

HSE Integrated Ltd.
Management Discussion and Analysis (“MD&A”)
For the three month periods ended March 31, 2010 and 2009

The following management discussion and analysis is dated May 12, 2010 and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Company”) for the three month periods ended March 31, 2010 and 2009. This MD&A should be read in conjunction with HSE’s other documents filed on SEDAR at www.sedar.com. Unless otherwise disclosed, the financial information presented in this discussion has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and takes into consideration information available to management up to May 12, 2010. Unless otherwise stated, dollar figures presented are expressed in thousands of Canadian dollars and per-share figures in dollars per weighted-average common share. The following MD&A contains forward-looking information and statements. We refer you to the end of the MD&A for the disclaimer on forward-looking statements.

SELECTED FINANCIAL INFORMATION

	Quarter ended March 31, 2010	Quarter ended March 31, 2009	Year-over-year % change
Revenue	\$ 20,907	\$ 22,401	(6.7)%
Operating and materials	17,726	20,410	(13.2)%
Operating margin	3,181	1,991	59.8%
Operating margin %	15.2%	8.9%	
Selling, general and administrative	1,959	2,207	(11.2)%
Net earnings (loss)	(208)	(1,806)	(88.5)%
Per-share basic	(0.01)	(0.05)	
Per-share diluted	(0.01)	(0.05)	
EBITDA ⁽¹⁾	\$ 1,222	\$ (216)	(665.7)%
EBITDA %	5.8%	(1.0)%	
Total assets	\$ 51,023	\$ 64,554	(21.0)%
Total long-term liabilities	\$ 8,690	\$ 17,189	(49.4)%

(1) See Non-GAAP Measures

FINANCIAL REVIEW

Overview

HSE provides a suite of integrated asset, worker and community health and safety protection services to the private and public sector including: onsite safety supervision; gas detection; fixed and mobile air quality monitoring; breathing equipment rentals and services; fixed and mobile firefighting and fire protection services and equipment; well control and blowout recovery; worker shower (decontamination) services; onsite medical services; first aid; emergency medical response; worker safety training; industrial hygiene services; and safety management.

Total revenue for the quarter decreased 6.7% from \$22.4 million in 2009 to \$20.9 million in 2010. Operating margin (revenue less operating expenses) of \$3.2 million was 15.2% of revenues, up from \$2.0 million or 8.9% of revenues in 2009. Selling, general and administrative expense (“SG&A”) decreased to \$2.0 million from \$2.2 million in the prior year. As a percentage of revenue, SG&A decreased from 9.8% of revenue in fiscal 2009 to 9.4% in 2010. HSE reported a loss of \$0.2 million or (\$0.01) per share compared to a loss of \$1.8 million or (\$0.05) per share in the prior year. EBITDA ⁽¹⁾ was \$1.2 million or 5.8% of revenue in 2010 up 665.7% from (\$0.2) million or (1.0)% of revenue in 2009.

Revenue

In terms of reporting, the Company provides health and safety services to customers in two main business areas: Industrial and Oilfield. The differentiation takes place primarily because of the activity drivers that affect demand. Demand for Oilfield health and safety services is highly cyclical due to external factors such as commodity prices, currency exchange, capital markets, and changing government policy. Industrial health and safety services are provided to a vast array of clients with the commonality of being less influenced by the external factors that make the Oilfield sector cyclical.

Industrial services are provided to customers operating in a wide variety of industries and the public sector including; non-conventional upstream oil development and production (including oilsands extraction); oil and gas processing and refining; petrochemicals; pulp and paper; utilities; power generation; agriculture food and beverage; offshore operations; and diverse manufacturing industries. Industrial also includes worker safety training and safety management services.

Oilfield health and safety services are exclusively employed by oil and gas exploration, drilling and production companies that operate within the conventional upstream, or “wellhead”, sector of the oil and gas industry. This includes oil and gas well exploration, drilling, completion and workover operations.

The Company tracks billings to customers by defined revenue groupings, but uses a common pool of equipment and manpower resources to provide these services. Management and administration services are provided from a common personnel pool.

The revenue for these business areas is shown below:

	Quarter ended March 31, 2010	Quarter ended March 31, 2009	Year-over- year % change	Quarter ended March 31, 2008	Year-over- year % change
Industrial	\$ 11,924	\$ 12,141	(1.8)%	\$ 11,608	4.6%
Oilfield	8,983	10,260	(12.4)%	15,961	(35.7)%
Total Revenue	\$ 20,907	\$ 22,401	(6.7)%	\$ 27,569	(18.7)%
As a percentage of revenue:					
Industrial	57.0%	54.2%		42.1%	
Oilfield	43.0%	45.8%		57.9%	
Total Revenue	100.0%	100.0%		100.0%	

Industrial

The Industrial health and safety services component of the Company's total revenue declined slightly in the first quarter of 2010. Although there was a general recovery in the industries and geographical markets in which HSE operates, services supplied to oil and gas non-conventional extraction operations and hydrocarbon processing facilities were subject to pricing pressure which included price reductions to key clients. This offset modest growth on a year-over-year basis in other markets and industries.

