

**HSE Integrated Ltd.
Management Discussion and Analysis (“MD&A”)
For the Quarter and Year to Date ended June 30, 2010 and 2009**

The following management discussion and analysis is dated August 12, 2010 and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Company”) for the quarter and year to date ended June 30, 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 August 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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Quarter Over- Quarter % Change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Year Over Year % Change
Revenue	\$18,350	\$19,566	(6.2%)	\$39,257	\$41,967	(6.5%)
Operating and materials	16,825	18,145	(7.3%)	34,551	38,555	(10.4%)
Operating margin	1,525	1,421	7.3%	4,706	3,412	37.9%
Operating margin %	8.3%	7.3%		12.0%	8.1%	
Selling, general & administrative	\$1,905	\$1,872	1.8%	\$3,864	\$ 4,079	(5.3%)
Net loss	(1,235)	(1,928)	(35.9%)	(1,443)	(3,734)	61.4%
- per share basic & diluted	(0.03)	(0.05)	-	(0.04)	(0.10)	60.0%
EBITDA ⁽¹⁾	(\$380)	(\$451)	15.7%	\$842	(\$667)	226.2%
EBITDA %	(2.1%)	(2.3%)		2.1%	(1.6%)	
Total assets				\$49,577	\$60,745	
Total long-term liabilities				7,939	16,462	

(1) See Non-GAAP Measures

FINANCIAL REVIEW

Overview

HSE provides an integrated suite of worker, asset 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; hydrocarbon emergency response including 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.

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Total revenue for the quarter decreased 6.2% from \$19.6 million in 2009 to \$18.4 million in 2010. Operating margin (revenue less operating expenses) of \$1.5 million was 8.3% of revenues, up from \$1.4 million or 7.3% of revenues in 2009. Selling, general and administrative expense (“SG&A”) increased to \$1.90 million from \$1.87 million in the prior year. As a percentage of revenue, SG&A increased from 9.6% of revenue in fiscal 2009 to 10.4% in 2010. HSE reported a loss of \$1.24 million or (\$0.03) per share compared to a loss of \$1.9 million or (\$0.05) per share in the prior year. EBITDA⁽¹⁾ was (\$0.4) million or (2.1%) of revenue in 2010, down 15.7% from (\$0.5) million or (2.3%) of revenue in 2009.

Total revenue for the six month period declined 6.5% from \$42.0 million in 2009 to \$39.3 million in 2010. Operating margin of \$4.7 million was 12.0% of revenue compared to \$3.4 million or 8.1% of revenue in the prior year. SG&A was \$3.9 million for the period, a 5.3% decline from \$4.1 million in the prior year. As a percentage of revenue SG&A remained constant at 9.8% of revenue in 2010 compared to 9.7% in 2009. The company reported a loss of \$1.4 million or (\$0.04) per share compared to a loss of \$3.7 million or (\$0.10) per share for the first six months of the 2009 fiscal year. EBITDA for the period was \$0.8 million compared to a loss of \$0.7 million a year ago.

Included in SG&A expenses for 2010 is \$0.45 million related to the Company’s transition to the International Financial Reporting Standards (“IFRS”) with which HSE must comply going forward. Contained in 2009 SG&A expenses is \$0.5 million (\$282 in the first quarter of the year and \$234 in the second quarter) related to cost reduction initiatives undertaken by the Company in response to the global recession and a commensurate decline in overall demand for HSE’s services.

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 same external factors that has historically made 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 but does not include oilsands extraction.

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.

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The revenue for these business areas is shown below:

	Quarter ended June 30, 2010	Quarter ended June 30, 2009	Year over year % change	Quarter ended June 30, 2008	Year over year % change
Industrial	\$ 11,926	\$ 15,249	(21.8%)	\$ 19,420	(21.5%)
Oilfield	6,424	4,317	48.8%	8,667	(50.2%)
Total Revenue	\$ 18,350	\$ 19,566	(6.2%)	\$ 28,087	(30.3%)

As a % of Revenue:

Industrial	65.0%	77.9%	69.1%
Oilfield	35.0%	22.1%	30.9%
Total Revenue	100.0%	100.0%	100.0%

