



Management's Report

To the Shareholders of HSE Integrated Ltd.

The accompanying consolidated financial statements of HSE Integrated Ltd. and all of the information in this annual report are the responsibility of management and have been approved by the HSE Board of Directors.

Management has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles and where alternative accounting methods exist, management has chosen those that it deems most appropriate.

Financial statements are not precise since they include amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis to ensure the financial statements are presented fairly in all material respects. Management has prepared the financial information in this annual report and has ensured it is consistent with the consolidated financial statements.

The Company maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The HSE Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. This is carried out principally through the Audit Committee. HSE's auditors have full access to the audit committee.

(signed) "David L. Yager"

Chief Executive Officer

(signed) "Lori L. McLeod-Hill C.A."

Chief Financial Officer

March 24, 2010



KPMG LLP
Chartered Accountants
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of HSE Integrated Ltd. as at December 31, 2009 and 2008 and the consolidated statements of earnings (loss), other comprehensive income (loss), deficit and accumulated other comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 24, 2010

CONSOLIDATED BALANCE SHEETS

(stated in thousands of dollars)			
Years ended December 31	2009		2008
ASSETS			
Current			
Cash and cash equivalents	\$	460	\$ 1,114
Accounts receivable (note 4)		16,156	25,740
Inventory		199	222
Prepaid expenses and other assets		1,654	1,897
Income taxes recoverable		398	–
		<u>18,867</u>	<u>28,973</u>
Property and equipment (note 7)		28,595	36,173
Intangible assets (note 6)		3,260	3,788
	\$	<u>50,722</u>	\$ <u>68,934</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	4,667	\$ 8,096
Income taxes payable		72	363
Current portion of obligation under capital leases (note 9)		233	922
Current portion of long-term debt (note 8)		5,222	98
Current portion of deferred gain (note 15)		137	137
		<u>10,331</u>	<u>9,616</u>
Deferred gain (note 15)		319	455
Obligations under capital leases (note 9)		122	370
Long-term debt (note 8)		818	11,628
Future income taxes (note 10)		4,170	5,278
		<u>15,760</u>	<u>27,347</u>
SHAREHOLDERS' EQUITY			
Share capital (note 11)		60,040	60,040
Contributed surplus (note 12)		4,755	4,559
Deficit		(29,770)	(23,136)
Accumulated other comprehensive income (loss)		(63)	124
		<u>34,962</u>	<u>41,587</u>
	\$	<u>50,722</u>	\$ <u>68,934</u>
Commitments and contingencies (note 15 and note 18)			

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(Signed) "David L. Yager"
Director

(Signed) "James M. Hill"
Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(stated in thousands of dollars except per-share amounts)		
Years ended December 31	2009	2008
REVENUE	\$ 81,601	\$ 113,763
COSTS		
Operating and materials	72,530	92,673
Selling, general and administrative	8,226	10,699
Amortization of property and equipment	6,171	6,490
Amortization of intangible assets	528	775
Stock-based compensation (note 13)	293	408
Interest on long-term debt	471	988
Other interest and bank charges	73	128
Foreign exchange gain	–	(31)
Loss on disposal of property and equipment	311	648
Goodwill impairment	–	100
	88,603	112,878
EARNINGS (LOSS) BEFORE THE UNDERNOTED ITEMS	\$ (7,002)	\$ 885
Impairment of property and equipment (note 7)	1,641	–
EARNINGS (LOSS) BEFORE INCOME TAX	(8,643)	885
Income taxes (note 10)		
Current provision (recovery)	(928)	1,107
Future reduction	(1,081)	(470)
	(2,009)	637
NET EARNINGS (LOSS)	\$ (6,634)	\$ 248
Earnings (loss) per share		
Basic and diluted	\$ (0.18)	\$ 0.01
Weighted average shares outstanding		
Basic	37,576	37,572
Diluted	37,576	37,572

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

(stated in thousands of dollars)			
Years ended December 31	2009		2008
Net Earnings (Loss)	\$	(6,634)	\$ 248
Other comprehensive income			
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations		(187)	124
Other Comprehensive Income (Loss)	\$	(6,821)	\$ 372

CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(stated in thousands of dollars)			
Years ended December 31	2009		2008
Deficit, beginning of year	\$	(23,136)	\$ (23,384)
Net Income (Loss)		(6,634)	248
Deficit, end of year	\$	(29,770)	\$ (23,136)
Accumulated Other Comprehensive Income, beginning of year	\$	124	\$ -
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations		(187)	124
Accumulated Other Comprehensive Income (Loss), end of year	\$	(63)	\$ 124

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(stated in thousands of dollars)			
Years ended December 31	2009		2008
Cash provided by (used in)			
Operations			
Net earnings (loss)	\$	(6,634)	\$ 248
Charges to income not involving cash			
Goodwill impairment		–	100
Amortization		6,699	7,265
Stock-based compensation (note 13)		293	408
Future income tax reduction		(1,081)	(470)
Loss on disposal of property and equipment		311	648
Property and equipment impairment		1,641	–
Change in non-cash working capital (note 16)		5,511	(117)
Cash provided by operations		6,740	8,082
Financing			
Repayment of bank indebtedness		–	(616)
Repayment of obligations under capital leases		(936)	(1,490)
Repayment of long-term debt		(5,686)	(3,485)
Issuance of share capital, net of costs		–	4
Cash used in financing activities		(6,622)	(5,587)
Investing			
Purchase of property and equipment		(1,644)	(3,317)
Additional consideration on 2007 acquisition		–	(100)
Purchase of intangibles		–	(50)
Proceeds from disposal of property and equipment		865	2,086
Cash used in investing activities		(779)	(1,381)
Cash flow from operating, financing and investing activities		(661)	1,114
Effect of exchange rate on foreign currency held		7	–
Net change in cash and cash equivalents		(654)	1,114
Cash and cash equivalents, beginning of year		1,114	–
Cash and cash equivalents, end of year	\$	460	\$ 1,114
Supplementary cash flow information			
Interest paid	\$	468	\$ 1,116
Income taxes paid	\$	53	\$ 24

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 1 – NATURE OF BUSINESS

HSE Integrated Ltd. (“HSE” or the “Company”) is incorporated under the laws of the province of Alberta. The Company provides health and safety services to a range of customers in the energy, manufacturing, construction and other industries including: safety supervision and rescue personnel; rental of breathing apparatus and associated equipment for personnel operating in high hazard environments; fixed and mobile firefighting and fire protection services and equipment; worker shower (decontamination) services; onsite medical services; worker safety training; hazardous gas detection; industrial hygiene services; and safety management.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

These consolidated financial statements are 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.

Measurement uncertainty

These financial statements, prepared in accordance with Canadian GAAP, include amounts determined by, in part, estimates made by management. These estimates include:

- the allowance for doubtful accounts;
- the allowance for inventory obsolescence;
- the estimated useful lives of assets;
- the recoverability of property and equipment;
- the recoverability of intangible assets;
- contingencies and litigation;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits 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 may differ, possibly materially, from those previously estimated. Many of the conditions affecting these assumptions and estimates are outside of the Company’s control.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries (from the date of acquisition or formation). With the exception of the Company’s U.S. subsidiary Boots & Coots HSE Services LLC (note 17), all subsidiaries are wholly owned. All intercompany balances and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents include bank balances and highly liquid short-term money market instruments with original maturities of three months or less. Cash and cash equivalents are classified as a liability on the balance sheet (described as “Bank indebtedness”) when the amount of the cheques written but not cleared by the bank exceeds the amount of the cash and temporary investments. Amounts drawn on the Company’s operating facility are disclosed as a separate line on the financial statements (note 8).

Inventory

Inventory consists of products held for sale to customers or for consumption in the rendering of services provided by the Company. Inventory is carried at the lower of cost, determined under the first-in, first-out method, and net realizable value.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 2 CONTINUED**Property and equipment**

Property and equipment is 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 expense includes amortization of leasehold improvements and vehicles and equipment under capital leases. Amortization is calculated using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	5 – 20 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

Intangible assets

Intangible assets, consisting of acquired customer relationships, technological knowledge and intellectual property, are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a period of one to 10 years depending upon the asset's estimated useful life.

