

# HSE Integrated Ltd.

## Consolidated Balance Sheets

(stated in thousands of dollars, unaudited)	March 31, 2006	December 31, 2005
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 4,036	\$ 433
Accounts receivable	29,545	16,512
Inventory	605	158
Prepaid expenses and deposits	440	712
Other assets	62	65
	<b>34,688</b>	17,880
Property and equipment (Note 2)	38,969	25,613
Goodwill	17,870	7,276
Intangible assets	2,588	563
	<b>\$ 94,115</b>	\$ 51,332
<b>LIABILITIES</b>		
Current		
Bank overdraft	\$ -	\$ 51
Operating line of credit	4,981	1,597
Accounts payable and accrued liabilities	8,907	5,371
Income taxes payable	1,502	548
Current portion of long-term debt (Note 4)	5,125	482
	<b>20,515</b>	8,049
Long-term debt (Note 4)	17,830	752
Future income taxes	6,029	3,201
	<b>44,374</b>	12,002
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 5)	46,320	38,411
Contributed surplus	611	462
Retained earnings	2,810	457
	<b>49,741</b>	39,330
	<b>\$ 94,115</b>	\$ 51,332
Subsequent events (Note 6)		

### NOTICE TO READER

These interim financial statements have not been reviewed by the company's auditors but have been reviewed and approved by the company's Audit Committee and Board of Directors.

See accompanying notes to the consolidated financial statements.

**HSE Integrated Ltd.**  
**Consolidated Statements of Earnings**  
**and Retained Earnings (Deficit)**

<i>(stated in thousands of dollars, except per share amounts; unaudited)</i>	<b>Three Months Ended March 31, 2006</b>	<b>Three Months Ended March 31, 2005</b>
<b>REVENUE</b>	<b>\$ 27,465</b>	<b>\$ 17,306</b>
<b>COSTS</b>		
Operating and materials	19,734	11,250
Selling, general and administrative	2,183	1,339
Amortization	1,428	789
Stock based compensation	149	80
Interest and bank charges	222	80
Interest on long-term debt	68	57
	<b>23,784</b>	<b>13,595</b>
Earnings before under noted	<b>3,681</b>	3,711
(Loss) gain on disposal of assets	<b>(179)</b>	94
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>3,502</b>	3,805
Income taxes		
Current	919	328
Future	230	889
	<b>1,149</b>	<b>1,217</b>
<b>NET EARNINGS</b>	<b>2,353</b>	2,588
<b>RETAINED EARNINGS (deficit), beginning of period</b>	<b>457</b>	(1,376)
<b>RETAINED EARNINGS , end of period</b>	<b>\$ 2,810</b>	<b>\$ 1,212</b>
Earnings per share		
Basic	\$ .07	\$ .11
Diluted	\$ .07	\$ .11
Weighted average number of shares		
Basic (thousands)	30,277	22,525
Diluted (thousands)	33,504	22,570

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## HSE Integrated Ltd.

### Consolidated Statements of Cash Flows

(stated in thousands of dollars, unaudited)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net earnings	\$ 2,353	\$ 2,588
Charges to income not involving cash		
Amortization	1,428	789
Stock-based compensation	149	80
Future income tax expense	230	889
Loss on disposal of assets	179	(94)
Change in non-cash working capital	(7,285)	(2,871)
Cash provided by (used in) operations	(2,946)	1,381
<b>Financing</b>		
Advances (repayment) on operating line of credit, net	3,384	(353)
(Repayment) of demand loans	-	(375)
Increase in long-term debt	21,721	(302)
Issuance of share capital, net of costs	1,549	39
Cash provided by (used in) financing	26,654	(991)
<b>Investing</b>		
Purchase of property and equipment	(4,017)	(322)
Acquisitions (Note 5)	(16,334)	-
Proceeds from disposal of assets	298	132
Cash used in investing	(20,053)	(190)
<b>Net increase in cash and cash equivalents</b>	<b>3,655</b>	<b>200</b>
Cash and cash equivalents less bank overdraft, beginning of period	381	319
Cash and cash equivalents less bank overdraft, end of period	\$ 4,036	\$ 519
<b>Supplemental information</b>		
Income tax paid	\$ -	\$ 22
Interest paid	\$ 277	\$ 137

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See accompanying notes to the consolidated financial statements.

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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The Company's interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. The Company's interim financial statements should be read in conjunction with the most recent annual financial statements. The Company's interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements, except where any change has been noted in the interim financial statements.