	Six months ended June 30, 2010	Six months ended June 30, 2009	Year over year % change	Six months ended June 30, 2008	Year over year % change
Industrial	\$ 23,850	\$ 27,390	(12.9%)	\$ 31,028	(11.7%)
Oilfield	15,407	14,577	5.7%	24,628	(40.8%)
Total Revenue	\$ 39,257	\$ 41,967	(6.5%)	\$ 55,656	(24.6%)

As a % of Revenue:

Industrial	60.8%	65.3%	55.7%
Oilfield	39.2%	34.7%	44.3%
Total Revenue	100.0%	100.0%	100.0%

Industrial

The Industrial health and safety services component of the Company's total revenue declined in the second quarter of 2010. Although there was a general recovery in the industries and geographical markets in which HSE operates, services supplied to conventional and non-conventional hydrocarbon processing and extraction facilities were subject to pricing pressure which included price reductions to key clients. The oil and gas processing plant shutdown and turnaround services that typically take place during the second quarter were subject to pricing pressure caused primarily by increased focus on servicing this market by HSE competitors that in the past have predominantly serviced the Oilfield sector. Some clients tended to award these service contracts to the lowest bidder.

In addition, a client undertaking a major capital project incurred major cost over-runs. The client approached HSE and gave the Company the option of re-pricing at a lower rate or being replaced on the project. After a cost-benefit analysis, HSE chose to stay on the project. Under the renegotiated terms, prices for safety equipment rentals were reduced which had a negative impact on the revenues in the second quarter. However, the Company is of the view that the contribution from future business will exceed the negative quarter two impact.

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Due to the factors cited above, in the second quarter, Industrial revenue decreased \$3.3 million or 21.8% to \$11.9 million from \$15.2 million in the prior year. For the first six months of the current fiscal year, Industrial health and safety services revenue was \$23.9 million, 12.9% lower than \$27.4 million generated in the same period in the 2009 fiscal year. Industrial health and safety services comprised 60.8% of total revenues, down from 65.3% in 2009.

Oilfield

Oilfield revenues in the second quarter increased by \$2.1 million or 48.8% compared to second quarter of 2009. For the first six months of the current fiscal year, Oilfield health and safety services revenue was \$15.4 million, 5.7% higher than \$14.6 million generated in the same period in the 2009 fiscal year.

The improved financial performance of the Oilfield portion of the Company's business reflects an overall recovery in this sector compared to the same period in 2009. The factors behind this recovery include stable oil prices, improved economics in Alberta due to a revised royalty regime, and continued success by Exploration and Production companies using horizontal drilling and multi-stage fracturing extraction technologies in mature oilfields and in tight oil-bearing reservoirs. Many of the oil reservoirs being exploited in this manner are water-sensitive and therefore produce more effectively when fractured with acid or hydrocarbon fluids. Employing these fluids on horizontal oil well completions has resulted in increased demand for the Company's shower and fire protection services and on-site first aid services compared to 2009.

In the United States, Boots & Coots HSE Services LLC ("BCHSE"), the Company's venture with Boots & Coots, Inc., contributed \$0.4 million to revenue in the second quarter of 2010 compared to \$0.1 million in the same period of 2009. For the six months ended June 30, 2010 revenue was \$0.6 million, an increase of \$0.5 million over the six months ended June 30, 2009. BCHSE continues to gain customer acceptance as a capable provider of worker and asset protection services.

During the period ended June 30, 2010, the Company did not have a customer representing more than 10.0% of revenue (2009 – one customer contributing 12.3% of revenue).

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 June 30, 2010 totaled \$16.8 million or 91.7% of revenue, as compared to \$18.1 million or 92.7% of revenue in 2009. Operating margin for the period increased from \$1.4 million (7.3% of revenue) in 2009 to \$1.5 million (8.3% of revenue) in 2010.

For the first six months, operating and materials totaled \$34.6 million or 88.0% of revenue compared to \$38.6 million or 91.9% of revenue for the period ended June 30, 2009. Operating margin for the first six months increased from \$3.4 million or 8.1% of revenue last year to \$4.7 million or 12.0% 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 full impact of the cost reduction initiatives undertaken in the first half of 2009. Partially offsetting the salary expense savings was the first reversal of the salaried employee pay reduction instituted in March of 2009.