Industrial revenue decreased \$0.2 million or 1.8% of revenue to \$11.9 million from \$12.1 million in the prior year. Industrial health and safety services comprised 57.0% of total revenues, up from 54.2% in 2009. Because of growth initiatives in numerous non-Oilfield markets and the continued low price of natural gas, Industrial revenues will continue to be greater than Oilfield revenues for the foreseeable future.

Compared to the first quarter of 2009, there was a general recovery in all markets and industries. This included northeast Alberta where HSE serves the heavy oil thermal recovery and bitumen mining industries; petroleum refining and petrochemicals in Alberta, Ontario and Nova Scotia; and expanded market share in various industries in southern Ontario, Atlantic Canada and the U.S. industrial Midwest.

Oilfield

Oilfield revenues in the first quarter decreased by 12.4% compared to 2009. The primary causes were a reduction in drilling and the shift from natural gas exploration and development to crude oil in the Western Canadian Sedimentary Basin ("WCSB"), and pricing pressure caused by clients seeking lower vendor costs and intense competition due to excess capacity among competitors relative to current levels of demand.

The Canadian Association of Oilwell Drilling Contractors ("CAODC") reports wells drilled by type for each month of the year. In the first quarter of the current year the industry drilled a total of 3,133 wells compared to 4,434 for the same period in 2009, a 29% decline. However, there was a significant shift in wells drilled from gas to oil compared to prior years. In Q1 2010, 1,355 wells or 43% of all drilling were classified as oil wells. This compares to only 950 wells or 21% of wells drilled in the same period in 2009. At the same time, gas drilling fell over 50% from 2,994 gas wells in the first quarter to 1,490 for the same period of 2010. As a percentage of wells drilled, gas drilling fell from 68% of all Q1 drilling in 2009 to 48% of all drilling in 2010. The impact of this shift in drilling will be discussed in more detail in the Outlook section that follows.

The other major factors that affected Oilfield health and safety revenues were competition and pricing pressure from clients. To offset the decline in commodity prices, oil and gas exploration and production, companies are seeking lower input costs from their vendors across the board. Therefore, since the first quarter of 2009, HSE has reduced its service prices to secure continued business with key clients. This contributed to the year-over-year revenue reduction. Further, pricing pressure from competitors continued because the capacity in this sector significantly exceeds current demand.

In the United States Boots & Coots HSE Services LLC ("BCHSE"), the Company's venture with Boots & Coots, Inc., contributed \$0.2 million to revenue as BCHSE continues to gain customer acceptance as a capable provider of worker and asset protection services.

During the period ended March 31, 2010, the Company had one customer representing more than 10% of revenue (2009 – one). The Company had sales of \$2.3 million to the customer during the quarter.

Operating and Materials Expense and Operating Margin

Operating and materials expense consists of costs directly attributable to the delivery of health and safety services to customers. These include; wages and benefits for field employees and contractors; equipment rentals and leases; field service center property costs; transportation; fuel; consumables; equipment repairs and maintenance; and field office administration including field sales.

Operating and materials expense for the quarter ended March 31, 2010 totaled \$17.7 million or 84.8% of revenue, as compared to \$20.4 million or 91.1% of revenue in 2009. Operating margin for the period increased from \$2.0 million (8.9% of revenue) in 2009 to \$3.2 million (15.2% of revenue) in 2010.

The increase in operating margin is due to a significant improvement in the profitability of the Company's U.S. operations, rigorous control over all expenses, and the quarter being subject to the full impact of the service technician remuneration restructuring which did not take effect until the second quarter of 2009. Partially offsetting the salary expense savings was the first reversal of the salaried employee pay reduction instituted in 2009 to offset a significant decline in revenue caused by the global recession.

The allowance for doubtful accounts receivable was \$1.3 million or 6.5% of trade accounts receivable at the end of the quarter compared to \$1.3 million or 7.2% of trade accounts receivable at December 31, 2009. The days sales outstanding ratio improved substantially from 95 days in the first quarter of 2009 to 78 days for the same quarter in the current year.

Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expense consists of costs not directly attributable to the delivery of services to customers. These include executive management; corporate head-office functions and support services; administrative personnel; corporate sales and marketing costs; liability insurance; professional fees; and investor-relations expenses.

SG&A for the quarter totaled \$2.0 million (9.4% of revenue), down from \$2.2 million (9.8% of revenue) in the prior year. The reduction in SG&A is due to continued control over expenses. Preparing the Company for the adoption of International Financial Reporting Standards (“IFRS”) in 2011 resulted in expenditures of \$0.2 million in the first quarter of 2010.

