

HSE Integrated Ltd. Consolidated Balance Sheets

(Stated in thousands) (unaudited)	September 30 2007	December 31 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 791	\$ 6,551
Short term investments	-	802
Accounts receivable	22,233	23,363
Inventory	746	764
Prepaid expenses and other assets	890	963
Income taxes recoverable	956	-
	<u>25,616</u>	<u>32,443</u>
Property and equipment (note 5)	43,169	44,745
Goodwill (note 3)	9,806	23,641
Intangible assets	5,665	6,109
	<u>\$ 84,256</u>	<u>\$ 106,938</u>
LIABILITIES		
Current		
Operating line of credit (note 6)	\$ 1,702	\$ -
Accounts payable and accrued liabilities	7,239	9,540
Income taxes payable	-	1,602
Current portion of obligations under capital leases (note 7)	1,403	1,458
Current portion of long-term debt (note 6)	231	4,199
	<u>10,575</u>	<u>16,799</u>
Obligations under capital leases (note 7)	1,884	3,039
Long-term debt (note 6)	14,786	12,834
Future income taxes	7,299	7,454
	<u>34,544</u>	<u>40,126</u>
SHAREHOLDERS' EQUITY		
Share capital (note 8)	60,036	61,471
Contributed surplus (note 9)	3,887	1,423
Retained earnings (deficit)	(14,211)	3,918
	<u>49,712</u>	<u>66,812</u>
	<u>\$ 84,256</u>	<u>\$ 106,938</u>

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Earnings (Loss) and Retained Earnings (Deficit)

(Stated in thousands, except per share amounts) (unaudited)	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
REVENUE	\$ 23,578	26,952	\$ 70,878	74,340
COSTS				
Operating and materials	20,113	19,974	59,287	56,535
Selling, general and administrative	2,089	2,695	7,202	6,836
Amortization of property and equipment	1,682	1,563	4,909	4,388
Amortization of intangibles	322	299	938	772
Stock based compensation (note 10)	186	312	876	692
Interest on long-term debt	291	318	879	934
Other interest and bank charges	18	28	64	59
Foreign exchange loss	22	-	24	-
Loss (gain) on disposal of property and equipment	99	(19)	836	432
	<u>24,822</u>	<u>25,170</u>	<u>75,015</u>	<u>70,648</u>
EARNINGS (LOSS) BEFORE GOODWILL IMPAIRMENT	(1,244)	1,782	(4,137)	3,692
Goodwill impairment (note 3)	(15,000)	-	(15,000)	-
EARNINGS (LOSS) BEFORE INCOME TAXES	<u>(16,244)</u>	<u>1,782</u>	<u>(19,137)</u>	<u>3,692</u>
Income taxes				
Current (recovery)	(169)	847	(527)	1,657
Future reduction	(155)	(262)	(481)	(442)
	<u>(324)</u>	<u>585</u>	<u>(1,008)</u>	<u>1,215</u>
NET EARNINGS (LOSS) AND COMPREHENSIVE (LOSS)	<u>(15,920)</u>	<u>1,197</u>	<u>(18,129)</u>	<u>2,477</u>
RETAINED EARNINGS, beginning of period	<u>1,709</u>	<u>1,737</u>	<u>3,918</u>	<u>457</u>
RETAINED EARNINGS (DEFICIT), end of period	\$ <u>(14,211)</u>	<u>2,934</u>	\$ <u>(14,211)</u>	<u>2,934</u>
Earnings (loss) per share				
Basic and diluted	\$ (0.42)	0.03	\$ (0.48)	0.07
Weighted average number of shares (thousands)				
Basic	37,565	37,458	37,499	35,310