The allowance for doubtful accounts receivable was \$1.24 million or 7.2% of trade accounts receivable at the end of the quarter compared to \$1.26 million or 7.2% of trade accounts receivable at December 31, 2009. Days sales outstanding increased slightly from 77 days in the second quarter of 2009 to 79 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 \$1.90 million (10.4% of revenue), up slightly from \$1.87 million (9.6% of revenue) in the prior year. The Company continually attempts to minimize SG&A but these efforts were partially offset by the first reversal of the salaried employee pay reduction instituted in March of 2009. Preparing the Company for the adoption of IFRS in 2011 resulted in expenditures of \$0.45 million in the six month period ended June 30, 2010.

For the first six months, SG&A declined to \$3.9 million from \$4.1 million in the prior year. The primary reason SG&A did not decrease as much as expected after last year’s cost reductions was expenses due to IFRS. As a percentage of revenue SG&A increased to 9.8% from 9.7% in 2009.

EBITDA and Net Loss

Despite a 6.2% decline in revenue, EBITDA (see “Non-GAAP Measures”) in the second quarter of 2010 improved slightly from the same period in 2009, as EBITDA improved from negative \$0.5 million in 2009 to negative \$0.4 million in 2010. The EBITDA margin was (2.1%) for the quarter; lower than historical performance but slightly improved over the negative EBITDA margin of (2.3%) in the second quarter of 2009. For the first six months EBITDA was \$0.8 million compared to a negative \$0.7 million in the same period of 2009. This EBITDA increase was the result of continued cost reductions, the implementation of a new variable cost structure for service delivery, and improved financial performance in the United States.

Total amortization for the quarter was \$1.4 million, down from \$1.7 million in the second quarter 2009. Property and equipment amortization decreased in the current quarter to \$1.3 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 \$0.09 million (2009 – \$0.1 million). The slight 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 increased from \$0.12 million in 2009 to \$0.14 million in 2010. Capital lease obligations at June 30, 2010 decreased by \$0.4 million compared to the same quarter from the prior year. Long-term debt was reduced by \$5.9 million compared to same quarter from the prior year.

For the second quarter of 2010, the gain on the disposal of property and equipment was \$0.2 million with proceeds on sale of \$0.1 million. 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. The asset divestitures consisted primarily of retirement of vehicles replaced through the Company’s fleet management program.

Net loss for the quarter was \$1.2 million or (\$0.03) per share versus a net loss of \$1.9 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.

Current Quarter versus Q1, 2010

Revenue for the second quarter decreased 12.0% to \$18.4 million from \$20.9 million in the first quarter. Oilfield revenue declined because of seasonal demand reductions that take place every year. Industrial revenue remained constant at \$11.9 million in the first quarter and \$11.9 million in the second quarter. In recent years Industrial revenue has been higher in Q2 than Q1. The Company regards this flat quarter over quarter Industrial revenue as an anomaly in the current fiscal year for reasons discussed in detail above.

Operating expenses decreased by \$0.9 million from \$17.7 million (84.8% of revenue) to \$16.8 million (91.7% of revenue). This is due to a number of factors including the increasing use of short-term light truck rentals in the first quarter to reflect seasonal demand, field service wages being tied more closely to activity, and rigorous monitoring of maintenance and operating costs.

SG&A remained constant at \$1.90 million in the second quarter and \$1.96 million in the first quarter 2010.

Liquidity and Capital Resources

The Company's principal sources of capital are cash flows from operations and, 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	\$ 131	\$ 71	\$ 10	\$ –	\$ –	\$ 212
Vehicle and equipment operating leases	1,319	2,009	816	50	8	4,202
Rental facilities	1,404	2,594	2,212	1,856	1,457	9,523
Long-term debt	652	2,114	1,304	1,304	435	5,810
Total contractual obligations	\$ 3,506	\$ 6,788	\$ 4,342	\$ 3,210	\$ 1,900	\$ 19,747

Liquidity

On April 27, 2010, the Company entered into a \$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 reducing 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 operating facility is renewable annually and is margined to accounts receivable. Both facilities bear interest at prime plus a fixed percentage. A standby fee is also required on any unused portion of the operating facility. Both facilities are subject to certain covenants including a working capital covenant, a debt to equity covenant, a cash flow to debt covenant and other positive and negative covenants. The facilities are collateralized under a general security agreement.

