



HSE INTEGRATED LTD.
(the “Corporation” or “HSE”)

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2010

March 24, 2011

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FORWARD-LOOKING INFORMATION

Certain statements in this Annual Information Form 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 which 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 Annual Information Form, 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 which management believe to be appropriate under the circumstances. These forward-looking statements include among others:

- As it expands its client and service base with an emphasis on providing services to clients on continuous 24/7/365 basis when possible, the Corporation is increasingly acting as a source of “outsourcing” for services historically provided by the client. This provides revenue stability and higher margins. The Corporation is confident that servicing the Industrial sector will be a permanent and growing component of the HSE business mix in the future, and that in the future more contracts will be on an outsource basis providing health and safety services that traditionally the client has provided itself using internal resources.
- The overall outlook for HSE in 2011 is generally positive, particularly when compared to a year ago.
- HSE intends to use [the acquisition of Taylored Safety Services inc.] as a foundation from which to grow health and safety consulting services in multiple markets.
- HSE believes that over time the amount of health and safety services provided by third-parties through outsourcing will continue to grow, thus providing HSE with an ongoing growth opportunity regardless of the growth of the overall economy.

The forward-looking statements contained in this Annual Information Form 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, MD&A 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 Annual Information Form speak only as of the date of this Annual Information Form, 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.

HSE INTEGRATED LTD.

General

The Corporation was incorporated under the *Business Corporations Act* (Alberta), (collectively with the regulations there under “ABCA”), as “791411 Alberta Ltd.” on July 2, 1998.

On August 6, 1998, the Corporation changed its name to “High Five Oilfield Services Ltd.” and filed Articles of Amendment to amend the authorized share structure to an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On May 26, 1999, the Corporation filed Articles of Amendment to remove the share transfer and private Corporation restrictions. On September 8, 2000, the Corporation changed its name to “Patch Safety Services Ltd.” On January 1, 2002 the Corporation amalgamated with Patch H2S Services Ltd. and Think H2S Safety Service Ltd. and continued as “Patch Safety Services Ltd.”. On August 31, 2004 the Corporation changed its name to “HSE Integrated Ltd.”, and completed a share consolidation of common shares (the “Common Shares”) on the basis of one new Common Share for every five (5) existing Common Shares held. On July 18, 2005 the Corporation filed Articles of Amendment to add Schedule B “Other Rules and Provisions” allowing the Directors to appoint additional directors between annual general meetings (“AGM”), pursuant to the ABCA. On January 1, 2006 the Corporation amalgamated with 1071971 Alberta Ltd., 1140119 Alberta Ltd., 1211185 Alberta Ltd., 1211876 Alberta Ltd., 550870 Alberta Ltd., 921577 Alberta Ltd., Bluestar EMS Ltd., Bluestar EMS Safety Ltd., Confined Space Response Services Inc., Mobile Safety Service Ltd., Patch International Ltd., Scotford Safety Inc., and SDS Group Inc. and continued as “HSE Integrated Ltd.” On January 1, 2007 the Corporation amalgamated with Bear’s Safety & Rescue Services Ltd., J.E.C. and Company Ltd. and Sentry Fire Equipment Ltd. and continued as “HSE Integrated Ltd.” Also on January 1, 2007 the Corporation amalgamated with Key Safety Services Inc. and continued as “HSE Integrated Ltd.” Additionally on January 1, 2007 the Corporation amalgamated with Key Monitoring Solutions Corp. and continued as “HSE Integrated Ltd.” On July 1, 2007 the Corporation acquired all the outstanding shares of Prairie Wide Safety Ltd. and on January 1, 2008, Prairie Wide Safety Ltd. and 1370512 Alberta Limited amalgamated with the Corporation and continued as “HSE Integrated Ltd.”

The initial purpose of the Corporation was to build a larger and more diversified supplier of industrial health, safety and environment services to the upstream conventional oil and gas industry. HSE’s growth strategy was to take place through acquisition, internal growth, and the consolidation of multiple competitors serving a single industry into a more efficient and effective business unit. On October 27, 2003, a new executive management team and Board of Directors were appointed. The new executive management and Board of Directors established the long term objective of expanding beyond upstream conventional oil and gas into other industries and other geographic regions to become a national supplier of a diversified suite of related health, safety and environment services.

The head office of the Corporation is located at Suite 1000, 630 – 6th Avenue SW, Calgary, Alberta, Canada T2P 0S8.

The registered office of the Corporation is located at Suite 3500, Bankers Hall East, 855 - 2nd Street SW, Calgary, Alberta, Canada T2P 4J8.

Intercorporate Relationships

HSE has subsidiaries that have assets, sales and operating revenues that individually do not exceed 10%, and in the aggregate did not exceed 20%, of the total consolidated assets or total consolidated sales and operating revenues, respectively, of the Corporation as at, and for the year ended, December 31, 2010.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year

2008

On May 7, 2008, the Corporation and Boots & Coots, Inc. (“B&C”) announced the creation of a jointly owned new partnership called Boots & Coots HSE Services, LLC. (“BCHSE”) to provide on-site health and safety services to upstream oil and gas operators in the United States. Since operations began in early 2009, BCHSE has conducted operations from Midland/Odessa, Decatur and Longview in Texas, Oklahoma City, and Shreveport, Louisiana. The joint venture was headquartered in Houston, Texas with its Board of Directors comprised of representatives of both B&C and HSE. HSE has been the operating partner responsible for equipment, manpower and operations but has received support from B&C through sales and marketing, operational support and facilities.

In 2008 HSE opened a new service location in Stoney Creek adjacent to the industrial centre of Hamilton, Ontario. This was to serve the heavy industries located in this region of Ontario as well as establish a service location close to the densely populated and industrialized Greater Toronto Area.

In 2008 HSE continued to expand the industrial segment of its business in multiple markets. This was the first fiscal year in which Industrial health and safety revenues exceeded revenues from the Oilfield segment.

2009

In response to the recession that resulted in a significant downturn in business early in the 2009 fiscal year, during 2009 the Corporation undertook a series of cost reductions including staff reductions, pay cuts and operating cost reductions. Field service locations in Pincher Creek, Alberta and Slave Lake, Alberta, were closed since they were no longer profitable because of reduced oilfield activity. The field service location in Sudbury, Ontario, was suspended because of the dramatic downturn in business caused by the closure of the two major mining operations in the area.

HSE opened a regional medical facility northeast of Fort McMurray adjacent to a large industrial housing complex in August of 2009. This was a new business model offering pro-active health services (preventative and diagnostic services as opposed to services to treat existing injuries or ailments) and return-to-work services such as physiotherapy. This project achieved cashflow-positive status during 2010 and the opportunity to gain two further major supporting clients was established in the third quarter of 2010. This business model has the potential for expansion into other geographic areas.

