

HSE Integrated Ltd. Management Discussion and Analysis (“MD&A”) For the Quarter and Year To Date Ended June 30, 2009 and 2008

The following management discussion and analysis is dated August 12, 2009, and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Company”) for the quarter and year to date ended June 30, 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 August 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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Quarter Over- Quarter % Change	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Year Over Year % Change
Revenue	\$19,566	\$ 28,087	(30.3%)	\$41,967	\$ 55,656	(24.6%)
Operating and materials	18,145	23,440	(22.6%)	38,555	45,992	(16.2%)
Operating margin	1,421	4,647	(69.4%)	3,412	9,664	(64.7%)
Operating margin %	7.3%	16.5%		8.1%	17.4%	
Selling, general & administrative	\$1,872	\$ 2,460	(23.9%)	\$4,079	\$ 4,844	(15.8%)
Net loss	(1,928)	(568)	(239.4%)	(3,734)	(579)	(544.9%)
- per share basic & diluted	(0.05)	(0.02)	(150.0%)	(0.10)	(0.02)	(400.0%)
EBITDA ⁽¹⁾	(\$451)	\$ 2,187	(120.6%)	(\$667)	\$ 4,820	(113.8%)
EBITDA %	(2.3%)	7.8%		(1.6%)	8.7%	
Total assets				\$60,745	\$72,232	
Total long-term liabilities				16,462	20,474	

See Non-GAAP Measures for ⁽¹⁾

Financial Review

Overview

HSE operates in a single industry segment of industrial health and safety services provision. 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 30.3% from \$28,087 in 2008 to \$19,566 in 2009. Operating margin of \$1,421 was 7.3% of revenues, down from \$4,647 or 16.5% in 2008. Selling, general and administrative expense (“SG&A”) decreased to \$1,872 from \$2,460 in the prior year, but as a percentage of revenue SG&A increased from 8.8% of revenue in fiscal 2008 to 9.6% in 2009. HSE reported a loss of \$1,928 or (\$0.05) per share compared to a loss of \$568 or (\$0.02) per share in the prior year. EBITDA was \$(451) or (2.3%) of revenue in 2009, down 120.6% from \$2,187 or 7.8% of revenue in 2008.

Total revenue for the six month period declined 24.6% from \$55,656 in 2008 to \$41,967 in 2009.

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Operating margin of \$3,412 was 8.1% of revenue compared to \$9,664 or 17.4% of revenue in the prior year. SG&A was \$4,079 for the period, a 15.8% decline from \$4,844 in the prior year. However, as a percentage of revenue SG&A increased from 8.7% of revenue to 9.7%. The company reported a loss of \$3,734 or (\$0.10) per share compared to a loss of \$579 or (\$0.02) per share for the first six months of the 2008 fiscal year. EBITDA for the period was (\$667) compared to \$4,820 a year ago.

Included in expenses are one-time charges of \$516 (\$282 in the first quarter of the year and \$234 in the second quarter) related to cost reduction initiatives undertaken by the Company. These initiatives are described below.

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 and administration services are provided from a common personnel pool.

The revenue for these revenue groups is shown below:

	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Year over year % change	Quarter ended June 30, 2007	Year over year % change
Oilfield	\$ 4,317	\$ 8,667	(50.2)%	\$ 6,486	33.6%
Industrial	15,249	19,420	(21.4)%	12,866	50.9%
Total Revenue	\$19,566	\$28,087	(30.3)%	\$19,352	45.1%

As a % of Revenue:

Oilfield	22.1%	30.9%		33.5%	
Industrial	77.9%	69.1%		66.5%	
Total Revenue	100.0%	100.0%		100.0%	

	Six months ended June 30, 2009	Six months ended June 30, 2008	Year over year % change	Six months ended June 30, 2007	Year over year % change
Oilfield	\$14,577	\$24,628	(40.8)%	\$26,285	(6.3)%
Industrial	27,390	31,028	(11.7)%	21,015	47.6%
Total Revenue	\$41,967	\$55,656	24.6%	\$47,300	17.7%

As a % of Revenue:

Oilfield	34.7%	44.3%		55.6%	
Industrial	65.3%	55.7%		44.4%	
Total Revenue	100.0%	100.0%		100.0%	

