



Empire Industries Ltd.

1st Quarter 2009

Management Discussion & Analysis

For the 3 month period ending
March 31, 2009

Consolidated Financial Statements

March 31, 2009
Unaudited



Empire Industries Ltd.

Management's Discussion and Analysis

for the First Quarter and Three Months ended March 31, 2009

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operation of Empire Industries Ltd. ("EIL" or the "Company") is supplemental to, and should be read in conjunction with, the unaudited consolidated financial statements and accompanying notes of the Company for the first quarter and three months ended March 31, 2009 and the Company's annual MD&A for the year ended December 31, 2008 included in its 2008 Annual Report.

These statements have been prepared in conformity with Canadian generally accepted accounting principles ("GAAP") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a year relates to the Company's fiscal year ended December 31. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on May 28, 2009. Disclosure contained in this document is current to this date, unless otherwise stated.

Additional information on EIL is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

1. EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to it in a timely manner. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2009 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities, particularly during the period in which this report was prepared.

2. FORWARD-LOOKING INFORMATION

Certain statements in this report may contain forward-looking statements. Such statements may include, but are not limited to, statements addressing the results, events or activities that the Company expects or anticipates will or may occur in the future, including statements in respect of the growth of the business and operations, competitive strengths, strategic initiatives, planned capital expenditures, plans, and references to future operations and results, critical accounting estimates, and expectations regarding future capital resources and liquidity. Such statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and can generally be identified by the use of statements that include words such as that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expect," "anticipate," "plan," "believe," "estimates", "intend", "likely", "will", "may", "could", "should", "would", "suspect", "outlook", "estimate", "forecast", "objective", "continue" (or the negative versions thereof) or similar words or phrases.

All of the statements in the MD&A which contain forward-looking information are qualified by these cautionary statements and the other cautionary statements and factors contained herein. Although the Company believes that the expectations reflected in such statements are reasonable, such statements involve risks and uncertainties

and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making such statement and actual results, events or activities may differ materially from those expressed or implied in such statements. In addition to other assumptions specifically identified, assumptions have been made that include, but are not limited to, the economic, regulatory, and competitive environment in Canada and abroad. Additional assumptions applied in making these statements may also be made in respect of the specific variables associated with key performance drivers as outlined in the Company's annual MD&A included in its 2008 Annual Report in the section entitled "Business Segment Performance".

Important factors that could cause actual results, events or activities to differ materially from these expectations include, among other things, the risks and uncertainties associated with operating results, liquidity requirements, credit risk, interest rate risk, foreign exchange risk, bonding capacity, cost of raw material, project performance, percentage of completion accounting method, competitive market, global economic environment, non-residential construction activity in western Canada, reliance on key personnel, labour relations, acquisitions and integration, technological change, and environmental legislation and regulation. Additional information about these factors and about material factors or assumptions underlying such statements may be found in the body of this document under "Risks and Uncertainties". These are not necessarily all of the important factors that could cause actual results, events or activities to differ materially from those expressed in any of the Company's statements which contain forward-looking information. Other known and unpredictable factors could also impact its results. Consequently, there can be no assurance that the actual results, events or activities anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

All of the statements made in this report which contain forward-looking information are made as of the date of this document. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to publicly update or revise such statements, whether as a result of new information, future events or activities.

3. BUSINESS DESCRIPTION

Empire Industries Ltd. adds value to steel through its leading Western Canadian steel fabrication and installation services providers, engineered products manufacturing and its Fort McMurray based strategic partnership in the maintenance services sector. The Company owns several steel fabrication shops, manufacturing facilities and complementary businesses (including operations in construction and maintenance services), each with longstanding track records of success. EIL maintains its head office in Winnipeg, Manitoba. The Company's common shares are listed on the TSX Venture Exchange under the trading symbol EIL.