As at June 30, 2010, the Company was in default of the fixed charge coverage covenant which gave the regional financial institution the right to demand immediate repayment of the loan facility. The default was remedied with a covenant waiver received August 4, 2010, prior to the financial statements being completed. The financial institution waived the covenant for the periods June 30, September 30 and December 31, 2010 conditional upon the Company being compliant with all covenants on March 31, 2011. As at June 30, 2010, the total outstanding on the loan facility was \$5,000 of which \$1,304 was current. The fixed charge coverage covenant is the ratio of earnings before interest, taxes, depreciation and amortization less capital expenditures to interest and principal repayments.

At the end of the second quarter, the Company had cash on hand of \$0.9 million.

Cash provided by Operations

Cash provided by operations in the quarter was \$1.6 million in 2010 compared to \$5.3 million provided by operations in 2009. Reduced revenue levels in the quarter resulted in negative EBITDA and break-even

operating cash flow excluding changes in working capital. Days sales outstanding (“DSO”) increased slightly to 79 days at June 30, 2010 from 77 days at June 30, 2009.

Cash used in Financing and Investing

During the quarter, the Company made scheduled capital lease and equipment loan payments of \$0.1 million. The operating line of \$5.3 million was re-paid and a \$5.0 million non-revolving reducing committed facility was drawn. The remaining \$0.3 million was paid out of cash flow. The Company did not need to draw on its operating line during the quarter.

Purchases of property and equipment for the second quarter 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 \$0.1 million.

Working Capital

At June 30, 2010, the Company had working capital (not including current portions of long-term debt obligations) of \$14.1 million. This compares to \$14.1 million on December 31, 2009 and \$18.4 million at June 30, 2009. The decrease from June 30, 2009 is related primarily to a decrease in cash and cash equivalents as funds were used to pay down long-term debt during the second quarter of 2010.

Outlook

On a year-over-year basis, the overall business climate in which HSE operated in the second quarter of 2010 was improved over the same period in 2009. The second quarter of 2009 was characterized by steadily declining natural gas prices, shuttered processing plants, delayed or cancelled oilsands and heavy oil upgrading projects, uncertain credit markets, volatile public capital markets, Alberta’s New Royalty Framework, and high degrees of economic uncertainty. The focus of the Company in Q2 2009 was to continue to reduce internal spending in every way possible in order to offset a decline in revenue.

In the second quarter of 2010, the overall operating environment was much more favorable. Crude oil prices had been stable for a year. Some steel mills and other major resource processing facilities had re-opened. Equity capital markets had significantly recovered and debt capital markets had improved. Several new oilsands projects were announced or underway. The Company had emerged from a difficult year with lower debt levels and a strong working capital position.

But challenges remained. Customers became increasingly price-sensitive to input costs from vendors like HSE. Overcapacity created a highly 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 second quarter reflected both the opportunities presented by the recovery and the challenges that remain in several industrial sectors. 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

In Q2 2010, Industrial health and safety revenues declined compared to the same period in 2009. This was not because of a reduction in demand for the services provided by HSE but intense pricing pressure from clients looking to increase their internal profit margins or reduce expenses by spending less on health and safety. In fact, because of increased regulatory requirements and expectations by shareholders and the public that companies do whatever is necessary to protect workers, assets and the

community, total expenditures on the services HSE provides have grown in the past three decades. What HSE encountered in this particular reporting period was intense pricing pressure for safety services in the established western Canadian hydrocarbon processing industry.

Management believes the factors that caused Industrial health and safety revenues to decline in Q2 2010 are an anomaly that will be rectified by an improvement in the economy, client appreciation of quality services, and the more aggressive marketing campaign to new clients and industries that has been a key element of the 2010 strategic plan.