Oilfield

Oilfield revenues in the second quarter decreased by 50.2% in 2009 compared to 2008 from \$8,667 to \$4,317. For the first six months of the current fiscal year, Oilfield health and safety services revenue was \$14,577, 40.8% lower than \$24,628 generated in the same period in the 2008 fiscal year. Services delivered to this group of clients comprised only 34.7% of revenue compared to 44.3% in the prior year. This significant year-over-year decline is due to lower overall activity levels in Western Canada 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 input services including health and safety. Therefore, in many cases HSE has been forced to adjust its pricing downward in order to maintain clients and market share. To compensate for lower prices, HSE has undertaken a series of internal cost reduction measures to maintain acceptable operating margins. These initiatives are discussed in detail under the discussion of Operating Materials Expense and Selling General and Administrative Expense below.

In the second quarter of 2009, the Company's venture with Boots & Coots International Well Control, Inc. – Boots & Coots HSE Services LLC (“BCHSE”) – generated increasing revenues as BCHSE gained customer acceptance as a capable provider of worker and asset production services. Assets employed included motorized combination fire/shower units, breathing air trailers, trailer-mounted decontamination units, breathing apparatus and electronic gas detection equipment. Working from locations in Odessa, Texas and Oklahoma City, Oklahoma, BCHSE increased its client base and revenues. 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 also declined in the second quarter of 2009 due to the negative effects of the global recession which include reduced commodity prices, plant shutdowns, project cancellations or delays, and the postponement of scheduled plant maintenance expenditures to some future date to save cash. This trend took place to some degree in virtually every industry and geographical sector in which HSE operates.

Industrial revenue decreased \$4,171 (21.4%) to \$15,249 from \$19,420 in the same period in the prior year. Industrial health and safety services comprised 77.9% of total revenues, up from 69.1% in 2008. Without a significant recovery in Oilfield activity, Industrial revenues will continue to be greater than Oilfield revenues for the foreseeable future.

The year-over-year Industrial health and safety revenues generated varied widely depending upon the service location. Western Canadian plant shutdown and turnaround revenue declined for two reasons:

facility operators postponed scheduled maintenance to conserve cash and the Company lost some bids on price as competitors slashed prices to sustain revenue and activity. As a group, revenue from locations in Ontario and Michigan increased because of one large plant shutdown. Locations in Atlantic Canada provided the most stable Industrial revenue stream on a year-over-year basis, however overall business declined in these markets as well. The new location in St. John's, Newfoundland & Labrador, generated revenue for the first time in the second quarter.

For the period ended June 30, 2009, the Company had one customer representing more than 10% of revenue (2008 – one). The Company had sales of approximately \$2.4 million to the customer during the quarter.

For the six months ended June 30, 2009 HSE's Industrial revenue was \$27,390, a decline of 11.7% from the same period in fiscal 2008. Revenues from these clients accounted for 65.3% of total revenue compared to 55.7% a year ago. The growth in Industrial health and safety revenue in the period as a percentage of total revenue was caused by the more significant decline in Oilfield health and safety revenue.

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 June 30, 2009 totaled \$18,145 or 92.7% of revenue as compared to \$23,440 or 83.5% of revenue in 2008. Operating margin for the quarter declined from \$4,647 (16.5 % of revenue) in the second quarter of 2008 to \$1,421 (7.3 % of revenue) in 2009.

For the first six months operating and materials totaled \$38,555 or 91.9% of revenue compared to \$45,992 or 82.6% of revenue for the period ended June 30, 2008. Operating margin for the first six months declined from \$9,664 or 17.4% of revenue last year to \$3,412 or 8.1% 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. Recognizing the impact of the economic downturn on the Company's operations, HSE undertook a series of cost reduction initiatives beginning in mid-January. During the first quarter of 2009, initiatives included 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, and a series of operating costs reductions involving travel, advertising and entertainment expenses.

A new system of paying field service technicians came into effect June 1. Previously, most field service personnel in Western Canada were paid a base salary together with a job bonus. Effective June 1, this was changed to an hourly pay structure similar to that already in place for the Company's Eastern operations. For Western operations, this change directly links field service personnel expense to revenue for the first time.

One time charges of \$516 (\$282 in the first quarter and \$234 in the second quarter) associated with the implementation of these cost reduction initiatives have been reflected in net income. Management remains confident that, based on its historical revenue mix, these cost reductions 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 \$106 to reflect increased collection risks as a result of the deterioration in the general business environment. The allowance for doubtful accounts receivable was \$1,210 (6.8% of trade accounts receivable) at the end of the quarter. During the quarter the Company wrote off \$386 of previously allowed for receivables after all

methods of recovery were exhausted. The largest portion of these was a receivable for \$333 that had been allowed for in 2007.

