CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(stated in thousands of Canadian dollars) (unaudited)	Note		June 30 2011		December 31 2010
ASSETS					
Cash and cash equivalents		**$**	**681**	$	1,479
Trade receivables	6		**21,354**		18,099
Inventory			**171**		171
Prepaid expenses and other receivables			**902**		1,494
Income taxes recoverable			**574**		705
Total current assets			**23,682**		21,948
Property and equipment			**25,406**		25,104
Intangible assets			**2,142**		2,132
Goodwill			**391**		-
Other receivables			**178**		129
Total non-current assets			**28,117**		27,365
TOTAL ASSETS		**$**	**51,799**	$	49,313
LIABILITIES					
Trade and other payables		**$**	**6,757**	$	5,837
Provisions			**243**		212
Loans and borrowings	5		**3,139**		3,460
Income taxes payable			**600**		423
Total current liabilities			**10,739**		9,932
Provisions			**1,664**		1,801
Loans and borrowings	5		**5,026**		5,578
Deferred tax liabilities			**2,363**		1,706
Total non-current liabilities			**9,053**		9,085
TOTAL LIABILITIES			**19,792**		19,017
EQUITY					
Share capital			**60,654**		60,040
Convertible debentures – equity component			**229**		221
Contributed surplus			**5,060**		4,969
Accumulated other comprehensive income (loss)			**(131)**		(83)
Deficit			**(33,831)**		(34,851)
Total equity attributable to equity holders of the Corporation			**31,981**		30,296
Non-controlling interest			**26**		-
TOTAL EQUITY			**32,007**		30,296
TOTAL LIABILITIES AND EQUITY		**$**	**51,799**	$	49,313

Contingent liabilities (note14)

See accompanying notes to consolidated interim financial statements

CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

(stated in thousands of Canadian dollars except per-share amounts) (unaudited)	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	**2011**	2010
Revenue		**$ 24,905**	$ 18,350	**$ 49,386**	$ 39,257
Direct operating expenses		**19,266**	16,034	**39,214**	33,016
Selling, general and administrative		**2,391**	1,905	**4,438**	3,864
		3,248	411	**5,734**	2,377
Depreciation of property and equipment		**1,240**	1,405	**2,478**	2,994
Amortization of intangibles		**142**	103	**245**	206
Share based compensation	7	**38**	64	**109**	121
Finance costs	8	**197**	212	**414**	407
Loss (gain) on disposal of property and equipment		**(35)**	(132)	**1**	(445)
Earnings (loss) before income tax		**1,666**	(1,241)	**2,487**	(906)
Income taxes:					
Current provision (recovery)	9	**766**	(505)	**826**	(314)
Deferred tax expense		**359**	47	**613**	67
		1,125	(458)	**1,439**	(247)
Net Earnings (loss)		**$ 541**	$ (783)	**$ 1,048**	$ (659)
Earnings (loss) attributable to:					
Owners of the Corporation		**521**	(791)	**1,020**	(657)
Non-controlling interest		**20**	8	**28**	(2)
Net earnings (loss) for the period		**541**	(783)	**1,048**	(659)
Net earnings (loss) per share	10				
Basic		**$ 0.01**	$ (0.02)	**$ 0.03**	$ (0.02)
Diluted		**$ 0.01**	$ (0.02)	**$ 0.03**	$ (0.02)
Weighted averaged shares outstanding					
Basic		**38,713**	37,576	**38,562**	37,576
Diluted		**43,203**	37,576	**42,662**	37,576

See accompanying notes to consolidated interim financial statements

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(stated in thousands of Canadian dollars) (unaudited)	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Net Earnings (loss)	**$ 541**	$ (783)	$ **1,048**	$ (659)
Other comprehensive income (loss)				
Foreign currency translation adjustment	**24**	55	**(50)**	17
Comprehensive income (loss)	**565**	(728)	**998**	(642)
Comprehensive income (loss) attributable to:				
Owners of the Corporation	**542**	(741)	**972**	(641)
Non-controlling interest	**23**	13	**26**	(1)
Comprehensive income (loss)	**$ 565**	$ (728)	$ **998**	$ (642)

See accompanying notes to consolidated interim financial statements

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(stated in thousands of Canadian dollars) (unaudited)	Share capital	Convertible debentures – equity component	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity attributable to equity holders of the Corporation	Non-controlling interest	Total equity
Balance at January 1, 2011	**60,040**	**221**	**4,969**	**(34,851)**	**(83)**	**30,296**	**–**	**30,296**
Net earnings for the period				1,020		1,020	28	1,048
Other comprehensive income					(48)	(48)	(2)	(50)
Transactions with owners:								
Issue of common shares on business combination	614					614		614
Stock compensation expense			91			91		91
Convertible debentures issued – equity component		8				8		8
Balance at June 30, 2011	**60,654**	**229**	**5,060**	**(33,831)**	**(131)**	**31,981**	**26**	**32,007**
Balance at January 1, 2010	**60,040**	**–**	**4,763**	**(35,281)**	**–**	**29,522**	**–**	**29,522**
Net loss for the period				(657)		(657)	(2)	(659)
Other comprehensive income					15	15	1	16
Transactions with owners:								
Stock compensation expense			109			109		109
Balance at June 30, 2010	**60,040**	**-**	**4,872**	**(35,938)**	**15**	**28,989**	**(1)**	**28,988**

See accompanying notes to consolidated interim financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(stated in thousands of Canadian dollars) (unaudited)

