

Management Discussion and Analysis (“MD&A”) For the 3 month period ended March 31, 2011 and 2010

The following Management discussion and analysis is dated May 16, 2011 and is a review of the financial results of HSE Integrated Ltd. (“HSE”, “We”, “Our”, or the “Corporation”) for the 3 months ended March 31, 2011 and 2010. 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 International Financial Reporting Standard 1, (“IFRS”) *First-time Adoption of International Financial Reporting Standards* and with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board, and takes into consideration information available to Management up to May 16, 2011. Previously, the Corporation prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“GAAP”). Unless otherwise stated, tabular amounts 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. Please refer to the end of the MD&A for the disclaimer on forward-looking statements.

SELECTED FINANCIAL INFORMATION

	Quarter ended March 31, 2011	Quarter ended March 31, 2010 ⁽²⁾	Year-over-year % change
Revenue	\$ 24,481	\$ 20,907	17.1%
Operating and materials	19,948	16,982	17.5%
Operating margin	4,533	3,925	15.5%
Operating margin %	18.5%	18.8%	
Selling, general and administrative	2,047	1,959	4.5%
Net earnings	507	124	308.9%
Per-share basic	0.01	0.00	
Per-share diluted	0.01	0.00	
EBITDA ⁽¹⁾	\$ 2,486	\$ 1,966	26.4%
EBITDA %	10.2%	9.4%	
Total assets	\$ 51,319	\$ 50,680	1.3%
Total long-term liabilities	\$ 9,228	\$ 10,900	(15.3)%

⁽¹⁾ See non-GAAP Measures

⁽²⁾ IFRS transition date was January 1, 2010; 2010 financial results have been adjusted to conform to IFRS

FINANCIAL REVIEW

Overview

HSE operates in two geographic segments – Canada and the United States – providing health and safety services to industry and the public sector. The Corporation offers a package of integrated asset, worker and community health and safety protection services 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; worker shower (decontamination) services; onsite medical services; first aid; emergency medical response; worker safety training; industrial hygiene services; and safety consulting and supervision.

Total revenue for the quarter increased 17.1% to \$24,481 from \$20,907 in 2010. The operating margin was \$4,533 or 18.5% of revenues, up 15.5% from \$3,925 or 18.8% of revenues in 2010. Selling, general and administrative expense (“SG&A”) increased slightly to \$2,047 from \$1,959 in the prior year. As a percentage of revenue, SG&A decreased from 9.4% of revenue in fiscal 2010 to 8.4% in 2011. HSE reported earnings of \$507 or \$0.01 per share for the first quarter of 2011 compared to earnings of \$124 or \$0.00 per share for the same period in 2010. EBITDA – Earnings before interest, taxes, depreciation and amortization (see “Non-GAAP Measures” page 17) for the period was \$2,486 or 10.2% of revenue in 2011, a 26.4% increase from \$1,966 or 9.4% of revenue in 2010.

Revenue

The Corporation provides health and safety services to customers in two distinct client classifications: Industrial and Oilfield. The differentiation takes place primarily because of the industries served and activity drivers that affect demand.

Industrial health and safety services are those provided to multiple industries and the public sector and include a wide range of clients including manufacturing, processing and other facilities that operate continuously on a year-round basis. The customers operate in diverse 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 manufacturing industries. Industrial also includes worker safety training and safety supervision and consulting services. Industrial health and safety services are in most cases delivered to permanent production, manufacturing, processing facilities or other operations that operate continuously.

Oilfield operations are associated exclusively with conventional upstream oil and gas activity, which is often short-term, remote, mobile and temporary because they are related to interruptible exploration, drilling, completion and workover activities. Demand for Oilfield health and safety services is historically highly cyclical due to external factors such as commodity prices, currency exchange, capital markets, weather, and government policy. Even if other factors are stable, demand for Oilfield health and safety services is highly seasonal in Canada because field activity is greatly affected by weather and road access.

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

The revenue for these business areas is shown below:

	Quarter ended March 31, 2011	Quarter ended March 31, 2010	Year-over- year % change
Industrial	\$ 12,557	\$ 11,924	5.3%
Oilfield	11,924	8,983	32.7%
Total Revenue	\$ 24,481	\$ 20,907	17.1%
As a percentage of revenue:			
Industrial	51.3%	57.0%	
Oilfield	48.7%	43.0%	
Total Revenue	100.0%	100.0%	

For the three months ended March 31, 2011, two customers each provided more than 10.0% of the Corporation's revenue. Sales to these customers amounted to \$7,235 during the period related to ongoing long-term energy related projects located entirely in Canada. For the three months ended March 31, 2010, one customer provided more than 10.0% of the Corporation's revenue. Sales to this customer amounted to \$2,314 during the period.

Industrial

The Industrial health and safety services component of the Corporation's total revenue increased in the first quarter of 2011. This was due to a general recovery in the economy in several markets in which HSE operates including oilsands, Ontario and Atlantic Canada. A particularly strong market was oil-related activities in Alberta including oilsands mining and processing and in-situ heavy oil recovery.

Due to the factors cited above, Industrial revenue rose \$633 (5.3%) to \$12,557 in 2011 from \$11,924 in the prior year. Industrial health and safety services comprised 51.3% of total revenues, down from 57.0% in 2010. This reduction as a percentage of total revenue took place because of the growth in Oilfield revenues.

Oilfield

Oilfield revenue in the first quarter increased by 32.7% in 2011 compared to 2010, the first year-over-year revenue increase for this business sector in the first quarter since 2006. This year-over-year increase in the conventional upstream, or “wellhead”, sector of the oil and gas industry, took place in the Western Canadian Sedimentary Basin and the southern United States. The factors behind this recovery include rising oil prices, improved development economics in Alberta due to a revised royalty regime, increased well stimulation (hydraulic fracturing) activities requiring worker and asset protection, increased capacity and market penetration in the United States, and a trend towards deeper wells requiring more drilling days. This increased the number of days on which medical services may be required, or the likelihood that sour gas may be encountered (whether or not the target reservoir is sour), requiring breathing air and gas detection services.

The major year-over-year increase took place in Canada. According to figures provided by the Canadian Association of Oilwell Drilling Contractors (“CAODC”), in the first quarter of 2011 there was a 36% increase in total wells drilled, from 3,133 in Q1 2010 to 4,276 for the same period in 2011. Because of strong oil prices but low gas prices, there was a 62% increase in oil wells drilled from 1,355 last year to 2,201 in 2011 with 51% of the wells having oil as the target compared to 43% a year ago. While gas drilling in the first quarter increased 11% from 1,490 wells in 2010 to 1,660 in 2011, as a percentage of total drilling gas wells declined from 48% to 39%. Much of the oil drilling took place in water-sensitive zones or carbonate reservoirs that are fractured using hydrocarbon-based fluids or large volumes of acid. These operations require mobile fire protection or shower protection which are core HSE businesses. Of the wells classified as having natural gas as the target, an increasing percentage are being drilled in reservoirs that contain associated natural gas liquids which have a higher commercial value than methane. No figures on the percentage of gas wells that were drilled because they are liquids-rich are available.