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 \$1,872 (9.6% of revenue), down from \$2,460 (8.8% 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. 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 BC HSE Services LLC for the first time in 2009.

For the first six months SG&A declined to \$4,079 from \$4,844 in the prior year. However, as a percentage of revenue SG&A increased to 9.7% from 8.7% in 2008.

EBITDA and Net Loss

EBITDA (see “Non-GAAP Measures”) in the quarter decreased from \$2,187 in the second quarter of 2008 to (\$451) in the current quarter. The EBITDA decrease was primarily because of significant revenue declines on a year-over-year basis. For the first six months EBITDA was (\$667) compared to \$4,820 in the 2008 fiscal year.

Total amortization for the quarter was \$1,692, down from \$1,920 in 2008. Property and equipment amortization declined compared to the prior year at \$1,554 (down from \$1,722) as the Company controlled the pace of capital additions during 2008 and the first and second quarter of 2009. Intangible assets amortization declined to \$138 from \$198 in 2008 as certain amortization periods expired during 2008, particularly for non-competition provisions.

Stock-based compensation for the quarter was \$99 (2008 – \$155). The decrease is primarily due to a reduction in the number of outstanding unvested options offset in this quarter by a stock option grant in May 2009.

Interest on long term debt and other interest and bank charges decreased from \$331 in 2008 to \$120 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 2.6% lower in the second quarter of 2009 than in the equivalent quarter in 2008. This saved the company approximately \$70 in interest charges. As well, the Company had significantly lower levels of overall debt throughout the current quarter than it had in the second quarter of 2008. Capital lease obligations at June 30, 2009 were \$1,409 lower than at June 30, 2008. Long-term debt was reduced by \$3,410 compared to June 30, 2008.

For the second quarter of 2009, the loss on disposal of property and equipment was \$126 with proceeds on sale of \$312. 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 \$572 income tax recovery for the quarter versus an income tax recovery of \$79 for 2008. The change can be attributed primarily to a decrease in taxable income in the year.

Net loss for the quarter was \$1,928 or \$(0.05) per share versus a loss of \$568 or \$(0.02) per share in 2008. The year-over-year decline was primarily due to the decrease in EBITDA as described above.

Current Quarter versus Q1 2009

Revenue for the second quarter decreased 12.7% to \$19,566 from \$22,401 in the first quarter. This was caused by significant reductions in revenues from Oilfield health and safety services. Industrial revenue increased \$3,108 from \$12,141 in the first quarter to \$15,249 in the second quarter because most plant shutdown and turnaround activities take place in the non-winter months of the second and third quarters. Oilfield revenue decreased \$5,943 from \$10,260 to \$4,317. This was caused by spring break-up and the general deterioration of the conventional upstream oil and gas industry in North America compared to 2008.

Operating expenses decreased by \$2,265 from \$20,410 (91.1% of revenue) to \$18,145 million (92.7% of revenue). Operating cost decreases reflect one month of the field staff pay restructuring, total manpower reductions, and other cost containment activities.

SG&A declined from the first quarter by \$335. The decrease reflected a full quarter of salary reductions, manpower reductions and restrictions on travel and other discretionary expenditures.

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	\$ 312	252	103	6	–	\$673
Vehicle operating leases	1,197	2,319	1,603	429	5	5,553
Property & other leases	1,483	2,610	1,786	1,236	815	7,930
Long-term debt	21	10,854	818	–	–	11,693
Total contractual obligations	\$3,013	16,035	4,310	1,671	820	\$25,849

Liquidity

At the end of the second quarter, the draw against the revolving facility was \$10,829, and there was no draw against the operating facility. At June 30 the Company had cash on hand of \$5,923.

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.

In the first quarter of 2009, anticipating a continuation of the challenging business environment for Oilfield health and safety services for the remainder of 2009 and possibly 2010, management identified the need to amend its existing credit facilities. The Company approached its senior secured lender in March 2009 to discuss modifying the existing facilities. 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. This amended facility, which matures July 27, 2010, is margined to property and equipment and accounts receivable. The amended 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 facility. The amended facility is subject to certain covenants including a covenant with respect to 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.