A new field service location was opened in St. John’s, Newfoundland & Labrador, to serve the offshore oil industry and the growing resource business in that province. A satellite location was opened in Happy Valley Goose Bay Newfoundland & Labrador through a partnership with a local aboriginal-based business to service local industry and position HSE for the potential construction of the Lower Churchill Falls hydro-electric power development project.

2010

In January of 2010 HSE opened a field service location in Fort Nelson, B.C., to service the growing Horn River shale gas development project and other oil and gas drilling, production and processing activities in northern B.C..

On April 12, 2010 B&C announced that it had entered into an agreement under which all of its shares would be acquired by Halliburton, a transaction that was completed on September 17, 2010. On January 18, 2011, the board of directors of BCHSE confirmed that BCHSE would continue with Halliburton as a partner and approved the 2011 strategic plan and capital budget of \$0.8 million for safety equipment for existing markets in Texas.

On April 27, 2010, the Corporation entered into a \$15.0 million credit facility with a regional financial institution. The facility consists of a \$10.0 million operating revolving loan facility for general operating purposes and a \$5.0 million non-revolving term loan facility. The two facilities were used to retire the \$5.3 million in bank debt from a previous lender. The \$5.0 million non-revolving term facility is repayable in monthly payments starting July 1,

2010. The facility is payable in full 48 months after initial drawdown. The operating facility is renewable annually and is margined to accounts receivable. Both facilities bear interest at prime plus a fixed percentage. A standby fee is also required on any unused portion of the operating facility. Both facilities are subject to certain covenants including a working capital covenant, a debt to equity covenant, a fixed charge coverage ratio and other positive and negative covenants. The facilities are collateralized under a general security agreement which includes accounts receivable and property and equipment.

On December 21, 2010, HSE completed the first closing of its \$2.0 million 10% convertible debenture financing as announced November 9, 2010, with total proceeds of \$1.9 million. The debentures have a coupon rate of 10%, a term of 3 years and are convertible into common shares of the Corporation at a conversion price of \$0.50 per share. The redemption of the debentures is tied to the market price of the Corporation's shares. A subsequent closing for the remaining \$0.1 million took place January 18, 2011. The proceeds will be used to fund part of the Corporation's 2011 capital program.

Significant Acquisitions

There were no significant acquisitions in 2010 by the Corporation.

On January 24, 2011, HSE announced the acquisition of Taylored Safety Services Inc. ("Taylored") of Halifax, Nova Scotia. Taylored provides safety consulting services and industrial health and safety training to industry. The acquisition was effected pursuant to the terms of a share purchase agreement among HSE and the holders of all of the outstanding shares of Taylored (the "Taylored Shares"). At closing, HSE acquired 100% of the Taylored Shares valued at \$0.54 per share on January 24, 2011 satisfied through the issuance of 1,137,532 common shares of HSE. Thomas Hickey, a director and founder of Taylored, has assumed the position of President of HSE. Jocelyne Clarke, President of Taylored, has assumed the position of Technical Manager, Consulting Services of HSE. HSE intends to use this acquisition as a foundation from which to grow health and safety consulting services in multiple markets.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

General

HSE provides an integrated suite of worker, asset and community health and safety protection services to the private and public sector. The Corporation's core objective is to become industry's preferred safety partner to address health, environmental and safety risks in the workplace. To achieve this, the Corporation employs a comprehensive health and safety equipment asset base and a dedicated and highly-trained expert workforce whose sole purpose is to deliver services within the Corporation's mission to help its clients cost-effectively protect workers, assets and the community.

Overview of Operations

HSE's services are delivered primarily through a rental/service model which is a combination of specialized health and safety rental equipment and expertise provided by highly trained specialists in a number of disciplines. HSE has assembled the largest equipment fleet of its type operating in Canada and, as noted, services are provided by a combination of professional staff and specialized contractors at the customer's site.

Offices and Field Service Locations

Corporate Offices (2)

- Head Office – Calgary, Alberta
- Regional Corporate Office – Houston, Texas

Field Service Locations (21)

West:

- British Columbia – Ft. St. John and Ft. Nelson
- Alberta – Fort McMurray, Grande Prairie, High Level, Whitecourt, Fort Saskatchewan, Bonnyville, Brooks/Medicine Hat, Red Deer/Sylvan Lake
- Saskatchewan – Weyburn
- Manitoba - Melita

East:

- Ontario – Sarnia, Windsor, Hamilton
- New Brunswick – Saint John
- Nova Scotia – Dartmouth
- Newfoundland & Labrador – St. John's, Happy Valley Goose Bay (satellite location)

United States:

- Michigan – Taylor
- Texas – Midland

Description of Services

HSE's services fall into these three main groups: *Health, Safety and Environment*.

Health services include:

- Onsite First Aid – Mobile
- Onsite First Aid – Fixed
- Remote Medical Clinics
- Industrial Ambulance
- Audiometric (Hearing) Testing
- Drug and Alcohol Testing
- Breathing Apparatus Fit Testing
- Industrial Hygiene Service
- Nursing and Health Diagnostic Services

Safety services include:

- Breathing Air Equipment and Services
- Mobile Fire Protection and Control
- Fixed Fire Suppression System Supply, Design and Servicing
- Worker Decontamination
- Safety Supervision
- Shutdown and Turnaround Services and Crews
- Confined Space Entry and Rescue
- High Angle Rescue
- Worker Safety Training
- Health and Safety Consulting and Supervision
- Safety Programs and Manuals

Environment services include:

- Stationary Air Quality Monitoring and Remote Communication System
- Mobile Downwind Air Quality Monitoring
- Plume Dispersion Modeling
- Gas Detection Equipment
- Noise Testing
- Airborne Hydrocarbon Neutralization
- Hydrocarbon Neutralization

Business Sectors Served

HSE supplies these services to the following private and public sector business segments.

- Upstream Oil and Gas
- Midstream Oil and Gas
- Downstream Oil and Gas
- Oilsands Mining, Extraction and Processing
- Petrochemical Facilities
- Pulp and Paper
- Municipal Utility Services
- Forestry and Logging
- Automotive
- Food and Beverage Processing
- Power Generation (Gas Fired, Coal Fired, Nuclear)
- Offshore Oil and Gas Exploration and Production
- Mining
- Mineral Smelting
- Chemical Manufacturing
- Natural Gas and Oil Transmission
- Metals Manufacturing
- Meat Packing
- Provincial Resource Regulatory Agencies

Competitors, Suppliers and Customers

HSE provides safety supervision services, expertise and specialized equipment to assist our customers in protecting workers, assets and the environment. HSE's long-term objective is to become industry's preferred supplier of health, safety and environment protection services, allowing our customers to focus internal capital and manpower resources on their core business.