EBITDA and Net Loss

Despite a 6.7% decline in revenue, EBITDA (see “Non-GAAP Measures”) in the first quarter of 2010 increased significantly from the same period in 2009, rising to \$1.2 million from negative EBITDA of \$0.2 million in the prior year. The EBITDA margin was 5.8% for the quarter, lower than historical performance but much improved over the negative EBITDA margin in the first quarter of 2009. This EBITDA increase was the result of cost reductions, improved financial performance in the United States and the implementation of a new variable cost structure for delivery of health and safety services.

Total amortization for the quarter was \$1.6 million, down from \$1.7 million in the first quarter 2009. Property and equipment amortization decreased in the current quarter to \$1.4 million compared to \$1.6 million in the prior year. HSE continues to tightly control capital additions. Intangible assets amortization remained consistent quarter-over-quarter.

Stock-based compensation for the quarter was \$0.04 million (2009 – \$0.05 million). The year-over-year decline is due to a reduction in the number of outstanding unvested options.

Interest on long-term debt and other interest and bank charges decreased from \$0.15 million in 2009 to \$0.1 million in 2010. The Company had significantly lower levels of overall debt throughout the current quarter than it had in 2009. Capital lease obligations at March 31, 2010 decreased by \$0.7 million compared to the same quarter from the prior year. Long-term debt was reduced by \$5.6 million compared to same quarter from the prior year.

For the first quarter of 2010, the gain on the disposal of property and equipment was \$0.4 million with proceeds on sale of \$0.4 million. Included in the \$0.4 million were proceeds of \$0.1 million related to the disposal of assets impaired at December 31, 2009. Contributing to the gain is the amortization of a deferred gain on sale / leaseback of real estate assets as discussed in the 2008 annual MD&A.

Net loss for the quarter was \$0.2 million or (\$0.01) per share versus a net loss of \$1.8 million or (\$0.05) per share in the same quarter from the prior year. The year-over-year improvement was primarily due to cost containment and significantly increased EBITDA as described above.

Liquidity and Capital Resources

The Company’s principal sources of capital are cash flows from operations, borrowings under an established credit facility with its senior lender and equity financing.

The Company, through the conduct of its operations, has undertaken certain contractual obligations as noted in the following table:

Years ended December 31	2010	2011	2012	2013	2014	Total
Capital lease obligations	\$ 160	\$ 105	\$ 14	\$ 3	\$ –	\$ 282
Vehicle and equipment operating leases	1,992	1,992	790	24	1	4,799
Rental facilities	2,198	2,599	2,235	1,856	1,475	10,363
Long-term debt	668	2,123	1,304	1,304	736	6,135
Total contractual obligations	\$ 5,018	\$ 6,819	\$ 4,343	\$ 3,187	\$ 2,212	\$ 21,579

Liquidity

On July 29, 2009, the Company amended its existing credit facilities with its current lender. The amended facility consists of a single \$15 million revolving operating facility. This facility, which matures July 27, 2010, is margined to property and equipment and accounts receivable. The 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 facility is subject to certain covenants including a covenant with respect to 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 is collateralized under a general security agreement. The Company complied with all covenants required under the credit facility.

At the end of the first quarter, the Company had cash on hand of \$0.1 million.

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.

Cash used in Operations

Cash used in operations in the quarter was \$0.3 million in 2010 compared to \$0.6 million provided by operations in 2009. Days-sales-outstanding ("DSO") improved significantly to 78 days at March 31, 2010 compared to 95 days at March 31, 2009.

Cash used in Financing and Investing

Purchases of property and equipment for the year amounted to \$0.5 million, the majority of which was revenue-generating health safety services rental equipment. Proceeds from the disposal of property and equipment were \$0.4 million.

Working Capital

At March 31, 2010, the Company had working capital (not including current portions of long-term debt obligations) of \$14.9 million. This compares to \$14.1 million on December 31, 2009. The increase from March 31, 2009 is related primarily to an increase in accounts receivable compared to the prior year and offset by an increase in accounts payable and accrued liabilities.

Outlook

On a year-over-year basis, the overall business climate in which HSE operated in the first quarter of 2010 was improved over the same period in 2009. The 2009 fiscal year began with collapsed commodity prices, restricted equity capital markets, tight credit and lending availability, reduced capital expenditures, plant closures, delayed or postponed oilsands projects, postponed plant shutdown and turnaround programs, layoffs, and high degrees of economic uncertainty. The focus of the Company in early 2009 was to reduce internal spending in every way possible in order to offset a decline in revenue.

As HSE entered 2010, the operating environment was much more favorable. Commodity prices, particularly crude oil, recovered from 12-month lows. Equity capital markets were functioning for the right investments, and debt markets had improved. Several new oilsands projects were announced or scheduled to begin. The Company had emerged from a difficult year with lower debt levels and a strong working capital position. This is a sound foundation from which to resume growth.