Cash Provided by (Used in) Operations

Cash provided by operations in the quarter was \$5,349 in 2009 compared to \$4,244 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 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 \$385 towards capital lease and other long term debt obligations.

Purchases of property and equipment for the second quarter amounted to \$437, the majority of which was revenue generating health safety services rental equipment. Proceeds from disposal of property and equipment were \$312.

Working Capital

At June 30, 2009, the Company had working capital (not including current portion of long-term debt obligations) of \$18,368. This compares to \$20,514 on December 31, 2008 and \$21,717 at June 30, 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 second 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 \$249 on June 30, 2008 to \$5,923 at June 30, 2009.

Outlook

Due to a series of international and domestic economic events that took place in the last half of 2008, the business climate in the first six months of 2009 was the most challenging for HSE in its modern history. This began in 2004 with aggressive expansion that would eventually include 17 acquisitions. Although individual predecessor component companies of HSE may have endured business cycles and downturns, the current economic climate was our first major challenge as a combined group. But because of the experience of senior management, the relative strength of HSE's balance sheet, and a corporate business model that focused on a diversity of essential services provided to a diversity of clients in several regions, HSE has weathered the storm and is cautiously optimistic that the worst is behind in terms of prospects and opportunities.

Oilfield

In the first half of 2009, conventional oil and gas drilling, completion and workover activity in Canada declined sharply compared to all previous years in the 21st century. According to well completion figures compiled by the Canadian Association of Drilling Contractors ("CAODC"), the average number of wells drilled annually in Canada from 2001 to 2008 was 19,714. By contrast, in the six month period to June 30, 2009 only 5,938 wells had been drilled. On July 7, 2009 the CAODC revised its drilling forecast for the current year downward to 8,787 total new wells drilled, the lowest figure since 1992. Although by the end

of June the price of oil had recovered substantially from a low of \$34 in December of 2008, it still remained about half of what it sold for a year ago. The price of natural gas remains similarly depressed.

In response to the foregoing, HSE has undertaken a meaningful cost reduction strategy, 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. This program was extended to March 31, 2011 in another announcement on June 25, 2009. 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 cash flow. Although debt and equity markets have improved somewhat in the past few months resulting in the ability of some of the Exploration and Production sector players to raise capital, the overall climate in which Canada's conventional upstream oil and gas industry operates remains severely challenged compared to prior year.

Saskatchewan and British Columbia have not been spared the effects of the downturn. Low natural prices are discouraging activity in northeast B.C. despite exciting new shale gas discoveries and an attractive fiscal regime. Lower oil prices and tightened equity and debt markets are having a similar impact on activity in Saskatchewan.

Natural gas prices continue to generate uncertainty. Current prices are low and analysts are starting to understand that unconventional shale gas exploitation in Canada and the United States may permanently change North American gas markets. Royalty incentive packages like those offered in Alberta are still not attractive enough to justify developing many gas deposits.

Nevertheless, the indication from HSE's clients for Oilfield health and safety services is that the worst is behind us. Activity will improve, but the pickup will not take place at the same rate as the decline. Oil prices have more than doubled from the multi-year lows experienced in late 2008. Although gas prices remain soft, this situation is regarded as temporary. A sharp decline in natural gas drilling across North America and slow but steady improvement in the economy has created a situation where supply and demand will come into balance.

The focus for the Oilfield side of HSE in Canada is cost control and the best possible service to ensure customer loyalty.

In the United States, the joint venture with Boots & Coots Services, Inc. operating as Boots & Coots HSE Services, LLC ("BCHSE") enjoyed revenue growth and customer acceptance in the second quarter. While this project does not yet generate positive cash flow, client interest in specific services and the need for a modern and more professionalized approach to Oilfield health and safety in general cause the Company to believe the long-term potential for BCHSE is meaningful.

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. Although Industrial revenues in the second quarter were down on a year-over-year basis for the first time since HSE began expansion into new markets five years ago, the broad range of services, clients and regions ensures that this area of the Company will be the first to return to growth.

The oilsands region of northeast Alberta continues to look promising for several reasons. Production from new and existing extraction operations remain at full capacity, aided by higher prices that have ensured the vast majority of the oil produced sells for greater than development costs. The startup of Esso's Kearl

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Lake oilsands project was a positive development for the region. Because of tight economics, most customers are examining new ways of doing business that could yield efficiency gains and/or operating cost reductions. HSE has long believed that outsourcing certain health and safety functions to an expert service provider is a viable alternative to in-house methods. This means that HSE's opportunities can grow in this market whether or not the whole market grows.