The company's business is seasonal in nature with the highest activity in the winter months (first and fourth fiscal quarters) and the lowest activity during spring break up (second fiscal quarter) due to road weight restrictions and reduced accessibility to remote work areas.

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

##### Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries (from the date of acquisition), all of which are wholly owned. All intercompany balances and transactions have been eliminated on consolidation.

##### Property and equipment

Property and equipment are stated at cost less accumulated amortization. Major betterments are capitalized. Repairs and maintenance expenditures which do not extend the useful life of the property and equipment are expensed.

Amortization is calculated using the straight line method over the estimated useful life of the assets as follows

Buildings and improvements	5 – 40 years
Safety equipment	5 – 20 years
Vehicles	7 – 20 years
Vehicles and equipment under capital lease	7 – 10 years
Other property and equipment	2 – 10 years

##### Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Under the treasury stock method, diluted earnings per share is calculated based upon the weighted average number of shares issued and outstanding during the year, adjusted by the total of the additional common shares that would have been issued assuming exercise of all stock options with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be purchased with the exercise proceeds plus the related unamortized stock based compensation costs. No adjustment is made for options and other convertible instruments if the result of this calculation is anti-dilutive.

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Measurement uncertainty

The Company evaluates its estimates including those related to bad debts, inventory obsolescence, property plant and equipment useful lives, goodwill, intangible assets, income taxes, contingencies and litigation, on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that are believed at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results will differ, possibly materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company's control.

##### Comparative figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

#### NOTE 2 – PROPERTY AND EQUIPMENT

		2006		
		Cost	Accumulated Amortization	Net Book Value
Land	\$	356	\$ –	\$ 356
Buildings and improvements		1,197	94	1,103
Safety equipment		34,024	10,997	23,027
Vehicles		12,068	4,690	7,378
Vehicles and equipment under capital lease		4,549	723	3,826
Other property and equipment		5,112	1,833	3,279
Total property and equipment	\$	<u>57,306</u>	<u>\$ 18,337</u>	<u>\$ 38,969</u>

		2005		
		Cost	Accumulated Amortization	Net Book Value
Land	\$	356	\$ –	\$ 356
Buildings and improvements		1,093	72	1,021
Safety equipment		20,151	5,979	14,172
Vehicles		11,629	4,345	7,284
Vehicles and equipment under capital lease		1,398	649	749
Other property and equipment		3,042	1,011	2,031
Total property and equipment	\$	<u>37,669</u>	<u>\$ 12,056</u>	<u>\$ 25,613</u>

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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#### NOTE 3 - OPERATING LINE OF CREDIT and TERM LOANS

The Company has credit facilities with a Canadian chartered bank, to a combined maximum of \$19,900 (2005 – \$10,750), bearing interest at bank prime rate (2005 – prime plus 1%). These operating lines and associated term loans are secured by general security agreements with a fixed and floating charge against all Company assets, an assignment of insurance, security over all cash, credit balances and deposit instruments of the Company. Pursuant to the terms of these credit facilities, the Company is subject to certain restrictive covenants.

Interest and standby fees are payable monthly and annually; capital payments are payable monthly and quarterly as negotiated with the lender.

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#### NOTE 4 – LONG TERM DEBT and CAPITAL LEASE OBLIGATIONS

	<u>2006</u>
Equipment financing contracts bearing interest at rates ranging from 0% to 9.50%, payable in blended monthly payments of \$14 secured by specific equipment.	\$ 590
Term loans bearing interest at the banks prime rate payable in blended monthly payments of \$287 secured by specific equipment	18,765
Capital lease obligations bearing implicit interest rates ranging from 5.8% to 19.94% payable monthly at \$84 plus interest, secured by specific automotive equipment. Obligations expire in the years 2006 to 2010	\$ <u>3,600</u>
	22,955
Less current portion	<u>(5,125)</u>
	\$ <u><u>17,830</u></u>

Principal repayments due within the next five years are approximately as follows:

2006	\$ 5,125
2007	5,029
2008	5,050
2009	5,070
2010	2,681

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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#### NOTE 5 - CAPITAL STOCK

a) **Authorized:**

Unlimited number of common shares without par value

Unlimited number of preferred shares, issuable in series.