In the United States, Boots & Coots HSE Services LLC (“BCHSE”), the Corporation’s venture with Boots & Coots Services, a division of Halliburton, contributed \$534 to revenue in 2011 compared to \$189 in the same period of 2010. This is due to increased capacity and customer demand. BCHSE continues to gain customer acceptance as a capable provider of worker and asset protection services in the U.S.

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 first quarter increased to \$19,948 or 81.5% of revenue compared to \$16,982 or 81.2% of revenue in the prior year. Operating margin for the period increased to \$4,533 (18.5% of revenue) in 2011 from \$3,925 (18.8 % of revenue) in 2010.

Based on historical performance and field operating margins, the Corporation would have generated a greater increase in operating margin except for a significant year-over-year increase in the cost of fuel for HSE’s vehicle fleet of approximately \$330 caused by significantly higher oil prices. Sales and operations have taken measures to recover as much of this operating cost increase as possible going forward through fuel surcharges.

The Corporation continues to seek improvement in the profitability through rigorous expense control and the development of operating tools and procedures to assist sales and operations in delivering services to clients more efficiently.

The provision for doubtful accounts receivable was \$1,099 (5.2% of trade accounts receivable) at the end of the quarter compared to \$1,100 or 5.7% of trade accounts receivable at December 31, 2010.

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 public company costs.

SG&A for the quarter totaled \$2,047 (8.4% of revenue), increased slightly from \$1,959 (9.4% of revenue) in the prior year. This is related to costs associated with increased business, primarily sales and marketing and associated travel expenses.

EBITDA and Net Earnings

EBITDA (see “Non-GAAP Measures”) in the quarter increased 26.4% to \$2,486 from \$1,966 in 2010. The EBITDA increase was due to several factors including increased revenue.

Total amortization for the quarter was \$1,341, down from \$1,692 in 2010. Property and equipment amortization decreased to \$1,238 in 2011 compared to \$1,589 in the same quarter in the prior year. This reduction took place despite HSE undertaking a more aggressive capital expansion program in 2011 than in the prior year. Amortization of intangible assets was constant at \$103 in 2011 and 2010.

Stock-based compensation for the quarter was \$71 (2010 – \$57). Deferred share unit (“DSU”) expense for the quarter was \$27 (2010 - \$(6)), due to most directors taking their fees in the form of DSUs offset by the redemption of DSUs by directors retiring from the Board.

Finance costs for the quarter totaled \$217 (2010 - \$195). Debt declined slightly in 2011 as scheduled principal debt payments totaling \$326 were made in the first quarter. Offsetting this, interest rates on the Corporation’s variable-rate bank debt increased year over year due to increases in prime lending rates and to a higher adjustment to prime under the Corporation’s debt facility entered into in April 2010

Net earnings for the quarter were \$507 or \$0.01 per share versus \$124 or \$0.00 per share in 2010. The year-over-year increase was due to improvements in revenue, increased EBITDA, and reduced amortization charges.

Current Quarter versus Q4 2010

Revenue for the first quarter increased 9.2% to \$24,481 from \$22,422 in the previous quarter. Oilfield health and safety revenue increased because of seasonal demand increases that take place every year during the winter months. During these months, there is improved access because of frozen ground resulting in lower mobilization and demobilization costs in remote areas without year-round roads. Industrial revenue increased marginally from \$12,040 in the previous quarter to \$12,557.

Operating expenses increased by \$2,029 from \$17,919 (79.9% of revenue) to \$19,948 (81.5% of revenue). This is primarily due to an increase in personnel costs related to increased activity because field service wages are for the most part directly related to revenue and increased fuel costs caused by higher oil prices.

SG&A increased slightly from \$2,044 in the previous quarter to \$2,047 in the current quarter. Reductions in professional fees were offset by increases in sales and marketing.

For comparison purposes, Q4 2010 financial results have been adjusted to conform with IFRS.

Liquidity and Capital Resources

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

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

Years ended December 31	2011	2012	2013	2014	2015	There- after	Total
Capital lease obligations	\$ 1,844	\$ 1,281	\$ 323	\$ 66	\$ 15	\$ –	\$ 3,529
Rental facilities & equipment	2,578	3,134	2,697	2,285	1,793	3,605	16,092
Long-term debt ⁽¹⁾	978	1,304	1,304	436	–	–	4,022
Total contractual obligations	\$ 5,400	\$ 5,719	\$ 4,324	\$ 2,787	\$ 1,808	\$ 3,605	\$ 23,643

⁽¹⁾ Principal portion only

Liquidity

At March 31, 2011, the Corporation had cash on hand of \$511.

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 revolving operating loan facility for general operating purposes and a \$5,000 non-revolving reducing loan facility.

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 that includes accounts receivable and property and equipment.

On May 13, 2011, the Corporation signed a revised credit facility which reflected the effects of the conversion to IFRS. The Corporation complied with all covenants under the credit facility at March 31, 2011.

At March 31, 2011 the total outstanding on the term-loan facility was \$4,022, of which \$1,304 was current. During the quarter the Corporation made scheduled principal long-term debt payments of \$326 and capital lease payments of \$694.

On November 9, 2010 HSE announced the issue of up to \$2,000 in Subordinated Secured Convertible Debentures (the "Debentures"). The Debentures mature on January 15, 2014 and bear interest at 10.0% per annum, payable quarterly in arrears on April 15, July 15, October 15 and January 15 in each year beginning April 15, 2011.

On December 21, 2010, HSE completed the first closing with total proceeds of \$1,925. On January 18, 2011, HSE completed the final closing with proceeds of an additional \$75. The proceeds of the offering will be used to fund part of the Corporation's 2011 capital program.

The Debentures consist of both debt and equity components that are presented separately in the Corporation's consolidated balance sheet. The debt component is measured by calculating the present value of both the quarterly interest obligations and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. The residual portion of the Debenture proceeds is allocated to equity. As a result, the debt component of the Debentures is less than the principal amount that would be paid at maturity, assuming no conversion occurs. The discount to face value of the debt component presented on the consolidated balance sheet will be accreted using the effective-interest method over the term of Debenture.

