

CONSOLIDATED BALANCE SHEETS

(stated in thousands of dollars) (unaudited)

| | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 70 | \$ 460 |
| Accounts receivable (note 3) | 18,194 | 16,156 |
| Inventory | 214 | 199 |
| Prepaid expenses and other assets | 1,608 | 1,654 |
| Income taxes recoverable | 261 | 398 |
| | <u>20,347</u> | 18,867 |
| Property and equipment | 27,548 | 28,595 |
| Intangible assets | 3,128 | 3,260 |
| | <u>\$ 51,023</u> | <u>\$ 50,722</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 5,314 | \$ 4,667 |
| Income taxes payable | 106 | 72 |
| Current portion of obligation under capital leases | 200 | 233 |
| Current portion of long-term debt (note 4) | 1,808 | 5,222 |
| Current portion of deferred gain | 137 | 137 |
| | <u>7,565</u> | 10,331 |
| Deferred gain | 284 | 319 |
| Obligations under capital leases | 82 | 122 |
| Long-term debt (note 4) | 4,268 | 818 |
| Future income taxes | 4,056 | 4,170 |
| | <u>16,255</u> | 15,760 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 5) | 60,040 | 60,040 |
| Contributed surplus | 4,804 | 4,755 |
| Deficit | (29,978) | (29,770) |
| Accumulated other comprehensive income (loss) | (98) | (63) |
| | <u>34,768</u> | 34,962 |
| | <u>\$ 51,023</u> | <u>\$ 50,722</u> |
| Contingencies (note 7) | | |
| Subsequent events (notes 4 and 5) | | |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS

| (stated in thousands of dollars, except per-share amounts) (unaudited) | | | |
|---|------|---------------|----------------|
| Three month periods ended March 31 | 2010 | | 2009 |
| REVENUE | \$ | 20,907 | \$ 22,401 |
| COSTS | | | |
| Operating and materials | | 17,726 | 20,410 |
| Selling, general and administrative | | 1,959 | 2,207 |
| Amortization of property and equipment | | 1,438 | 1,611 |
| Amortization of intangible assets | | 132 | 128 |
| Stock-based compensation | | 41 | 50 |
| Interest on long-term debt | | 83 | 131 |
| Other interest and bank charges | | 35 | 18 |
| Foreign exchange gain | | (5) | (1) |
| (Gain) loss on disposal of property and equipment | | (387) | 93 |
| | | 21,022 | 24,647 |
| LOSS BEFORE INCOME TAX | | (115) | (2,246) |
| Income taxes | | | |
| Current provision | | 191 | – |
| Future reduction | | (98) | (440) |
| | | 93 | (440) |
| NET LOSS | \$ | (208) | \$ (1,806) |
| Loss per share | | | |
| Basic and diluted | \$ | (0.01) | \$ (0.05) |
| Weighted average shares outstanding | | | |
| Basic | | 37,576 | 37,576 |
| Diluted | | 37,576 | 37,576 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS

| (stated in thousands of dollars) (unaudited) | | | |
|--|----|-------|------------|
| Three month periods ended March 31 | | 2010 | 2009 |
| Net Loss | \$ | (208) | \$ (1,806) |
| Other comprehensive income | | | |
| Unrealized loss on translating financial statements of self-sustaining foreign operations | | (35) | (42) |
| Other comprehensive loss | \$ | (243) | \$ (1,848) |

