

HSE Integrated Ltd.

Consolidated Balance Sheets

(Stated in thousands), (unaudited)	March 31 2008	December 31 2007
ASSETS		
Current		
Accounts receivable	\$ 30,700	\$ 24,851
Inventory	219	216
Prepaid expenses and other assets	1,605	1,758
Income taxes recoverable	491	720
	<u>33,015</u>	<u>27,545</u>
Property and equipment	39,966	41,314
Intangible assets	4,256	4,513
	<u>\$ 77,237</u>	<u>\$ 73,372</u>
LIABILITIES		
Current		
Bank indebtedness	\$ 438	\$ 616
Operating line of credit (note 5)	3,711	-
Accounts payable and accrued liabilities	8,964	8,220
Current portion of obligation under capital lease (note 6)	1,341	1,328
Current portion of long-term debt (note 5)	192	216
	<u>14,646</u>	<u>10,380</u>
Obligations under capital lease (note 6)	1,113	1,453
Long-term debt (note 5)	14,956	14,995
Future income taxes	5,601	5,748
	<u>36,316</u>	<u>32,576</u>
SHAREHOLDERS' EQUITY		
Share capital (note 7)	60,036	60,036
Contributed surplus (note 8)	4,280	4,144
Deficits	(23,395)	(23,384)
	<u>40,921</u>	<u>40,796</u>
	<u>\$ 77,237</u>	<u>\$ 73,372</u>

Commitments and contingencies (note 11 and 14)

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

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

Three months ended (Stated in thousands), (unaudited)	March 31 2008	March 31 2007
REVENUE	\$ 27,569	\$ 27,948
COSTS		
Operating and materials	22,552	20,631
Selling, general and administrative	2,384	2,515
Amortization of property and equipment	1,868	1,580
Amortization of intangible assets	257	308
Stock-based compensation (note 9)	135	357
Interest on long-term debt	267	309
Other interest and bank charges	30	23
Foreign exchange gain	(2)	(1)
Loss on disposal of property and equipment	-	707
	<u>27,491</u>	<u>26,429</u>
EARNINGS BEFORE INCOME TAXES	<u>78</u>	<u>1,519</u>
Income taxes		
Current	236	799
Future (Reduction)	<u>(147)</u>	<u>(184)</u>
	<u>89</u>	<u>615</u>
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	<u>(11)</u>	<u>904</u>
RETAINED EARNINGS (Deficit), beginning of period	<u>(23,384)</u>	<u>3,918</u>
RETAINED EARNINGS (Deficit), end of period	<u>\$ (23,395)</u>	<u>\$ 4,822</u>
Earnings per share		
Basic and diluted	<u>\$ 0.00</u>	<u>\$ 0.02</u>
Weighted average number of shares (note 7)		
Basic	37,568	37,465
Diluted	37,568	37,568

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Consolidated Statement of Cash Flows

Three months ended (Stated in thousands), (unaudited)	March 31 2008	March 31 2007
Cash provided by (used in)		
Operations		
Net (loss) earnings	\$ (11)	\$ 904
Charges to income not involving cash		
Amortization	2,125	1,888
Stock-based compensation	135	357
Future income tax expense	(147)	(184)
Loss on disposal of property and equipment	-	707
Changes in non-cash working capital (note 12)	(4,725)	(2,464)
Cash provided by (used in) operations	(2,623)	1,208
Financing		
Advances of operating line of credit	3,711	-
Repayment of bank indebtedness	(178)	-
Repayment of obligations under capital lease	(327)	(500)
Repayment of long-term debt	(63)	(1,052)
Issuance of share capital, net of costs	-	4
Cash provided by (used in) financing	3,143	(1,548)
Investing		
Purchase of property and equipment	(520)	(1,456)
Proceeds from disposal of property and equipment	-	392
Cash provided (used in) investing	(520)	(1,064)
Net in cash and cash equivalents	-	(1,404)
Cash and cash equivalents, beginning of period	-	6,551
Cash and cash equivalents, end of period	\$ -	\$ 5,147

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 1 – 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, 2007, 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, 2007.

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 to the current period presentation.

These interim financial statements have been reviewed and approved by the Audit Committee and Board of Directors.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants regarding Financial Instruments – Disclosures, Financial Instruments – Presentation, and Capital Disclosures. The new standards on financial instruments supersede previous disclosure requirements. The new requirements also provide for disclosure of the Company’s capital structure and how it is managed. The Company has added additional disclosure to address the requirements of the new standards related to financial instruments (note 3) and capital management (note 4).

NOTE 3 – FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure 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

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Notes to the consolidated financial statements

(Unaudited)

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(Stated in thousands of dollars, except share amounts)

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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.