	Note	Six months ended June 30	
		2011	2010
Cash flows from operating activities			
Net earnings (loss) for the period		$ 1,048	$ (659)
Adjustments for:			
Depreciation and amortization		2,723	3,201
Finance costs	8	414	407
Stock-based compensation		109	120
Amortization of onerous contract liability		(112)	(104)
Income tax expense (recovery)		1,439	(247)
Loss (gain) on disposal of property and equipment		1	(445)
		5,622	2,273
Change in non-cash working capital	13	(1,789)	1,046
Cash generated from operating activities		3,833	3,319
Interest paid		(290)	(219)
Income tax recovered (paid)		(514)	(368)
Net cash from operating activities		3,029	2,732
Cash flows from investing activities			
Purchase of property and equipment		(2,087)	(1,028)
Purchase of intangibles		(6)	-
Net cash acquired on business acquisition		1	-
Proceeds from sale of property and equipment		294	636
Net cash used in investing activities		(1,798)	(392)
Cash flows from financing activities			
Issue of loans and borrowings		75	5,000
Repayment of loans and borrowings		(681)	(5,333)
Payment of finance lease liabilities		(1,336)	(1,495)
Payment of transaction costs related to issue of debt		(40)	(88)
Net cash used in financing activities		(1,982)	(1,916)
Net (decrease) increase in cash and cash equivalents		(751)	424
Cash and cash equivalents at beginning of period		1,479	460
Effect of exchange rate fluctuations on cash held		(47)	(1)
Cash and cash equivalents June 30		681	883
Non-cash investing activities – property and equipment acquired by means of a finance lease		1,020	119

See accompanying notes to consolidated interim financial statements

NOTE 1 – REPORTING ENTITY

HSE Integrated Ltd. ("HSE" or the "Corporation") is incorporated under the laws of the province of Alberta. The address of the Corporation's head office is 1000, 630 – 6 Avenue S.W., Calgary, Alberta, Canada, T2P 0S8. The consolidated interim financial statements of the Corporation as at and for the three and six month periods ended June 30, 2011 and 2010 include the Corporation and its subsidiaries.

The Corporation provides health and safety services to a range of customers in the energy, manufacturing, construction and other industries including: safety supervision and rescue personnel, rental of breathing apparatus and associated equipment for personnel operating in high hazard environments, fixed and mobile firefighting and fire protection services and equipment, worker shower (decontamination) services, onsite medical services, worker safety training, hazardous gas detection, industrial hygiene services, and safety consulting and supervision.

The Corporation's business has two 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.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2010 which were prepared under previous Canadian GAAP and as at and for the quarter ended March 31, 2011 which were prepared under IAS 34 are available upon request from the Corporation's head office or at www.Sedar.com.

NOTE 2 – BASIS OF PREPARATION

a) Statement of compliance

These unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The consolidated interim financial statements do not include all of the information required for full annual financial statements. In these consolidated interim financial statements, previous Canadian generally accepted accounting principles ("Canadian GAAP") refers to the accounting standards applied prior to the adoption of IFRS.

An explanation of how the transition to IFRS has affected the previously reported financial position, net earnings and cash flows in the comparative periods of these consolidated interim financial statements is provided in note 15. This note contains reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP to those reported for those periods under IFRS.

These consolidated interim financial statements were authorized for issue by the Corporation's board of directors on August 11, 2011.

b) Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis except for liabilities for cash-settled share-based payment arrangements, which are measured at fair value.

c) Functional and presentation currency

These consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and the Corporation's Canadian subsidiaries. The US dollar is the functional currency of the Corporation's US subsidiaries. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except for per share amounts.

d) Use of accounting estimates and judgments

The preparation of consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgments made by management applying the Corporation's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual financial statements.

The key judgments and estimates made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated interim financial statements are as follows:

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 transfers to the Corporation at the end of the lease term.

Estimated useful lives of assets

The useful lives of the depreciable assets are based on historical experience and judgment of management. This judgment includes an assessment of expected utilization, job mix assumptions and preventative maintenance programs. Although management believes that the estimated useful lives and residual values are reasonable, there can be no certainty that the reduction in depreciable asset values over time matches depreciation expense using estimated useful lives. If depreciation estimates are not correct, the Corporation may record a disproportionate amount of gains or losses on disposition of these assets.

Impairment of assets

At the end of each reporting period, the Corporation assesses whether there is an indication that an asset group may be impaired. 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 level and economic declines. Internal triggering events for impairment include lower profitability or obsolescence.

HSE'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 ("FVLCS") and value in use ("VIU"). FVLCS is the amount obtainable from the sale of an asset or CGU in an arms length transaction between knowledgeable, willing parties, less the costs of disposal. The determination of VIU 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.

Allowance for doubtful accounts
The Corporation assesses its accounts receivable 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 receivables, historical collection experience, financial condition of customers, industry economic trends and other factors. 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 and results of operations can be affected by adjustments to the allowance when actual write-offs differ from estimates.

Income tax assets and income tax liabilities
Deferred income taxes are recorded for the effect of any differences between the accounting and income tax basis of an asset or liability using substantively enacted tax rates. The Corporation establishes valuation allowances to reduce deferred income tax assets when management believes it is more likely than not that some or all of a deferred tax asset will not be realized. Estimates of future taxable income are considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the recognition of the Corporation's deferred tax assets.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated interim financial statements should be read in conjunction with Note 3 to HSE Integrated Ltd's unaudited consolidated interim financial statements for the periods ended March 31, 2011 and 2010, as the accounting policies applied by the Corporation in these Interim Financial Statements are the same as those disclosed therein.

