Industrial" services are provided to customers in a variety of other industries including: non-conventional upstream oil development and production (including oil sands extraction); oil and gas processing; petrochemicals; pulp and paper; utilities; power generation; and manufacturing. It also includes worker safety training and safety management and consulting services. The Company tracks revenues provided to each customer group as a method to predict future operating activity. Revenue by customer group is as follows:

	Three Months ended		Six Months ended	
	June 30		June 30	
	2009	2008	2009	2008
Oilfield	\$ 4,317	8,667	\$ 14,577	24,628
Industrial	15,249	19,420	27,390	31,028
Total Revenue	\$ 19,566	28,087	\$ 41,967	55,656
As a % of Revenue:				
Oilfield	22.1%	30.9%	34.7%	44.3%
Industrial	77.9%	69.1%	65.3%	55.7%
Total Revenue	100.0%	100.0%	100.0%	100.0%

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

### NOTE 7 – STOCK-BASED COMPENSATION PLANS

#### Incentive stock option plan

The weighted average fair value of options granted for the quarter ended June 30, 2009 was \$0.26. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

	June 30 2009	December 31 2008
Vesting period (years)	3	3
Risk-free interest rate	1.69%	2.11%
Expected life (years)	5	5
Price volatility	92.78%	89.70%

Pursuant to the stock option plan, a maximum of 10% of the issued and outstanding common shares of the Company are reserved from time to time, for issuance to eligible participants. Option prices and vesting terms are determined by the directors at the time of granting at an exercise price no less than market on the grant date. The term of options granted does not exceed five years.

Information about outstanding stock options is as follows:

	Quarter ended June 30, 2009		Year ended December 31, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,533,499	\$1.88	2,379,998	\$ 2.15
Granted	650,000	0.36	735,000	0.99
Exercised	-	-	(8,000)	0.50
Forfeited	(471,333)	1.72	(573,499)	1.86
Outstanding, end of period	2,712,166	\$1.55	2,533,499	\$ 1.88
Exercisable at end of period	1,508,301	\$2.14	1,335,810	\$ 2.16

The following table summarizes information about stock options outstanding at June 30, 2009:

Options outstanding	Exercise prices \$	Weighted average remaining life	Number exercisable
1,165,000	0.25-1.19	4.38	178,330
853,500	1.20-2.14	2.00	668,647
318,666	2.15-3.09	1.69	286,324
375,000	3.10-4.04	1.78	375,000
2,712,166	1.55	2.95	1,508,301

---

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

For the three and six month periods ended June 30, 2009 and 2008  
(Stated in thousands of dollars), (unaudited)

---

### NOTE 7 – STOCK-BASED COMPENSATION PLANS (continued)

#### Deferred share unit plan

On January 16, 2007, 15,000 deferred share units (“DSUs”) were granted to non-executive directors. An additional 15,000 DSUs were granted on May 15, 2008. On December 15, 2008 3,000 of the DSUs were settled for \$1.

For the 2009 year, the directors’ retainers and meeting fees are being paid with DSU’s. During the second quarter ended June 30, 2009, 130,970 DSU’s were granted. The total DSU’s outstanding at June 30, 2009 were 157,970.

The units are revalued quarterly and any change in value is included as an increase or decrease in stock based compensation expense and accrued liabilities. The expense recognized for the quarter ended June 30, 2009 was \$43 (quarter ended June 30, 2008 - \$16).

### NOTE 8 – SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
Increase (decrease) in non-cash working capital from operations				
Accounts receivable	\$ 6,795	2,885	\$ 9,084	(2,964)
Inventory	(8)	(2)	(19)	(5)
Prepaid expenses and other assets	143	(143)	552	10
Income tax recoverable/payable	(3)	150	238	380
Accounts payable and accrued liabilities	(995)	(326)	(2,978)	420
Net change in non-cash working capital	\$ 5,932	2,564	\$ 6,877	(2,159)

### NOTE 9 – CONTINGENCIES

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