HSE estimates that the major, safety-intensive business sectors of the Canadian economy listed above spend between approximately 0.5% to 3% of revenue, or \$7 billion per year on a sectoral GDP basis, on all aspects of worker, asset and community protection. This includes worker safety training; protective clothing and related protective equipment; safety administration; asset protection equipment; worker protection equipment; community protection equipment and services; safety supervision; and contract health and safety services on a continuous or short term contract basis. Although HSE is the largest provider of third-party health and safety services in Canada, the larger provider is the owner and operator of industrial assets, operations or public and private facilities. HSE believes that over time, clients will outsource their worker, asset and community protection requirements, currently handled internally, to expert providers such as HSE. In the past seven years the amount of business HSE generates from outsourced safety services (defined as historically provided by the client) has risen from zero to approximately 20% of gross revenue. HSE believes that over time the amount of health and safety services provided by third-parties through outsourcing will continue to grow, thus providing HSE with an ongoing growth opportunity regardless of the growth of the overall economy.

Competitors

HSE's largest competitor, as measured by entities that provide the same suite of services as HSE and where the total safety dollars are spent, has been the customers themselves. Historically the primary provider of safety and worker and asset protection services has been the asset owner/industrial operator. In high hazard industrial facilities such as oil refineries or chemical plants, the facility operators in most cases purchase safety equipment from manufacturers or distributors and manage their safety initiatives with staff personnel. They may bring in expert third-parties to service and repair their safety equipment and for specific, high hazard operations such as shutdowns and turnarounds, but would rely primarily on staff personnel for front line protection and hazard mitigation. An oilsands plant, for example, may have its own breathing air equipment, operate its own fire department, operate an internal

first aid medical facility, perform its own air quality monitoring, and may do a high degree of worker safety training in-house.

The largest companies in the industrial and government safety services segment are safety equipment suppliers and distributors. These companies are not manufacturers. The manufacturers of safety equipment tend to be multinational companies that service Canada through local distributors.

However, where safety services are outsourced, the providers have tended to be privately owned companies which are regionally based and who tend to provide a specialized set of services. Annual revenues of \$5.0 million would be a large player in this space. As a result, the outsourced safety services industry has been highly fragmented. Historically, the largest purchaser of outsourced safety services has been the upstream petroleum industry. In this marketplace, HSE has several competitors with revenues in excess of \$5.0 million per year.

Recently, and for the first time in the Corporation's existence, a larger, private-equity financed U.S. safety services provider has opened operations in Canada. This may indicate two trends that have never existed before: the growth of other health and safety consolidators like HSE (this new competitor is based in Houston), and the recognition by larger international health and safety services providers of the potential of the Canadian market. While in the short term this appears to be a negative trend, in the long term the existence of more than one large, integrated, multi-service health and safety provider like HSE in the market will likely increase the market for outsource opportunities because the client will have a replacement option if service quality is not delivered by the current provider. Further, it indicates that going forward health and safety services will be less of an owner-operator business as public companies like HSE and private-equity funds consolidate and expand the business.

HSE management continues to actively monitor the competitive environment. HSE's greatest potential for growth in the future will be determined by the degree to which HSE can convince clients who conduct most of their own safety operations and management, to outsource these initiatives.

Suppliers

HSE purchases the majority of its equipment from several manufacturers and distributors. Most of the safety equipment used by HSE is broadly employed in the safety sector in multiple industries around the world. The only product HSE builds internally is its stand alone air quality monitoring and communications system which employs unique and proprietary data collection and transmission software.

Because of the total size of the Canadian and global safety industry, there are multiple suppliers and alternative sources of all the safety equipment HSE employs. HSE's future prospects are in no way restricted by any single supplier relationship.

Customers

For the year ended December 31, 2010, one customer provided more than 10% of the Corporation's revenue. Sales to this customer amounted to \$8.5 million during the year, mostly related to callout Oilfield health and safety services. For the year ended December 31, 2009, one customer provided more than 10% of the Corporation's revenue. Sales to this customer amounted to \$8.9 million during the year related to ongoing long-term industrial projects located entirely in Canada.

The Corporation currently provides services to its customers in two main business areas: Oilfield health and safety services ("Oilfield") and Industrial health and safety services ("Industrial"). Oilfield is services to the conventional upstream or "wellhead", sector of the oil and gas industry. Industrial represents services delivered to all other industries including non-conventional upstream oil and gas development and production (primarily oilsands mining and bitumen extraction), oil and gas processing and refining plants and facilities, diverse non-petroleum resource and manufacturing industries, offshore oil and gas, worker safety training, and safety management and consulting services.

The revenue in the two most recently completed financial years for these services is shown below (amounts in thousands of Canadian dollars):

	Year Ended Dec. 31, 2010	Year Ended Dec. 31, 2009	Year Over Year % Change
Industrial	\$47,274	\$54,298	-12.9%
Oilfield	34,754	27,303	27.3%
Total Revenue	\$82,028	\$81,601	0.5%

As a % of Revenue:

Industrial	57.6%	66.5%
Oilfield	42.4%	33.5%
Total Revenue	100.0%	100.0%

In the past seven years HSE has diversified its client base substantially in terms of the number of companies it works for, their geographic location, and their segment of the Canadian economy. HSE has gone from being 100% focused on Oilfield in western Canada to a growing range of clients in multiple industries across Canada.

HSE's largest competitors – competitors measured as organizations with higher revenues and manpower employed – have been HSE's customers themselves. HSE's smaller competitors generally do not have the financial, equipment or manpower resources to be able to service many of the new clients and projects HSE is currently servicing.

In executing the Corporation's diversification strategy, marketing efforts, equipment and manpower resources were redeployed into the Industrial component of the business to expand the Corporation's client base and assist in reducing the cyclicity and seasonality of safety services provided to the conventional upstream oil and gas sector. Between the Corporation's entry into this sector in 2004 and the start of the recession in 2008, HSE has consistently grown this business sectorally (by industry) and geographically (by region).

As it expands its client and service base with an emphasis on providing services to clients on continuous 24/7/365 basis when possible, the Corporation is increasingly acting as a source of "outsourcing" for services historically provided by the client. This provides revenue stability and higher margins. The Corporation is confident that servicing the Industrial sector will be a permanent and growing component of the HSE business mix in the future, and that in the future more contracts will be on an outsource basis providing health and safety services that traditionally the client has provided itself using internal resources.