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statements of Cash Flows

(Stated in thousands) (unaudited)	Three Months ended Sept. 30		Nine Months ended Sept. 30	
	2007	2006	2007	2006
Cash provided by (used in)				
Operations				
Net earnings (loss)	\$ (15,920)	1,197	\$ (18,129)	2,477
Charges to income not involving cash				
Goodwill impairment	15,000	–	15,000	–
Amortization	2,004	1,862	5,847	5,160
Stock-based compensation (note 10)	186	312	876	692
Future income tax expense (reduction)	(155)	(262)	(481)	(442)
Loss (gain) on disposal of property and equipment	99	(19)	836	432
Change in non-cash working capital	(4,252)	(1,408)	(2,875)	(5,702)
Cash provided by (used in) operations	(3,038)	1,682	1,074	2,617
Financing				
Advances (repayment) of operating line of credit	1,702	–	1,702	(1,597)
Repayment of obligations under capital leases	(408)	(234)	(1,347)	(812)
Issuance of long-term debt	–	–	–	23,356
Repayment of long-term debt	(269)	(1,357)	(2,416)	(7,288)
Issuance of share capital, net of costs	2	29	6	13,231
Settlement of liabilities at acquisition (note 4)	–	–	–	(3,657)
Cash provided by (used in) financing	1,027	(1,562)	(2,055)	23,233
Investing				
Purchase of property and equipment	(876)	(1,822)	(3,691)	(2,971)
Acquisitions (note 4)	(1,974)	(826)	(1,974)	(17,208)
Proceeds from disposal of property and equipment	266	125	886	470
Cash used in investing	(2,584)	(2,523)	(4,779)	(19,709)
Net increase (decrease) in cash and cash equivalents	(4,595)	(2,403)	(5,760)	6,141
Cash and cash equivalents, beginning of period	5,386	8,926	6,551	382
Cash and cash equivalents, end of period	\$ 791	6,523	\$ 791	6,523
Supplementary cash flow information				
Interest paid	\$ 241	547	\$ 745	1,194
Income taxes paid	–	25	2,013	825

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 1 – NATURE OF BUSINESS

Nature of business

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (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, 2006, 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, 2006.

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries, are stated in Canadian dollars, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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.

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.

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

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants regarding the recognition, measurement, disclosure and presentation of financial instruments. Under these standards, financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments, be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated accounts receivable as "loans and receivables", which are measured at amortized cost. Short-term investments have been designated as "held-for-trading", which are measured at fair values with changes in such value included in earnings. Accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" which are measured at amortized cost.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006
(stated in thousands of dollars, except share amounts)

NOTE 2 – CHANGE IN ACCOUNTING POLICIES (continued)

We have classified previously deferred financing costs of \$29 included in prepaid expenses and other assets as unamortized debt issues costs, which now reduces the carrying value of the long-term debt. The debt issue costs will be accreted to the carrying value of long-term debt using the effective interest method. Comparative amounts for prior periods have not been restated.

The Company also adopted as of January 1, 2007 new standards with respect to comprehensive income. The new standards require a statement of comprehensive income, if there are items that give rise to comprehensive income or loss. The Company did not identify any such items giving rise to comprehensive income or loss in the three and nine months ended September 30, 2007 or that would result in an adjustment to opening balances for accumulated other comprehensive income or loss.

The Company was also required to adopt new accounting standards with respect to hedging activities. As the Company does not currently have a hedging program that is impacted by this accounting standard, the adoption of these standards has no impact on the financial statements.

Three new Canadian accounting standards have been issued. Two of the standards will require additional disclosure in the Company's financial statements commencing January 1, 2008 about the Company's financial instruments as well as its capital and how it is managed. The third standard relates to inventory and is effective for interim and annual financial statements beginning on or after January 1, 2008. The new standard requires that inventory be carried at the lower of cost and net realizable value, provides more guidance on cost and requires impairment testing as well as expanded disclosures.