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

| (stated in thousands of dollars) (unaudited) | | | |
|--|----|----------|-------------|
| Three month periods ended March 31 | | 2010 | 2009 |
| Deficit, beginning of period | \$ | (29,770) | \$ (23,136) |
| Net loss | | (208) | (1,806) |
| Deficit, end of period | \$ | (29,978) | \$ (24,942) |
| Accumulated other comprehensive income (loss), beginning of period | | | |
| Unrealized loss on translating financial statements of self-sustaining foreign operations | \$ | (63) | \$ 124 |
| Accumulated other comprehensive income (loss), end of period | \$ | (98) | \$ 82 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (stated in thousands of dollars) (unaudited) | | | |
|--|----|--------------|-------------|
| Three month periods ended March 31 | | 2010 | 2009 |
| Cash provided by (used in) | | | |
| Operations | | | |
| Net loss | \$ | (208) | \$ (1,806) |
| Charges to income not involving cash: | | | |
| Amortization | | 1,570 | 1,739 |
| Stock-based compensation | | 41 | 50 |
| Future income tax reduction | | (98) | (440) |
| (Gain) loss on disposal of property and equipment | | (387) | 93 |
| Change in non-cash working capital (note 9) | | (1,187) | 945 |
| Cash provided by (used in) operations | | (269) | 581 |
| Financing | | | |
| Repayment of obligations under capital leases | | (73) | (351) |
| Repayment of long-term debt | | (8) | (37) |
| Amortization of deferred financing fees | | 44 | — |
| Cash used in financing activities | | (37) | (388) |
| Investing | | | |
| Purchase of property and equipment | | (517) | (464) |
| Proceeds from disposal of property and equipment | | 442 | 209 |
| Cash used in investing activities | | (75) | (255) |
| Cash flow from operating, financing and investing activities | | (381) | (62) |
| Effect of exchange rate on foreign currency held | | (9) | 9 |
| Net change in cash and cash equivalents | | (390) | (53) |
| Cash and cash equivalents, beginning of period | | 460 | 1,114 |
| Cash and cash equivalents, end of period | \$ | 70 | \$ 1,061 |

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
For the three month periods ended March 31, 2010 and 2009
(stated in thousands of dollars) (unaudited)

NOTE 1 – BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (“HSE” or “the Company”) have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended December 31, 2009. 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, 2009.

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries which, with the exception of Boots & Coots HSE Services LLC (note 8), are wholly owned. Unless otherwise specified all amounts are stated in thousands of Canadian dollars except for per-share amounts, which are stated in dollars per weighted-average share.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). In preparing these consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

HSE’s business has two offsetting seasonal components. Revenue for Oilfield health and safety services is historically highest in the first and fourth quarters and lowest in the second quarter because this sector uses equipment that can only access well locations during certain times of the year and because of the effects of weather on field activity. Industrial revenue includes a mix of year-round contracts and “turnarounds” – scheduled major maintenance projects and repair activities on client facilities. These turnarounds tend to be scheduled during the second and third quarters to avoid the possibility of adverse effects from freezing weather. As a result, Industrial revenue tends to be highest in the second and third quarters.

NOTE 2 – CHANGE IN ACCOUNTING POLICIES STANDARDS

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.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
 For the three month periods ended March 31, 2010 and 2009
 (stated in thousands of dollars) (unaudited)

NOTE 3 – 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.

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.

| | March 31, 2010 | December 31, 2009 |
|--|---------------------------|----------------------|
| Trade accounts receivable | \$ 19,449 | \$ 17,416 |
| Allowance for doubtful accounts | (1,255) | (1,260) |
| Total trade accounts receivable | \$ 18,194 | \$ 16,156 |

The aging of trade receivables from the invoice date is as follows:

| | March 31, 2010 | | December 31, 2009 | |
|-----------------------|-----------------------|------------------|-------------------|-----------------|
| | Gross | Allowance | Gross | Allowance |
| Past due: | | | | |
| 0 – 30 days (current) | \$ 12,185 | \$ – | \$ 7,938 | \$ – |
| 31 – 60 days | 5,083 | – | 5,135 | 3 |
| 61 – 120 days | 1,190 | 264 | 3,433 | 347 |
| More than 120 days | 991 | 991 | 910 | 910 |
| Total | \$ 19,449 | \$ 1,255 | \$ 17,416 | \$ 1,260 |

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
For the three month periods ended March 31, 2010 and 2009
(stated in thousands of dollars) (unaudited)

NOTE 3 – FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| | 2010 | | 2009 | |
|------------------------------|------|--------------|------|-------|
| Balance, January 1 | \$ | 1,260 | \$ | 1,405 |
| Bad-debt provision | | 88 | | 95 |
| Write-offs net of recoveries | | (93) | | (10) |
| Balance, March 31 | \$ | 1,255 | \$ | 1,490 |

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, secured equipment loans, a revolving operating line of credit margined to accounts receivable and property and equipment and capital leases for equipment (note 4).