The overall outlook for HSE in 2011 is generally positive, particularly when compared to a year ago.

The global economy is still burdened by significant challenges including: a dependence upon government stimulus and rising public debt for economic growth; flat or falling housing prices; high levels of unemployment and personal debt; and restricted access to credit for all but the most credit-worthy borrowers. HSE's cost of capital on the equity side remains high with the Corporation's share value on the TSX trading at a fraction of book value and former levels. This depressed share price restrains the Corporation's expansion opportunities.

Encouraging developments include stable or rising commodity prices (for virtually all commodities with the exception of natural gas), low interest rates, improving public capital markets, a resolution of Alberta's New Royalty Framework issue, and a gradual increase in non-consumer industrial activity. HSE's client base is heavily biased towards commodities and resources and essential industries such as food, heavy manufacturing (automobiles and trucks), and power generation. The Corporation has minimal exposure to luxury goods, residential housing, and other industries that rely heavily on the after-tax disposable income of the consumer.

Seasonality

HSE's business has two offsetting seasonal components. Revenue for Oilfield health and safety services is historically highest in first and fourth quarters and lowest in the second quarter because this sector uses equipment that can only access well locations during certain times of the year and because of the effects of weather on field

activity. Industrial revenue includes a mix of year round contracts and “turnarounds” – scheduled major maintenance projects and repair activities on client facilities. These turnarounds tend to be scheduled during the second and third quarters to avoid the possibility of adverse effects from freezing weather. As a result, Industrial revenue tends to be highest in the second and third quarters.

Specialized Skills and Knowledge

Numerous institutions across Canada teach specialized courses required by HSE personnel such as industrial firefighting and industrial first aid. In the area of breathing air safety, particularly for the upstream petroleum industry, HSE has developed specialized in-house training and staff development programs for its front-line safety personnel. Workers trained in public safety services such as health care (emergency medical responders, paramedics) and fire protection are ideally suited as employees for HSE. This broad spectrum of trained workers exists in every area in which HSE operates and has been a consistent source of highly trained and competent safety professionals.

Health, Safety and Environment are seen as growing sectors of the economy and as such post-secondary institutions – public and private - are offering an increasing range of courses and programs in these areas.

Employees

As at December 31, 2010 the Corporation employed 633 full time employees.

Foreign Operations

The Corporation has U.S. operations which consist of CRS Technologies Inc. which operates from Taylor, Michigan (a suburb of Detroit), and Boots & Coots HSE Services LLC (“BCHSE”) which operates from a head office in Houston, Texas. On a year-over-year basis, HSE’s U.S. operations have significantly improved and continue to grow. Revenue for 2010 increased to \$4.3 million from \$1.7 million in 2009. EBITDA increased to \$1.2 million for 2010 from negative \$0.9 million in 2009.

For 2011 HSE has committed to a capital program of \$0.8 million to expand the capacity of BCHSE. There is a capital program of \$0.1 million slated for the Taylor, Michigan location. As the year progresses, these amounts may be increased if customer demand warrants the investment.

HSE is continually presented with opportunities to expand into or provide services to clients outside of North America. This has been done periodically on a project-by-project basis. Projects have included safety work and equipment rentals in eastern Europe in the past five years for Canadian clients, and training services within China, again for Canadian clients. While the Corporation has no immediate plans for further international expansion, if the right opportunity at an acceptable level of risk presents itself HSE is capable of expanding into new international markets.

Social and Environmental Policies

As industrial society develops and Canada’s industrial base expands, increasingly complex hazards to workers, assets and the community have emerged.

At the same time, public and regulatory pressures to improve protection for all parties continue to grow. A great deal of the growth of the health and safety industry in the past years and decades has been caused by: a) accidents that injure people and destroy assets; b) investigation of those accidents that determine the degree to which they were preventable; c) increased diligence by business and industry to prevent accidents; and d) increased government legislation and regulations to protect all stakeholders.

Political and industry responses to regional, national and international events affect the demand for the services the Corporation provides.

The BP Macondo blowout in the Gulf of Mexico earlier this year has renewed interest in the need for regulations and procedures in the United States that ensure drilling, completion and production operations are performed safely, both offshore and on land. There is also growing concern about the safety of shale gas drilling both in the area of protection of the local communities during surface operations and the potential for subsurface contamination of groundwater through the hydraulic fracturing process. The Corporation is of the view that these heightened concerns for worker, asset and community health and safety protection in the United States are positive developments for BCHSE and the Taylor, Michigan field service location.

RISK FACTORS

The following are factors relating to the business of the Corporation. All of these risk factors could negatively impact the Corporation's consolidated revenue, expenses and cash flow. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and in the audited financial statements and notes for December 31, 2010, the MD&A for December 31, 2010 and other disclosure documents filed on SEDAR from time to time, all of which are available under HSE's profile on www.sedar.com.

The activities the Corporation undertakes involve a number of risks and uncertainties, some of which are summarized below. 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.

Business Cyclicity

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 our customers for crude oil and natural gas directly impacts their cash flow available to purchase our services. Fluctuations in crude oil and natural gas prices can produce periods of high and low demand for the Corporation's services. These fluctuations in commodity prices can cause cyclical demand swings in the Corporation's activity levels and operating results. As well, 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 reduces the price they receive. Also, since crude oil and natural gas prices are denominated in US currency, fluctuations in the Canadian dollar exchange rate relative to the US dollar can affect the cash flow available to our customers to purchase services including those provided by the Corporation. Exploration, development and production activity levels within particular markets are influenced by factors including royalty, 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 which is used to fund exploration, development and production activities.

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 our 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 we provide 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 that has more training and is more experienced in safety service provision than what 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

We generally invoice our customers in arrears for our services. Because of this, we are subject to the risk that our customers may delay payment of our 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 per cent 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 was 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 practice" 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 which 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 reoccurrence.

Availability of Financing

Historically, the Corporation has funded the growth of its operations and its acquisitions from bank debt, the issuance of share capital, 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 the Corporation 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 competitive financing are unavailable.

Foreign Exchange Exposure

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

DIVIDEND RECORD AND POLICY

The Corporation has not paid any dividends on the Common Shares and currently intends to reinvest any earnings to fund the development and growth of its business. Any future payments of dividends will be at the discretion of the board of directors and will depend upon the financial condition, capital requirements and earnings of the Corporation as well as other factors it may deem relevant. The Corporation’s articles do not contain any restrictions on the payment of dividends.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares, without nominal or par value. The Common Shares shall each carry the right to vote at all meetings of the shareholders and, subject to the rights attached to the Preferred Shares, shall be fully participating as to dividends and distribution of capital upon liquidation or wind-up of the Corporation and shall include the right to receive such dividends as may be declared by the Corporation for Common Shares.

Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares of the Corporation (“Preferred Shares”), without nominal or par value, which may be issued in one or more series. Currently, there are no Preferred Shares issued and outstanding.

If and when issued, the Preferred Shares shall have the following rights, privileges, restrictions, and conditions:

The Preferred Shares are issuable in series and the designation of, and the rights or privileges, restrictions and conditions attached to any series of Preferred Shares are to be established by the Board of Directors of the Corporation prior to the issuance thereof. The Preferred Shares have a preference over the Common Shares and any class of shares of the Corporation ranking junior to the Preferred Shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. The Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series of Preferred Shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

MARKET FOR SECURITIES

The Common Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “HSL”. The Common Shares began trading on the TSX on June 8, 2007 and prior thereto were listed on the TSX Venture Exchange. The following table sets forth the monthly price ranges and volumes of trading of the Common Shares during 2010.

<u>Period</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January.....	\$0.48	\$0.425	1,113,189
February.....	\$0.49	\$0.36	4,233,215
March.....	\$0.58	\$0.41	1,792,340
April.....	\$0.53	\$0.45	1,478,538
May.....	\$0.47	\$0.42	683,263
June.....	\$0.44	\$0.395	361,660
July.....	\$0.415	\$0.37	209,660
August.....	\$0.39	\$0.305	4,526,903
September.....	\$0.40	\$0.365	134,400
October.....	\$0.425	\$0.36	517,595
November.....	\$0.44	\$0.385	582,388
December.....	\$0.54	\$0.395	750,874

DIRECTORS AND OFFICERS

Directors of the Corporation

The directors of the Corporation are nominated by the Shareholders of the Corporation at each annual meeting of Shareholders. All directors serve until the next annual meeting or until a successor is elected or appointed, unless his position is earlier vacated. The name, municipality of residence, year of appointment as a director of the Corporation and principal occupation for the past five years for each director of the Corporation are set forth below.

<u>Name and Residence</u>	<u>Director Since</u>	<u>Principal Occupation for Past Five Years</u>
Kenneth Bagan ⁽⁴⁾⁽⁵⁾ Calgary, Alberta, Canada	June 28, 2010	President of Enerchem International Ltd. (a manufacturer of hydrocarbon based drilling and completions fluids) from April 2008 to present. Prior thereto President and Chief Executive Officer of Wellco Energy Services Trust (a publicly traded oilfield services company) from December 2004 to March 2008.
James I. Brewster ⁽⁵⁾⁽⁶⁾ Bowden, Alberta, Canada	June 27, 2005	Retired independent businessman. President of the Corporation from June 2005 until May 2006. Vice Chairman of the Corporation from May 2006 until May 2008. Mr. Brewster was President of SDS Group Inc. and predecessor companies, providing similar services as the Corporation, from 1988 until June 2005.
Martin Hall ⁽³⁾⁽⁵⁾ Canmore, Alberta, Canada	June 28, 2010	Chartered Accountant and independent financial advisor. Director of Wellco Energy Services Trust from April 2005 to March 2008.

Name and Residence	Director Since	Principal Occupation for Past Five Years
		Director of Turnkey E&P Inc. (a publicly traded energy company) from May 2005 to August 2008. Senior Vice President Finance, Chief Financial Officer and Secretary of Tesco Corporation from 1994 to 2003.
James M. Hill ⁽⁴⁾⁽⁶⁾ Calgary, Alberta, Canada	October 27, 2003	Chief Financial Officer of GASFRAC Energy Services Inc. (a publicly traded oilfield services company) since June 2010. President and Chief Operating Officer of the Corporation from May 2006 to May 2010. Executive Vice President of the Corporation from November 1, 2005 to May 2006. Acting Chief Financial Officer of the Corporation from November 30, 2005 to May 2006. Mr. Hill was Chief Financial Officer of Integrated Production Services Inc. (formerly a publicly traded oilfield service company) from January 2002 to October 2005.
Bruce A. Levitt ⁽³⁾⁽⁴⁾ Toronto, Ontario, Canada	March 26, 2010	President and Chief Executive Officer of Levitt-Safety Limited, a private company which supplies safety equipment and services in Canada, since 1994.
Douglas F. Robinson ⁽²⁾⁽³⁾ Calgary, Alberta, Canada	October 27, 2003	Retired independent businessman. Prior thereto, President of Enerchem International Inc. (a publicly traded oilfield service company), from January 2004 until his retirement in April 2008. Prior thereto, he was the Chairman and Chief Executive Officer of Integrated Production Services Ltd. (formerly a publicly traded oilfield service company), from June 1999 to July 2002.
David L. Yager ⁽¹⁾⁽⁶⁾ Springbank, Alberta, Canada	October 27, 2003	Chairman and Chief Executive Officer of the Corporation since October 2003. Prior thereto, he was the President and a Director of Integrated Production Services Ltd. (formerly a publicly traded oil and gas services company) from April 2000 to December 2002.

Notes:

- (1) Chairman of the board of directors.
- (2) Lead Director
- (3) As at March 24, 2011, the Audit Committee is comprised of Martin Hall as Chairman, Bruce A. Levitt and Douglas F. Robinson.
- (4) As at March 24, 2011, the Compensation Committee is comprised of Bruce A. Levitt as Chairman, Kenneth Bagan and James M. Hill.
- (5) As at March 24, 2011, the Corporate Governance and Nominating Committee is comprised of Kenneth Bagan as Chairman, James I. Brewster and Martin Hall.
- (6) As at March 24, 2011 the Health and Safety Committee is comprised of James M. Hill as Chairman, James I. Brewster and David L. Yager.

Officers of the Corporation

The name, municipality of residence, position held and principal occupation for the past five years for each executive officer of the Corporation are set out below:

Name and Residence	Office	Principal Occupation for Past Five Years
David L. Yager Springbank, Alberta, Canada	Chairman & Chief Executive Officer	Chairman and Chief Executive Officer of the Corporation since October 2003. Prior thereto, he was the President and a Director of Integrated Production Services Ltd. (formerly a publicly traded oil and gas services company) from April 2000 to December 2002.
Thomas J. Hickey Halifax, Nova Scotia, Canada	President	Founder and owner of Front-Line Safety Services Inc. of Halifax until it was sold to the Corporation in April 2006. Vice-President Industrial Services for the Corporation from April 2006 to March 2007. Founder and Chairman of Taylored Safety Services Inc. in January 2010 until it was sold to the Corporation in January of 2011. Independent until he rejoined HSE as President in November 2010.
Glenn Roberts Calgary, Alberta, Canada	Chief Operating Officer	Chief Operating Officer of the Corporation since June 2010. Prior thereto, Executive Vice President of Western Operations of the Corporation from May 2007 to May 2010.