b) **Issued and outstanding, (stated in thousands):**

Common shares	2006	
	Shares	Amount (1)
<b>Balance, beginning of period</b>	<b>29,915</b>	<b>\$ 36,559</b>
Changes (net of share issue costs):		
Private placement	550	1,375
Issued on acquisition of shares	2,400	6,336
Issued on exercise of agent's warrants	75	65
Issued on conversion of special warrants	38	356
Issued on exercise of options	5	6
<b>Balance, end of period</b>	<b>32,982</b>	<b>\$ 44,698</b>

Warrants	2006	
	Units	Amount
<b>Balance, beginning of period</b>	<b>3,182</b>	<b>\$ 1,628</b>
Issued in conjunction with private placement	-	-
Converted to common shares	(38)	(192)
<b>Balance, end of period</b>	<b>3,144</b>	<b>\$ 1,436</b>

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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#### NOTE 5 - CAPITAL STOCK (continued)

Agent's Warrants	2006	
	Units	Amount
Balance, beginning of period	-	\$ -
Issued in conjunction with private placement	445	224
Converted to common shares	(75)	(38)
Balance, end of period	370	\$ 186

(1) All amounts are net of share issue costs and applicable future income tax.

#### c) Private placement

On February 7, 2006, the Company completed a private placement of equity with the Company's employees pursuant to which 550,000 common shares were issued at a price of \$2.50 per share for gross proceeds of \$1,375. The shares are subject to a statutory four month hold period.

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## HSE Integrated Ltd.

### Notes to the Interim Consolidated Financial Statements

Three Months ended March 31, 2006 (Unaudited)

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#### NOTE 6 – ACQUISITIONS

a) On January 10, 2006, the Company completed the acquisition of Key Safety Services Inc. (“KSS”) and Key Monitoring Solutions Corp. (“KMS”) in a business combination accounted for as a purchase. KSS performs oilfield safety services in Western Canada. KMS provides air quality monitoring services for hydrocarbon drilling and industrial projects. The results of operations are included in the accounts from date of acquisition. Consideration for the acquisition was comprised of 2.4 million common shares of the Company valued at \$2.64 per share, \$8,250 cash, \$3,390 in promissory notes issued to the vendors, the assumption of debt and acquisition costs. The purchase price allocation is preliminary and certain items such as fair value of assets and liabilities as of the acquisition date, have not been finalized.

The following table summarizes the purchase price allocation:

Net assets acquired:	
Non cash working capital	\$ 1,351
Property, plant and equipment	11,456
Intangible assets (no tax basis)	2,264
Goodwill (no tax basis)	10,594
Future income taxes	(2,374)
Long term debt	(621)
	<hr/>
Net assets acquired	\$ <u>22,670</u>
Consideration:	
Cash, net of cash acquired	\$ 8,250
Issuance of promissory notes	3,390
Treasury shares issued	6,336
Debt assumed	4,694
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	\$ <u>22,670</u>

#### NOTE 7 – SUBSEQUENT EVENTS

a) On April 5, 2006, the Company completed the acquisition of Sentry Fire Equipment Ltd. (“Sentry”) in a business combination accounted for as a purchase. Sentry performs fire suppression services for the industrial and commercial markets in Southern Ontario. The results of operations will be included in the accounts from date of acquisition. Consideration for the acquisition was \$3,600 cash. The purchase price allocation has not been completed and certain items, such as fair value of assets and liabilities as of the acquisition date have not been finalized.

b) On April 21, 2006, the Company completed the acquisition of Front Line Safety Ltd. (“Front Line”) in a business combination accounted for as a purchase. Frontline performs industrial safety services for the petrochemical and mining industries in Atlantic Canada and offshore Canada. The results of operations will be included in the accounts from date of acquisition. Consideration for the acquisition was comprised of 667 thousand common shares of the company at \$3.69 per share, \$750 of cash and additional contingent consideration to be determined upon Front Line operating results for the fiscal year ending August 31, 2006. The purchase price allocation has not been completed and certain items, such as fair value of assets and liabilities as of the acquisition date, have not been finalized.

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## **HSE Integrated Ltd.**

### **Notes to the Interim Consolidated Financial Statements**

Three Months ended March 31, 2006 (Unaudited)

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#### **NOTE 7 – SUBSEQUENT EVENTS (continued)**

c) On April 26, 2006, the Company completed a private placement of equity pursuant to which 3.3 million common shares were issued at a price of \$3.55 per share for gross proceeds of \$11,715. The shares are subject to a statutory four month hold period.