NOTE 4 – ACQUISITIONS

On January 24, 2011, the Corporation acquired all of the outstanding common shares of Taylored Safety Services Inc. ("Taylored") for $614. Taylored provides safety consulting, industrial health services and safety training to industry and is head quartered in Halifax, Nova Scotia. The results from operations are included in the Canada segment.

A significant shareholder of Taylored subsequently became an officer of the Corporation.

This acquisition has been accounted for by the acquisition method, and results of operations have been included in these consolidated interim financial statements from the date of acquisition. The purchase price allocation has not been completed and certain items such as income taxes at the acquisition date have not been finalized. Details of the acquisition are summarized as follows:

NOTE 4 – ACQUISITIONS (Continued)

Assets acquired (liabilities assumed)		2011
Assets:		
Non-cash working capital	$	**54**
Property, plant and equipment		**24**
Intangible assets		**250**
Goodwill		**391**
		719
Assumed liabilities:		
Income taxes payable		**(12)**
Long-term debt		**(29)**
Deferred income taxes		**(65)**
		(106)
Net assets before cash position		**613**
Cash position		**1**
Net assets	$	**614**
Consideration:		
Common shares 1,137,532 shares at $0.54		**614**
	$	**614**

NOTE 5 – LOANS AND BORROWINGS

This note provides information about the contractual terms of the Corporation's interest-bearing loans and borrowings, which are measured at amortized cost.

			June 30, 2011		December 31, 2010
Current liabilities:					
Non-revolving term facility	(A)	**$**	**1,304**	$	1,304
Finance lease liabilities	(C)		**1,835**		2,156
			3,139		3,460
Non-current liabilities:					
Non-revolving term facility	(A)		**2,391**		3,043
Unamortized debt issue costs	(A)		**(134)**		(124)
Convertible debentures	(B)		**1,809**		1,704
Unamortized debt issue costs	(B)		**(72)**		(76)
Finance lease liabilities	(C)		**1,032**		1,031
			5,026		5,578
Total loans and borrowings			**8,165**		9,038

A) Non-revolving term facility and revolving operating loan facility

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 term 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. These covenants are monitored on a regular basis and controls are in place to maintain ongoing compliance with these covenants. The Corporation was in compliance with all debt covenants at June 30, 2011.

The facilities are collateralized under a general security agreement which includes accounts receivable and property and equipment.

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

On May 13, 2011, the Corporation signed a revised credit facility which reflected the effects of the conversion to IFRS.

B) Convertible debentures

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 Debentures consist of both debt and equity components, which are presented separately in the Corporation's consolidated interim statement of financial position. The debt component is measured by calculating the present value of both the quarterly interest obligations and the principle 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 Debentures' 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 interim statement of financial position will be accreted using the effective interest method over the term of the Debentures.

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 on the consolidated interim statement of comprehensive income.

Provision for conversion

The Debentures are convertible at the holder's option into common 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

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.

C) Finance lease liabilities

Finance lease liabilities are payable as follows:

	June 30, 2011			December 31, 2010		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	**1,915**	**80**	**1,835**	2,296	140	2,156
Between 1 and 5 years	**1,065**	**33**	**1,032**	1,073	42	1,031
	2,980	**113**	**2,867**	3,369	182	3,187

Leasing arrangements

Finance leases relate to vehicles and equipment with lease terms ranging from 3 to 5 years. The Corporation's obligations under finance leases are secured by the lessors' title to the leased assets.

The applicable interest rate on these finance leases is between 2.58% and 7.35%.

The terms and conditions of the finance lease contracts do not specify any contingent rents, escalation clauses or any financial restrictions, conditions or covenants in respect of the Corporation's financial position or the related leased assets.

NOTE 6 – TRADE RECEIVABLES

Trade receivables 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.

The aging of trade receivables at the reporting date was:

	June 30 2011 Gross	**June 30 2011 Allowance**	Dec 31 2010 Gross	Dec 31 2010 Allowance
0 – 30 days from invoice date (current)	**15,233**	**-**	10,962	-
31-60 days from invoice date	**3,608**	**-**	4,764	-
61-120 days from invoice date	**2,513**	**28**	2,493	120
More than 120 days from invoice date	**425**	**397**	980	980
Total	**$ 21,779**	**425**	$ 19,199	1,100

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

	2011	2010
Balance at April 1	**1,099**	1,255
Bad debt provision	**278**	-
Write-offs, net of recoveries	**(952)**	(14)
Balance at June 30	**$ 425**	$ 1,241

In the second quarter, the Corporation wrote off two larger accounts that had been provided for in prior years.

NOTE 7 – SHARE BASED COMPENSATION

At June 30, 2011, the Corporation had options outstanding to issue 2,298,000 shares (December 31, 2010 – 2,279,165) at a weighted average price of $0.75 per share (December 31, 2010 – $1.24). Of these options, 1,292,550 were exercisable (December 31, 2010 – 1,154,479).

The grant date fair value of the stock option plan was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date are the following:

	June 30 2011	December 31 2010
Vesting period (years)	**3**	3
Forfeiture rate	**15%**	15%
Risk-free interest rate (based on government bonds)	**2.11%**	2.20%
Expected life (years) (expected weighted average life)	**5**	5
Expected price volatility (weighted average volatility)	**113.33%**	100.00%

The weighted average fair value of options issued for the quarter ended June 30, 2011 was $0.52 (December 31, 2010: $0.49).