The equity component represents the difference between the face value of the Debentures (\$2,000) and the accounting value assigned to the debt component of the Debentures at the date of issue as described above. This equity component amount will remain constant over the term of the Debentures unless a conversion occurs. If Debentures are converted into common shares, a proportionate amount of both the debt and equity components will be transferred to share capital. Interest and accretion expense on the Debentures is included within finance costs in the consolidated statements of earnings.

Debentures of \$375 were purchased by related parties including directors, family of directors and officers of HSE.

Provision for Conversion

The Debentures are convertible at the holder's option into common shares ("Shares") of the Corporation at a conversion price of \$0.50 per Share (the "Conversion Price") at any time prior to the close of business on the earlier of the business day prior to the maturity date and the business day immediately preceding the date fixed for redemption of the Debentures, subject to adjustments in certain events including dividend protection for the declaration of dividends outside of the normal course. Holders converting their Debentures will receive accrued and unpaid interest thereon to the date of conversion. The ability to convert the Debentures would cease immediately prior to a "Change of Control" as defined in the offering document. In the event Debentures are converted prior to maturity, the difference between the carrying amount of such Debentures and their face value would be charged to finance costs.

Provision for Redemption

The Debentures will not be redeemable before January 15, 2012 except in the event of the satisfaction of certain conditions after a Change of Control has occurred. On and after January 15, 2012 and prior to January 15, 2013, provided that the current market price (as calculated pursuant to the indenture) of the Shares is at least 133% of the conversion price, the Debentures may be redeemed at the option of the Corporation in whole or in part from time to time at a redemption price equal to their principal amount plus accrued and unpaid interest thereon up to (but excluding) the redemption date. On and after January 15, 2013 and prior to the maturity date, the Debentures may be redeemed at the option of the Corporation in whole or in part from time to time at a redemption price equal to 105% of their principal amount plus accrued and unpaid interest thereon up to (but excluding) the redemption date. If HSE wishes to redeem any Debentures, it must provide not more than 60 or fewer than 40 days prior notice of redemption.

Notwithstanding the foregoing, in the event of a Change of Control, the Debentures will be redeemable at the Corporation's option, in whole or in part, at a price equal to 125% of the principal amount thereof plus accrued and unpaid interest for the first two years; thereafter, this amount will decline by 1.5% per month.

Cash Provided by Operations

Cash provided by operations in the quarter was \$1,249 in 2011 compared to \$410 for the same period in 2010. Improved revenue levels during the year resulted in higher operating cash flow before considering changes in working capital. As well, changes in non-cash working capital improved, driven primarily by improved receivables levels when compared to revenue.

Days-sales-outstanding (“DSO”) improved to 74 days for the quarter and December 31, 2010 compared to 78 days at the end of the same quarter in 2010 due to improved field ticket and invoice flow and credit and collection procedures.

Cash Provided by (Used in) Financing and Investing

As described above, on April 27, 2010 the Corporation entered into a new \$15,000 credit facility with a regional lender. During the quarter, the Corporation made payments totaling \$326 against this facility. As well, the Corporation issued convertible debentures for proceeds of \$75.

During the quarter the Corporation made scheduled debt reductions of \$694 towards capital leases.

Purchases of property and equipment for the quarter amounted to \$1,226, the majority of which was revenue-generating health safety services rental equipment. Proceeds from the disposal of property and equipment were \$38.

Working Capital

At March 31, 2011, the Corporation had working capital of \$12,031. This compares to \$9,997 in the same quarter 2010.

Acquisition

On January 24, 2011 the Corporation acquired all of the outstanding common shares of Taylored Safety Services Inc. (“Taylored”) with the issue of 1,137,532 shares at a price of \$0.54. Taylored provides safety consulting and industrial health services, and training to industry and is headquartered in Halifax, Nova Scotia.

Outlook

With the first quarter of the 2011 fiscal year completed, the outlook for the rest of 2011 and beyond is positive. The Corporation is generally optimistic for the following reasons:

- The price of oil rose again in the first quarter above the \$100 a barrel level for the first time since 2008. This was primarily due to the supply disruptions caused by conflicts in the Middle East and northern Africa. Despite increased volatility in commodity markets, with no resolution to these conflicts on the horizon, more analysts believe the price of oil will stay in the \$100 a barrel range for the remainder of the year. This has a major positive impact on HSE’s business in several markets.
- The federal election held on May 2, 2011 resulted in a majority government. This is a favorable development for HSE and its clients because of the government’s positions on carbon taxes, oilsands developments, and reluctance to implement environmental protection policies that are not in line with those in the U.S. and other countries. It is anticipated that this will yield stable fiscal, environmental and energy policies at the federal level for at least the next four years.
- Most of HSE’s larger clients, particularly those in crude oil-related enterprises, have resumed long-term investments and spending plans. The Corporation is seeing improved “visibility” as clients share their long-term plans with our sales and operations personnel.

However, challenges remain. Factors that will impact HSE negatively are summarized as follows:

- Rising fuel costs caused by a sharp increase in the price of oil squeezed operating margins in the first quarter. Although the Corporation is taking steps to recover some of these costs through fuel surcharges, it is not always possible to pass these costs through to larger clients under certain master service agreements.
- The overall upturn in activity in Alberta in particular is tightening labor markets, which puts continual pressure on manpower costs and availability. As a national company, HSE has the ability to bring workers from other parts of Canada which provides a competitive advantage. However, the medium and long-term outlook for the labor market in western Canada is not positive for employers because of an aging workforce and changing worker demographics.
- Natural gas prices remain depressed with little likelihood of natural gas returning to a historic 6:1 BTU equivalent parity with crude oil prices. Historically, much of the demand for HSE's Oilfield services suite has been for natural gas, particularly toxic hydrogen sulphide gas.

Industrial

The industries, companies and markets the Corporation services through its Industrial health and safety services package are showing generally positive signs of recovery. Crude oil-related businesses such as oilsands and in-situ heavy oil development are very active, as are facilities that process oil and bitumen such as refineries, petrochemical plants and upgraders. In some markets like northeast Alberta there are significant capital expenditures planned for the next few years. In other more mature markets normal shutdown, turnaround and maintenance activities have resumed. Last year some petrochemical operators used in-house personnel for safety work as a cost-cutting measure. Most of those clients are resuming their normal spending patterns in this area and are contracting third-party safety experts such as HSE. All of these events will continue to have a positive impact on the Corporation's revenues and operating margins.

One major project that was not planned took place in Q1 that will have a positive financial impact on the second and third quarters of the current fiscal year. It involves a major hydrocarbon processing facility that requires rebuilding. Drawing upon resources from across the country, HSE was able to assemble a large and qualified safety crew in a relatively short period of time despite a very tight local manpower market. This project is a good example of the capabilities of a large, national, health and safety services company.