But challenges remained. Customers became increasingly price-sensitive to input costs from vendors like HSE. Overcapacity ensured a competitive marketplace. Downward re-pricing of services for key customers to maintain business eroded some of the competitive advantages the Company created with its cost-reduction strategies in 2009.

The Company's financial performance in the first quarter reflected both the opportunities and the challenges. The slight decline in overall revenue demonstrated the new realities of the post-recession business environment – competitive pricing, reduced margins and intense competition. However, the increased operating and EBITDA margins demonstrated that HSE has responded appropriately to the new realities in the marketplace.

Industrial

Health and safety products and services delivered to the broad customer segment that HSE characterizes as Industrial remained relatively stable in the first quarter of 2010 compared to the prior year. The modest \$0.2 million decline in revenue was largely attributable to pricing reduction with clients related to non-conventional oil development. This overshadowed a modest increase in revenues in all other markets.

The oilsands and non-conventional thermal recovery market of northeast Alberta remains a stable market with a combination of growth opportunities and competitive challenges.

On the growth side, HSE continues to introduce new products and services that fulfill the corporate mission of assisting clients to cost-effectively meet their obligation to protect workers, assets and the community. The Company secured a 24/7/365 fire protection contract for a major asset. The pro-active worker health facility pilot project continues to gain user acceptance. Both have growth potential in this and other markets. New major capital projects announced by HSE clients in the first quarter indicate that the opportunities for growth remain.

On the competitive side, the oilsands region remains one of the few areas of significant economic growth in North America. Combined with the downturn in the conventional oil and gas regions of western Canada, this is attracting more competitors to the area than HSE has had in prior years. While the growth opportunities in this market remain significant, HSE's historic rate of growth may not be sustainable as competitors gain a larger share of this market than in previous years.

Other markets, however, continue to look promising. Assisted by more aggressive marketing and economic recovery, the industrial heartlands of Ontario and the U.S. Midwest should remain growth areas for the foreseeable future. The recession has caused industrial operators to re-examine all their costs. The largest supplier of health and safety services to industry remains the asset owners themselves. Clients seem more willing to examine outsource health and safety opportunities than in prior years.

Atlantic Canada remains a strong area for the Company. Established locations in Saint John, NB and Dartmouth, NS remain steady with operations in both provinces gaining new clients. The new service location in Newfoundland and Labrador is now a year old and revenues are increasing. Being in the three

major marine centers for this region is adding an offshore element to HSE's services package beyond oil and gas that has potential in other markets such as Vancouver.

The public sector is also a large market opportunity in which HSE does not yet have a major presence. The various elements include facilities such as hospitals, schools, universities and office buildings; utilities such as water and waste treatment plants and power generation and distribution; and services which include police forces and the military. HSE had no market presence or marketing efforts in this large market only a few years ago. Today the public sector is a growing client base as both the Company and the public sector learn more about each other.

A major key to continued growth is the growing credibility of the HSE brand. New to the world when the name was created on September 1, 2004, HSE now has over five years of successful experience offering Canada's most comprehensive health and safety services package and consistently delivering good service at fair prices. Continued marketing efforts and growing recognition of HSE's capabilities provide a solid foundation for greater market and client penetration.

Oilfield

The Oilfield health and safety component of HSE's business is the legacy foundation where the Company started and was its dominant business area for many years. HSE expanded its Oilfield delivery capability from 2004 to 2007 through acquisitions and upgraded its capital asset fleet through capital investments in 2006 and 2007.

However, the core Alberta market which has been the historical driver for HSE's Oilfield business has changed entirely in the past three years on three fronts; gas, oil and profitability. These are discussed in detail below.

The commercialization of non-conventional shale gas has permanently changed the North American natural gas market, collapsing gas prices and moving exploration and development activities from Alberta to northeast B.C., Quebec, New Brunswick, the northeast United States, Louisiana and Texas. Two of HSE's core services – H₂S protection and frac fire protection – are oriented towards conventional natural gas. From 1992 to 2008, about 70% of all the wells drilled in western Canada had natural gas as the target.

However, because of poor economics for gas development, the type of wells being drilled is changing. In the month of August 2009, there were more oil wells drilled in the WCSB than gas wells for the first time in 17 years. In the first quarter of 2010 the shift towards oil as the development target was evident. More detail on the shift in drilling is contained in the Revenue section earlier in this document.

The result has been an underutilization of these two asset classes in the Oilfield sector. While the air trailers and breathing apparatus used for H₂S protection can and are used in Industrial markets, the utilization of the fire truck fleet remains a challenge. The recent redeployment of one of these units on a 24/7/365 asset protection contract in another market could be one solution. Moving them to other markets is another.