NOTE 7 – SHARE BASED COMPENSATION (CONTINUED)

Pursuant to the stock-option plan, a maximum of 10% of the issued and outstanding common shares of the Company are reserved from time to time for issuance to eligible participants. The directors determine option prices and vesting terms at the time of granting at an exercise price based on the volume weighted average price for the five trading days immediately preceding the grant date. The term of options granted does not exceed five years.

Information about outstanding stock options is as follows:

	Six months ended June 30, 2011			Year ended December 31, 2010		
	Options		**Weighted Average Exercise Price**	Options		Weighted Average Exercise Price
Outstanding, beginning of period	**2,279,165**	**$**	**1.24**	2,375,333	$	1.56
Granted	**500,000**		**0.52**	890,000		0.49
Exercised	**-**		**-**	-		-
Forfeited	**(481,165)**		**2.83**	(986,168)		0.76
Outstanding, end of period	**2,298,000**	**$**	**0.75**	2,279,165	$	1.24
Exercisable at end of period	**1,292,550**	**$**	**0.96**	1,154,479	$	1.96

The following table summarizes information about stock options outstanding at June 30, 2011:

Options Outstanding	Exercise Prices ($)	Weighted Average Remaining Life in Years	Number Exercisable
1,080,000	0.36 – 0.50	3.53	574,550
855,000	0.51 – 1.00	3.57	355,000
117,000	1.01 – 1.50	0.88	117,000
210,000	1.51 – 2.00	0.50	210,000
36,000	2.01 – 2.50	0.15	36,000
2,298,000	**0.75**	**3.08**	**1,292,550**

Deferred share unit plan

The number of deferred share units issued at grant date is determined by dividing the director's fees by the Corporation's closing share price on the trading day immediately preceding the grant date. At each reporting date, the deferred share units are fair valued by using a Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the determination of the fair value at the reporting dates are as follows:

	June 30 2011	December 31 2010
Forfeiture rate	**Nil**	Nil
Risk-free interest rate (based on government bonds)	**1.60%**	1.67%
Expected life (years)	**1.50**	1.00
Expected price volatility	**68.13%**	100.85%

NOTE 7 – SHARE BASED COMPENSATION (CONTINUED)

The number of deferred share units is as follows:

Deferred Share Units	**June 30, 2011**	December 31, 2010
	DSUs	DSUs
Outstanding, beginning of period	**257,028**	195,442
Granted	**88,605**	204,424
Redeemed	**-**	(142,838)
Outstanding, end of period	**345,633**	257,028

NOTE 8 – FINANCE COSTS

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Interest on operating loan facility and standby charges	**6**	39	**22**	74
Interest on term facility	**56**	95	**126**	164
Interest on obligations under finance leases	**50**	77	**108**	172
Interest and accretion interest on convertible debentures	**82**	-	**151**	-
Unwind of discount on provision	**3**	2	**6**	3
Foreign currency gain (loss)	**-**	(1)	**1**	(6)
Net finance costs recognized in earnings	**$ 197**	$ 212	**$ 414**	$ 407
Interest paid	**$ 173**	$ 65	**$ 290**	$ 219

NOTE 9 – INCOME TAX

During the quarter, the Corporation received Canadian income tax assessments for the 2008 and 2009 taxation years which affected the Corporation's tax filing position for the 2006, 2007, 2008 and 2009 taxation years. The Corporation's filing position and the assessments received differ with respect to the application and timing of certain losses for income tax purposes; consequently the Corporation has recognized an additional current income tax charge of $707 for the three months ended June 30, 2011. This charge is comprised of rate differences applicable to different years in the amount of $107, together with unrecoverable income tax of $600 related to prior years.

NOTE 10– EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated as net earnings (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding for the period. Net earnings attributable to the common shareholders for the three and six month periods ended June 30, 2011 were $521 and $ 1,020, respectively, (2010 – ($791) and ($657)). The weighted average number of common shares outstanding for the three and six month periods ended June 30, 2011 and 2010 was calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Issued common shares, beginning of period	**38,713**	37,576	**37,576**	37,576
Common shares issued on acquisition	**-**	-	**986**	-
Weighted average number of common shares, end of period	**38,713**	37,576	**38,562**	37,576

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting net earnings (loss) attributable to common shareholders and the basic weighted average number of common shares outstanding by the effects of all potentially dilutive transactions to existing common shareholders.

In calculating diluted earnings per share, net earnings (loss) were adjusted as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Net earnings (loss)	**$ 521**	(791)	**$ 1,020**	(657)
Effect of finance costs from conversion of convertible debenture (net of tax)	**35**	-	**70**	-
Adjusted net earnings (loss)	**$ 556**	(791)	**$ 1,090**	(657)

NOTE 10– EARNINGS PER SHARE (CONTINUED)

The diluted weighted average number of common shares was calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Weighted average number of common shares – Basic	**38,713**	37,576	**38,562**	37,576
Effect of "in the money stock options"	**495**	-	**100**	-
Effect of conversion of convertible debentures	**4,000**	-	**4,000**	-
Weighted average number of common shares at end of period - Diluted	**43,203**	37,576	**42,662**	37,576

NOTE 11 – OPERATING SEGMENTS

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. Many of HSE services are inter-dependent since they are bundled and sold to its customers in various combinations.