Impairment of long-lived assets

Long-lived assets, such as property and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset's carrying value is initially tested by comparing the carrying amount of the asset group to estimated undiscounted future cash flows expected to be generated by the group. If the carrying amount of an asset exceeds its estimated future cash flows, the asset is considered to be impaired, and an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Revenue recognition

The Company derives most of its revenues from the provision of services and the rental of equipment. The Company recognizes service and rental revenue as the service is provided to the customer, provided that the sales price has been fixed or is determinable, and that collectability is reasonably assured. Sales of goods are recognized when the product has been delivered provided that collectability is reasonably assured. Generally services are provided over a relatively short time period.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability, using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in the tax rate is recognized in income in the period in which the change occurs. The Company records a valuation allowance in each reporting period when management believes that it is more likely than not that any future tax asset created will not be realized. The computation of the provision for income taxes involves the interpretation of tax legislation and regulations that are continually changing. There are tax matters that have not yet been confirmed by taxation authorities; however, management believes that the provision for income taxes is reasonable.

Foreign currency translation

All of the Company's foreign operations are considered to be self sustaining. Accordingly, the Company translates assets and liabilities at year-end exchange rates and income and expense accounts at average exchange rates for the year. Adjustments resulting from these translations are reflected in the consolidated statement of other comprehensive income.

NOTE 2 CONTINUED

Stock-based compensation plans

The Company applies the fair-value method of accounting to all equity-classified stock-based compensation arrangements for both employees and non-employees. Compensation cost of equity-classified awards to employees are measured at fair value at the grant date and recognized over the vesting period with a corresponding increase to contributed surplus. Compensation cost of equity-classified awards to non-employees are initially measured at fair value, and periodically re-measured to fair value until the non-employee's performance is complete, and recognized over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the award, consideration received, together with amounts previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company has adopted a deferred share unit ("DSU") plan for non-executive directors. Under the terms of this plan, the Company awards DSUs to directors from time to time. The DSUs granted under this plan vest immediately. At the time the DSU is awarded, an expense equal to the number of units issued multiplied by the Company's closing stock price on the trading day immediately preceding the award date is recorded as stock compensation expense. Subsequent to the date awarded, the DSUs are revalued to a value equal to the closing price of the Company's common shares, with any increase or decrease in value being charged or credited to stock compensation expense. When a director tenders his resignation, the Director is paid a cash amount equal to the number of DSUs awarded times the Company's closing share price on the redemption date specified by the director. This redemption date must be after the resignation date and before December 15 of the year of resignation.

Per-share amounts

Basic per-share amounts are calculated using the weighted average number of common shares outstanding during the year. Under the treasury stock method, diluted per-share amounts are 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 if the result of this calculation is anti-dilutive.

Financial instruments – recognition and measurement

The Company has estimated the fair value of its financial assets and liabilities, which include cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes recoverable, income taxes payable, obligations under capital leases and long-term debt. The fair value of all financial assets and liabilities approximates their carrying amounts due to their current maturities or market rates of interest.

Equity instruments that do not have a quoted market price in an active market are measured at cost. All other financial instruments are initially recorded at fair value, then classified into one of five categories, based on the characteristics and purpose of the instrument: (i) held-for-trading; (ii) held-to-maturity; (iii) loans and receivables; (iv) available-for-sale; and (v) other financial liabilities. Subsequent to initial recognition, each category of financial instrument is measured based on its classification. 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. Held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest rate method. Except in very limited circumstances, the classification of financial instruments is not subsequently changed.

The Company has designated accounts receivable and income taxes recoverable as "loans and receivables". Accounts payable and accrued liabilities, income taxes payable, long-term debt and capital lease obligations are classified as "other financial liabilities". Unamortized debt-issue costs are offset against the long-term debt to which they relate. Debt-issue costs are accreted to the carrying value of the long-term debt using the effective interest rate method.

NOTE 3 – CHANGE IN ACCOUNTING POLICIES AND RECENT PRONOUNCEMENTS

Goodwill and Intangible Assets

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.