The application of horizontal/multi-frac drilling technologies, used to commercialize shale gas reservoirs, on mature oilfields has been a very positive development, particularly in Alberta. Opening up much more of the reservoir to the wellbore using these processes has resulted in some attractive crude oil production rates from fields that yield only modest levels of production using conventional drilling and production techniques.

Of interest to HSE is that some of these oil reservoirs are water sensitive, meaning that they will produce better if fractured with hydrocarbon fluids instead of water. Although the cost of large hydrocarbon fracs is much higher than water fracs, reservoir sensitivity to water may offset the additional cost of hydrocarbons. Hydrocarbon fracs need fire trucks. The application of these new drilling technologies to Alberta's old oilfields is in its infancy. Therefore, its impact on the Company's major underutilized asset class has yet to be determined.

HSE Integrated Ltd.

Management Discussion and Analysis

For the three month periods ended March 31, 2010 and 2009

The last element in the major change in HSE's core Alberta Oilfield health and safety business is the Alberta government's New Royalty Framework ("NRF"). Announced in late 2007 and passed into law on January 1, 2009, the NRF has had a negative impact on investment in Alberta in the past 2.5 years. Cognizant of the need to attract and retain investment capital, on March 11, 2010 the Alberta government announced the results of a six-month long Competitiveness Review ("CR") of oil and gas investments in Alberta versus other jurisdictions.

The CR announced that Alberta would introduce a permanent 5% maximum royalty as a capital recovery mechanism for all new wells drilled in Alberta. The CR also said it would review the royalty rates levied on oil and gas wells with the final results to be announced by June 2010. At the time of writing, the exact fiscal regime under which Alberta's conventional oil and gas industry will operate in the future remains unknown.

In summary, in Alberta the Oilfield part of HSE's business is undergoing a major transformation. While some elements such as the sharp decline in gas drilling and the reduced profitability caused by higher Crown royalties have been negative, the application of new drilling techniques to old oilfields and the willingness of the Alberta government to improve investment economics are positive. While there has been a sharp decline in the total number of wells drilled, the wells that are drilled are more expensive and, in certain cases, more safety intensive.

HSE is studying these market changes very closely and will make asset and resource allocation decisions once the impact on Oilfield activity and the Company's future is better understood.

United States

HSE now reports segmented financial information for its U.S. operations which comprise – CRS Technologies Inc. ("CRU") which operates from Taylor, Michigan (a suburb of Detroit), and Boots & Coots HSE Services LLC ("BCHSE") which operates from a head office in Houston, Texas.

On a year-over-year basis, HSE's U.S. operations are significantly improved although still modest on a consolidated basis. Revenue for the first quarter more than doubled to \$0.6 million and the operating income was slightly positive compared to a loss of \$0.4 in the first quarter of 2009.

The Company anticipates this trend will continue in the remainder of 2010. In the Industrial markets served from Michigan, marketing efforts with new clients in new areas are providing encouraging results.

In Oilfield markets served from Texas, a modest capital program will give BCHSE sufficient equipment to maintain a positive operating margin at current utilization rates. This will be completed in the second quarter of 2010.

On April 12, 2010 Boots & Coots, Inc. announced that it had entered into an agreement under which all of its shares would be acquired by Halliburton. If approved by shareholders, this transaction is expected to close in the summer of 2010. The impact of this transaction on HSE and BCHSE is not known at the time of writing.

Quarterly Results

	2010		2009			2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Industrial	\$ 11,924	\$ 12,533	\$ 14,375	\$ 15,249	\$ 12,141	15,308	16,163	\$ 19,420
Oilfield	8,983	6,557	6,169	4,317	10,260	14,597	12,039	8,667
Total Revenue	\$ 20,907	\$19,090	\$20,544	\$19,566	\$22,401	\$29,905	\$28,202	\$28,087
Net earnings (loss)	(208)	(2,178)	(722)	(1,928)	(1,806)	431	396	(568)
EBITDA ⁽¹⁾	1,222	496	1,016	(451)	(216)	2,713	2,858	2,187
Income (loss) per share – basic and diluted	\$ (0.01)	\$ (0.06)	\$ (0.02)	\$ (0.05)	\$ (0.05)	\$ 0.01	\$ 0.01	\$ (0.02)

(1) See Non-GAAP Measures

HSE's business has two offsetting seasonal components. Revenue for Oilfield health and safety services is historically highest in 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.

Related-Party Transactions

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

- In the first quarter of 2010, the Company paid rent of \$0.1 million (2009 - \$0.1 million) for a regional office to a corporation related to a Director of the Company.
- In the first quarter of 2010, the Company also paid rent of \$0.1 million (2009 – \$0.1 million) for a regional office to a corporation controlled by a Senior Manager of the Company.

