

CONSOLIDATED BALANCE SHEETS

(stated in thousands of dollars) (unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	\$ 416	\$ 460
Accounts receivable (note 2)	16,597	16,156
Inventory	222	199
Prepaid expenses and other assets	2,042	1,654
Income taxes recoverable	699	398
	<u>19,976</u>	<u>18,867</u>
Property and equipment	25,787	28,595
Intangible assets	2,864	3,260
	<u>\$ 48,627</u>	<u>\$ 50,722</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 5,840	\$ 4,667
Income taxes payable	187	72
Current portion of obligation under capital leases	143	233
Current portion of long-term debt (note 3)	2,114	5,222
Current portion of deferred gain	137	137
	<u>8,421</u>	<u>10,331</u>
Deferred gain	216	319
Obligations under capital leases	23	122
Long-term debt (note 3)	3,291	818
Future income taxes	3,434	4,170
	<u>15,385</u>	<u>15,760</u>
SHAREHOLDERS' EQUITY		
Share capital (note 4)	60,040	60,040
Contributed surplus	4,901	4,755
Deficit	(31,610)	(29,770)
Accumulated other comprehensive loss	(89)	(63)
	<u>33,242</u>	<u>34,962</u>
	<u>\$ 48,627</u>	<u>\$ 50,722</u>
Contingencies (note 6)		
Subsequent event (note 9)		

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS

(stated in thousands of dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
REVENUE	\$ 20,349	20,544	\$ 59,606	62,511
COSTS				
Operating and materials	17,130	17,456	51,681	56,011
Selling, general and administrative	2,027	2,072	5,891	6,151
Amortization of property and equipment	1,227	1,519	3,929	4,684
Amortization of intangible assets	132	131	396	397
Stock-based compensation	26	101	154	250
Interest on long-term debt	64	121	249	355
Other interest and bank charges	10	19	84	54
Foreign exchange (gain) loss	2	(3)	(4)	8
(Gain) loss on disposal of property and equipment	213	35	(392)	254
	20,831	21,451	61,988	68,164
LOSS BEFORE INCOME TAX	(482)	(907)	(2,382)	(5,653)
Income taxes				
Current expense	502	-	187	-
Future reduction	(587)	(185)	(729)	(1,197)
	(85)	(185)	(542)	(1,197)
NET LOSS	\$ (397)	(722)	\$ (1,840)	(4,456)
Loss per share				
Basic and diluted	\$ (0.01)	(0.02)	\$ (0.05)	(0.12)
Weighted average shares outstanding				
Basic and diluted	37,576	37,576	37,576	37,576

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(stated in thousands of dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Net Loss	\$ (397)	(722)	\$ (1,840)	(4,456)
Unrealized loss on translating financial statement of self-sustaining foreign operations	(49)	(79)	(26)	(164)
Comprehensive loss	\$ (446)	(801)	\$ (1,866)	(4,620)

CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(stated in thousands of dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Deficit, beginning of period	\$ (31,213)	(26,870)	\$ (29,770)	(23,136)
Net loss	(397)	(722)	(1,840)	(4,456)
Deficit, end of period	\$ (31,610)	(27,592)	\$ (31,610)	(27,592)
Accumulated other comprehensive income (loss), beginning of period	\$ (40)	39	\$ (63)	124
Unrealized loss on translating financial statements of self-sustaining foreign operations	(49)	(79)	(26)	(164)
Accumulated other comprehensive loss, end of period	\$ (89)	(40)	\$ (89)	(40)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(stated in thousands of dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash provided by Operations				
Net loss	\$ (397)	(722)	\$ (1,840)	(4,456)
Charges to income not involving cash:				
Amortization	1,359	1,650	4,325	5,081
Stock-based compensation	26	101	154	250
Future income tax reduction	(587)	(185)	(729)	(1,197)
(Gain) loss on disposal of property and equipment	213	35	(392)	254
Change in non-cash working capital (note 8)	(313)	(1,215)	127	5,662
Cash provided by (used in) operations	301	(336)	1,645	5,594
Financing				
Repayment of obligations under capital leases	(46)	(206)	(189)	(875)
Non-revolving term loan facility	-	-	5,000	-
Repayment of long-term debt	(326)	2	(5,659)	(102)
Amortization of deferred financing fees	5	-	24	-
Cash used in financing activities	(367)	(204)	(824)	(977)
Investing				
Purchase of property and equipment	(422)	(483)	(1,459)	(1,384)
Proceeds from disposal of property and equipment	24	88	598	609
Cash used in investing activities	(398)	(395)	(861)	(775)
Cash flow from operating, financing and investing activities	(464)	(935)	(40)	3,842
Effect of exchange rate on foreign currency held	(3)	(6)	(4)	26
Net change in cash and cash equivalents	(467)	(941)	(44)	3,868
Cash and cash equivalents, beginning of period	883	5,923	460	1,114
Cash and cash equivalents, end of period	\$ 416	4,982	\$ 416	4,982