Trade and other accounts receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the oil and gas industry life cycle. For the quarter ended March 31, 2008, there are no customers of the Company that generated sales of more than 10% of Company revenue (2007 – one customer had more than 10% of Company revenue). Based on its customer base, the Company does not believe that it has any significant concentrations of credit risk other than its concentration in the oil and gas industry. The Company does not have any off balance sheet credit exposure related to its customers.

The Company has established a credit policy under which each new customer is analyzed 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. Customer's that fail to meet the Company's creditworthiness criteria may transact with the Company only on a prepayment basis.

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 based on historical write-off experience, account aging and the oil and gas industry economic cycle. The Company reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability.

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Trade accounts receivable	\$ 31,853	26,006
Allowance for doubtful accounts	(1,153)	(1,155)
Total Trade accounts receivable	\$ <u>30,700</u>	<u>24,851</u>

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

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Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment losses

The aging of trade receivables at the reporting date was:

		March 31, 2008		December 31, 2007	
		Gross	Allowance	Gross	Allowance
Current (0 – 30 days from invoice date)	\$	18,729	-	15,886	-
Past due 1-30 days		5,740	-	5,772	-
Past due 31-90 days		6,422	191	3,473	280
More than 90 days		962	962	875	875
Total	\$	31,853	1,153	26,006	1,155

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

		March 31, 2008	December 31, 2007
Balance at January 1	\$	1,155	427
Impairment loss recognized (recaptured)		(2)	728
Balance at end of period	\$	1,153	1,155

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Company's reputation.

The Company has the following contractual financial liabilities, including interest payments: trade and other payables, bank indebtedness, secured equipment loans, an operating line of credit margined by accounts receivable, a three year credit facility and capital leases for equipment (notes 5 and 6).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income. The Company has minimal transactions in US dollars and therefore minimal exposure. For every 1% change in the prime interest rate would cost the Company \$138 in additional interest expense.

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Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 4 – CAPITAL MANAGEMENT

The Board's policy is to maintain an appropriate capital base that maintains investor, creditor and market confidence and to sustain future development of the business. The Company seeks to maintain a balance between the level of long-term debt and shareholders' equity to ensure access to capital markets to fund growth and working capital. The Company may occasionally need to increase these levels to facilitate acquisition or expansionary activities.

As at March 31, 2008 and December 31, 2007, these ratios were as follows:

(Stated in thousands, except ratios)

	March 31, 2008	December 31, 2007
Long-term debt	\$ 15,148	15,211
Shareholders' equity	40,921	40,796
Total capitalization	\$ 56,069	56,007
Long-term debt to Total capitalization	0.27	0.27

NOTE 5 – OPERATING FACILITIES and LONG-TERM DEBT

During the second quarter of 2007, 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 credit facilities bear interest at the bank's prime rate (or U.S. base rate) plus up to 2.25%, or at bankers' acceptance rates with a variable stamping fee of 1.50% to 3.75%. An additional standby fee ranging from 0.20% to 0.60% 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. The operating facility is subject to covenants that are typical for this type of facility. The credit facilities are collateralized under a general security agreement.

Deferred financing costs associated with the new financing facilities have been shown as a reduction in the carrying value of long term debt and will be expensed over the term of the debt using the effective interest rate method.

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Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 5 – OPERATING FACILITIES and LONG-TERM DEBT (continued)

	March 31	December 31
	2008	2007
Equipment financing contracts bearing interest at rates averaging 3.88% (2007 – 3.13%), payable in blended monthly payments of \$17 (2007 - \$19) secured by specific equipment	\$ 327	\$ 391
Three year interest only revolving credit facility	13,829	13,829
	14,156	14,220
Accrued consideration on share purchase acquisition	1,040	1,040
	15,196	15,260
Less: current portion	(192)	(216)
	15,004	15,044
Less: unamortized debt issue costs	(48)	(49)
	\$ 14,956	\$ 14,995

Outstanding principal repayments are due as follows:

	March 31	December 31
	2008	2007
Periods ending March 31		
2009	\$ 192	\$ 216
2010	1,126	1,153
2011	13,865	13,871
2012	13	20
	15,196	15,260

NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASE

The amounts due under capital lease arrangements are repayable in blended monthly payments of \$123 (2007 - \$125) and bear interest at rates averaging 5.46% (2007 – 5.50%) per annum. On certain leases, the Company has options to acquire the leased assets at various times throughout term to 2012.

	March 31	December 31
	2008	2007
Periods ending March 31		
2009	\$ 1,483	\$ 1,488
2010	881	1,145
2011	243	303
2012	71	111
2013	2	6
	2,680	3,053
Less: interest	(226)	(272)
	2,454	2,781
Less: current portion	(1,341)	(1,328)
	\$ 1,113	\$ 1,453

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 7 – SHARE CAPITAL

a) **Authorized:**

Unlimited number of common shares without par value.