Financial Instruments – Presentation

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. Items measured at fair value are required to be placed in one of three categories: Level 1 – fair values measured using quoted prices in active markets for identical instruments; Level 2 – fair values measured using directly or indirectly observable inputs, other than those included in level 1; Level 3 – fair values measured using inputs that are not based on observable market data. This change had no effect on the Company's reported results.

Accounting Standards Pending Adoption

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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 if all three standards are adopted simultaneously. 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.

The impact of these standards on the Company's financial statements will depend upon the timing and nature of any future acquisitions.

NOTE 4 – FINANCIAL RISK MANAGEMENT

Overview

The Company is exposed to the following risks from its 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.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 4 CONTINUED

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. The maximum credit exposure associated with trade accounts receivable is the carrying value.

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 ongoing 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 an ongoing basis, but at least monthly.

Years ended December 31	2009		2008	
Trade accounts receivable	\$	17,416	\$	27,145
Allowance for doubtful accounts		(1,260)		(1,405)
Total trade accounts receivable	\$	16,156	\$	25,740

The aging of trade receivables is as follows:

Years ended December 31	2009		2008	
	Gross	Allowance	Gross	Allowance
0 – 30 days from invoice date (current)	\$ 7,938	\$ –	\$ 13,465	\$ –
31 – 60 days from invoice date	5,135	3	6,633	–
61 – 120 days from invoice date	3,433	347	5,949	481
More than 120 days from invoice date	910	910	1,098	924
Total	\$ 17,416	\$ 1,260	\$ 27,145	\$ 1,405

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

	2009		2008	
Balance, January 1	\$	1,405	\$	1,155
Bad-debt provision		257		252
Write-offs net of recoveries		(402)		(2)
Balance, December 31	\$	1,260	\$	1,405

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 requires liquidity to meet financial obligations as they come due and to fund our investing activities.

The Company's contractual financial liabilities include interest payments, trade and other payables, income taxes payable, bank indebtedness, secured equipment loans, a revolving operating line of credit margined to accounts receivable and property and equipment and capital leases for equipment (notes 8 and 9).

The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions, without unacceptable losses or risking damage to the Company's reputation. The Company generally relies on operating cash flow to provide liquidity to meet its financial obligations. As well, the Company has access to operating lines of credit of \$15 million (note 8). At December 31, 2009, the Company had cash on hand of \$460 and undrawn operating lines of credit totalling \$9.7 million. The operating facility is renewable annually starting July 27, 2010.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 4 CONTINUED**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.

HSE is exposed to currency risk on U.S.-dollar denominated financial assets and liabilities. The Company adjusts the reported amounts of foreign-currency denominated financial assets and liabilities to their Canadian-dollar equivalent at each balance sheet date. For amounts held directly by the Company, any related foreign exchange gains and/or losses are recognized in the consolidated statement of earnings. For amounts held by the Company's self-sustaining foreign operations, the amount is included in other comprehensive income. At December 31, 2009, the extent of this exposure was not material.

HSE is exposed to interest rate risk on its prime-based revolving operating facility. Based on amounts outstanding at December 31, 2009, a 1% increase in the average prime interest rate for the year would cost the Company \$53 annually in additional interest expense.

NOTE 5 – CAPITAL MANAGEMENT

Management's policy is to maintain an appropriate capital base that allows the Company to maintain investor, creditor and market confidence and to sustain future development of the business. The Company seeks to manage its capital structure to ensure that we have the financial capacity and liquidity to fund our operating and investment activities. The Company generally relies on operating cash flows to fund capital expenditures, but may occasionally need to use external sources to facilitate acquisition or expansionary activities.

To ensure that the Company maintains an appropriate balance between long-term debt and shareholders' equity, we monitor the ratio of long-term debt to total capital. As at December 31, 2009 and 2008, these ratios were:

Years ended December 31	2009		2008	
Long-term debt	\$	6,040	\$	11,726
Shareholders' equity		34,962		41,587
Total capitalization	\$	41,002	\$	53,313
Long-term debt to total capitalization	\$	0.15	\$	0.22

The Company is subject to various financial covenants (note 8) associated with its existing debt facility. These covenants are monitored on a regular basis and controls are in place to maintain ongoing compliance with these covenants. The Company was in compliance with all debt covenants at December 31, 2009.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 6 – INTANGIBLE ASSETS