Name and Residence	Office	Principal Occupation for Past Five Years
Lori McLeod -Hill Calgary, Alberta, Canada	Chief Financial Officer and Corporate Secretary	Chief Financial Officer of the Corporation since October, 2008. Ms. McLeod-Hill previously held the position of Corporate Controller from May 2007. Prior to joining the Corporation, Ms. McLeod-Hill was Western Controller for Yellow Pages Group and Corporate Controller for Verizon Information Services Canada from September 2001 to February 2006.

As at December 31, 2010, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, a total of 5,540,333 Common Shares, representing approximately 14.7 per cent of the then issued and outstanding Common Shares of the Corporation. In addition, as at December 31, 2010, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, convertible debentures with a principal amount of \$335,000. If converted, the group would own or control an additional 670,000 Common Shares of the Corporation.

Corporate Cease Trade Orders or Bankruptcies

Except as set forth below, during the ten years preceding the date of this AIF, no current director or executive officer of the Corporation has been a director, chief executive officer or chief financial officer of any Company that was the subject of an order (as defined in 51-101F2) while such individual was acting in that capacity or that was issued after the director ceased to act as director, chief executive officer or chief financial officer and that resulted from an event that occurred while such individual was acting in such capacity.

Except as set forth below, no director or executive officer of the Corporation or a security holder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has, to the knowledge of the Corporation:

- (a) been a director or executive officer of any company that became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such person while that person was acting in that capacity or within a year of that person ceasing to act in that capacity; or
- (b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Hall was a director and Chief Financial Officer of Turnkey E&P Inc. ("Turnkey"), which is incorporated under the laws of Alberta and which traded on the Toronto Stock Exchange ("TSX"). Mr. Hall resigned as a director of Turnkey on August 12, 2008 due to a dispute over financial policies. On November 17, 2008, Turnkey's principal operating subsidiary in the United States filed for protection under Chapter 11 of the United States Bankruptcy Code and the bankruptcy was subsequently converted to Chapter 7 and is being liquidated by a Bankruptcy Trustee. Turnkey is the subject of a cease trade order by the Alberta Securities Commission issued on December 14, 2009 and by other securities commissions in Canada subsequent to that date for failing to file interim unaudited financial statements, interim management discussion and analysis and certification of interim filings for the interim period ended September 30, 2009.

Penalties or Sanctions

No director, officer or shareholder holding a sufficient number of securities to materially affect control of the Corporation has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Circumstances may arise where members of our Board of Directors or our officers are directors or officers of corporations or other entities which are in competition to our interests. No assurances can be given that opportunities identified by such board members or officers will be provided to us. Pursuant to the ABCA, a director or officer of a corporation who is a party to a material contract or proposed material contract with that corporation or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with that corporation shall disclose to the Corporation the nature and extent of the director's or officer's interest. In addition, a director shall not vote on any resolution to approve a contract of the nature described except in limited circumstances.

Management is not aware of any existing or potential material conflicts of interest between HSE or a subsidiary of HSE and one of our directors or officers or of one of the directors or officers of HSE's subsidiaries.

AUDIT COMMITTEE INFORMATION

The Audit Committee Charter

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibility by reviewing the systems of internal controls which management and the Board have established, the financial information of the Corporation, and by supervising the audit process. The text of the Audit Committee's charter is attached as Schedule A.

Composition of the Audit Committee

The members of the Audit Committee are Mr. Martin Hall (Chairman), Mr. Douglas F. Robinson and Mr. Bruce A. Levitt. Each member of the Audit Committee is independent and financially literate, as those concepts are defined in National Instrument 52-110 ("**NI 52-110**"). A member of the Audit Committee is considered to be *independent* if the member has no direct or indirect material relationship with the Corporation, including any subsidiaries. A material relationship means a relationship which could, in the view of the Corporation's Board of Directors, reasonably interfere with the exercise of a member's independent judgment. A member of the Audit Committee is considered to be *financially literate* if the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

Relevant Education and Experience

Martin Hall

Mr. Hall qualified as a Chartered Accountant in 1978 and has been involved in the oilfield services sector since 1994. From 1994 to April 2003 he was the Vice President Finance and Chief Financial Officer and Secretary of Tesco Corporation. Since 2004 he has held various board positions including Drillers Technology Corporation, a drilling contractor listed on the TSX (chairman and chair of the audit committee); Saxon Energy Services, a drilling contractor listed on the TSX (financial consultant); Wellco Energy Services Trust, a diversified oilfield services Corporation (director and chair of the audit committee and corporate governance committees); and Turnkey E&P, a TSX listed exploration and production Corporation and drilling contractor (Director and part-time Chief Financial Officer).

Douglas F. Robinson

Mr. Robinson was President of Enerchem International Inc. (a publicly traded oilfield service company), from January 2004 until his retirement in April 2008. Prior thereto, he was the Chairman and Chief Executive Officer of Integrated Production Services Ltd. (formerly a publicly traded oilfield service Corporation), from June 1999 to July

2002. Mr. Robinson has been a Director of Trican Well Service Ltd. (a publicly traded oil and gas service company) since June 1997; a Director of Desmarais Energy Corporation (a publicly traded oil and gas company) since May 2001; and a Director of Peak Energy Services Ltd. since June 2008.

Bruce A. Levitt

Mr. Levitt has been the President and Chief Executive Officer of Levitt-Safety Limited since 1994. Levitt-Safety is a family-controlled private business. Mr. Levitt obtained an MBA from Dalhousie University in June 1991.

External Auditor Service Fees

The following table presents fees for the audits of the Corporation's annual consolidated financial statements for 2010 and 2009 and for other services provided by KPMG LLP:

Nature of Services	2010	2009
Audit fees ⁽¹⁾	\$204,000	\$258,700
Audit-related fees ⁽²⁾	\$54,000	-
Tax fees ⁽³⁾		\$69,647
All other fees ⁽⁴⁾		-
Total	\$258,000	\$328,347

Notes:

- (1) "Audit fees" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's consolidated financial statements. Audit fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit fees also include audit or other attest services required by legislation or regulations, such as comfort letters, consents, reviews of securities filing and statutory audits.
- (2) "Audit-related fees" include services such as due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) "Tax fees" include fees for all tax services other than those included in audit fees and audit-related fees. This category includes fees for tax compliance, tax planning and tax advice. This category would include assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities as necessary.
- (4) "All other fees" include fees related to issue of shares and warrants and any other non-audit services.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings or regulatory actions to which HSE or any of its subsidiaries is a party, or to which any of their property is subject, is known to be likely considered material to the Corporation.