HSE provides a comprehensive and integrated suite of health, safety and environmental monitoring services to protect workers, assets and the community in the most cost-effective manner possible. It provides these services through providing people and assets to meet the needs of its customers. These people and assets are inter-dependent and moved between locations on a national basis, they are not site or customer specific. The Corporation tracks revenue only, but not the expenses or resources based on the industry within which the customer operates. The same property and equipment and employees service customers in both industry categories. Decisions are made by the Corporation to allocate resources based on the geographic segment.

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.

For the three months ended June 30, 2011, one customer provided more than 10% of the Corporation's revenue. Sales to this customer amounted to $3,032 during the period related to ongoing long-term energy related projects located entirely in Canada. For the three months ended June 30, 2010, no one customer provided more than 10% of the Corporation's total revenue.

Information about reportable segments

Three months ended June 30	**Canada**		**U.S.**		**Corporate**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
External revenue								
Oilfield	**$ 7,339**	6,027	**$ 867**	397	**$ –**	–	**$ 8,206**	6,424
Industrial	**16,165**	11,435	**534**	491	**–**	–	**16,699**	11,926
Total revenue	**$ 23,504**	17,462	**$ 1,401**	888	**$ –**	–	**$ 24,905**	18,350
Finance costs	**-**	-	**-**	-	**197**	212	**197**	212
Depreciation and amortization	**1,318**	1,478	**64**	30	–	–	**1,382**	1,508
Reportable segment earnings (loss) before depreciation, amortization, share based compensation, finance costs, gain/loss on disposal of property and equipment	**$ 5,223**	2,050	**$ 416**	285	**$ (2,391)**	(1,924)	**$ 3,248**	411

Six months ended June 30	**Canada**		**U.S.**		**Corporate**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
External revenue								
Oilfield	**$ 18,728**	14,820	**$ 1,402**	587	**$ –**	–	**$ 20,130**	15,407
Industrial	**28,220**	22,951	**1,036**	899	**–**	–	**29,256**	23,850
Total revenue	**$ 46,948**	37,771	**$ 2,438**	1,486	**$ –**	–	**$ 49,386**	39,257
Finance costs	**-**	-	**-**	-	**414**	407	**414**	407
Depreciation and amortization	**2,602**	3,144	**121**	56	–	–	**2,723**	3,200
Reportable segment earnings (loss) before depreciation, amortization, share based compensation, finance costs, gain/loss on disposal of property and equipment	**$ 9,492**	5,931	**$ 680**	346	**$ (4,438)**	(3,900)	**$ 5,734**	2,377

June 30, 2011 and December 31, 2010	**Canada**		**U.S.**		**Corporate**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Non-Current Assets:								
Property and equipment	**22,750**	23,380	**2,656**	1,724	---	---	**25,406**	25,104
Intangible assets and goodwill	**2,533**	2,132	---	---	---	---	**2,533**	2,132
Reportable segment assets	**$ 25,283**	25,512	**$ 2,656**	1,724	**$** ---	---	**$ 27,939**	27,236

NOTE 12 – RELATED PARTIES

Key management personnel and director transactions

Members of key management personnel, officers, or directors, 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 were as follows:

			Transaction value Three months ended June 30		**Transaction value Six months ended June 30**		**Accounts receivable and Accounts payable balances outstanding as at**	
Director / key management personnel	**Transaction**	***Note***	**2011**	2010	**2011**	2010	June 30 2011	Dec 31 2010
Director	Office rent and property taxes	*(i)*	**97**	105	**154**	165	**–**	–
Director	Supplies and sub-license fees (per agreement)	*(ii)*	**449**	85	**623**	85	**150**	55
Key Manager	Office rent and Property taxes	*(iii)*	**96**	78	**187**	156	**–**	–
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 5 years and expires on December 31, 2015.

(iv) A placement of convertible debentures to related parties occurred in January 2011. The related parties were directors, family of directors, and officers of HSE.

Significant subsidiaries	Country of incorporation	Ownership Interest	
		June 30, 2011	December 31, 2010
HSE Integrated Inc. (“INC”)	USA	**100%**	100%
Boots & Coots HSE Services, LLC (“BCHSE”)	USA	**90%**	90%
CRS Technologies Inc. (“CRU”)	USA	**100%**	100%

NOTE 13 - SUPPLEMENTARY CASH FLOW INFORMATION

		Six months ended June 30	
		2011	2010
Changes in non-cash working capital from operations:			
Trade receivables	$	**(3,188)**	135
Inventory		**-**	(18)
Prepaid expenses and other receivables		**501**	222
Trade and other payables		**898**	707
Change in non-cash working capital	$	**(1,789)**	1,046

NOTE 14 – CONTINGENT LIABILITIES

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.

NOTE 15 – EXPLANATION OF TRANSITION TO IFRS

As stated in note 2(a), these consolidated interim financial statements were prepared in accordance with IFRS.

The significant accounting policies adopted under IFRS have been applied in preparing these consolidated interim financial statements for the three and six months ended June 30, 2011, with comparative information for the same periods in 2010. These accounting policies and explanation of the adjustments for January 1, March 31, and December 31, 2010, are included in the notes to the consolidated interim financial statements as at and for the three-month period ended March 31, 2011 and 2010.

