

# HSE Integrated Ltd.

## Consolidated Balance Sheets

(Stated in thousands), (unaudited)	September 30 2009	December 31 2008
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 4,982	\$ 1,114
Accounts receivable (note 5)	17,318	25,740
Inventory	193	222
Prepaid expenses and other assets	2,070	1,897
	<u>24,563</u>	<u>28,973</u>
Property and equipment	31,752	36,173
Intangible assets	3,391	3,788
	<u>\$ 59,706</u>	<u>\$ 68,934</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 5,389	\$ 8,096
Income taxes payable	607	363
Current portion of long-term debt (note 3)	10,814	98
Current portion of obligations under capital lease	271	922
Current portion of deferred gain	137	137
	<u>17,218</u>	<u>9,616</u>
Deferred gain	353	455
Obligations under capital lease	146	370
Long-term debt (note 3)	822	11,628
Future income taxes	4,059	5,278
	<u>22,598</u>	<u>27,347</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 4)	60,040	60,040
Contributed surplus	4,700	4,559
Deficit	(27,592)	(23,136)
Accumulated other comprehensive income (loss)	(40)	124
	<u>37,108</u>	<u>41,587</u>
	<u>\$ 59,706</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 Income (Loss)

	Three Months ended September 30		Nine Months ended September 30	
(Stated in thousands), (unaudited)	2009	2008	2009	2008
<b>REVENUE</b>	\$ 20,544	28,202	\$ 62,511	83,857
<b>COSTS</b>				
Operating and materials	17,456	22,408	56,011	68,400
Selling, general and administrative	2,072	2,936	6,151	7,780
Amortization of property and equipment	1,519	1,647	4,684	5,237
Amortization of intangible assets	131	174	397	629
Stock-based compensation (note 4)	101	23	250	313
Interest on long-term debt	121	264	355	802
Other interest and bank charges	19	24	54	114
Foreign exchange loss	(3)	4	8	4
Goodwill impairment	—	—	—	100
Loss on disposal of property and equipment	35	129	254	454
	<b>21,451</b>	<b>27,609</b>	<b>68,164</b>	<b>83,833</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(907)</b>	<b>593</b>	<b>(5,653)</b>	<b>24</b>
Income taxes				
Current provision	—	330	—	740
Future reduction	(185)	(133)	(1,197)	(533)
	<b>(185)</b>	<b>197</b>	<b>(1,197)</b>	<b>207</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (722)</b>	<b>396</b>	<b>\$ (4,456)</b>	<b>(183)</b>
Income (Loss) per share				
Basic and diluted	<b>\$ (0.02)</b>	<b>0.01</b>	<b>\$ (0.12)</b>	<b>(0.00)</b>
Weighted average shares outstanding				
Basic	<b>37,576</b>	<b>37,576</b>	<b>37,576</b>	<b>37,573</b>
Diluted	<b>37,576</b>	<b>37,576</b>	<b>37,576</b>	<b>37,573</b>

See accompanying notes to the consolidated financial statements.

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## HSE Integrated Ltd.

### Consolidated Statements of Other Comprehensive Income (Loss)

(Stated in thousands),(unaudited)	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
<b>Net Income (Loss)</b>	\$ (722)	396	\$ (4,456)	(183)
Other comprehensive loss				
Foreign currency loss on translating financial statements of self-sustaining foreign operations	(79)	–	(164)	–
<b>Other comprehensive income (loss)</b>	<b>\$ (801)</b>	396	<b>\$ (4,620)</b>	(183)

### Consolidated Statements of Deficit and Accumulated Other Comprehensive Income (Loss)

(Stated in thousands),(unaudited)	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
<b>Deficit, beginning of period</b>	\$ (26,870)	(23,963)	\$ (23,136)	(23,384)
Net Income (Loss)	(722)	396	(4,456)	(183)
<b>Deficit, end of period</b>	<b>\$ (27,592)</b>	(23,567)	<b>\$ (27,592)</b>	(23,567)
<b>Accumulated other comprehensive income, beginning of period</b>	\$ 39	–	\$ 124	–
Foreign currency loss on translating financial statements of self-sustaining operations	(79)	–	(164)	–
<b>Accumulated other comprehensive (loss), end of period</b>	<b>\$ (40)</b>	–	<b>\$ (40)</b>	–

See accompanying notes to the consolidated financial statements.