In addition, there were no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the 2010 financial year, no other penalties or sanctions imposed by a court or regulatory body against the Corporation in 2010 that would likely be considered important to a reasonable investor in making an investment decision, and no settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority during the 2010 financial year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

- During 2010, the Corporation paid rent and property taxes of \$275,000 (2009 – \$275,000) for a regional office to a corporation related to a director of the Corporation.
- During 2010, the Corporation also paid rent and property taxes of \$347,000 (2009 – \$343,000) for a regional office to a corporation controlled by a senior manager of the Corporation.
- During 2010, the Corporation paid \$265,000 (2009 - \$0) for supplies and commissions to a corporation related to a director of the Corporation pursuant to an agreement that predates the directorship. Of this amount, \$55,000 is included in accounts payable at year-end.

- A placement of \$335,000 convertible debentures to related parties for the year ended December 31, 2010.

TRANSFER AGENT AND REGISTRAR

Canadian Stock Transfer Company, Inc., acting as agent for CIBC Mellon Trust Company, is the registrar and transfer agent for the Common Shares at its principal offices in Calgary, Alberta and in Toronto, Ontario.

MATERIAL CONTRACTS

The Corporation is not a party to any material contract, other than contracts entered into in the normal course of business.

INTERESTS OF EXPERTS

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Calgary, Canada. KPMG LLP has confirmed that it is independent with respect to the Corporation in accordance with the rules of professional conduct in Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, for year ended December 31, 2010 will be contained in the Corporation's information circular for the Corporation's upcoming annual meeting of Shareholders scheduled for May 16, 2011. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2010 and the accompanying management's discussion and analysis thereon dated March 23, 2011.

SCHEDULE A

AUDIT COMMITTEE CHARTER

PART I ESTABLISHMENT OF COMMITTEE

1. Committee Purpose

The Audit Committee (the "**Committee**") is established by the board of directors (the "**Board of Directors**") of HSE Integrated Ltd. ("**HSE**") primarily for the purpose of overseeing the accounting and financial reporting processes of HSE and the reviews and audits of the financial statements of HSE.

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by monitoring, among other things:

- (a) the quality and integrity of the financial statements and related disclosure of HSE;
- (b) compliance by HSE with legal and regulatory requirements that could have a material effect upon the financial position of HSE which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole;
- (c) the independent auditor's qualifications and independence; and
- (d) performance of HSE's independent auditor.

2. Composition of Committee

The Committee shall consist of as many members as the Board of Directors shall determine, but in any event not fewer than three directors of HSE, provided that each member of the Committee shall be determined by the Board of Directors to be:

- (a) an "unrelated" and "independent" director as defined in, and for the purposes of, any applicable governance guidelines or listing standards of any stock exchange or securities commission upon which the securities of HSE are, from time to time, listed; and
- (b) an "independent" and "financially literate" director for the purposes of any applicable corporate, securities or other legislation or any rule, regulation, instrument, policy, guideline or interpretation under such legislation.

3. Appointment of Committee Members

The members of the Committee shall be appointed by the Board of Directors on the recommendation of the Governance and Nominating Committee. The members of the Committee shall be appointed at the time of each annual meeting of shareholders and shall hold office until the next annual meeting, until they are removed by the Board of Directors or until their successors are earlier appointed, or until they cease to be directors of HSE.

PART II COMMITTEE PROCEDURE

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board of Directors on the recommendation of the Governance and Nominating Committee and shall be filled by the Board of Directors

if the membership of the Committee is fewer than three directors. The Board of Directors may remove and replace any member of the Committee.

5. Committee Chair

The Board of Directors shall appoint a chair (the "**Chair**") for the Committee. The Chair may be removed and replaced by the Board of Directors.

6. Absence of Chair

If the Chair is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a director of HSE.

8. Regular Meetings

The Chair, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least quarterly. The Committee at any time may, and at each regularly scheduled Committee meeting shall, meet without management present and shall meet periodically with management and the independent auditor. The Committee shall also meet separately with the independent auditor at every regularly scheduled meeting of the Committee at which the independent auditor is present.

9. Special Meetings

The Chair, any two members of the Committee, the independent auditor or the Chief Executive Officer of HSE may call a special meeting of the Committee.

10. Quorum

Two members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

11. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or by e-mail or facsimile communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may, in any manner, waive notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

12. Agenda

The Chair shall develop and set the Committee's agenda, in consultation with other members of the Committee, the Board of Directors and management of HSE. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

13. Delegation

Subject to Part III subsection 19(e), the Committee shall have the power to delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.

14. Access

In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of HSE.

15. Attendance of Others at a Meeting

At the invitation of the Chair, one or more officers, directors or employees of HSE may, and if required by the Committee shall, attend a meeting of the Committee.

16. Procedure, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board of Directors when the Committee may deem appropriate (but not later than the next meeting of the Board of Directors).

17. Outside Consultants or Advisors

The Committee, when it considers it necessary or advisable, may retain, at HSE's expense, outside consultants or advisors (including independent counsel) to assist or advise the Committee independently on any matter within its mandate. The Committee shall have the sole authority to retain or terminate such consultants or advisors, including the sole authority to approve the fees and other retention terms for such persons.

PART III MANDATE OF COMMITTEE

18. Appointment of HSE's Independent Auditor

Subject to confirmation by the independent auditor of its compliance with Canadian regulatory registration requirements, the Committee shall recommend to the Board of Directors the appointment of the independent auditor for the purpose of preparing or issuing any audit report or performing other audit, review or attest services for HSE, such appointment to be confirmed by HSE's shareholders at each annual meeting. The Committee shall also recommend to the Board of Directors the engagement letter with the independent auditor, the approval of fees to be paid to the independent auditor for audit services and shall pre-approve the retention of the independent auditor for any permitted non-audit service. The Committee shall also be directly responsible for overseeing the work of the independent auditor (including resolution of disagreements between management of HSE and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for HSE. The Committee shall communicate directly with the independent auditor. The independent auditor shall report directly to the Committee.

The Committee shall review the independence of the independent auditor including a written report from the independent auditor delineating all relationships between the auditor and HSE, considering whether the advisory services performed by the independent auditor during the course of the year have affected its independence, and ensuring that no relationship or service between the independent auditor and HSE is in existence that may affect the objectivity and independence of the auditor, or recommending appropriate action to ensure the independence of the independent auditor.