See accompanying notes to the consolidated financial statements.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2010 and 2009

(stated in thousands of dollars) (unaudited)

NOTE 1 – BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of HSE Integrated Ltd. (“HSE” or “the Corporation”) have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Corporation for the year ended December 31, 2009. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements and certain disclosures which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the Corporation for the year ended December 31, 2009.

These unaudited interim consolidated financial statements include the accounts of the Corporation and its subsidiaries which, with the exception of Boots & Coots HSE Services LLC (note 7), are wholly owned. Unless otherwise specified all amounts are stated in thousands of Canadian dollars except for per-share amounts, which are stated in dollars per weighted-average share.

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

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

NOTE 2 – FINANCIAL RISK MANAGEMENT

Overview

The Corporation is exposed to the following risks from its financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation’s risk-management framework. The Corporation’s Audit Committee oversees how management monitors compliance with the Corporation’s risk-management practices and reviews the adequacy of the risk-management framework in relation to the risks faced by the Corporation. The Corporation’s risk-management practices are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation’s receivables from customers.

The Corporation’s accounts receivable are due from customers in a variety of industries including a significant proportion with customers operating in the energy and manufacturing industries. The ability of customers within the energy industry to pay us is partially affected by fluctuations in the price they receive for various hydrocarbon products. The maximum credit exposure associated with trade accounts receivable is the carrying value.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2010 and 2009

(stated in thousands of dollars) (unaudited)

NOTE 2 – FINANCIAL RISK MANAGEMENT (CONTINUED)

The Corporation follows a credit policy under which the Corporation reviews each new customer individually for credit worthiness before the Corporation's standard payment and delivery terms and conditions are offered. The Corporation's review includes external ratings, where available, and trade references. Customers that fail to meet the Corporation's credit worthiness criteria may transact with the Corporation only on a prepayment basis. On an ongoing basis, the Corporation also reviews the payment patterns of its existing customers and the customers' continued credit worthiness.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Corporation's best estimate of the amount of probable credit losses in the Corporation's existing accounts receivable. The Corporation determines the allowance by reviewing individual accounts past due for collectability, historical write-off experience, and overall account aging. The Corporation reviews its allowance for doubtful accounts on an ongoing basis, but at least monthly.

	September 30, 2010	December 31, 2009
Trade accounts receivable	\$ 17,827	\$ 17,416
Allowance for doubtful accounts	(1,230)	(1,260)
Total trade accounts receivable	\$ 16,597	\$ 16,156

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

	September 30, 2010		December 31, 2009	
	Gross	Allowance	Gross	Allowance
Past due:				
0 – 30 days (current)	\$ 11,083	\$ –	\$ 7,938	\$ –
31 – 60 days	4,027	–	5,135	3
61 – 120 days	1,853	366	3,433	347
More than 120 days	864	864	910	910
Total	\$ 17,827	\$ 1,230	\$ 17,416	\$ 1,260

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

	2010	2009
Balance, June 30	\$ 1,241	\$ 1,210
Bad-debt provision	–	49
Write-offs net of recoveries	(11)	(3)
Balance, September 30	\$ 1,230	\$ 1,256

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation requires liquidity to meet financial obligations as they come due and to fund our investing activities.

The Corporation's contractual financial liabilities include interest payments, trade and other payables, income taxes payable, a revolving operating line of credit margined to accounts receivable and property and equipment and capital leases for equipment (note 3).

The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions, without unacceptable losses or risking damage to the Corporation's reputation. The Corporation generally relies on operating cash flow to provide liquidity to meet its financial obligations. As well, the Corporation had access to undrawn operating lines of credit of \$10.0 million and cash on hand of \$0.4 million at September 30, 2010.

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2010 and 2009

(stated in thousands of dollars) (unaudited)

NOTE 2 – FINANCIAL RISK MANAGEMENT (CONTINUED)**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income.