# HSE Integrated Ltd

## Consolidated Statements of Cash Flows

	Three Months ended September 30		Nine Months ended September 30	
(Stated in thousands), (unaudited)	2009	2008	2009	2008
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net income (loss)	\$ (722)	396	\$ (4,456)	(183)
Charges to income not involving cash:				
Amortization	1,650	1,821	5,081	5,866
Stock-based compensation	101	23	250	313
Future income tax	(185)	(133)	(1,197)	(533)
Goodwill impairment	—	—	—	100
Loss on disposal of property and equipment	35	129	254	454
Changes in non-cash working capital (note 8)	(1,215)	731	5,662	(1,426)
Cash provided by (used in) operations	(336)	2,967	5,594	4,591
<b>Financing</b>				
Repayment of bank indebtedness	—	—	—	(616)
Repayment of obligations under capital lease	(206)	(410)	(875)	(1,159)
Repayment of long-term debt	2	(56)	(102)	(222)
Issuance of share capital, net of costs	—	4	—	4
Cash used in financing	(204)	(462)	(977)	(1,993)
<b>Investing</b>				
Purchase of property and equipment	(483)	(856)	(1,384)	(2,515)
Acquisitions	—	—	—	(100)
Purchase of intangibles	—	(50)	—	(50)
Proceeds from disposal of property and equipment	88	143	609	2,058
Cash used in investing	(395)	(763)	(775)	(607)
Cash flow from operating, financing and investing activities	(935)	1,742	3,842	1,991
Effect of exchange rate on cash and cash equivalents	(6)	—	26	—
<b>Net change in cash and cash equivalents</b>	<b>(941)</b>	<b>1,742</b>	<b>3,868</b>	<b>1,991</b>
Cash and cash equivalents, beginning of period	5,923	249	1,114	—
Cash and cash equivalents, end of period	\$ 4,982	1,991	\$ 4,982	1,991

See accompanying notes to the consolidated financial statements.

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# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

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### 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.

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### NOTE 2 – CHANGE IN ACCOUNTING POLICIES

Effective July 1, 2009 the Accounting Standards Board issued new guidance with respect to the assessment of embedded derivatives upon reclassification of a financial asset out of the “held-for-trading” category. This change had no effect on the Company.

#### 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.

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.

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

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

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.

Effective for annual financial statements related to years ending after September 30, 2009, the Accounting Standards Board adopted changes with respect to the disclosure of fair value measurements of financial instruments and with respect to the liquidity risk associated with financial instruments. These changes will be incorporated into the Company's year-end disclosures.

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

On July 29, 2009, the Company amended its existing credit facilities with its current lender. The amended facility consists of a single \$15 million revolving operating facility which matures July 27, 2010. The 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 facility is margined to property and equipment and accounts receivable. At September 30, 2009 \$15 million was available under the revolving facility, of which \$10,829 was used. The facility 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 is collateralized under a general security agreement. At September 30, 2009, the Company complied with all covenants required under the 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.

On October 5, 2009, the Company paid down the revolving operating facility by \$3,000 from \$10,829 to \$7,829.

	September 30 2009	December 31 2008
Equipment financing contracts bearing interest at rates averaging 3.91% (2008 – 2.93%), payable in blended monthly payments of \$3 (2008 – \$12) secured by specific equipment.	\$ 42	\$ 131
Interest only credit facility	10,829	10,829
	<b>10,871</b>	10,960
Accrued consideration on share purchase acquisition	810	810
	<b>11,681</b>	11,770
Less current portion	<b>(10,814)</b>	(98)
	<b>867</b>	11,672
Less unamortized debt issue costs	<b>(45)</b>	(44)
	<b>\$ 822</b>	\$ 11,628

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# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

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

Outstanding principal repayments are due as follows:

Calendar years:	
2009	\$ 10
2010	10,853
2011	818
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	11,681
Less: current portion	(10,859)
Long-term portion	<hr/>
	\$ 822

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### NOTE 4 – SHARE CAPITAL AND STOCK-BASED COMPENSATION PLANS

At September 30, 2009 there were 37,575,675 common shares of the Company outstanding (December 31, 2008 – 37,575,675).