The oilsands and non-conventional thermal recovery market of northeast Alberta remains a stable market with a combination of growth opportunities and competitive challenges. New projects are going forward and will continue to do so for the foreseeable future. However, the growth and stability of this resource development project is attracting greater competition. Regardless, as a commitment to this market, in Q2 HSE took possession of a new service and training facility in Fort McMurray under a multi-year lease commitment. With four large and modern classrooms, HSE now has the largest and most advanced worker health and safety training facility in the oilsands region of northeast Alberta. In the latter half of Q3 and into Q4, indications from clients are increased demand in the oilsands

In the area of marketing and business development, in 2010 HSE has been more focused on clients with multiple operations in multiple regions that can be serviced by the Company's broad delivery footprint, the largest in Canada. These include oil refining, petrochemicals, food processing, industrial supplies, maintenance contractors, and national Engineering, Procurement and Construction companies. HSE is targeting this type of client because of HSE's unique combination of services diversity, capacity, and existing regional delivery capabilities. Although in some cases this is a long sales cycle, in the past year the Company has gained several new national clients in highly diverse industries for which HSE provides services in multiple geographic regions.

In terms of expanding the client base, the focus on costs is a positive development. The largest providers of worker, asset and community protection services are the asset owners and operators themselves. All major hydrocarbon processing facilities have an in-house fire department using essentially the same equipment and personnel as HSE. Most own their own breathing apparatus. Many operate on-site medical and/or first aid clinics. The recession has caused all industries to find ways to be more efficient. This includes a focus on the core mission of the client company which is not health and safety. As a result, the overall trend among clients is they are interested in investigating ways to become more efficient and profitable. This may include the outsourcing of non-core activities such as health and safety. The business development initiatives described above are intended to exploit this opportunity.

Oilfield

The Oilfield health and safety component of HSE's business is where the Company started. This industry is characterized by hazardous working conditions, remote operations, highly cyclical demand, and numerous competitors of various sizes. This market is serviced by a 100% out-sourced, mobile health and safety services sector.

The challenges facing drilling, exploration and production activity in the Western Canada Sedimentary Basin ("WCSB") in recent years in B.C., Alberta, Saskatchewan and Manitoba are well known. There has been a significant decline in every major economic input resulting in vastly reduced spending and activity in 2009 compared to all prior years in recent history.

However, in 2010 there has been the first measurable change in direction since the summer of 2008. In terms of drilling, the Canadian Association of Oilwell Drilling contractors reports that in the three-month period April 1 to June 30, 2010, there were 2,323 wells drilled in the WCSB, a 54 percent increase from 1,504 for the same period in 2009. According to CIBC World Markets in a report dated July 27, 2010, total wells licenses issued on a year-to-date basis was 41 percent higher than 2009 levels, 7,342 compared to 5,222. There were 406 active drilling rigs in the WCSB on this day, almost double the 204 rigs drilling on the same date in 2009.

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An important indicator of future activity is the permitting of Crown exploration and development rights or land sales revenue. In the WCSB, in the first half of the current fiscal year exploration and development companies had spent \$1.73 billion, the highest on record for this period except for the boom years of 2006 and 2008. In Alberta, total funds collected by the province to the July 7, 2010 land sale was about 12 times higher than the same period in 2009. This investment in future development rights by HSE's customers is a strong signal that the recovery in HSE's Oilfield health and safety services business in Q2 2010 compared to the same period last year is sustainable.

One of the most significant changes in the business has been the switch from gas to oil drilling. In the period 1992 to 2008, about 70% of all wells drilled in the WCSB had natural gas as the target. Therefore, HSE's Oilfield business has historically been oriented towards gas. Both gas and oil prices collapsed in 2008, however oil prices recovered substantially in 2009. Gas has yet to rise above multi-year lows.

Therefore, developers have switched their focus toward oil, which is currently more profitable to develop. In the first half of 2010, the CAODC reported that 2,431 oilwells had been drilled compared to only 2,612 gaswells making oil the target in about half of all wells completed as producers. In 2009 there were 3,190 oilwells drilled in the WCSB, 34% of all wells drilled.