In the first quarter of 2011 HSE expanded into the new business area of safety supervision and consulting services, whereby the Corporation will provide expert safety supervisors to projects on a contract basis. While HSE has done some work in this area in the past, the Corporation formalized its expansion into this business with the January 2011 acquisition of Taylored. Having clients seek contract safety supervisors is an extension of two trends: outsourcing of safety expertise to an expert third party; and a growing emphasis on quality safety supervision for all types of safety-intensive operations. Taylored provides HSE with domain expertise in safety consulting by formalizing the requirements for qualified safety personnel, creates a database of safety consultants available on a project basis, and formalizes an internal career path for HSE personnel that wish to apply their training and job experience to more lucrative and rewarding careers.

Oilfield

After nearly three years of significant changes, the Oilfield health and safety services market in the Western Canadian Sedimentary Basin ("WCSB") has stabilized to a certain level of predictability, with predictability defined as clients finding profitable reserves of oil and liquids-rich natural gas to develop and making longer term plans to do so.

The market has changed significantly since 2008. According to figures supplied by the CAODC, the Petroleum Services Association of Canada ("PSAC") and Macquarie Financial ("Macquarie"), in 2008 there were 16,844 wells drilled of which 12,326 or 73% were for natural gas. The drilling rigs worked 134,816 operating days and the average well depth was 1,602 metres. Only 37% or 6,214 wells had oil as the target. Much of the Oilfield health and safety business that has emerged in Canada in the past 30 years has been focused on natural gas, particularly toxic hydrogen sulphide gas which is common in certain parts of the WCSB.

For 2011 estimates from PSAC and Macquarie are that the industry will drill 13,400 wells of which 8,576 or 64% will be for oil and only 3,752 or 28% will be for gas. However, the drilling rigs will operate 139,000 days with the average well depth increasing to 1,741 metres. Macquarie's estimates for 2012 are an increase to 14,000 wells and 146,000 operating days with the average well depth increasing to 1,758 metres.

This change to drilling fewer, deeper wells with oil as the target instead of gas has changed demand for HSE's Oilfield health and safety services. The total number of rig operating days is good for the medical services business because for 2011 and 2012, the total

number of rig operating days is expected to be greater than in 2008. However, the demand for breathing air and critical sour well safety services has been reduced significantly from prior year.

As mentioned previously, the demand for mobile fire and shower services has strengthened because of the method in which many of these oilwells are completed using large volumes of flammable hydrocarbon frac fluids or abrasive hydrochloric acid.

The outlook for natural gas remains challenged. While some gas reservoirs contain more valuable natural gas liquids and are therefore being developed, reservoirs that contain hydrogen sulphide gas are suffering from squeezed economics due to the higher operating and processing costs associated with hydrogen sulphide which requires special handling and must be removed prior to the gas entering the sales pipeline.

Nevertheless, the outlook for HSE's Oilfield health and safety services is the best it has been since early 2008.

United States

HSE has reported segmented financial information for its two U.S. operations: CRS Technologies Inc. ("CRS"), 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 with a stand-alone regional BCHSE service location in Midland, Texas and through other Boots & Coots service locations in the region. In the first quarter of the current fiscal year revenues were \$1,052, an increase of 66.7% from \$598 in Q1 of the prior year. The most significant percentage increase came from BCHSE.

In 2008 HSE entered into a partnership with Boots & Coots Services, a division of Halliburton, to supply Oilfield health and safety services to upstream oil and gas clients in the continental United States. In early 2009, HSE's new BCHSE business unit began operations in West Texas. BCHSE struggled through 2009 as it tried to introduce a new service to a shrinking market. However, the long-term opportunity remained positive, so HSE stayed with the investment. In the second quarter of 2010 BCHSE turned cash-flow positive, a trend that continued through the rest of the year.

In the second quarter of 2010 the Macondo blowout in the Gulf of Mexico occurred. This was a major disaster for the U.S. upstream oil and gas industry, and caused E&P company clients to re-examine their procedures to ensure that they were operating in a safe and secure manner. In the second quarter of 2010 Boots & Coots, Inc., formerly an independent company, was acquired by Halliburton.

The outcome of the two events is a renewed interest in worker, asset, and community protection by BCHSE clients, and a new corporate partner for HSE; Halliburton. This company has vastly expanded resources in terms of clients and delivery footprint. In January the Board of Directors of BCHSE re-affirmed their commitment to the BCHSE business unit and approved a \$830 rental equipment expansion budget for 2011. BCHSE has a compelling service offering to clients: a trusted brand in Boots & Coots; new equipment designed by HSE; and expert safety capability and management through the personnel seconded to BCHSE by HSE in Canada. Going forward, the Corporation believes that BCHSE will be a positive contributor to revenues and cash flow.

The Taylor, Michigan location was part of an acquisition in Sarnia, Ontario in 2005. This location has never been a large contributor to the Corporation's revenues and operating margin, but the potential remains significant given the access to numerous markets and industries with operations that are hazardous to workers, assets and the community. But as a mature market, it is also competitive with numerous suppliers. The Taylor location demonstrated meaningful growth in the 2010 fiscal year with HSE gaining new clients that appreciate the Corporation's commitment to quality services, personnel and equipment. HSE believes that in the future, further penetration of the large U.S. Industrial health and safety services market is possible from this location.

Strategic Framework 2011 – 2014

In December of 2010 the Board of Directors of the Corporation requested the senior executive team prepare a long-term Strategic Plan for HSE with the objective of creating shareholder value. Driving the initiative was the recognition that the historic Oilfield business based largely on sour gas drilling in the WCSB was not going to recover to historical levels anytime soon, if ever. Therefore, the strategic planning initiative was undertaken to determine where and how HSE will expand its business to achieve historic levels of revenue and operating margins with no recovery from this previously large and profitable sector.

The process began in the first quarter of 2011 and continued into the second quarter and involved a review of all aspects of HSE's business and growth opportunities including financial models and a work plan. The Strategic Plan Framework was presented to the Board of Directors. The process involves detailed market research in six markets in which HSE already operates with the objective of permanently replacing lost revenues from the WCSB. This will lead to the final Strategic Plan when the market research is complete. The process contains the following key elements:

- "Macro" market and economic assumptions for the period

- Review of all product and service lines and field service locations
- Identification of key growth markets, competitive analysis and regional growth drivers
- Operating margin improvement and organic growth targets
- Capital and manpower requirements
- Debt ceilings and sources of capital for growth

Based on the work and research conducted thus far, management is confident that the Corporation can grow its revenue in several markets through more aggressive business development initiatives and increase its operating margin through the development of new procedures and tools to assist sales and operations to deliver health and safety services more efficiently.