December 31, 2009					
	Cost	Acquired	Accumulated Amortization		Net Book Value
Marketing license	\$ 100	\$ –	\$ 100	\$	–
Customer relationships	5,579	–	2,382		3,197
Technological knowledge	104	–	41		63
	\$ 5,783	\$ –	\$ 2,523	\$	3,260

December 31, 2008					
	Cost	Acquired	Accumulated Amortization		Net Book Value
Marketing license	\$ 100	\$ –	\$ 100	\$	–
Customer relationships	5,529	50	1,864		3,715
Technological knowledge	104	–	31		73
	\$ 5,733	\$ 50	\$ 1,995	\$	3,788

NOTE 7 – PROPERTY AND EQUIPMENT

December 31, 2009					
	Cost	Acquired	Accumulated Amortization		Net Book Value
Buildings and improvements	\$ 1,137	\$ –	\$ 606	\$	531
Safety equipment	41,657	–	23,595		18,062
Vehicles	13,713	–	8,264		5,449
Vehicles and equipment under capital lease	3,331	–	1,923		1,408
Furniture and equipment	1,343	–	639		704
Other property and equipment	7,027	–	4,586		2,441
Total property and equipment	\$ 68,208	\$ –	\$ 39,613	\$	28,595

December 31, 2008					
	Cost	Acquired	Accumulated Amortization		Net Book Value
Buildings and improvements	\$ 1,105	\$ –	\$ 478	\$	627
Safety equipment	40,998	–	20,019		20,979
Vehicles	14,986	–	6,552		8,434
Vehicles and equipment under capital lease	4,825	–	2,197		2,628
Furniture and equipment	1,291	–	534		757
Other property and equipment	6,626	–	3,878		2,748
Total property and equipment	\$ 69,831	\$ –	\$ 33,658	\$	36,173

At December 31, 2009 the Company reviewed its property and equipment for impairment. One circumstance that may be an indicator of impairment is a current expectation that a long-lived asset will be disposed of significantly before the end of its previously estimated useful life. As part of the impairment review, Management identified certain assets that were disposed of subsequent to year end. The disposal of the property and equipment confirmed that the proceeds were less than the carrying value. Accordingly, an impairment of \$1.6 million related to these specific assets was recorded at year end. No other impairment of long-lived assets existed at December 31, 2009.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements for the Years ended December 31, 2009 and 2008
(stated in thousands of dollars)

NOTE 8 – OPERATING FACILITIES AND LONG-TERM DEBT

Throughout 2008 to July 29, 2009, the Company's credit facilities included a \$25 million three-year interest-only revolving facility and a \$7.5 million operating facility.

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 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 facility. The amended facility is margined to property and equipment and accounts receivable. It 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 continues to be collateralized under a general security agreement. The Company complied with all covenants required under the amended credit facility to December 31, 2009. 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.

During the fourth quarter of 2009, the Company paid down the revolving operating facility by \$5,529 from \$10,829 to \$5,300.

Years ended December 31	2009	2008
Equipment financing contracts bearing interest at rates averaging 2.85% (2008 – 2.93%), payable in blended monthly payments of \$4 (2008 – \$12) secured by specific equipment	\$ 33	\$ 131
Interest-only facility	5,300	10,829
	5,333	10,960
Accrued consideration on share-purchase acquisition	810	810
	6,143	11,770
Less unamortized debt-issue costs	(103)	(44)
Less current portion	(5,222)	(98)
	\$ 818	\$ 11,628

Outstanding principal repayments are due as follows:

Years ended December 31	2009	2008
2009	\$ –	\$ 98
2010	5,325	10,854
2011	818	818
	6,143	11,770
Less: current portion and unamortized debt-issue costs	(5,325)	(142)
	\$ 818	\$ 11,628

HSE Integrated Ltd.

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NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASE

Amounts due under capital lease arrangements are repayable in blended monthly payments of \$30 (2008 – \$105) and bear interest at rates averaging 7.8% (2008 – 5.45%) per annum. On certain leases, the Company has options to acquire the leased assets at various times throughout the term to 2012.