EIL is the parent company of four wholly-owned subsidiaries, Empire Iron Works Ltd. ("EIW"), George Third & Son Ltd. ("GTS"), Empire Dynamic Structures Ltd. ("EDSL"), and Tornado Technologies Inc. ("Tornado"). The Company also owns a 49% interest in Sorge's Welding Ltd. ("Sorge") and its wholly-owned subsidiary, Lemax Machine & Welding Inc. EIW operates two branches located in Winnipeg, Manitoba and Edmonton, Alberta. In addition, EIW has three wholly owned subsidiaries, Hopkins Steel Works Ltd. ("Hopkins"), Ward Industrial Equipment Ltd. ("Ward"), and Parr Metal Fabricators Ltd. ("Parr"). Ward and Hopkins are both based in Welland, Ontario. Parr is based in Winnipeg, Manitoba. GTS and EDSL have operations in Vancouver, British Columbia and GTS has a wholly owned subsidiary, KWH Constructors, Inc., based in Seattle, Washington. Tornado has operations in Calgary, Gadsby, and Stettler, Alberta, and a wholly owned subsidiary, Tornado Technologies, Inc., in Houston, Texas. All of these companies, with the exception of Tornado, fabricate, install or manufacture steel products for a wide variety of customers and end-uses. Tornado fabricates industrial equipment used primarily in the oil field sector.

Steel Fabrication and Installation Services (EIW, GTS, Hopkins and Sorge), encompasses structural steel fabrication, module fabrication, plate steel fabrication, pipe fabrication and spooling, complex infrastructure fabrication and installations (such as bridges), steel erection services, multi-trade installation services and emergency welding repair services, principally in the western Canadian market place. Current operations are positioned to capitalize on Western Canadian opportunities in industrial, commercial and institutional/infrastructure capital spending in the areas of fabrication and installation services. EIL's fabrication plants have a shop capacity of over 200,000 square feet with a capacity workforce of about 360 hourly employees

or about 565,000 hours plus peak field installation capacity of 340 staff or about 550,000 hours.

Specialized Engineered Products (EDSL, Tornado, Parr, Ward) manufactures oil and gas production and combustion equipment, hydrovac and vacuum trucks, pressure vessels and tanks, industrial vacuums and air cleaning equipment, bulk material handling equipment, observatory telescopes and amusement ride systems. Many of the Company's specialized engineered products are competitive globally and EIL continues to pursue export opportunities in new geographic markets.

4. SEASONALITY AND CYCLICALITY

There is limited seasonality to the company's steel fabrication and installation business although unseasonably cold or hot weather can impact productivity rates for field installation services. The Company's earnings from steel fabrication and installation services tend to lag the underlying cycles of commercial, industrial, institutional and infrastructure construction activity. The distributed nature of the Company's steel fabrication and installation services capacity in Manitoba, Alberta and British Columbia mitigates, to some extent, localized or regional cycles. To the extent that specialized engineered products for the oil and gas sector support the development of new oil and gas production, earnings may be impacted by the underlying cycles of oil and gas capital spending activity. The Company's earnings from specialized engineered products for amusement ride systems tend to follow the underlying cycles of capital spending by amusement park operators and earnings from the development of observatory telescopes systems and enclosures are essentially tied to financial support from government and academic stakeholders.

5. BUSINESS SEGMENT PERFORMANCE

5.1 Steel Fabrication and Installation Services

Steel Fabrication and Installation Services			
For the three months ended March 31			
<i>(in thousands, except per DLH amounts)</i>	2009	2008	Better (Worse)
Sales	20,919	21,080	(161)
Cost of goods sold	(20,063)	(18,121)	(1,942)
Gross profit	856	2,959	(2,103)
Earnings from equity investment	119	44	75
Operating, general & administrative expenses	(2,171)	(1,907)	(264)
EBITDA	(1,196)	1,096	(2,292)
Amortization	(493)	(463)	(30)
EBIT	(1,689)	633	(2,322)
Operating highlights			
Direct Labour Hours (DLH)	161	141	14.57%
Sales per DLH	\$ 129.54	\$ 149.56	\$ (20.02)
Gross profit per DLH	\$ 5.30	\$ 20.99	\$ (15.69)

On July 31, 2008, the Company sold 51% of its investment in Sorge's Pro Welding Ltd. ("Sorge's Pro") to the Athabasca Chipewyan First Nation ("ACFN"), retaining a 49% interest. On November 1, 2008, Sorge's Pro acquired a 100% interest in Lemax Machine and Welding ("Lemax") which operates a full service machine shop, welding, plate and steel fabrication facility in Fort McMurray, Alberta. Sorge's Pro amalgamated with Sorge on January 1, 2009. Accordingly, the timing of this acquisition and divestiture may affect the comparability of the results relative to the prior year.