Quarterly Results

	2011	2010 ⁽²⁾				2009 ⁽²⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 24,481	\$ 22,422	\$ 20,349	\$ 18,350	\$ 20,907	\$ 19,090	\$ 20,544	\$ 19,566
Net earnings (loss)	507	923	176	(781)	124	(2,178)	(722)	(1,928)
EBITDA ⁽¹⁾	2,486	2,459	1,956	411	1,966	496	1,016	(451)
Income (loss) per share – basic and diluted	\$ 0.01	\$ 0.02	0.00	(0.02)	0.00	\$ (0.06)	\$ (0.02)	\$ (0.05)

⁽¹⁾ See Non-GAAP Measures

⁽²⁾ IFRS transition date was January 1, 2010; 2010 financial results have been adjusted to conform to IFRS; 2009 financial results have not been restated and are presented in previous Canadian GAAP

HSE's business has two 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.

Revenue by quarter for the last eight quarters is as follows:

	2011	2010 ⁽¹⁾				2009 ⁽¹⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Industrial	\$ 12,557	\$ 12,040	\$ 11,384	\$ 11,926	\$ 11,924	\$ 12,533	\$ 14,375	\$ 15,249
Oilfield	11,924	10,382	8,965	6,424	8,983	6,557	6,169	4,317
Total revenue	\$ 24,481	\$ 22,422	\$ 20,349	\$ 18,350	\$ 20,907	\$ 19,090	\$ 20,544	\$ 19,566

⁽¹⁾ IFRS transition date was January 1, 2010; 2010 financial results have been adjusted to conform to IFRS; 2009 financial results have not been restated and are presented in previous Canadian GAAP

Related-Party Transactions

Key management personnel and director transactions

Members of key management personnel, officers, or director, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Corporation in the reporting period. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence are as follows:

Director / key management personnel	Transaction	Note	Transaction value Three months ended March 31		Balances outstanding as at		
			2011	2010	March 31 2011	Dec 31 2010	January 1 2010
Director	Office rent and property taxes	(i)	57	60	-	-	-
Director	Supplies and sub-license fees (per agreement)	(ii)	174	0	59	55	-
Key Manager	Office rent and property taxes	(iii)	91	78	-	-	-
Directors/Officers	Convertible debentures	(iv)	40	-	-	-	-

- (i) The Corporation paid rent and property taxes for one of its regional offices to a corporation which is controlled by a member of the Board of Directors. The term of the lease is 15 years and expires on January 31, 2019.
- (ii) The Corporation purchased various safety supplies and performed maintenance on safety equipment under a sub-license agreement with a corporation which is controlled by a member of the Board of Directors.
- (iii) The Corporation paid rent and property taxes for one of its regional offices to a corporation controlled by a Senior Manager for a subsidiary in the United States. The term of the lease is 10 years and expires on October 31, 2011.
- (iv) A placement of convertible debentures to related parties occurred in December 2010 and January 2011. The related parties were directors, family of directors, and officers of HSE.

Significant subsidiaries	Country of incorporation	Ownership interest		
		2011	2010	January 1, 2010
HSE Integrated Inc. ("INC")	USA	100%	100%	100%
Boots & Coots HSE Services, LLC ("BCHSE")	USA	90%	90%	90%
CRS Technologies Inc. ("CRU")	USA	100%	100%	100%

Critical Accounting Policies and Estimates

This MD&A summarizes HSE's financial condition and results of operations which are based upon its Interim Financial Statements, which has been prepared in accordance with IFRS. The unaudited interim consolidated financial statements require management to select significant accounting policies which are contained within the notes to statements. These significant accounting policies involve critical accounting estimates due to complex judgments and assumptions required to be made by management. These estimates, judgments and assumptions are based on the circumstances that exist at the reporting date and may affect the reporting amounts of earnings and expenses during the reporting periods and the carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities, and other financial obligations as well as the determination of fair values.

Allowance for Doubtful Accounts Receivable

The Corporation assesses any impairment of trade receivables through a continuous process of reviewing its receivables both on an individual-customer basis and on an overall basis. The review includes assessment of current-aging status of customers, historical collection experience, financial condition of customers, industry economic trends, and other factors at least monthly. Based on the review, allowances for specific customers are determined. The process involves a high degree of judgment and can frequently involve significant dollar amounts. Accordingly, the Corporation's financial position, results of operations, and cash flows can be affected by adjustments to the allowance when actual write-offs differ from estimates.

Impairment tests

The Corporation assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. If any indication of impairment exists, HSE estimates the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, commodity prices, drilling levels and economic declines. Internal triggering events for impairment include lower profitability or obsolescence.

The Corporation's impairment tests compare the carrying amount of the asset or cash generating unit ("CGU") to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. The determination of value in use requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

Property, plant and equipment and intangible assets

The estimated useful life, residual value and depreciation methods chosen are HSE's best estimate of such and are based on industry norms, historical experience and other estimates. Property, plant and equipment and intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses.

Acquisitions

The acquired assets and liabilities are recognized at fair value on the date HSE effectively obtains control. The measurement of business combinations is based on the information available at the acquisition date. The determination of fair value of the acquired intangible assets (including goodwill), property, plant and equipment and other assets and the liabilities assumed at the date of acquisition, as well as the useful lives of the acquired intangible assets and property, plant and equipments, is based on assumptions. The measure is largely based on projected cash flows and market conditions at the date of acquisition.

Lease Classification

The Classification of a lease as operating or financing depends upon whether substantially all the risks and rewards of the asset are transferred. The Corporation determined that its facility leases are operating leases since the rent paid to the landlords is increased to market rates at regular intervals and the Corporation does not participate in the residual value of any of the buildings. The Corporation determined that its light duty vehicles are finance leases since ownership of the assets transfer to the Corporation at the end of the lease term.

Income Taxes

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous Canadian GAAP. Upon transition to IFRS, the Company recognized a \$1,994 reduction to the deferred income tax balance with a corresponding increase to retained earnings. For the twelve months ended December 31, 2010, the application of the IFRS adjustments resulted in \$529 increase to the Company's deferred income tax expense and a corresponding decrease to HSE's Canadian GAAP net earnings.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net earnings through the income tax expense arising from the change in deferred income tax assets or liabilities.