Unlimited number of preferred shares, issuable in series.

b) **Issued and outstanding:**

	March 31 2008		December 31 2007	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Common shares				
Balance, beginning of period	37,568	\$ 60,036	37,462	\$ 59,862
Changes (net of share issue costs):				
Issued on acquisition of PWS	-	-	100	164
Issued on exercise of options	-	-	6	10
Balance, end of period	37,568	\$ 60,036	37,568	\$ 60,036

c) **Per share amounts:**

Basic per common share amounts are computed by dividing earnings by the weighted average number of common shares outstanding during the year. Diluted per common share amounts are computed by dividing earnings by the diluted weighted average number of common shares outstanding during the year.

	March 31 2008	March 31 2007
Basic weighted average number of common shares outstanding during the period (in thousands)	37,568	37,465
Diluted weighted average number of common shares outstanding during the period (in thousands)	37,568	37,568

NOTE 8 – CONTRIBUTED SURPLUS

	March 31 2008	December 31 2007
Balance, beginning of period	\$ 4,144	\$ 1,423
Stock compensation expense – employee options	136	1,116
Exercise of stock options	-	(4)
Warrants – expired	-	1,609
Balance, end of period	\$ 4,280	\$ 4,144

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 9 - STOCK-BASED COMPENSATION PLANS

Incentive stock option plan

Information about outstanding stock options is as follows:

	March 31 2008		December 31 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,379,998	\$ 2.15	1,924,501	\$ 2.24
Granted	-	-	667,500	1.71
Exercised	-	-	(5,333)	1.06
Forfeited	(83,831)	1.85	(206,670)	2.12
Outstanding, end of period	<u>2,296,167</u>	<u>\$ 2.16</u>	<u>2,379,998</u>	<u>\$ 2.15</u>
Exercisable at end of period	<u>1,166,655</u>	<u>\$ 2.06</u>	<u>996,143</u>	<u>\$ 2.06</u>

The following table summarizes information about stock options outstanding at March 31, 2008:

Options outstanding	Exercise prices \$	Weighted average remaining life	Number exercisable
28,000	0.50-1.05	0.90	28,000
246,667	1.06-1.60	1.90	230,000
1,196,500	1.61-2.15	3.19	515,334
330,000	2.16-2.70	2.79	186,663
495,000	2.71-4.50	3.01	206,658
<u>2,296,167</u>	<u>2.16</u>	<u>2.93</u>	<u>1,166,655</u>

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, DSUs 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 March 31, 2008 and the recovery for the first quarter of 2008 was \$1, (expense for the first quarter of 2007 was \$27).

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 10 – 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 (2007 – \$49) which is due from an officer and Director of the Company. This note is payable on demand. In the first quarter of 2008, the Company paid rent and property taxes to a corporation related to this same Officer and Director of the Company in the amount of \$60 (2007 – \$57). The rent is for a regional office.
 - In the first quarter of 2008, the Company also paid rent and property taxes of \$78 (2007 – \$74), and \$10 (2007 – \$nil) for regional offices to two different corporations. Different members of senior management of the Company control each corporation.
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NOTE 11 - COMMITMENTS

The Company leases certain shop and office space and vehicles and equipment under operating leases for periods ending between 2008 and 2012. Future minimum lease payments under these leases in each of the next five years are as follows:

Periods ending March 31	Rental facilities	Operating leases	Total
2009	\$ 2,500	1,585	\$ 4,085
2010	2,096	1,375	3,471
2011	1,573	1,172	2,745
2012	789	495	1,284
2013	477	7	484

NOTE 12 - SUPPLEMENTARY CASH FLOW INFORMATION

	March 31 2008	March 31 2007
Increase (decrease) in non-cash working capital from operations		
Short term investments	\$ -	\$ (8)
Accounts receivable	(5,849)	(1,279)
Inventory	(3)	(7)
Prepaid expenses and other assets	153	79
Deferred financing costs	-	(29)
Income tax receivable	229	-
Income tax payable	-	782
Accounts payable and accrued liabilities	745	(2,002)
Net decrease in non-cash working capital	\$ (4,725)	\$ (2,464)

HSE Integrated Ltd.

Notes to the consolidated financial statements

(Unaudited)

For the three months ended March 31, 2008

(Stated in thousands of dollars, except share amounts)

NOTE 13 – 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 March 31, 2008 and 2007, the Company had no customer representing more than 10% of revenue.

Revenue by customer group is as follows:

	March 31	March 31
	2008	2007
Oilfield	\$ 15,961	\$ 19,799
Industrial	11,608	8,149
Total Revenue	<u>\$ 27,569</u>	<u>\$ 27,948</u>

As a % of Revenue:

Oilfield	<u>57.9%</u>	70.8%
Industrial	42.1%	29.2%
Total Revenue	<u>100.0%</u>	100.0%

NOTE 14 – 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.