Critical Accounting Policies and Estimates

HSE prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. Management must use its judgment related to uncertainties in order to make these estimates and assumptions.

The accounting policies and estimates believed to require the most difficult, subjective or complex judgments and which are material to the Company's financial reporting results include: allowance for doubtful accounts, impairment of long-lived assets, amortization of property and equipment, and future income tax liabilities. A full description of the methods for determining these accounting policies and estimates as well as the risks related to the possible effects of changes in these policies and estimates, can be found in HSE's 2009 annual report.

Accounting Standards Pending Adoption

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the Canadian Accounting Standards Board (“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.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the requirement for all publicly accountable enterprises to adopt International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011 HSE will be required to report its interim and annual financial statements in accordance with IFRS including comparative information for the 2010 period.

HSE has commenced the process to transition from current Canadian GAAP to IFRS. A project team led by Finance has been established. Representatives from other areas of HSE participate as required. A Steering Committee comprised of HSE Executives monitors the IFRS project on a monthly basis. Regular reporting to the Audit Committee and the Board of Directors on the status of the IFRS project has also been implemented.

HSE has developed a project plan that consists of three major phases: initial assessment, detailed assessment and design, and implementation.

Initial assessment – this phase involved performing a high-level impact assessment to identify the areas that would be affected by the transition to IFRS. As a result of these procedures, the potentially impacted areas were identified as high, medium and low impact. The level of impact was determined based on the relative significance of the account balance and the nature of the differences between current HSE accounting policies and the accounting policies required by IFRS.

Detailed assessment and design – this phase involves the identification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and the development of a template for IFRS financial statements and notes. HSE’s efforts are currently focused on this phase of the project.

Implementation – this phase includes execution of changes to information systems and business processes, completing formal authorization processes to formally approve recommended accounting policy changes, completion of the opening balance sheet and training programs for the finance group and other areas of the company as required.

Progress-to-date

HSE has identified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion as allowed or required by IFRS 1. HSE undertook an analysis of all applicable standards to confirm the classification of the differences as high, medium and low impact. Differences in accounting policies related to property and equipment, leases, impairments, stock-based compensation and financial statement and note disclosures have been identified as high and medium impact.

HSE continues to identify major components of property and equipment and to review useful lives and residual values for all of its assets. The Company has also begun calculations to determine the amount of any adjustments required to the opening IFRS balance sheet related to property and equipment. HSE expects to complete the above work by the end of second quarter 2010.

HSE has completed a review of all leased properties, vehicles and equipment to identify operating and finance leases. The Company has begun calculations to determine the amount of any adjustment required for the transition balance sheet.

Changes to the general ledger will be straightforward. The most significant system changes relate to the fixed asset sub-system. The Company must track all assets as required under current Canadian GAAP until January 1, 2011 and then under IFRS effective January 1, 2011. Throughout 2010 the Company must also compile the fixed asset information under IFRS to prepare a comparative year of financial information. HSE is preparing a detailed system plan including a test plan to address all three requirements.

HSE has completed a review of all new disclosures required under IFRS to identify any system or business process changes required. HSE is preparing a draft template for IFRS financial statements and notes. This is expected to be completed by the end of second quarter 2010. After the completion of each 2010 Canadian GAAP quarter end, HSE will prepare a set of IFRS compliant financial statements for the same quarters. The purpose of this process is to build the 2010 comparatives required for 2011, identify where additional training of resources may be required, and to test the timelines required to meet 2011 interim and annual reporting deadlines.

As the review of accounting policies is completed, the policies are approved and differences are quantified, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. The certifying officers plan to complete the design, and initially evaluate the effectiveness of new controls in the third and fourth quarter of 2010 to prepare for certification under IFRS in 2011. The Company will also ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition.

The Company is required to meet various financial covenants included in its credit facility. There is a possibility that these covenants will be affected by required IFRS changes. A clause is included in the credit facility agreement allowing for a period of time to renegotiate affected covenants.

Work to be completed by the end of third quarter

- Formal approvals of recommended accounting policies and IFRS 1 elections by the Steering Committee and Board of Directors.
- Completion of draft template for IFRS financial statements and notes. Initial reviews and approvals by the Steering Committee, Board of Directors, and HSE's Auditors.
- Preparation of required transition disclosures and schedules.
- January 1, 2010 IFRS balance sheet prepared with quantification of differences.
- Detailed system plan completed and testing underway.

Most adjustments required on transition to IFRS will be made, retrospectively, against retained earnings on the opening January 1, 2010 balance sheet. However, IFRS 1 *First-Time Adoption of International Financial Reporting Standards* provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices and will implement those determined to be the most appropriate in the circumstances. Significant exemptions available to HSE under consideration are:

- An exemption allowing business combinations to be accounted for under IFRS standards starting at a date of the Company's choosing, rather than requiring that all acquisitions be restated from inception as they would have been under IFRS.
- An exemption allowing the Company to apply IFRS accounting for stock-based compensation on a prospective basis for stock options granted and unvested prior to transition.
- An exemption allowing an entity to value fixed asset components at their fair value at the January 1, 2010 opening balance sheet, rather than retrospectively restating amortization of components and recording disposals and additions of components that were expensed as required under Canadian GAAP.