Changes in Accounting Policies

IFRS

These are the Corporation's first interim consolidated financial statements prepared in accordance with IAS 34 Interim Financial Reporting. The interim consolidated financial statements of HSE Integrated Ltd. were prepared in accordance with previous Canadian GAAP up to and including the 2010 reporting year. HSE Integrated Ltd. has adopted IFRS in accordance with IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" with a transition date of January 1, 2010. HSE Integrated Ltd.'s IFRS adoption date is January 1, 2011. The significant accounting policies have been applied in preparing the interim consolidated financial statements for the three months ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the three months ended March 31, 2010 and as at December 31, 2010 and in the preparation of an opening consolidated IFRS statement of financial position dated January 1, 2010.

(i) *Business combination exemption*

IFRS 1 provides the option to apply IFRS 3 *Business Combinations*, retrospectively for all business combinations from a particular pre-transition date elected by the Corporation or prospectively from the transition date of January 1, 2010. The Corporation has elected to take this exemption and not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations have not been restated.

(ii) *Stock-based compensation exemption*

IFRS 1 provides companies with an optional exemption not to apply IFRS 2 *Share-Based Payments* to equity-settled share based payments granted after November 7, 2002 that vested before the transition date of January 1, 2010. The Corporation has elected to take this exemption and has not restated its historical share-based payments that were granted after November 7, 2002 and vested prior to January 1, 2010.

(iii) *Currency translation differences exemption*

Retrospective application of IFRS would require the Corporation to determine cumulative currency translation differences in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* from the date a subsidiary was acquired. IFRS 1 allows cumulative translation gains or losses to be reset to zero at the transition date of January 1, 2010. The Corporation has elected to reset all cumulative translation losses to zero in the opening retained earnings (deficit) at January 1, 2010.

Future Accounting Pronouncements

As of January 1, 2013, the Corporation will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board's (IASB) project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models of financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Corporation's Consolidated Financial Statements.

Financial and Other Instruments

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, and debentures. The carrying value of these instruments approximates their fair value, either because of their short maturities or because the interest rates to which they are subject approximate market rates.

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

- Credit risk
- Liquidity risk
- Market risk

These risks, and the Corporation's method of mitigating the risks, are described below:

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

The Corporation's trade receivables 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 the Corporation is partially affected by fluctuations in the price they receive for various hydrocarbon products.

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 receivables are recorded at the invoiced amount and do not bear interest. Standard payment terms are net 30. However, these may be varied by agreements with particular customers. As well, industry practices, particularly within the upstream oil and gas industry, result in payment terms of up to 60 days.

The allowance for doubtful accounts is the Corporation's best estimate of the amount of probable credit losses in the Corporation's existing trade receivables. The Corporation determines the allowance by reviewing individual accounts past due for collectability, historical write-off experience adjusted for changes in both general and industry-specific economic conditions, and overall account aging. The Corporation reviews its allowance for doubtful accounts on an ongoing basis, but at least monthly.

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 its operating and investing activities. The Corporation's contractual financial liabilities include interest payments, trade and other payables, income taxes payable, a revolving operating line of credit, a non-revolving term-debt facility, a convertible debenture and capital leases for equipment, and property and equipment.

HSE manages its liquidity risk by ensuring, to the extent possible, that it has access to funding sources at competitive rates 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 uses operating cash flow to provide liquidity to meet its financial obligations. As a result, the Corporation is exposed to a loss of liquidity if its customers delay their payments beyond the levels that they have in the past. To mitigate this, the Corporation has projected its operating cash flows under different scenarios with respect to receivables aging to determine the effect on operating cash inflows. The Corporation monitors its receivables collections to ensure that, if collections are delayed, there are sufficient operating funds available to meet its financial obligations. As well, the Corporation has access to undrawn operating lines of credit of \$10,000 to fund operations. These credit lines are renewable annually and are margined to accounts receivable. HSE believes it has sufficient funding through these sources to meet its obligations as they come due.

Market Risk

Market risk is the risk that changes in market prices of financial assets and liabilities, including foreign exchange rates, interest rates, and equity prices, will affect the Corporation's financial position, results of operations, and cash flows.

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 foreign operations, the amount is included in other comprehensive earnings. At March 31, 2011 the extent of this exposure was not material.

HSE is exposed to interest-rate risk on its prime-based revolving operating facility and its non-revolving reducing loan facility. Based on amounts outstanding at March 31, 2011 a 1% increase in the average prime interest rate for the year would cost the Corporation \$402 in additional interest expense.

Business Risks

The activities the Corporation 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 cyclicality 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 with which HSE deals; availability of financing at competitive rates; changes in foreign exchange rates and interest rates; and litigation and contingencies. Additional risks and uncertainties that the Corporation may be unaware of, or that were determined to be immaterial, may also become important factors that affect the Corporation. Further details regarding specific risks that may affect the Corporation are provided below:

Business Cyclicality

The demand for HSE's Oilfield services is highly dependent upon the level of expenditures made by oil and gas companies on exploration, development and production activities. These expenditures are in turn affected by a number of factors:

- The price received by HSE's customers for crude oil and natural gas directly impacts their cash flow available to purchase the Corporation's services. Fluctuations in crude oil and natural gas prices can produce periods of high and low demand for the Corporation's services. Alternatively, a number of factors that are beyond the control of HSE's customers, including weather, geopolitical conditions, and the strength of the global economy, may reduce demand for their products, which in turn will reduce the price they receive.
- Since crude oil and natural gas prices are normally denominated in U.S. currency, fluctuations in the Canadian-dollar exchange rate relative to the U.S. dollar can also affect the cash flow available to the Corporation's customers to purchase its services.
- Exploration, development and production activity levels within particular markets are influenced by factors including royalties, regulatory and taxation changes, weather, and access to pipeline capacity.
- Changes in equity-and debt-financing markets independent of any individual company's circumstances may reduce access to capital that is used to fund exploration, development, and production activities.

These fluctuations in activity can cause cyclical demand swings in the Corporation's activity levels and operating results.

The demand for HSE's Industrial services is exposed to business cycles and contraction risks in the oil and gas industry and other industrial sectors such as forestry, pulp and paper, automotive, manufacturing, mineral extraction, and other segments of the economy that could experience reduced demand or significant fluctuations of the market value of their finished goods. As well, a significant portion of the Corporation's Industrial services are provided to customers in the non-conventional upstream oil and gas industry, including oilsands extraction. These customers are exposed to similar risks with respect to crude oil pricing as customers for whom HSE provides Oilfield services.

Availability of Qualified Staff

The Corporation's ability to provide reliable service is dependent upon attracting and retaining skilled employees. The demand for workers with particular skills used by the Corporation is high and the supply remains limited.