Years ended December 31	2009		2008	
2009	\$	–	\$	993
2010		255		283
2011		112		111
2012		15		6
2013		3		–
	\$	385	\$	1,393
Less: interest		(30)		(101)
	\$	355	\$	1,292
Less: current portion		(233)		(922)
	\$	122	\$	370

NOTE 10 – INCOME TAXES

Years ended December 31	2009		2008	
a) Provision for income taxes:				
Earnings (loss) before income taxes	\$	(8,643)	\$	885
Expected income tax (recovery) at 29.8% (2008 – 29.8%)	\$	(2,576)	\$	264
Non-deductible/non-taxable amounts		171		224
United States start-up losses		378		197
United States rate differences		3		(48)
Other		15		–
Income tax expense (recovery)	\$	(2,009)	\$	637
b) Future income tax assets and liabilities are as follows:				
Canada				
Property and equipment	\$	3,598	\$	4,674
Intangible assets		671		787
Share-issue and financing costs		(99)		(183)
	\$	4,170	\$	5,278
United States				
Property and equipment	\$	(103)	\$	(15)
Intangible assets		(558)		(182)
	\$	(661)	\$	(197)
Less: United States valuation allowance		661		197
	\$	–	\$	–
Future income tax liability	\$	4,170	\$	5,278

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NOTE 11 – SHARE CAPITAL**a) Authorized:**

Unlimited number of common shares without par value

Unlimited number of preferred shares, issuable in series

b) Issued and outstanding:

Common shares	2009		2008	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Balance, January 1	37,576	\$ 60,040	37,568	\$ 60,036
Changes (net of share-issue costs):				
Issued on exercise of options	–	–	8	4
Balance, December 31	37,576	\$ 60,040	37,576	\$ 60,040

NOTE 12 – CONTRIBUTED SURPLUS

	2009		2008	
Balance, January 1	\$ 4,559	\$ 4,144		
Stock compensation expense – employee options	196	415		
Balance, December 31	\$ 4,755	\$ 4,559		

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NOTE 13 – STOCK-BASED COMPENSATION PLANS**Incentive stock option plan**

The weighted average fair value of options issued for the year ended December 31, 2009 was \$0.36 (2008 – \$0.99). The fair value of each option granted was estimated on the date of grant using the Merton Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Vesting period (years)	3	3
Risk-free interest rate	1.69%	2.11%
Expected life (years)	5	5
Price volatility	92.78%	89.70%

Pursuant to the 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. The directors determine option prices and vesting terms 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:

	2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,533,499	\$ 1.88	2,379,998	\$ 2.15
Granted	650,000	0.36	735,000	0.99
Exercised	–	–	(8,000)	0.50
Forfeited	(808,166)	1.62	(573,499)	1.86
Outstanding, end of year	2,375,333	\$ 1.56	2,533,499	\$ 1.88
Exercisable at end of year	1,360,315	\$ 2.18	1,335,810	\$ 2.16

The following table summarizes information about stock options outstanding at December 31, 2009:

Options Outstanding	Exercise Prices (\$)	Weighted Average Remaining Life	Number Exercisable
1,047,500	0.25 - 1.19	3.88	156,664
687,833	1.20 - 2.14	1.43	563,651
265,000	2.15 - 3.09	1.12	265,000
375,000	3.10 - 4.04	1.27	375,000
2,375,333	2.45	1.56	1,360,315

Deferred share unit plan

During 2009, 168,442 deferred share units (DSUs) were granted to non-executive directors.

The units are revalued quarterly and any change in value is included as an increase or decrease in stock-based compensation expense and the related liability. The expense recognized for 2009 was \$97 (2008 – \$8).

NOTE 14 – RELATED-PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties, all of which are measured at exchange amounts.

- In 2009, the Company paid rent and property taxes of \$275 (2008 – \$273) for a regional office to a corporation related to a Director of the Company.
- In 2009, the Company also paid rent and property taxes of \$343 (2008 – \$344) for a regional office to a corporation controlled by a Senior Manager of the Company.