Reconciliation between previous Canadian GAAP and IFRS

The Corporation's adoption of IFRS did not have a significant impact on the total operating, investing or financing cash flows. The following represents the reconciliations from previous Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income:

Reconciliation of equity

	Note	June 30 2010
Total equity under previous Canadian GAAP		33,637
Differences increasing (decreasing) reported shareholders' equity:		
Impairment loss on property and equipment	A	(6,388)
Property and equipment under finance lease	B	2,086
Property and equipment – componentization	C	(408)
Deferred gain	D	388
Provisions	E	(2,128)
Share based compensation	F	56
Prepaid expenses and other assets	G	(33)
Non-controlling interests	H	(1)
Currency translation reserve	I	(1)
Related tax effect	J	1,780
Total equity under IFRS		28,988

Reconciliation of net earnings (loss)

	Note		Three months ended June 30, 2010		Six months ended June 30, 2010
Net earnings (loss) under previous Canadian GAAP		$	(1,235)	$	(1,443)
Differences in GAAP increasing (decreasing) reported earnings:					
Reduction of depreciation and amortization	A		306		612
Lease costs, depreciation, financing costs and loss on disposal of finance leases	B		237		477
Depreciation on property and equipment – componentization	C		(61)		(135)
Deferred gain – amortization	D		(34)		(68)
Provisions – onerous contract expenses	E		72		100
Share based compensation	F		23		7
Related tax effect			(91)		(209)
Net earnings (loss) under IFRS		$	(783)	$	(659)

Reconciliation of other comprehensive income (loss)

	Three months ended June 30, 2010	Six months ended June 30, 2010
Other comprehensive loss under previous Canadian GAAP	$ (1,177)	$ (1,420)
Differences in GAAP increasing (decreasing) reported other comprehensive income (loss):		
Differences in net earnings, net of tax	452	784
Foreign currency translation adjustments to equity	(3)	(6)
Other comprehensive loss under IFRS	$ (728)	$ (642)

Reconciliation of Consolidated Statement of Financial Position as at June 30, 2010

	Note	Previous CGAAP	Adjust-ments	Reclass-ifications	IFRS	
ASSETS						**ASSETS**
Current Assets						**Current Assets**
Cash and cash equivalents		883	(2)	-	881	Cash and cash equivalents
Accounts receivable		16,041	-	-	16,041	Trade receivables
Inventory		217	-	-	217	Inventory
Prepaid expenses and other receivables	G	1,439	(33)	(216)	1,190	Prepaid expenses and other receivables
Income taxes recoverable		1,095	-	-	1,095	Income taxes recoverable
Total current assets		19,675	(35)	(216)	19,424	Total current assets
Non-current Assets						**Non-current Assets**
Property and equipment	A,B,C	26,906	250	-	27,156	Property and equipment
Intangible assets	A	2,996	(658)	-	2,338	Intangible assets and goodwill
		-	-	216	216	Other receivables
Total non-current assets		29,902	(408)	216	29,710	Total non-current assets
TOTAL ASSETS		**49,577**	**(443)**	-	**49,134**	**TOTAL ASSETS**
LIABILITIES						**LIABILITIES**
Current liabilities						**Current liabilities**
Accounts payable and accrued liabilities	F	5,496	(51)	(54)	5,391	Trade and other payables
	E	-	221	864	1,085	Provisions
	B	-	2,348	1,474	3,822	Loans and borrowings
Current portion of long-term debt		2,114	-	(2,114)	-	
Current portion of obligation under capital lease		170	-	(170)	-	
Income taxes payable		84	-	-	84	Income taxes payable
Current portion of deferred gain	D	137	(137)	-	-	
Total current liabilities		8,001	2,381	-	10,382	Total current liabilities
Non-current liabilities						**Non-current liabilities**
	E	-	1,907	-	1,907	Provisions
	B	-	1,948	3,654	5,602	Loans and borrowings
Deferred gain	D	250	(250)	-	-	
Long-term debt		3,611	-	(3,611)	-	
Obligations under capital leases		43	-	(43)	-	
Future Income taxes	J	4,035	(1,780)	-	2,255	Deferred tax liabilities
Total non-current liabilities		7,939	1,825	-	9,764	Total non-current liabilities
TOTAL LIABILITIES		**15,940**	**4,206**	-	**20,146**	**TOTAL LIABILITIES**

Reconciliation of Consolidated Statement of Financial Position as at June 30, 2010 (continued)

	Note	Previous CGAAP	Adjust-ments	Reclass-ifications	IFRS	
EQUITY						**EQUITY**
Share capital		60,040	-	-	60,040	Share capital
Contributed surplus	F	4,850	22	-	4,872	Contributed surplus
Deficit		(31,213)	(4,725)	-	(35,938)	Deficit
Accumulated other comprehensive income (loss)	I	(40)	55	-	15	Accumulated other comprehensive income (loss)
Total equity attributable to equity holders of the Corporation		33,637	(4,648)	-	28,989	Total equity attributable to equity holders of the Corporation
Non-controlling interest	H	-	(1)	-	(1)	Non-controlling interest
TOTAL EQUITY		33,637	(4,649)	-	28,988	**TOTAL EQUITY**
TOTAL LIABILITIES AND EQUITY		**49,577**	**(443)**	-	**49,134**	**TOTAL LIABILITIES AND EQUITY**

Reconciliation of total comprehensive income for the six months ended June 30, 2010