NOTE 3 – GOODWILL IMPAIRMENT

The Company has experienced reduced business activity relating primarily to weaker economic fundamentals faced by customers operating in the conventional upstream oil and gas industry. Management has determined that this represents an event or circumstance that more likely than not reduces fair value of the reporting unit below its carrying value. As a result, Management has, in accordance with the Company's accounting policy for goodwill, begun an analysis of goodwill impairment at September 30, 2007. This analysis is not yet complete but is expected to be completed in the fourth quarter of this year. In the interim, Management has determined an initial estimated goodwill impairment of \$15 million. Upon the completion of the impairment analysis, this initial estimate may be adjusted.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 4 – ACQUISITION

On July 1, 2007, the Company acquired the shares of Prairie Wide Safety Ltd. (PWS) of Weyburn, Saskatchewan in a business combination to be accounted for using the purchase method. PWS serves the hydrocarbon-producing region of southeast Saskatchewan by providing complete oilfield and industrial safety services to drilling, completion, well servicing and field processing operations. The purchase consideration will be determined based upon a predetermined formula, not to exceed \$2.2 million plus the assumption of debt, based upon historical results, with additional consideration contingent upon performance measures achieved in the first year from the acquisition date. The results of operations are included in the accounts from date of acquisition. Estimated consideration and acquisition costs were comprised of 100,000 common shares of the Company valued at \$1.64 per share, \$1,974 cash and the assumption of debt.

The purchase price allocation has not been completed, and certain items such as fair value of assets and liabilities and estimates for contingent consideration as of the acquisition date have not been finalized.

	Prairie Wide Safety Ltd.
<hr/>	
Net assets acquired	
Non-cash working capital	96
Property and equipment	1,365
Intangible assets	494
Goodwill	1,166
Bank indebtedness	(119)
Long-term debt	(400)
Capital lease obligations	(137)
Future income taxes	(327)
	<hr/>
	2,138
<hr/>	
Consideration paid	
Cash	1,974
Issuance of Common shares	164
	<hr/>
	2,138
	<hr/>

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 5 – PROPERTY AND EQUIPMENT

	September 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 356	\$ -	\$ 356
Buildings and improvements	1,592	319	1,273
Safety equipment	39,856	16,098	23,758
Vehicles	15,234	5,362	9,872
Vehicles and equipment under capital lease	6,086	1,823	4,263
Furniture and equipment	1,224	441	783
Other property and equipment	5,820	2,956	2,864
Total property and equipment	\$ 70,168	\$ 26,999	\$ 43,169

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 356	\$ -	\$ 356
Buildings and improvements	1,410	184	1,226
Safety equipment	38,049	13,813	24,236
Vehicles	15,681	5,734	9,947
Vehicles and equipment under capital lease	6,554	1,440	5,114
Other property and equipment	6,589	2,723	3,866
Total property and equipment	\$ 68,639	\$ 23,894	\$ 44,745

NOTE 6 – OPERATING FACILITIES and LONG-TERM DEBT

During the previous quarter, the Company entered an agreement with its current lender for credit facilities. The credit facilities include a \$25 million three year interest-only revolving facility and a \$7.5 million operating facility. The facilities bear interest at the bank's prime rate (or U.S. base rate) plus up to 0.75 percent, or at bankers' acceptance rates with a variable stamping fee of 1.50 to 2.25 percent. An additional standby fee ranging between 0.20 to 0.35 percent per annum is also required on the unused portion of the credit facilities. The revolving facility matures on June 25, 2010, with an ability to extend the term at the lender's option. The operating facility is renewable annually and is margined to accounts receivable. This facility is subject to covenants that are typical for this type of facility. The credit facilities are collateralized under a general security agreement. Certain costs associated with the new financing facilities have been shown as a reduction of the carrying value of long-term debt and will be expensed over the term of the debt using the effective interest rate method.