Oilwell drilling is being driven by the application of long-reach horizontal wells completed with multi-stage fracturing to many of Alberta's mature fields and reservoirs. A great number of Alberta's oil reservoirs are responding well to this technique, with the economics enhanced by changes to the New Royalty Framework in Alberta announced in March of 2010 and finalized in May.

At HSE, we have been concerned about the appropriateness of our fire and shower assets due to the switch from gas to oil drilling. However, as more oil reservoirs are exploited, it is becoming clear that better production results if certain water-sensitive, oil-bearing zones are fractured with acid or hydrocarbons. It was hydrocarbon fracturing of the massive Pembina Cardium oilfields in the 1950s that created the mobile oilfield fire protection business. Because of this, HSE has seen the first major increase in demand for its most capital-intensive asset class since 2008.

The Company expects Oilfield activity to continue to ramp up for the remainder of 2010 and continue into 2011.

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 second quarter increased to \$0.9 million from \$0.2 million in 2009. EBITDA increased to \$0.3 million in the quarter from negative \$0.3 million in 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.

BP's Macondo blowout in the Gulf of Mexico that took place in April and has only recently been brought under control could be a harbinger of positive developments for HSE's Oilfield health and safety services in the United States. This incident has placed oil and gas developers under increased scrutiny, particularly their policies regarding worker and community protection and contingency plans should an event occur requiring emergency response.

Among western countries with significant domestic oil and gas producing industries (Canada, UK, Norway, Denmark, Holland, France, Germany), the United States industry is conspicuous by the degree to which it is self-regulated in the areas of health, safety and environmental protection. HSE and its partner, Boots & Coots, have already seen increased interest by a variety of clients in different markets about equipment and services for worker, asset and community protection.

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While the pace at which new regulations will be passed in the various states and at the federal level is unknown, progressive exploration and development companies will be ahead of the curve in demonstrating their willingness to enhance worker and community safety. Although forecasting the rate at which this will impact HSE is difficult, HSE has been adding capacity. It is clear that demand for the Company's products and services in the large U.S. market will be much greater following the BP incident than it would have been otherwise.

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. This transaction is expected to close in the summer of 2010. Some administrative services such as payroll and legal that have been performed by Boots & Coots are in the process of being transferred to HSE in preparation of the acquisition by Halliburton. However, the partnership with Boots & Coots continues and the total impact of this transaction on HSE and BCHSE is not known at the time of this writing.

Quarterly Results

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Industrial	\$11,926	\$ 11,924	\$ 12,533	\$ 14,375	\$ 15,249	\$ 12,141	\$ 15,308	\$ 16,163
Oilfield	6,424	8,983	6,557	6,169	4,317	10,260	14,597	12,039
Total Revenue	\$18,350	\$ 20,907	\$ 19,090	\$ 20,544	\$ 19,566	\$ 22,401	\$ 29,905	\$ 28,202
Net earnings (loss)	(1,235)	(208)	(2,178)	(722)	(1,928)	(1,806)	431	396
EBITDA ⁽¹⁾	(380)	1,222	496	1,016	(451)	(216)	2,713	2,858
Income (loss) per share – basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.02)	\$ (0.05)	\$ (0.05)	\$ 0.01	\$ 0.01

(1) See Non-GAAP Measures

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.

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 second quarter, the Company paid rent and property taxes of \$0.1 million (2009 – \$0.1 million) for a regional office to a corporation related to a Director of the Company.
- In the second quarter, the Company also paid rent of \$0.08 million (2009 – \$0.07 million) for a regional office to a corporation controlled by a Senior Manager of the Company.
- In the second quarter, the Company paid \$0.09 million (2009 - \$0) for supplies and commissions to a corporation related to a Director of the Company pursuant to an agreement that predates the directorship.

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.

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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 has identified the major components of each of the types of property and equipment, and assigned useful lives and residual values for all of its asset classes. The Company will complete the calculation of the opening balance sheet adjustment by the end of September 2010.

HSE has completed a review of all leased properties, vehicles and equipment to identify operating and finance leases. The Company is in the process of finalizing calculations for the opening 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 finalizing a 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 system and business process changes required. HSE has prepared a draft template for IFRS financial statements and notes. HSE is also working on the transition disclosures and supporting schedules. 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 HSE 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 including reviews and approvals by the Steering Committee, Board of Directors, and HSE's Auditors.
- Preparation of required transition disclosures and schedules.
- Preparation of January 1, 2010 IFRS balance sheet with quantification of differences.
- Completion of detailed system plan and testing started.