At September 30, 2009, the Company had options outstanding to issue 2,426,832 shares (December 31, 2008 – 2,533,499) at a weighted average price of \$1.55 per share ((December 31, 2008 – \$1.88). Of these options, 1,386,979 were exercisable ((December 31, 2008 – 1,335,810)

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### NOTE 5 – 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.

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.

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

### NOTE 5 – FINANCIAL RISK MANAGEMENT – (continued)

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.

	September 30, 2009	December 31, 2008
Trade accounts receivable	\$ 18,574	27,145
Allowance for doubtful accounts	(1,256)	(1,405)
Total trade accounts receivable	<u>\$ 17,318</u>	<u>25,740</u>

The aging of trade receivables is as follows:

	September 30, 2009		December 31, 2008	
	Gross	Allowance	Gross	Allowance
Current (0 – 30 days from invoice date)	\$ 11,348		13,465	–
Past due 1-30 days	3,301	26	6,633	–
Past due 31-90 days	2,871	215	5,949	481
More than 90 days	1,054	1,015	1,098	924
Total	<u>\$ 18,574</u>	<u>1,256</u>	<u>27,145</u>	<u>1,405</u>

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

	2009	2008
<b>Balance, June 30</b>	\$ 1,210	1,151
Bad debt provision	49	126
Write-offs net of recoveries	(3)	(27)
<b>Balance, September 30</b>	<u>\$ 1,256</u>	<u>1,250</u>

For the nine month period ended September 30, the movement of the allowance for doubtful accounts was as follows:

	2009	2008
<b>Balance, January 1</b>	\$ 1,405	1,155
Bad debt provision	250	105
Write-offs net of recoveries	(399)	(10)
<b>Balance, September 30</b>	<u>\$ 1,256</u>	<u>1,250</u>

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# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

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### NOTE 5 – FINANCIAL RISK MANAGEMENT – (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company's financial obligations include interest payments, trade and other payables, secured equipment loans, capital leases, and a revolving operating facility margined by accounts receivable and property and equipment. The revolving operating facility is subject to an annual renewal process.

The Company's revolving operating facility matures July 27, 2010. The Company will initiate renewal discussions with its lenders during the fourth quarter.

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### NOTE 6 – 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 third 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 – \$61). For the nine-month period ended September 30, the amount paid was \$218 (2008 – \$223).
  - During the third quarter of 2009, the Company also paid rent of \$74 (2008 – \$79) for a regional office to a corporation controlled by a Senior Manager of the Company. For the nine-month period ended September 30, the amount paid was \$222 (2008 – \$231).
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### NOTE 7 – 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 September 30, 2009, the Company had two customers representing more than 10% of revenue (September 30, 2008 – none). Work for both customers relates to ongoing projects. For one customer, the Company earned \$1.9 million in revenue during the quarter (\$6.6 million during the nine-month period ended September 30). For the second customer, the Company earned \$2.6 million in revenue during the quarter (\$5.7 million for the nine-month period ended September 30).

At September 30, 2009 US operations comprised less than 1% of revenues and 2% of 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.

# HSE Integrated Ltd.

## Notes to the consolidated financial statements

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

### NOTE 7 – SEGMENT INFORMATION (continued)

Revenue by customer group is as follows:

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Oilfield	\$ 6,169	12,039	\$ 20,746	36,666
Industrial	14,375	16,163	41,765	47,191
Total Revenue	\$ 20,544	28,202	\$ 62,511	83,857
As a % of Revenue:				
Oilfield	30.0%	42.7%	33.2%	43.7%
Industrial	70.0%	57.3%	66.8%	56.3%
Total Revenue	100.0%	100.0%	100.0%	100.0%

### NOTE 8 – SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Increase (decrease) in non-cash working capital from operations				
Accounts receivable	\$ (675)	1,179	\$ 8,409	(1,785)
Inventory	48	6	29	1
Prepaid expenses and other assets	(723)	(315)	(171)	(305)
Income tax recoverable/payable	(1)	352	237	732
Accounts payable and accrued liabilities	136	(491)	(2,842)	(69)
Net change in non-cash working capital	\$ (1,215)	731	\$ 5,662	(1,426)

### 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.