During 2006 and first quarter 2007, the Company had the following bank credit facilities:

- a) a \$20,000 non-revolving installment credit facility which amortized over five years from date of draw, bearing interest at the bank's prime rate, and was subject to an annual cash flow sweep of 25% of earnings before interest, amortization and taxes less interest paid and repayments of revolving and non-revolving principal.
- b) \$10,000 (seasonally reduced in June to November to \$8,000) operating facility bearing interest at the bank's prime rate. This facility was subject to margin requirements based on eligible accounts receivable.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 6 – OPERATING FACILITIES and LONG-TERM DEBT (continued)

- c) A \$5,000 revolving installment credit facility which amortized over five years from date of draw and bears interest at the bank's prime rate.

The credit facilities were secured by general security agreements and required maintenance of certain financial ratios and other covenants.

	September 30 2007	December 31 2006
Equipment financing contracts bearing interest at rates averaging 3.48% (2006 – 1.44%), payable in blended monthly payments of \$31 (2006 - \$27) secured by specific equipment.	\$ 451	\$ 438
Non-revolving credit facility loan as noted above, payable in quarterly principal payments of \$988 (2006 – quarterly principal payments of \$988)	–	15,805
Three year interest only revolving credit facility	13,830	–
	<u>14,281</u>	<u>16,243</u>
Accrued consideration on share purchase acquisition	790	790
	<u>15,071</u>	<u>17,033</u>
Less current portion	(231)	(4,199)
	<u>14,840</u>	<u>12,834</u>
Less unamortized debt issue costs	(54)	–
	<u>\$ 14,786</u>	<u>\$ 12,834</u>

Outstanding principal repayments are due as follows:

2008	\$ 231
2009	936
2010	13,875
2011	29
	<u>15,071</u>
Less: current portion	(231)
	<u>\$ 14,840</u>

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006
(stated in thousands of dollars, except share amounts)

NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASE

The amounts due under capital lease arrangements are repayable in blended monthly payments of \$143 (2006 - \$145) and bear interest at rates averaging 5.49% (2006 – 5.37%) per annum. On certain leases, the Company has options to acquire the leased assets at various times throughout term to 2011.

	2007	2006
2007	\$ -	\$ 1,710
2008	1,592	1,690
2009	1,479	1,238
2010	383	291
2011	162	94
2012	10	-
	<u>3,626</u>	<u>5,023</u>
Less: interest	(339)	(526)
	<u>3,287</u>	<u>4,497</u>
Less: current portion	(1,403)	(1,458)
	<u>\$ 1,884</u>	<u>\$ 3,039</u>

NOTE 8 – SHARE CAPITAL

- a) **Authorized:**
Unlimited number of common shares without par value.
Unlimited number of preferred shares, issuable in series.

- b) **Issued and outstanding:**

	2007	
	Shares <small>(in thousands)</small>	Amount
Common shares		
Balance, December 31, 2006	37,462	\$ 59,862
Issued on acquisition of PWS (note 4)	100	164
Issued on exercise of options	6	10
Balance, end of period	<u>37,568</u>	<u>\$ 60,036</u>

- c) **Warrants:**

	2007	
	Warrants <small>(in thousands)</small>	Amount
Warrants		
Balance, December 31, 2006	3,144	\$ 1,609
Forfeited on expiry	(3,144)	(1,609)
Balance, end of period	<u>-</u>	<u>\$ -</u>

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006
(stated in thousands of dollars, except share amounts)

NOTE 9 – CONTRIBUTED SURPLUS

	September 30 2007	December 31 2006
Balance, beginning of period	\$ 1,423	\$ 462
Stock compensation expense – employee options	859	977
Exercise of stock options	(4)	(16)
Warrants – forfeited on expiry	1,609	-
Balance, end of period	<u>\$ 3,887</u>	<u>\$ 1,423</u>

NOTE 10 - STOCK-BASED COMPENSATION PLANS

Incentive stock option plan

The weighted average fair value of options granted for the periods ended September 30, 2007 and December 31, 2006 are \$2.14 and \$2.24 per option, respectively. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