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NOTE 15 - COMMITMENTS

The Company leases certain shop and office space and vehicles and equipment under operating leases for periods ending between 2010 and 2014. Payments under these leases in each of the next five years are as follows:

	Rental Facilities	Operating Leases	Total
2010	\$ 2,976	\$ 2,677	\$ 5,653
2011	2,291	1,987	4,278
2012	1,816	785	2,601
2013	1,438	17	1,455
2014	\$ 1,063	\$ -	\$ 1,063

In May 2008, the Company sold three of its buildings as part of a sale/lease-back arrangement. The net proceeds on the sale were \$1.7 million, resulting in gains on sale of \$0.7 million. The resulting gains were deferred and are being amortized over the 60-month lives of the leases.

NOTE 16 - SUPPLEMENTARY CASH FLOW INFORMATION

Years ended December 31	2009	2008
Changes in non-cash working capital from operations		
Decrease (increase) of accounts receivable	\$ 9,563	\$ (889)
Decrease (increase) of inventory	22	(6)
Decrease (increase) of prepaid expenses and other assets	164	(188)
Increase (decrease) of accounts payable and accrued liabilities	(3,547)	(117)
Increase (decrease) of income tax payable (recoverable)	(691)	1,083
Net change	\$ 5,511	\$ (117)

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NOTE 17 – SEGMENT INFORMATION

The Company operates in two main geographic areas: Canada and the United States (U.S.). Each geographic area has a President responsible for the operations and strategy of his area's business. Personnel working within a particular region report to the President, and the President reports to the Chief Executive Officer.

Within each geographic segment, the Company uses common resources to provide services to a variety of customer industries. The Company groups these customer industries into two categories. "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 oilsands extraction); oil and gas processing; petrochemicals; pulp and paper; utilities; power generation; and manufacturing. It also includes worker safety training and safety management services.

Corporate division expenses consist of salary expenses, stock compensation, and office costs related to corporate employees, as well as public company costs.

For the year ended December 31, 2009, one customer provided more than 10% of the Company's revenue. Sales to this customer amounted to \$8.9 million during the year related to ongoing long-term industrial projects located entirely in Canada. For the year ended December 31, 2008, no one customer provided more than 10% of the Company's revenue.

On May 7, 2008, a new company called Boots & Coots HSE Services LLC ("BCHSE") was incorporated to pursue the expansion of Oilfield safety services in the continental United States. The Company owns 100% of the shares of HSE Integrated Inc. ("INC") a Delaware corporation that in turn owns a 90% interest in BCHSE, a Delaware Limited Liability Company. Boots & Coots Services, Inc. owns the remaining 10% interest.

A non-controlling interest has not been recorded as BCHSE has incurred losses.

	December 31, 2009			
	Canada	U.S.	Corporate	Total
Revenue				
Oilfield	\$ 26,850	\$ 453	\$ –	\$ 27,303
Industrial	53,043	1,255	–	54,298
Total revenue	\$ 79,893	\$ 1,708	\$ –	\$ 81,601
Operating income (loss)	\$ 9,747	\$ (676)	\$ (8,226)	\$ 845
Interest expense	–	–	544	544
Amortization of property and equipment and intangibles	6,608	91	–	6,699
Property and equipment	27,534	1,061	–	28,595
Intangibles	3,260	–	–	3,260
Capital expenditures ⁽¹⁾	1,347	297	–	1,644

(1) Property and equipment for Corporate is included in Canada

	December 31, 2008			
	Canada	U.S.	Corporate	Total
Revenue				
Oilfield	\$ 51,258	\$ 6	\$ –	\$ 51,264
Industrial	61,508	991	–	62,499
Total revenue	\$ 112,766	\$ 997	\$ –	\$ 113,763
Operating income (loss)	\$ 21,470	\$ (380)	\$ (10,699)	\$ 10,391
Interest expense	–	–	1,116	1,116
Amortization of property and equipment and intangibles	7,239	26	–	7,265
Property and equipment	35,217	956	–	36,173
Intangibles	3,788	–	–	3,788
Capital expenditures ^{(1), (2)}	3,185	132	–	3,317

(1) Property and equipment for Corporate is included in Canada

(2) \$792 in property and equipment was transferred from Canada to the U.S. in 2008

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NOTE 18 – 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.