HSE is exposed to currency risk on U.S.-dollar denominated financial assets and liabilities. The Corporation adjusts the reported amounts of foreign-currency denominated financial assets and liabilities to their Canadian-dollar equivalent at each balance sheet date. For amounts held directly by the Corporation, any related foreign exchange gains and/or losses are recognized in the consolidated statement of earnings. For amounts held by the Corporation's self-sustaining foreign operations, the amount is included in other comprehensive income. At September 30, 2010, the extent of this exposure was not material.

HSE is exposed to interest rate risk on its prime-based revolving operating facility and term facility. Based on amounts outstanding at September 30, 2010, a 1% increase in the average prime interest rate for the year would cost the Corporation \$47 annually in additional interest expense.

NOTE 3 – OPERATING FACILITIES AND LONG-TERM DEBT

On April 27, 2010 the Corporation entered into a \$15,000 credit facility with a regional financial institution. The facility consists of a \$10,000 operating revolving loan facility for general operating purposes and a \$5,000 non-revolving reducing loan facility. The two facilities were used to retire the \$5,300 in previously existing bank debt.

The \$5,000 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 fixed charge coverage ratio and other positive and negative covenants. The facilities are collateralized under a general security agreement which includes accounts receivable and property and equipment.

As at June 30, 2010, the Corporation was in default of the fixed charge coverage covenant. The default was remedied with a covenant waiver received August 4, 2010 prior to the release of the June 30, 2010 financial statements. The financial institution waived the covenant for the periods June 30, September 30 and December 31, 2010 conditional upon the Corporation being compliant with all covenants on March 31, 2011. The fixed charge coverage covenant ratio is the ratio of earnings before interest, taxes, depreciation and amortization less capital expenditures to interest and principal repayments. As at September 30, 2010, the total outstanding on the loan facility was \$4,674 of which \$1,304 was classified as current.

Deferred financing costs associated with the financing facilities have been shown as a reduction in the carrying value of the long-term debt and are being expensed over the term of the debt based on the effective interest rate method.

	September 30 2010	December 31 2009
Equipment financing contracts	\$ -	\$ 33
Non-revolving term loan facility	4,674	5,300
	4,674	5,333
Accrued consideration on share-purchase acquisition	810	810
	5,484	6,143
Less unamortized debt-issue costs	(79)	(103)
Less current portion	(2,114)	(5,222)
	\$ 3,291	\$ 818

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements
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NOTE 3– OPERATING FACILITIES AND LONG-TERM DEBT (CONTINUED)

Outstanding principal repayments are due as follows:

Years ended September 30	
2011	\$ 2,114
2012	1,304
2013	1,304
2014	762
	<u>5,484</u>
Less: current portion and unamortized debt-issue costs	(2,193)
	<u>\$ 3,291</u>

NOTE 4 – SHARE CAPITAL AND STOCK-BASED COMPENSATION PLANS

At September 30, 2010 there were 37,575,675 common shares of the Corporation outstanding (December 31, 2009 – 37,575,675).

At September 30, 2010, the Corporation had options outstanding to issue 2,242,000 shares (December 31, 2009 – 2,375,333) at a weighted average price of \$1.32 per share (December 31, 2009 – \$1.56). Of these options, 1,233,979 were exercisable (December 31, 2009 – 1,360,315).

Deferred share unit plan

For the 2010 and 2009 years, the majority of directors' retainers and meeting fees are being paid with deferred share units (DSU's). The total DSU's outstanding at September 30, 2010 were 302,406. The units are re-valued quarterly and any change in value is included as an increase or decrease in stock based compensation expense and accrued liabilities. The expense reduction resulting from a decrease in market price of the Corporation's common shares for the quarter ended September 30, 2010 was \$25 (quarter ended September 30, 2009 - \$63). During the third quarter, 61,216 DSU's were redeemed at \$0.33 upon retirement of a Director.

NOTE 5 – RELATED-PARTY TRANSACTIONS

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

- In the third quarter, the Corporation paid rent of \$57 (2009 – \$57) for a regional office to a corporation related to a Director of the Corporation.
- In the third quarter, the Corporation also paid rent of \$74 (2009 – \$74) for a regional office to a corporation controlled by a Senior Manager of the Corporation.
- In the third quarter, the Corporation paid \$88 (2009 - \$0) for supplies and commissions to a corporation related to a Director of the Corporation pursuant to the terms of an agreement that pre-dates the directorship.

NOTE 6 – CONTINGENCIES

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with customers, suppliers, former employees, and third parties. Management believes that adequate provisions have been recorded in the accounts where applicable. Although it may not be possible to estimate accurately the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material effect on the financial position of the Corporation.