Although other Industrial safety work in western Canada – primarily plant shutdown and turnaround services – has declined so far in 2009 so facility operators could conserve cash, the outlook for the remainder of the year has improved. This maintenance and repair work is essential for the ongoing operation of facilities. With the amount of work that was postponed in 2009, this segment of HSE's total business mix looks promising for 2010.

HSE's Ontario client base is diverse and is affected by the recession in different ways. Many of the facilities that were shuttered in the first half of 2009, such as steel mills and auto assembly plants, are re-opening which will increase HSE's business later this year. An agreement with the Laborers' Union to use unionized manpower on plant safety operations that was implemented in July of 2009 looks promising for this specific market where most of the client facilities are also unionized. A similar arrangement in New Brunswick has been highly satisfactory for HSE, the laborers' union and clients. Ontario and the industrial Midwest of the United States remain large markets with significant opportunity.

Despite a decline in revenues year-over-year, the Atlantic region of Canada remains a bright spot for HSE in 2009 and beyond. 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.

Marketing to new clients continues in all regions. HSE believes the ultimate potential for the Industrial health and safety revenues is many times greater than the Company has generated thus far.

Cost Control and Short-Term Outlook

Much of the attention of senior management in the first half of 2009 was on cost control in order to be able to work as efficiently as possible and maintain the strongest possible balance sheet and working capital position until the many segments of the economy in which HSE operates begin to recover.

While the general cost reduction plan was conceived in the first quarter, much of the execution took place in the second quarter. Of particular significance going forward is the change in field service technician pay structure from a base salary plus day bonus to an hourly wage. This has benefits for both management and field service staff. For management, the cost of supporting field personnel when they are not working on revenue producing jobs is greatly reduced; for field service personnel, it allows a worker the opportunity to earn more money than under the previous regime. This program was fully implemented on June 1, 2009. June's financial results indicated that this significant undertaking did indeed yield the desired outcome.

All other discretionary expenses, including items such as travel, advertising, entertainment and investor relations remain sharply curtailed until it is clear business has improved. 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. HSE remains largely intact in the sense that no major business units or field service locations have been sold off or closed in order to survive the financial downturn.

The outlook for all of HSE's business units is marginally positive, particularly when compared to three consecutive quarters of contraction that took place in late 2008 and the first half of 2009. Credit markets are easing. Equity markets are functioning again. Some commodity prices like oil are up sharply while all others have at least quit declining. Clients are looking at their businesses with a view to expansion again

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instead of slashing all unnecessary costs to ensure survival. Although HSE has not yet lost any major competitors, several smaller ones have shut down. This may ease competitive pressures going forward.

Therefore, the Company reports with some confidence that the worst is over for HSE and the Company anticipates a return to revenue growth. However, returning to record levels of revenues enjoyed in 2008 will take longer than it did to decline from record to current levels.

Quarterly Results

	2009		2008			2007		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	19,566	\$22,401	\$29,905	\$28,202	\$28,087	\$27,569	\$26,464	\$23,578
Net earnings (loss)	(1,928)	(1,806)	431	396	(568)	(11)	(9,173)	(15,920)
EBITDA ⁽¹⁾	(451)	(216)	2,713	2,858	2,187	2,633	2,601	1,376
Income (loss) per share – basic and diluted	(0.05)	(0.05)	\$0.01	\$0.01	\$(0.02)	\$0.00	\$(0.25)	\$(0.42)

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		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oilfield	4,317	\$10,260	\$14,597	\$12,039	\$8,667	\$15,961	\$15,879	\$11,722	\$6,486
Industrial	15,249	12,141	15,308	16,163	19,420	11,608	10,585	11,856	12,866
Total revenue	19,566	\$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:

- 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.

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.

Accounting Standards pending adoption

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.

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. The Company expects the transition to IFRS to impact financial reporting, business processes and information technology requirements. As part of the conversion, the Company will be required to report its interim results for the quarter ended March 31, 2011, including comparatives for the quarter ended March 31, 2010, using IFRS. The Company will also be required to prepare an opening balance sheet at January 1, 2010 converting its balances as previously reported under Canadian GAAP to the amounts that would have been reported under IFRS.