Competitive Conditions

The Corporation's main competitor is its own customer base. There is a risk, typically under distressed economic conditions, that customers may elect to use their own personnel to perform services that HSE currently provides. The Corporation attempts to mitigate this risk by providing staff with more training and safety-service experience than the customer is able to provide on its own.

While no one competitor in Canada provides the full suite of services that the Corporation provides, HSE has competitors in each area of service that we provide. These competitors are typically privately owned, regionally based companies that provide a specialized set of services. These competitors may provide pricing pressure that may affect our margins and market position within particular lines of business. The Corporation attempts to mitigate this risk by providing an integrated suite of services that our competitors cannot provide, and by distinguishing ourselves through higher levels of service and expertise.

Recently, a larger private-equity-financed U.S. safety services provider commenced operations in Canada. While this provider is currently restricting its activities to providing Industrial safety services within a small portion of the industries and

geographic locations in which the Corporation provides services, there is a risk that this competitor may begin to market its services to a wider array of customers and locations. As discussed above, Management is of the view that this may provide an opportunity for additional business for the Corporation as customers may be more likely to outsource safety services work when there is more than one provider available.

Customer Credit

HSE generally invoices its customers in arrears for its services. Because of this, the Corporation is subject to the risk that its customers may delay payment of its invoices through a variety of means, or fail to pay the invoice at all. Changes in economic conditions, either in general or within a particular industry, may increase this risk.

Customer Dependence

The Corporation has ongoing contracts or master service agreements with a variety of customers. For certain customers the volume of revenue generated approaches or exceeds 10% of the Corporation's total revenue on a quarterly or annual basis. While there is no indication that any of these customers are likely to change safety service providers, if a contract were cancelled and the Corporation were unable to replace the business with other existing or new customers, the Corporation's revenue, operating results and cash flows would be adversely affected. The Corporation attempts to mitigate this risk by providing an integrated suite of services that are not available from a single competitor, by providing access to our services on a country-wide basis, and by distinguishing itself through higher levels of service and expertise.

Customer and Government Safety Requirements

All companies are required to track and publish safety statistics. Certain customers require that their vendors maintain specific minimum standards with respect to safety in order to provide services as an accredited vendor. There is a risk that, if the Corporation's safety statistics fall below an acceptable level, it would not be allowed to provide services to these customers. If this occurred, the Corporation's revenues and profit levels would be adversely affected.

As well there is a risk that customer safety requirements and government regulations or legislation may change either as part of an ongoing review process, or in reaction to specific events such as the Macondo blowout in the Gulf of Mexico. While changes in these requirements may provide opportunities to provide health and safety personnel and equipment to the Corporation's customers in order to address new requirements, these changes may also pose the following risks to the Corporation. First, there is a risk that additional expenses may need to be incurred to refit equipment or provide additional training to staff. There is no guarantee that these costs could be passed on to customers and, as a result, the Corporation's profits may suffer if unanticipated changes are made. Second, there is a risk that additional regulations could make an activity or line of business unprofitable for our customers. This could cause them to exit the activity causing a reduction in the Corporation's revenues as customer activity decreases.

The Corporation mitigates these risks by ensuring that its field personnel are trained to levels that meet or exceed "best-practices" levels and that its equipment meets any requirements specified by the equipment manufacturer. The Corporation's industry technical specialists monitor industry sources to keep the Corporation apprised of potential changes to regulations. As well, the Corporation maintains a comprehensive internal safety program including regular senior management and Board of Directors review of safety results, the use of standardized "best-practices" procedures for all work performed, and specific procedures that require that all incidents be investigated to determine root causes of the incident and to recommend what, if any, changes to the Corporation's procedures are necessary to prevent recurrence.

Availability of Financing

Historically, the Corporation has funded the growth of its operations and its acquisitions from bank debt, share issues, and convertible debentures, in addition to cash generated from operations. Continued access to bank debt at competitive rates requires that the Corporation meet various financial and non-financial covenants. There is no certainty HSE will continue to be able to obtain sufficient financing at competitive rates. The Corporation's ability to grow as planned may be limited if sources of competitively priced financing are unavailable.

Foreign-Exchange Exposure

HSE's consolidated financial statements are presented in Canadian dollars, but include the results of its U.S. subsidiaries for which the functional currency is the U.S. dollar. Changes in the U.S.-dollar exchange rate versus the Canadian-dollar rate may have material effects on net income and other comprehensive income reported by the Corporation's U.S. subsidiaries.

Litigation and 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 required. Although it may not be possible to accurately estimate the extent of potential costs and losses, if any, Management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

Disclosure and Internal Controls

Disclosure Controls and Internal Controls over Financial Reporting

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) are responsible for designing disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR”) as defined in National Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings (“52-109”), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

HSE’s DC&P have been designed to provide reasonable assurance that material information relating to HSE is made known to the CEO and the CFO by others and that information required to be disclosed by HSE in its annual filings, interim filings or other reports filed or submitted by HSE under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. On January 1, 2011, the Corporation adopted IFRS as its standard for financial reporting, as necessary, to facilitate the respective IFRS convergence and transition activities performed. Other than the adoption of IFRS, no other significant changes in internal controls over financial reporting occurred during the period ended March 31, 2011. Our ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

As of March 31, 2011, the CEO and the CFO together with HSE’s management have evaluated the design and effectiveness of the Corporation’s DC&P and ICFR and have concluded that they are effective. In connection with this assessment, no material weaknesses in the Corporation’s internal control over financial reporting were identified by management as of March 31, 2011.

Common Shares and Convertible Debentures Outstanding

At March 31, 2011 and May 16, 2011, 38,713,207 common shares of HSE were outstanding (December 31, 2010 – 37,575,675). At March 31, 2011, the Corporation had options outstanding to issue of 2,151,332 shares (December 31, 2010 – 2,279,165) at a weighted-average exercise price of \$1.21 per share (December 31, 2010 – \$1.24). Of these options, 1,070,814 were exercisable (December 31, 2010 – 1,154,479). At May 16, 2011 there were 2,324,666 options outstanding at a weighted average price of 0.75 per share. Of these options, 1,199,543 were exercisable.

At March 31, 2011 the Corporation had \$2,000 of convertible debentures outstanding that were convertible to 4.0 million shares based on the applicable conversion price. At May 16, 2011 there were \$2,000 of convertible debentures outstanding that were convertible to 4.0 million shares at the applicable conversion price.