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Notes to the Consolidated Financial Statements

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NOTE 7 – SEGMENT INFORMATION

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

Within each geographic segment, the Corporation uses common resources to provide services to a variety of customer industries. The Corporation groups these customer industries into two categories. "Oilfield" services are provided to customers in the conventional upstream, or "wellhead", sector of the oil and gas industry. "Industrial" services are provided to customers in a variety of other industries including: non-conventional upstream oil development and production (including oilsands extraction); oil and gas processing; petrochemicals; pulp and paper; utilities; power generation; and manufacturing. It also includes worker safety training and safety management services.

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

During the quarter ended September 30, 2010, the Corporation had one customer which contributed 13.8% of revenue for the quarter (9.6% year-to-date). The work is a combination of ongoing projects and revenue from a significant plant shutdown that commenced in September 2010. For the comparative period, the Corporation had two customers which contributed significant revenue. One customer contributed 9.2% of the revenue for the quarter (10.6% year-to-date). The other customer contributed 12.7% of the revenue for the quarter (9.1% year-to-date). Revenue from both customers related to ongoing long-term contracts.

On May 7, 2008, a new corporation called Boots & Coots HSE Services LLC ("BCHSE") was incorporated to pursue the expansion of Oilfield safety services in the continental United States. The Corporation owns 100% of the shares of HSE Integrated Inc. ("INC") a Delaware corporation that in turn owns a 90% interest in BCHSE, a Delaware Limited Liability Company. Boots & Coots Services, Inc. owns the remaining 10% interest. A non-controlling interest has not been recorded as BCHSE has incurred losses to date.

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Notes to the Consolidated Financial Statements

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(stated in thousands of dollars) (unaudited)

NOTE 7 – SEGMENT INFORMATION (CONTINUED)

	Three months ended September 30							
	Canada		U.S.		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue								
Oilfield	8,582	6,023	383	146	-	-	8,965	6,169
Industrial	10,849	14,006	535	369	-	-	11,384	14,375
Total revenue	19,431	20,029	918	515	-	-	20,349	20,544
Operating income (loss) ⁽¹⁾	2,928	3,181	291	(93)	(2,027)	(2,072)	1,192	1,016
Interest expense	-	-	-	-	74	140	74	140
Amortization of property and equipment and intangibles	1,331	1,627	28	23	-	-	1,359	1,650
Property and equipment	24,301	30,651	1,486	1,101	-	-	25,787	31,752
Intangibles	2,864	3,391	-	-	-	-	2,864	3,391
Capital expenditures ⁽²⁾	150	476	271	6	-	-	421	482

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

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

	Nine months ended September 30							
	Canada		U.S.		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenue								
Oilfield	23,402	20,491	969	255	-	-	24,371	20,746
Industrial	33,800	41,004	1,435	761	-	-	35,235	41,765
Total revenue	57,202	61,495	2,404	1,016	-	-	59,606	62,511
Operating income (loss) ⁽¹⁾	7,324	7,206	602	(706)	(5,892)	(6,151)	2,034	349
Interest expense	-	-	-	-	333	409	333	409
Amortization of property and equipment and intangibles	4,249	5,014	76	67	-	-	4,325	5,081
Property and equipment	24,301	30,651	1,486	1,101	-	-	25,787	31,752
Intangibles	2,864	3,391	-	-	-	-	2,864	3,391
Capital expenditures ^{(2),(3)}	924	1,092	535	292	-	-	1,459	1,384

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

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

(3) \$197 in property and equipment was transferred from Canada to the U.S. year-to-date September 30, 2009

HSE Integrated Ltd.

Notes to the Consolidated Financial Statements

For the three and nine month periods ended September 30, 2010 and 2009

(stated in thousands of dollars) (unaudited)

NOTE 8 – SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Changes in non-cash working capital from operations:				
Accounts receivable	\$ (586)	(675)	\$ (450)	8,409
Inventory	(4)	48	(22)	29
Prepaid expenses and other assets	(614)	(723)	(391)	(171)
Accounts payable and accrued liabilities	389	136	1,173	(2,842)
Income tax payable (recoverable)	502	(1)	(183)	237
Net change	\$ (313)	(1,215)	\$ 127	5,662

NOTE 9 – SUBSEQUENT EVENT

On November 9, 2010, subject to finalization of the trust indenture, the Corporation's Board of Directors approved the issue of up to \$2.0 million in subordinated secured convertible debentures. The debentures will have a coupon rate of 10%, a term of 3 years and are convertible into common shares of the Corporation at a conversion rate tied to the market price of the Corporation's shares.