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 had access to undrawn operating lines of credit of \$9.7 million and cash on hand of \$70 at March 31, 2010.

On April 27, 2010, the Company entered into a new credit facility (note 4)

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 March 31, 2010, 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 March 31, 2010, a 1% increase in the average prime interest rate for the year would cost the Company \$53 annually in additional interest expense.

NOTE 4 – OPERATING FACILITIES AND LONG-TERM DEBT

On July 29, 2009, the Company amended its existing credit facilities with its current lender. The amended facility consists of a single \$15.0 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 has complied with all covenants required under the amended credit facility to March 31, 2010. 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.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
 For the three month periods ended March 31, 2010 and 2009
 (stated in thousands of dollars) (unaudited)

NOTE 4 – OPERATING FACILITIES AND LONG-TERM DEBT (CONTINUED)

| | March 31 2010 | December 31 2009 |
|--|------------------|---------------------|
| Equipment financing contracts bearing interest at rates averaging 3.36% (2009 – 3.15%), payable in blended monthly payments of \$4 (2009 – \$11) secured by specific equipment | \$ 25 | \$ 33 |
| Interest-only facility | 5,300 | 5,300 |
| | 5,325 | 5,333 |
| Accrued consideration on share-purchase acquisition | 810 | 810 |
| | 6,135 | 6,143 |
| Less unamortized debt-issue costs | (59) | (103) |
| Less current portion | (1,808) | (5,222) |
| | \$ 4,268 | \$ 818 |

Outstanding principal repayments are due as follows:

| Years ended March 31 | |
|--|-----------------|
| 2011 | \$ 1,808 |
| 2012 | 1,309 |
| 2013 | 1,304 |
| 2014 | 1,304 |
| 2015 | 410 |
| | 6,135 |
| Less: current portion and unamortized debt-issue costs | (1,867) |
| | \$ 4,268 |

On April 27, 2010, the Company entered into a new \$15.0 million credit facility with a regional financial institution. The facility consists of a \$10.0 million operating revolving loan facility for general operating purposes and a \$5.0 million non-revolving term loan facility. The two facilities were used to retire the \$5.3 million in existing bank debt.

The \$5.0 million non-revolving term facility is repayable in monthly payments of \$109 starting July 1, 2010. The facility is payable in full 48 months after initial drawdown. The \$10.0 million operating revolving loan facility is renewable annually and is margined to accounts receivable. Both facilities are subject to certain financial, positive and negative covenants. The credit facilities are collateralized under a general security agreement.

NOTE 5 – SHARE CAPITAL AND STOCK-BASED COMPENSATION PLANS

At March 31, 2010 there were 37,575,675 common shares of the Company outstanding (December 31, 2009 – 37,575,675).

At March 31, 2010, the Company had options outstanding to issue 2,157,333 shares (December 31, 2009 – 2,375,333) at a weighted average price of \$1.55 per share (December 31, 2009 – \$1.56). Of these options, 1,217,151 were exercisable (December 31, 2009 – 1,360,315). On April 5, 2010 there were 715,000 stock options granted.

Deferred Share Units

For the 2010 and 2009 years, the directors' retainers and meeting fees are being paid with deferred share units (DSU's). The total DSU's outstanding at March 31, 2010 were 195,443. On April 5, 2010 an additional 103,263 DSU's were granted. The units are re-valued quarterly and any change in value is included as an increase or

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
For the three month periods ended March 31, 2010 and 2009
(stated in thousands of dollars) (unaudited)

NOTE 5 – SHARE CAPITAL AND STOCK-BASED COMPENSATION PLANS (CONTINUED)

decrease in stock based compensation expense and accrued liabilities. The expense was reduced by \$8 for the quarter ended March 31, 2010 (quarter ended March 31, 2009 - \$3 expense)

NOTE 6 – RELATED-PARTY TRANSACTIONS

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

- In the first quarter, the Company paid rent of \$60 (2009 – \$57) for a regional office to a corporation related to a Director of the Company.
- In the first quarter, the Company also paid rent of \$78 (2009 – \$74) for a regional office to a corporation controlled by a Senior Manager of the Company.