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. Depreciation commences when the asset is available for use where Canadian GAAP begins amortization when the asset is actually put into service. 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 cyclicalities 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 June 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Common Shares Outstanding

At August 12, 2010 and December 31, 2009 there were 37,575,675 common shares outstanding. At June 30, 2010, the Company had options outstanding to issue 2,577,497 shares at a weighted-average exercise price of \$1.34 per share. Of these options, 1,536,142 were exercisable. On April 5, 2010 an additional 715,000 stock options were granted at an exercise price of \$0.49.

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At August 12, 2010 there were 2,564,498 options outstanding at a weighted average price of \$1.35 per share. Of these options, 1,533,143 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 six months ended June 30		2010		2009
Net earnings (loss)	\$	(1,443)	\$	(3,734)
Add (deduct):				
Amortization		2,966		3,431
Stock-based compensation		128		149
Interest and bank charges		258		269
Foreign exchange loss (gain)		(6)		11
Gain (loss) on disposal of property and equipment		(605)		219
Income tax		(456)		(1,012)
EBITDA	\$	842	\$	(667)

Quarterly EBITDA Calculation

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net earnings (loss)	\$ (1,235)	\$	\$ (2,178)	\$ (722)	\$ (1,928)	\$ (1,806)	\$ 431	\$ 396
Add (deduct):								
Amortization	1,396	1,570	1,618	1,650	1,692	1,739	1,399	1,821
Impairment of property and equipment	—	—	1,641	—	—	—	—	—
Impairment of goodwill and intangible assets	—	—	—	—	—	—	—	—
Stock-based compensation	87	41	43	101	99	50	95	23
Interest and bank charges	140	118	135	140	120	149	200	288
Foreign exchange loss (gain)	(1)	(5)	(8)	(3)	12	(1)	(35)	4
Loss on disposal of property and equipment	(218)	(387)	57	35	126	93	193	129
Income taxes	(549)	93	(812)	(185)	(572)	(440)	430	197
EBITDA	\$ (380)	\$	\$ 496	\$ 1,016	\$ (451)	\$ (216)	\$ 2,713	\$ 2,858

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:

- Management believes the factors that caused Industrial health and safety revenues to decline in Q2 2010 are an anomaly that will be rectified by an improvement in the economy, client appreciation of quality services, and the more aggressive marketing campaign to new clients and industries
- The oilsands and non-conventional thermal recovery market of northeast Alberta remains a stable market with a combination of growth opportunities and competitive challenges.
- In the latter half of Q3 and into Q4, indications from clients are increased demand in the oilsands
- The recession has caused all industries to find ways to be more efficient. This includes a focus on the core mission of the client company which is not health and safety. As a result, the overall

trend among clients is they are interested in investigating ways to become more efficient and profitable. This may include the outsourcing of non-core activities such as health and safety.

- An important indicator of future activity is permitting of Crown exploration and development rights or land sales revenue.
- This investment in future development rights by HSE's customers is a strong signal that the recovery in HSE's Oilfield health and safety services business in Q2 2010 compared to the same period last year is sustainable.
- At HSE we have been concerned about the appropriateness of our fire and shower assets to the switch from gas to oil drilling. However, as more oil reservoirs are exploited, it is becoming clear that better production results if certain water-sensitive, oil-bearing zones are fractured with acid or hydrocarbons. Because of this, HSE has seen the first major increase in demand for its most capital-intensive asset class since 2008.
- The Company expects Oilfield activity to continue to ramp up for the remainder of 2010 and continue into 2011
- The Company anticipates that the positive trend in its US operations will continue in the remainder of 2010.
- BP's Macondo blowout in the Gulf of Mexico that took place in April and has only recently been brought under control and could be a harbinger of positive developments for HSE's Oilfield health and safety services in the United States.
- It is clear that demand for the Company's products and services in the large U.S. market will be much greater following the BP incident than it would have been otherwise.

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.

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.