Described below are the high priority areas where changes in accounting policies are expected to impact the Company's consolidated financial statements. The list below should not be regarded as a complete list of changes that will result from HSE's transition to IFRS. It is intended to highlight the areas that we consider most significant, however, an analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. The differences described below are those existing based on Canadian GAAP and IFRS as of today.

Property, Plant and Equipment – IAS 16

IAS 16 defines property, plant and equipment as tangible items that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

IFRS and Canadian GAAP contain the same basic principle for property, plant and equipment; however, there are some differences. IFRS requires that major components of an asset for which different depreciation methods or rates are appropriate to be depreciated separately and depreciation commences when the asset is available for use. IFRS also permits property, plant and equipment to be measured at fair value or at amortized cost.

As indicated above, IFRS 1 contains an elective exemption where the Company may elect to reset property and equipment, at its fair value on the date of transition, as its new cost basis.

Impairment of Assets – IAS 36

Canadian GAAP impairment testing compares the asset-carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying amount exceeds the recoverable amount, the carrying value is written down to estimated fair value.

IAS 36 uses a one-step approach for both testing for and measurement of impairment, with carrying values compared directly to the higher of fair value less costs to sell and value in use (calculated using discounted cash flows). This may result in more frequent impairments where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash-flow basis, but could not be supported under a discounted cash-flow basis.

IAS 36 also contains a requirement to reverse any previous impairment losses where circumstances have changed such that the impairments have reversed. Canadian GAAP prohibits the reversal of impairment losses.

Leases – IAS 17

IAS 17 classifies a lease as either a finance lease or an operating lease. In respect of lessors, there is a subcategory of finance lease for manufacturer or dealer leases.

Both Canadian GAAP and IFRS lease classification depend on whether substantially all the risks and rewards of ownership of a leased asset have been transferred from the lessor to the lessee, and are made at the inception of the lease. A number of indicators are used to assist in lease classification. However, under Canadian GAAP, in practice, the quantitative thresholds included in certain of the indicators are treated as “bright lines” and there are fewer indicators to be considered.

Immediate gain recognition from the sale and leaseback of an asset depends upon whether or not the sale takes place at fair value, and whether the leaseback is classified as an operating lease or finance lease.

Business Risks

The activities the Company undertakes involve a number of risks and uncertainties, some of which are: economic and market events including disruptions in international credit markets and reductions in macroeconomic activity; business cyclicity within the industries in which HSE's customers operate; competitive conditions including pricing pressures; risks of customer credit default; deterioration in the financial condition of financial institutions and insurance companies that HSE deals with; availability of financing at competitive rates; changes in foreign exchange rates and interest rates and litigation and contingencies. Additional risks and uncertainties that the Company may be unaware of, or that were determined to be immaterial may also become important factors that affect the Company. A discussion of the business risks faced by the Company is available in the Management Discussion and Analysis included in the Company's 2009 Annual Report.

Internal Control Over Financial Reporting

Changes in Internal Controls Over Financial Reporting During 2010

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Common Shares Outstanding

At May 12, 2010 and December 31, 2009 there were 37,575,675 common shares outstanding. At March 31, 2010, the Company had options outstanding to issue 2,157,333 shares at a weighted-average exercise price of \$1.55 per share. Of these options, 1,217,151 were exercisable. On April 5, 2010 an additional 715,000 stock options were granted at an exercise price of \$0.49.

At May 12, 2010 there were 2,834,165 options outstanding at a weighted average price of \$1.29 per share. Of these options, 1,397,965 were exercisable.

Non-GAAP Measures

This report makes reference to EBITDA, a measure that is not recognized under generally accepted accounting principles. Management believes that, in addition to net earnings, EBITDA is a useful supplementary measure. EBITDA provides investors with an indication of earnings before provisions for interest and bank charges, taxes, amortization, foreign exchange gains or losses, gains or losses on the disposal of property and equipment and the non-cash effect of stock-based compensation expense. Investors should be cautioned that EBITDA should not be construed as an alternative to net earnings determined by GAAP as an indication of the Company's performance. HSE's method of calculating

EBITDA may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies.