	Note	Previous CGAAP	Adjustments	IFRS	
REVENUE		$ 39,257	-	$ 39,257	Revenue
COSTS					
Operating and materials	B	34,551	(1,535)	33,016	Direct operating expenses
Selling, general and administrative		3,864	-	3,864	Selling, general & administrative
Amortization of property and equipment	A,B,C	2,702	292	2,994	Depreciation of property & equipment
Amortization of intangible assets	A	264	(58)	206	Amortization of intangible assets
Stock-based compensation	F	128	(7)	121	Share based compensation
Interest on long-term debt	B	184	223	407	Finance costs
Other interest and bank charges		74	(74)	-	
Foreign exchange gain		(6)	6	-	Foreign exchange gain
(Gain) loss on disposal of property and equipment	B,D	(605)	160	(445)	(Gain) loss on disposal of property and equipment
LOSS BEFORE INCOME TAX		**(1,899)**	**993**	**(906)**	**Loss before income tax**
Income taxes					Income taxes:
Current provision (recovery)		(314)	-	(314)	Current (provision) recovery
Future reduction		(142)	209	67	Deferred tax expense
		(456)	209	(247)	
NET LOSS		(1,443)	784	(659)	**Net Loss**
Other comprehensive income					Other comprehensive income
Unrealized loss on translating financial statements of self-sustaining foreign operations		23	(6)	17	Foreign currency translation differences – foreign operations
Other Comprehensive Loss		$ **(1,420)**	**778**	**$ (642)**	**Total comprehensive income (loss) for the period**
					Earnings attributable to:
				$ (657)	Owners of the Corporation
				(2)	Non-controlling interest
				$ (659)	
					Comprehensive income attributable to:
				$ (641)	Owners
				(1)	Non-controlling interest
				$ (642)	

Reconciliation of total comprehensive income for the three months ended June 30, 2010

	Note	Previous CGAAP	Adjustments	IFRS	
REVENUE		$ 18,350	-	$ 18,350	Revenue
COSTS					
Operating and materials	B	16,825	(791)	16,034	Direct operating expenses
Selling, general and administrative		1,905	-	1,905	Selling, general & administrative
Amortization of property and equipment	A,B,C	1,264	141	1,405	Depreciation of property & equipment
Amortization of intangible assets	A	132	(29)	103	Amortization of intangible assets
Stock-based compensation	F	87	(23)	64	Share based compensation
Interest on long-term debt	B	101	111	212	Finance costs
Other interest and bank charges		39	(39)	-	
Foreign exchange gain		(1)	1	-	Foreign exchange gain
(Gain) loss on disposal of property and equipment	B,D	(218)	86	(132)	(Gain) loss on disposal of property and equipment
LOSS BEFORE INCOME TAX		**(1,784)**	**543**	**(1,241)**	**Loss before income tax**
Income taxes					Income taxes:
Current provision (recovery)		(505)	-	(505)	Current (provision) recovery
Future reduction		(44)	91	47	Deferred tax expense
		(549)	91	(458)	
NET LOSS		(1,235)	452	(783)	**Net Loss**
Other comprehensive income					Other comprehensive income
Unrealized loss on translating financial statements of self-sustaining foreign operations		58	(3)	55	Foreign currency translation differences – foreign operations
Other Comprehensive Loss		$ **(1,177)**	**449**	**$ (728)**	**Total comprehensive income (loss) for the period**
					Earnings attributable to:
				$ (791)	Owners of the Corporation
				8	Non-controlling interest
				$ (783)	
					Comprehensive income attributable to:
				$ (741)	Owners
				13	Non-controlling interest
				$ (728)	

Explanation to the notes in reconciliations of equity, earnings and comprehensive income noted above are as follows:

(A) Impairment loss

The Corporation was required to apply IAS 36 *Impairment of Assets* on the January 1, 2010 transition date.

As a result, it recognized a $7,000 decrease in property and equipment and finite life intangibles ($6,756 in the Canadian segment and $244 in the US segment) and a corresponding impact on deferred tax assets of $1,859 for a net increase to deficit of $5,141 on the January 1, 2010 opening consolidated statement of financial position.

As a result of this change, property and equipment depreciation expense decreased for the three and six months ended by $277 and $554 respectively. Amortization of intangible expense decreased for the three and six months ended by $29 and $58 respectively.

IFRS uses a one step approach for both testing for and measurement of impairment, with carrying values compared directly to the higher of fair value less costs to sell and value-in-use (calculated using discounted cash flows).

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash generating unit in an arm's-length transaction between knowledgeable, willing parties less costs of disposal. Value-in-use is the present value of the future cash flows expected to be derived from the continuing use of an asset and from its ultimate disposal or from a cash-generating unit.

Under IFRS, the estimated future cash flows used in calculating value-in-use are discounted using the rate that reflects the market's assessment of risks specific to the asset or cash-generating unit. A significant factor in determining whether HSE had impaired assets at January 1, 2010 was the fact that the carrying value of its net assets exceeded its market capitalization. The recoverable amount was based on fair value less costs to sell.

Estimating fair value less costs to sell requires management judgment. The estimate was based on the Corporation's share price as of January 1, 2010 and an estimation of applicable control premiums based on comparative companies. To assess the reasonableness of the calculated fair value, fair values were also calculated by applying Enterprise Value / EBITDA multiples to both budgeted EBITDA and analyst predictions of EBITDA.

(B) Property and equipment under finance lease

The Corporation is treating its light vehicle leases as finance leases. At January 1, 2010, the net book value of property and equipment increased by $7,135, loans and borrowings increased by $5,526, and opening deficit decreased by approximately $1,609 pre-tax.