NOTE 7 – 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.

NOTE 8 – 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 3 months ended March 31, 2010, one customer provided more than 10% of the Company's revenue. Sales to this customer amounted to \$2.3 million during the quarter. For the period ended March 31, 2009, the Company had one customer representing more than 10% of revenue. Sales to this customer amounted to \$2.3 million during the quarter.

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 to date.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
 For the three month periods ended March 31, 2010 and 2009
 (stated in thousands of dollars) (unaudited)

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

| | March 31, 2010 | | | |
|--|----------------|--------|------------|-----------|
| | Canada | U.S. | Corporate | Total |
| Revenue | | | | |
| Oilfield | \$ 8,794 | \$ 189 | \$ – | \$ 8,983 |
| Industrial | 11,516 | 408 | – | 11,924 |
| Total revenue | \$ 20,310 | \$ 597 | \$ – | \$ 20,907 |
| Operating income (loss) ⁽¹⁾ | \$ 3,135 | \$ 46 | \$ (1,959) | \$ 1,222 |
| Interest expense | – | – | 118 | 118 |
| Amortization of property and equipment and intangibles | 1,547 | 23 | – | 1,570 |
| Property and equipment | 26,489 | 1,059 | – | 27,548 |
| Intangibles | 3,128 | – | – | 3,128 |
| Capital expenditures ⁽²⁾ | 458 | 59 | – | 517 |

(1) Operating income (loss) is defined as net income (loss) plus amortization of property and equipment and intangibles, interest, foreign exchange gains or losses, gains or losses on disposal of capital assets, share-based compensation, and income taxes.

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

| | March 31, 2009 | | | |
|--|----------------|----------|------------|-----------|
| | Canada | U.S. | Corporate | Total |
| Revenue | | | | |
| Oilfield | \$ 10,242 | \$ 18 | \$ – | \$ 10,260 |
| Industrial | 11,867 | 274 | – | 12,141 |
| Total revenue | \$ 22,109 | \$ 292 | \$ – | \$ 22,401 |
| Operating income (loss) ⁽¹⁾ | \$ 2,417 | \$ (426) | \$ (2,207) | \$ (216) |
| Interest expense | – | – | 149 | 149 |
| Amortization of property and equipment and intangibles | 1,718 | 21 | – | 1,739 |
| Property and equipment | 33,458 | 1,202 | – | 34,660 |
| Intangibles | 3,660 | – | – | 3,660 |
| Capital expenditures ^{(2),(3)} | 213 | 251 | – | 464 |

(1) Operating income (loss) is defined as net income (loss) plus amortization of property and equipment and intangibles, interest, foreign exchange gains or losses, gains or losses on disposal of capital assets, share-based compensation, and income taxes.

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

(3) \$46 in property and equipment was transferred from Canada to the U.S. in 2009

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
For the three month periods ended March 31, 2010 and 2009
(stated in thousands of dollars) (unaudited)

NOTE 9 – SUPPLEMENTARY CASH FLOW INFORMATION

| Three month periods ended March 31 | 2010 | 2009 |
|--|------------|----------|
| Changes in non-cash working capital from operations: | | |
| Accounts receivable | \$ (2,048) | \$ 2,289 |
| Inventory | (14) | (11) |
| Prepaid expenses and other assets | 42 | 409 |
| Accounts payable and accrued liabilities | 660 | (1,983) |
| Income tax payable (recoverable) | 173 | 241 |
| Net change | \$ (1,187) | \$ 945 |