Non-GAAP Measures

Certain measures in this document do not have any standardized meaning as prescribed by IFRS and previous Canadian GAAP, and therefore, are considered non-GAAP measures. This report makes reference to EBITDA, a measure that is not recognized under IFRS. 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 IFRS and previous Canadian GAAP as an indication of the Corporation’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

Quarters ended March 31	2011	2010 ⁽²⁾	2009 ⁽²⁾
Net earnings (loss)	\$ 507	\$ 124	\$ (1,806)
Add (deduct):			
Amortization	1,341	1,692	1,739
Stock-based compensation	71	57	50
Interest and bank charges	217	200	149
Foreign exchange gain	-	(5)	(1)
(Gain) loss on disposal of property and equipment	36	(313)	93
Income tax	314	211	(440)
EBITDA⁽¹⁾	\$ 2,486	\$ 1,966	\$ (216)

(1) See Non-GAAP Measures

(2) HSE's IFRS transition date was January 1, 2010; 2010 financial results have been adjusted to conform to IFRS; 2009 financial results have not been restated and are presented in previous Canadian GAAP

Quarterly EBITDA Calculation

	2011	2010 ⁽²⁾				2009 ⁽²⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net earnings (loss)	\$ 507	\$ 923	\$ 176	\$ (781)	\$ 124	\$ (2,178)	\$ (722)	\$ (1,928)
Add (deduct):								
Amortization	1,341	1,465	1,466	1,508	1,692	1,618	1,650	1,692
Impairment of property and equipment	-	-	-	-	-	1,641	-	-
Stock-based compensation	71	39	25	64	57	43	101	99
Interest and bank charges	217	209	137	212	200	135	140	120
Foreign exchange loss (gain)	-	-	2	(1)	(5)	(8)	(3)	12
(Gain) loss on disposal of property and equipment	36	314	247	(133)	(313)	57	35	126
Expiry of contingent consideration liability	-	(810)	-	-	-	-	-	-
Income taxes	314	319	(97)	(458)	211	(812)	(185)	(572)
EBITDA⁽¹⁾	\$ 2,486	\$ 2,459	\$ 1,956	\$ 411	\$ 1,966	\$ 496	\$ 1,016	\$ (451)

(1) See Non-GAAP Measures

(2) HSE's IFRS transition date was January 1, 2010; 2010 financial results have been adjusted to conform to IFRS; 2009 financial results have not been restated and are presented in previous Canadian GAAP

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 Corporation'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 that may cause actual results, performance or achievements of the Corporation 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 Corporation's current expectations regarding future events and operating performance based on assumptions and analyses made by the Corporation based on its experience and an assessment of current conditions, known trends, expected future developments and other factors that Management believe to be appropriate under the circumstances. These forward-looking statements include among others:

- BCHSE continues to gain customer acceptance as a capable provider of worker and asset protection services. (page 8)
- Despite increased volatility in commodity markets, with no resolution to these conflicts [in the Middle East and northern Africa] on the horizon, more analysts believe the price of oil will stay in the \$100 a barrel range for the remainder of the year. This has a major positive impact on HSE's business in several markets. (page 6)
- The federal election held on May 2, 2011 resulted in a majority government. This is a favorable development for HSE and its clients because of the government's positions on carbon taxes, oilsands developments, and reluctance to implement environmental protection policies that are not in line with those in the U.S. and other countries. This will yield stable fiscal, environmental and energy policies that are not in line with those in the U.S. and other countries. This will yield stable fiscal, environmental and energy policies at the federal level for at least the next four years. (page 6)
- Most of HSE's larger clients – particularly those in crude oil-related enterprises – have resumed long term investments and spending plans. The Corporation is seeing improved "visibility" as clients share their long-term plans with our sales and operations personnel. (page 6)
- Rising fuel costs caused by a sharp increase in the price of oil squeezed operating margins in the first quarters. Although the Corporation is taking steps to recover some of these costs through fuel surcharges, it is not always possible to pass these costs through to clients under certain masters service agreements with larger clients. (page 7)
- The overall upturn in activity in Alberta in particular is tightening labor markets, which puts continual pressure on manpower costs and availability. As a national company, HSE has the ability to bring workers from other parts of Canada which provides a competitive advantage. However, the medium and long-term outlook for the labor market in western Canada is not positive for employers because of an aging workforce and changing worker demographics. (page 7)
- Natural gas prices remain depressed with little likelihood of natural gas returning to a historic 6:1 BTU equivalent parity with crude oil prices. Historically, much of the demand for HSE's Oilfield services suite has been for natural gas, particularly toxic hydrogen sulphide gas. (page 7)
- Most of those clients are resuming their normal spending patterns in this area and are contracting third-party safety experts such as HSE. All of these events will continue to have a positive impact on the Corporation's revenues and operating margins. (page 7)
- One major project that was not planned took place in Q1 that will have a positive financial impact on the second and third quarters of the current fiscal year. (page 7)
- This change to drilling fewer, deeper wells with oil as the target instead of gas has changed demand for HSE's Oilfield health and safety services. The total number of rig operating days is good for the medical services business because for 2011 and 2012, the total number of rig operating days is expected to be greater than in 2008. However, the demand for breathing air and critical sour well safety services has been reduced significantly from prior year. (page 8)
- As mentioned previously, the demand for mobile fire and shower services has strengthened because of the method in which many of these oilwells are completed using large volumes of flammable hydrocarbon frac fluids or abrasive hydrochloric acid. (page 8)
- The outlook for natural gas remains challenged. While some gas reservoirs contain more valuable natural gas liquids and are therefore being developed, reservoirs that contain hydrogen sulphide gas are suffering from squeezed economics due to the higher operating and processing costs associated with hydrogen sulphide which requires special handling and must be removed prior to the gas entering the sales pipeline. (page 8)
- Nevertheless, the outlook for HSE's Oilfield health and safety services is the best it has been since early 2008. (page 8)
- Going forward, the Corporation believes that BCHSE will be a positive contributor to revenues and cash flow. (page 8)

HSE Integrated Ltd.

Management Discussion and Analysis

For the three month periods ended March 31, 2011 and 2010

- The Taylor location demonstrated meaningful growth in the 2010 fiscal year with HSE gaining new clients that appreciate the Corporation's commitment to quality services, personnel and equipment. HSE believes that in the future, further penetration of the large U.S. Industrial health and safety services market is possible from this location. (page 8)
- Based on the work and research conducted thus far, management is confident that the Corporation can grow its revenue in several markets through more aggressive business development initiatives and increase its operating margin through the development of new procedures and tools to assist sales and operations to deliver health and safety services more efficiently. (page 9)

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 Corporation's services by customers in various industries and geographic locations; pricing levels for the Corporation's services; commodity prices; foreign currency exchange rates; interest rates; access to financing; the Corporation'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 Corporation'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 Corporation's profile at www.sedar.com.

The Corporation 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 Corporation 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 the Corporation's profile on the SEDAR website at www.sedar.com and www.hseintegrated.com.