As a result of this change, earnings before income tax increased for the three and six months ended by $237 and $477 respectively.

	Three months ended June 30, 2010	Six months ended June 30, 2010
Direct operating expenses	718	1,433
Depreciation and amortization	(359)	(714)
Loss on disposal of leases	(51)	(90)
Finance costs	(71)	(152)
Earnings adjustment before income tax	**$** 237	**$** 477

(C) Property and equipment componentization

The componentization of required assets resulted in a decrease to net book value of property and equipment of $273 and an increase in pre-tax opening deficit of $273 as at January 1, 2010.

As a result of this change, earnings before income taxes decreased by $61 ($59 depreciation expense and $2 loss on disposal of assets) for the three months ended June 30, 2010 and decreased by $135 ($133 depreciation expense and $2 loss on disposal of assets) for the six months ended June 30, 2010.

(D) Deferred gain

The Corporation entered into sale and leaseback transactions in 2008 for 3 properties owned in Fort McMurray, Alberta. Under previous Canadian GAAP, the $700 in gains were deferred and amortized over the life of the leases. However under IFRS, if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss has to be recognized immediately.

The effect was to write off the deferred gain under liabilities and decrease deficit by $456 at January 1, 2010, and to decrease gain on disposal of property and equipment by $34 for the three months ended June 30, 2010 and $68 for the six months ended June 30, 2010.

(E) Provisions

Onerous contracts

As part of a prior acquisition, HSE assumed a long-term operating lease for a building. The building is not required for HSE operations at this time and is not currently subleased. HSE has identified this lease as an onerous contract. HSE recorded $2,228 as a provision at January 1, 2010 with a corresponding pre-tax increase to opening deficit. As a result of this change, earnings before taxes increased for the three and six months ended by $54 and $108 respectively.

Legal

A provision must be made when a Corporation has a present obligation and the amount is known or can be estimated. As part of the IFRS transition, a review of HSE legal claims was performed at January 1, 2010 and at March 31, 2010 and June 30, 2010. As a result of this review, earnings before taxes increased by $18 for the three months ended June 30, 2010 and earnings before taxes decreased by $8 for the six months ended June 30, 2010.

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Onerous Contracts	Legal	Total	Onerous contracts	Legal	Total
Direct operating costs	55	18	73	110	(8)	102
Finance costs	(1)	–	(1)	(2)	–	(2)
Earnings adjustment before income tax	54	18	72	108	(8)	100

(F) Share based compensation

Under IFRS, the liability related to cash-settled share-based payments (deferred share units) must be adjusted quarterly to reflect the fair value of the outstanding shared-based payments. For equity settled instruments an estimated number of forfeitures must be used and then adjusted to the actual number of forfeitures for the period.

The change in respect of equity-settled share-based payments is to increase stock compensation expense and increase contributed surplus by $14 for the six months ended June 30, 2010. The change for the three months ended June 30, 2010 was nil.

The change in respect of cash-settled share-based payments is to decrease stock compensation expense of directors and decrease the DSU liability by $23 for the three months ended June 30, 2010 and by $21 for the six months ended June 30, 2010.

	Three months ended June 30, 2010	Six months ended June 30, 2010
Share based compensation		
Deferred Share Unit (offset is in liabilities)	23	21
Stock options (offset is in contributed surplus)	-	(14)
Earnings adjustment before income tax	**$** 23	**$** 7

(G) Prepaid expenses and other assets

The Corporation sold at fair value certain plant and equipment from Canada to one of its subsidiaries in the US in the third quarter of 2008, resulting in a taxable capital gain in Canada. Under IFRS, the capital gains tax paid in Canada is treated as current tax. The effect was to write off the other current asset resulting in a decrease of 'prepaid expenses and other assets' and an increase in deficit by $33 at June 30, 2010.

(H) Non-controlling interest

Under IFRS, the Corporation is required prospectively from January 1, 2010 to allocate comprehensive losses to non-controlling interest based on their effective interest, even if this results in a deficit non-controlling interest balance.

(I) Accumulated other comprehensive income (loss)

The foreign currency translation amounts recorded in accumulated other comprehensive income are a decrease of $3 for the three months ended June 30, 2010 and a decrease of $6 for the six months ended June 30, 2010.

(J) Deferred tax liabilities

The above changes decreased (increased) the deferred tax liability as follows based on a tax rate of 26 percent:

	Note	June 30 2010
Deferred tax liability under Canadian GAAP		4,035
Differences increasing (decreasing) the deferred tax liability:		
Impairment loss on property and equipment	A	(1,769)
Property and equipment under finance lease	B	1,579
Property and equipment - componentization	C	(111)
Deferred gain	D	99
Provisions	E	(548)
Share based compensation	F	16
Prepaid expenses and other assets	G	5
Finance obligations	I	(1,051)
Deferred tax liability under IFRS		2,255

The effect on the statement of comprehensive income for the three and six months ended June 30, 2010 was to decrease the previously reported tax recovery for the period by $91 and $209 respectively.

(K) Reclassifications

The amounts presented as reclassifications in the reconciliations above represent those amounts that were already recognized and measured under previous Canadian GAAP, but were presented under a different line item within the consolidated interim statement of financial position or the consolidated interim earnings statement. These amounts are now reclassified to conform to presentation and disclosure requirements under IFRS.