EBITDA Calculation

For the quarters ended March 31		2010		2009
Net earnings (loss)	\$	(208)	\$	(1,806)
Add (deduct):				
Amortization		1,570		1,739
Stock-based compensation		41		50
Interest and bank charges		118		149
Foreign exchange loss (gain)		(5)		(1)
Gain (loss) on disposal of property and equipment		(387)		93
Income tax		93		(440)
EBITDA	\$	1,222	\$	(216)

Quarterly EBITDA Calculation

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net earnings (loss)	\$ (208)	\$ (2,178)	\$ (722)	\$ (1,928)	\$ (1,806)	\$ 431	\$ 396	\$ (568)
Add (deduct):								
Amortization	1,570	1,618	1,650	1,692	1,739	1,399	1,821	1,920
Impairment of property and equipment	–	1,641	–	–	–	–	–	–
Impairment of goodwill and intangible assets	–	–	–	–	–	–	–	100
Stock-based compensation	41	43	101	99	50	95	23	155
Interest and bank charges	118	135	140	120	149	200	288	331
Foreign exchange loss (gain)	(5)	(8)	(3)	12	(1)	(35)	4	2
Loss on disposal of property and equipment	(387)	57	35	126	93	193	129	326
Income taxes	93	(812)	(185)	(572)	(440)	430	197	(79)
EBITDA	\$ 1,222	\$ 496	\$ 1,016	\$ (451)	\$ (216)	\$ 2,713	\$ 2,858	\$ 2,187

Forward-Looking Statements

Certain statements in this MD&A constitute forward-looking information and statements (collectively “forward-looking statements”) within the meaning of applicable securities laws. These forward-looking statements concern, among other things, the Company’s prospects, expected revenues, expenses, profits, financial position, strategic direction and growth initiatives, all of which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such forward-looking statements use such words as *expect*, *anticipate*, *estimate*, *believe*, *may*, *will*, *would*, *could*, *might*, *intend*, *plan*, *continue*, *ongoing*, *project*, *objective*, *should* and other similar terms and phrases. This forward-looking information reflects the Company’s current expectations regarding future

events and operating performance based on assumptions and analyses made by the Company based on its experience and an assessment of current conditions, known trends, expected future developments and other factors which management believe to be appropriate under the circumstances. These forward-looking statements include among others:

- The oilsands and non-conventional thermal recovery market of northeast Alberta remains a stable market with a combination of growth opportunities and competitive challenges.
- HSE continues to introduce new products and services that fulfill the corporate mission of assisting in clients to cost-effectively fulfill their obligation to protect workers, assets and the community.
- HSE's historic rate of growth (Oilsands) may not be sustainable as competitors gain a larger share of this market than in previous years.
- Clients seem more willing to examine outsourced health and safety opportunities than in prior years.
- Being in the three major marine centers for this region is adding an offshore element to HSE's services package beyond oil and gas that has potential in other markets such as Vancouver.
- Today the public sector is a growing client base as both the Company and the public sector learn more about each other.
- The core Alberta market which has been the historical driver for HSE's Oilfield business has changed entirely in the past three years on three fronts; gas, oil, and profitability.
- The application of horizontal/multi-frac drilling technologies to Alberta's old oilfields is in its infancy. Therefore, its impact on the Company's major underutilized asset class has yet to be determined.
- At the time of writing, the exact fiscal regime under which Alberta's conventional oil and gas industry will operate in the future remains unknown.
- HSE is studying these market changes (Oilfield) very closely and will make asset and resource allocation decisions once the impact on Oilfield activity and the Company's future is better understood.
- In the Industrial markets served from Michigan, marketing efforts with new clients in new areas are providing encouraging results. The Company anticipates this trend will continue in the remainder of 2010.
- In Oilfield markets served from Texas, a modest capital program will give BCHSE sufficient equipment to maintain a positive operating margin at current utilization rates. This will be completed in the second quarter of 2010.
- On April 12, 2010 Boots & Coots, Inc. announced that it had entered into an agreement under which all of its shares would be acquired by Halliburton. If approved by shareholders, this transaction is expected to close in the summer of 2010. The impact of this transaction on HSE and BCHSE is not known at the time of writing.

The forward-looking statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: economic conditions within Canada and the United States, both in general and within specific industries; demand for the Company's services by customers in various industries and geographic locations; pricing levels for the Company's services; commodity prices; foreign currency exchange rates; interest rates; access to financing; the Company's future operating results and financial condition; and competition within particular markets or for particular services.

HSE Integrated Ltd.

Management Discussion and Analysis

For the three month periods ended March 31, 2010 and 2009

Forward-looking statements involve significant risks and uncertainties and should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, the factors discussed above and other risk factors discussed herein and listed from time to time in the Company's reports and public disclosure documents including its annual report, annual information form and other filings with securities commissions in Canada as reported under the Company's profile at www.sedar.com.

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward-looking statements contained in this MD&A speak only as of the date of this MD&A, and the Company assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Additional Information

Additional information relating to HSE is available under our profile on the SEDAR website at www.sedar.com and www.hseintegrated.com.