19. Specific Mandates

The Committee, to the extent required by applicable laws or rules, or otherwise considered by the Committee to be necessary or appropriate, shall:

(a) Oversight in Respect of Financial Disclosure

- (i) review, discuss with management of HSE and the independent auditor, and recommend to the Board of Directors for approval:

- A. the audited annual financial statements;
 - B. the annual information form;
 - C. the annual management discussion and analysis;
 - D. the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant financial information respecting HSE;
 - E. all financial statements included in prospectuses or other offering documents;
 - F. any significant financial information contained in all prospectuses and all documents which may be incorporated by reference in a prospectus;
 - G. any significant financial information respecting HSE contained in a material change report or a business acquisition report;
- (ii) review, discuss with management of HSE and the independent auditor, and recommend to the Board of Directors for approval:
- A. the unaudited interim financial statements;
 - B. the quarterly management discussion and analysis;
 - C. the interim reports;
- (iii) review and discuss with management of HSE:
- A. each press release which contains significant financial information respecting HSE (including, without limitation, annual and interim earnings press releases) or contains earnings guidance, prior to public dissemination thereof;
 - B. the use of "pro forma" or "adjusted" non-GAAP information;
 - C. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made), and the Committee need not discuss in advance each instance in which HSE may provide earnings guidance or presentations to rating agencies;
- (iv) review with management and the independent auditor the scope of the audit, in particular the independent auditor's view of HSE's accounting principles as applied in the financial statements in terms of disclosure quality and evaluation methods, inclusive of the clarity of HSE's financial disclosure and reporting, degree of conservatism or aggressiveness of HSE's accounting principles and underlying estimates, and other significant decisions made by management in preparing the financial disclosure and reviewed by the independent auditor;
- (v) review with management of HSE and the independent auditor major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls and procedures for financial reporting and management information systems and inquire of management and the independent auditor about significant risks and exposures to the Corporation that could significantly affect HSE's financial statements;

- (vi) review with management of HSE and the independent auditor, and satisfy itself as to the adequacy of the procedures that are in place for the review of HSE's disclosure of financial information extracted or derived from HSE's financial statements, and periodically assess the adequacy of those procedures;
 - (vii) review with management of HSE and the independent auditor (including those of the following that are contained in any report of the independent auditor): (a) all critical accounting policies and practices to be used by HSE in preparing its financial statements; (b) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of these alternative treatments, and the independent auditor's assessment of the alternatives; and (c) other material communications between the independent auditor and management of HSE, such as any management letter or schedule of unadjusted differences;
 - (viii) review with management of HSE and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet transactions on HSE's financial statements;
 - (ix) review the plans of management of HSE and the independent auditor regarding any significant changes in accounting practices or policies and the financial and accounting impact thereof;
 - (x) review with management of HSE, the independent auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of HSE, and the manner in which these matters have been disclosed in the financial statements;
 - (xi) review disclosures by HSE's Chief Executive Officer and Chief Financial Officer with respect to any required certification for HSE's financial statements by such individuals; and
 - (xii) discuss with management HSE's material financial risk exposures and the steps management of HSE has taken to monitor and control such exposures, including HSE's financial risk assessment and financial risk management policies.
- (b) **Oversight in Respect of Legal and Regulatory Matters**
- (i) review, if necessary, with legal counsel, HSE's compliance policies, legal matters and any material reports or inquiries received from regulators or governmental agencies that could have a material effect upon the financial position of HSE and which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole.
- (c) **Oversight in Respect of the Chief Financial Officer**
- (i) consult with management on management's appointment, replacement, reassignment or dismissal of the Chief Financial Officer of HSE; and
 - (ii) ensure the Chief Financial Officer of HSE has access to the Chair, the Chairman of the Board of Directors and the Chief Executive Officer of HSE, and shall meet separately with the Chief Financial Officer of HSE to review any problems or difficulties he or she may have encountered in the performance of his or her responsibilities and report to the Board of Directors on such meetings.
- (d) **Oversight in Respect of the Independent Auditor**

- (i) meet with the independent auditor prior to the annual audit to review the planning and staffing of the audit;
 - (ii) review annually the independent auditor's formal written statement of independence delineating all relationships between itself and HSE and review all such relationships;
 - (iii) receive confirmation from the independent auditor as to its standing as a "participating audit firm" and its compliance with any restrictions or sanctions imposed by the Canadian Public Accountability Board as those concepts are set forth in National Instrument 52-108 of the Canadian Securities Administrators;
 - (iv) review and evaluate the independent auditor, including the lead partner of the independent auditor team;
 - (v) meet separately with the independent auditor to review with them any problems or difficulties they may have encountered and specifically:
 - A. any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management of HSE; and
 - B. any changes required in the planned scope of the audit;
 and report to the Board of Directors on such meetings;
 - (vi) review the engagement reports of the independent auditor on unaudited financial statements of HSE; and
 - (vii) review and approve HSE's hiring policies regarding partners, employees, former partners and former employees of HSE's present and former independent auditor.
- (e) **Oversight in Respect of Audit and Non-Audit Services**
- (i) have the sole authority to pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:
 - A. the aggregate amount of all such non-audit services provided to HSE or its subsidiaries constitutes not more than 5% of the total amount of fees paid by HSE (and its subsidiaries) to the independent auditor during the fiscal year in which the non-audit services are provided;
 - B. such services were not recognized by HSE (or any subsidiary) at the time of the engagement to be non-audit services; and
 - C. such services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee; and
 - (ii) delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this section; provided that the decision of any member to whom authority is delegated to pre-approve an activity shall be presented to the Committee at the first scheduled meeting following such decision, and provided further that, if the Committee approves an audit service within the scope of the engagement of the

independent auditor, such audit service shall be deemed to have been pre-approved for purposes of this section

(f) Oversight in Respect of Certain Policies

- (i) establish procedures for: (a) the receipt, retention and treatment of complaints received by HSE regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of HSE of concerns regarding questionable accounting or auditing matters; and
- (ii) periodically review HSE's public disclosure policy.

20. Self-Evaluation

The Committee shall conduct an annual performance self-evaluation and shall report to the Board the results of the self-evaluation.

21. Non-Exhaustive List

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight responsibilities.

22. Review of Committee's Charter

The Committee shall assess the adequacy of this Charter on an annual basis and recommend any changes to the Board of Directors.

23. Oversight Function

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that HSE's financial statements are complete and accurate or are in accordance with GAAP. These are the responsibilities of management of HSE and the independent auditor. The Committee and its Chair are members of the Board of Directors, appointed to the Committee to provide broad oversight of the financial risk and control related activities of HSE, and are specifically not accountable nor responsible for the day to day operation or performance of such activities. The role of all Committee members is to oversee the process, not to certify or guarantee the accuracy or completeness of the external audit of HSE's financial information or public disclosure.