	2007	2006
Vesting period (years)	3	3
Risk-free interest rate	3.94 – 4.11%	3.89 – 4.08%
Expected life (years)	5	5
Price volatility	135.24%	55.46 – 96.00%

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

Information about outstanding stock options is as follows:

	September 30, 2007		December 31, 2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,924,501	\$2.24	1,022,333	\$ 1.74
Granted	667,500	1.71	1,053,000	2.83
Exercised	(5,333)	1.06	(47,332)	1.36
Forfeited	(157,335)	2.16	(103,500)	2.69
Outstanding, end of period	<u>2,429,333</u>	<u>\$2.14</u>	1,924,501	\$ 2.24
Exercisable at end of period	<u>913,475</u>	<u>\$2.04</u>	445,442	\$ 1.69

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006
(stated in thousands of dollars, except share amounts)

NOTE 10 - STOCK-BASED COMPENSATION PLANS (continued)

The following table summarizes information about stock options outstanding at September 30, 2007:

Options outstanding	Exercise prices	Weighted average remaining life	Number exercisable at September 30, 2007
	\$		
28,000	0.50-1.05	1.40	28,000
292,999	1.06-1.60	2.35	226,320
1,268,334	1.61-2.15	3.71	379,169
330,000	2.16-2.70	3.30	109,995
510,000	2.71-4.50	3.51	169,991
2,429,333	2.14	3.42	913,475

Deferred share unit plan

Effective November 13, 2006, the Company adopted a deferred share unit ("DSU") plan for non-executive directors. Under the terms of the plan, DSU's awarded will vest immediately and will be settled with cash in the amount equal to the closing price of the Company's common shares on the redemption date specified by the Director upon tendering their resignation from the Board. The redemption date must be after the date on which the notice of redemption is filed with the Company and before December 15 of the first calendar year commencing after the Director's termination date. On January 16, 2007, 15,000 deferred share units were granted to non-executive directors. The units were revalued at September 30, 2007 and the recovery recorded in income.

NOTE 11 - RELATED-PARTY TRANSACTIONS

During the quarter, the Company had the following transactions with related parties all of which are measured at exchange amounts, which approximate an arm's length equivalent at fair market value:

- Included in accounts receivable is a promissory note of \$49, (2006 - \$54) which is due from an officer and director of the Company. This note is payable on demand. In the third quarter of 2007, the Company paid rent and property taxes to a corporation related to this same officer and director of the Company in the amount of \$61 (2006 - \$62). The rent is for a regional office.
- In the third quarter of 2007, the Company also paid rent of \$12 (2006 - \$15), \$79 (2006 - \$79), and \$11 (2006 - \$nil) for regional offices to three different corporations. Each corporation is controlled by different members of senior management of the Company.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2007 and 2006

(stated in thousands of dollars, except share amounts)

NOTE 12 – 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 periods ended September 30, 2007 and 2006, the Company had no customer representing more than 10% of revenue.

Revenue by customer group is as follows:

	Three Months ended		Nine Months ended	
	September 30		September 30	
	2007	2006	2007	2006
Oilfield	\$ 9,351	18,656	\$ 30,859	52,357
Industrial	11,438	5,984	31,419	16,404
Environment	2,789	2,312	8,600	5,579
Total Revenue	\$ 23,578	26,952	\$ 70,878	74,340

As a % of Revenue:				
Oilfield	39.7%	69.2%	43.6%	70.4%
Industrial	48.5%	22.2%	44.3%	22.1%
Environment	11.8%	8.6%	12.1%	7.5%
Total Revenue	100.0%	100.0%	100.0%	100.0%

NOTE 13 – 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 required. Although it may not be possible to accurately estimate 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.

NOTE 14 – SUBSEQUENT EVENT

On October 31, 2007, the Company announced a cost reduction initiative. A one-time charge of approximately \$300 will result. The majority of the charge is anticipated to be recorded in fourth quarter 2007.