The Company has started an IFRS conversion project and is currently evaluating the impact of the change to IFRS on the results of its operations, financial position and disclosures.

To date, the Company has identified the following accounting standards that apply to the Company where IFRS standards are different from those under existing Canadian GAAP:

- Financial instruments
- Property and equipment
- Intangible assets
- Impairment testing of long-lived assets
- Business combinations and non-controlling interests
- Income taxes
- Contingencies
- Leases
- Stock-based compensation

Of these areas, business combinations and property and equipment conversions are expected to have the most pervasive impact on the Company's processes and reported results.

Accounting for business combinations under IFRS differs from existing Canadian GAAP with respect to accounting for non-controlling interest, treatment of transaction costs incurred as part of the acquisition, valuation of share consideration given as part of an acquisition, treatment of contingent consideration given as part of an acquisition, accounting for future income taxes associated with an acquisition, and treatment of restructuring costs incurred as part of an acquisition.

Property and equipment accounting under IFRS requires that significant components that make up an asset be separately tracked within fixed assets, that the cost of each significant component be amortized over the estimated useful life of that component, and that any replacements of significant components be accounted for as disposals and acquisitions.

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides the framework for the initial conversion from Canadian GAAP to IFRS. The standard generally requires that the Company's results be retroactively restated at January 1, 2010 to the results that would have been reported if the Company had been operating under IFRS since incorporation, with the adjustments that arise as a result of this restatement being recognized in retained earnings. However, IFRS provides for certain optional exemptions upon conversion to IFRS. The significant exemptions available to the Company include:

- An exemption allowing business combinations to be accounted for under IFRS standards starting at a date of the Company's choosing, rather than requiring that all acquisitions be restated as they would have been under IFRS
- An exemption allowing an entity to value fixed asset components at their fair value at the conversion date, rather than retroactively restating amortization of components and recording disposals and additions of components that were expensed as required under existing Canadian GAAP
- The ability to apply IFRS accounting for stock-based compensation on a prospective basis to stock options granted and vested prior to transition.
- The ability to assess whether an arrangement constitutes a lease, and accordingly falls under the IFRS standards for leases, as at the conversion date rather than retroactively for all leases entered into since incorporation.

The Company is currently evaluating which, if any, of these exemptions will be applied.

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 cyclicalities 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 June 30, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Common Shares Outstanding

At August 12, 2009 and December 31, 2008 there were 37,575,675 common shares of HSE outstanding. At June 30, 2009, the Company had options outstanding to issue 2,712,166 shares at a weighted average exercise price of \$1.55 per share. Of these options, 1,508,301 were exercisable. At August 12, 2009, there were 2,690,500 options outstanding at a weighted average exercise price of \$1.54 per share. Of these options, 1,486,635 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.

HSE Integrated Ltd.

Management Discussion and Analysis

For the Quarter and Year to Date Ended June 30, 2009 and 2008

EBITDA Calculation

For the Six Months Ended June 30	2009	2008
Net loss	\$(3,734)	\$ (579)
Add (deduct):		
Amortization	3,431	4,145
Stock-based compensation	149	290
Interest and bank charges	269	628
Foreign exchange loss	11	-
Loss on disposal of property and equipment	219	326
Income tax	(1,012)	10
EBITDA	\$ (667)	\$4,820

Quarterly EBITDA Calculation

	2009			2008			2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net earnings (loss)	\$(1,928)	\$(1,806)	\$ 431	\$ 396	\$(568)	\$(11)	\$(9,173)	\$(15,920)
Add (deduct):								
Amortization	\$1,692	1,739	1,399	1,821	1,920	2,125	2,243	2,004
Impairment of goodwill and intangible assets	-	-	-	-	100	-	10,505	15,000
Stock-based compensation	99	50	95	23	155	135	255	186
Interest and bank charges	120	149	200	288	331	297	311	309
Foreign exchange loss (gain)	12	(1)	(35)	4	2	(2)	12	22
Loss on disposal of property and equipment	126	93	193	129	326	-	103	99
Income taxes	(572)	(440)	430	197	(79)	89	(1,655)	(324)
EBITDA	\$ (451)	\$(216)	\$2,713	\$2,858	\$2,187	\$2,633	\$2,601	\$1,376

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

HSE Integrated Ltd.

Management Discussion and Analysis

For the Quarter and Year to Date Ended June 30, 2009 and 2008

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.