Sales of \$20.9 million for the three months ended March 31, 2009 remained relatively unchanged from the \$21.1 million of sales recorded for the quarter ended March 31, 2008 with a \$3.1 million increase in sales in GTS being offset by a \$2.8 million reduction in EIW, a \$109,000 reduction in sales in Hopkins and the change in accounting treatment for Sorge's Pro from consolidation to the equity method. The increased sales activity in GTS reflects the large Coast Meridian Overpass fabrication project. The lower sales in EIW reflects the replacement of a large project in the first quarter of fiscal 2008 with fewer and smaller projects in the first quarter of fiscal 2009 following the contraction and deferral of large construction projects in the Alberta oilsands. Consequently, although direct labour hours increased, sales per direct labour hour, a measure of fabrication activity, decreased from \$149 per hour to \$130 per hour in the three months ended March 31, 2009, largely driven by reductions in EIW.

Although not entirely commensurate with the decline in underlying sales value per direct labour hour, gross profit per direct labour hour declined \$16 per hour compared to the three months ended March 31, 2008. A \$2.1 million decline in gross profit to \$856,000 for the three months ended March 31, 2009 reflects a number of jobs with lower contracted margins compared to the prior year as well as adjustments to revenue recognition for the Coast Meridian project in the most recent quarter under the percentage of completion method.

The Company holds a 49% interest in Sorge's Welding Ltd., which is accounted for as an equity investment. The change in accounting for Sorge's Pro from a wholly-owned subsidiary to an equity investment coupled with the acquisition of Lemax and generally higher revenues and profits in Sorge accounts for the majority of the \$75,000 increase in earnings from equity investments to \$119,000 for the three months ended March 31, 2009.

OG&A expenses of \$2.2 million for the three months ended March 31, 2009 increased \$264,000 over the same period last year reflecting a change in categorization during fiscal 2008 to include project manager salaries in OG&A rather than cost of sales coupled with higher costs associated with the establishment of a central office for the BC Group of companies offset by some costs savings arising from the initial amalgamation of KWH and GTS during fiscal 2008.

Staff reductions undertaken in late fiscal 2008 are expected to contribute to lower OG&A and cost of sales throughout fiscal 2009.

As a result, the loss before interest, taxes, depreciation and amortization for the three months ended March 31, 2009 of \$1.2 million deteriorated by \$2.3 million compared to the same period last year. Amortization increased marginally compared to the \$463,000 charge for the quarter ended March 31, 2008 as a result of higher capital spending during the course of 2008. Accordingly, the loss before interest and taxes of \$1.7 million also declined by \$2.3 million from EBIT of \$633,000 for the quarter ended March 31, 2008.

5.2 Specialized Engineered Products

Specialized Engineered Products For the three months ended March 31 <i>(in thousands, except percentages+C35)</i>	2009	2008	Better (Worse)
Sales	21,011	17,613	3,398
<u>Cost of goods sold</u>	<u>(18,027)</u>	<u>(13,825)</u>	<u>(4,202)</u>
Gross profit	2,984	3,788	(804)
<u>Operating, general & administrative expenses</u>	<u>(2,562)</u>	<u>(2,335)</u>	<u>(227)</u>
EBITDA	422	1,453	(1,031)
<u>Amortization</u>	<u>(368)</u>	<u>(361)</u>	<u>(7)</u>
<u>EBIT</u>	<u>54</u>	<u>1,092</u>	<u>(1,038)</u>
Operating highlights Margin (% of Sales)	14.20%	21.51%	(33.98%)

Sales of \$21 million for the three months ended March 31, 2009, increased by \$3.4 million over the same quarter last year comprised of a \$5.1 million increase in Tornado sales due to increased sales of combustion units offset by a \$950,000 reduction in sales in Parr and a \$715,000 reduction in sales in Ward due to reduced activity.

Gross profit of \$3 million declined by \$804,000 over the prior year ended March 31, 2008. The Company experienced lower margins across both of its principle subsidiaries, Tornado and EDSL, as well as Ward and Parr. Margin reductions in Tornado are attributed to margin compression on some contracts as well as the disposition of slow moving inventory without margin.

OG&A expenses for the quarter ended March 31, 2009 increased \$227,000 over the same quarter last year due to a \$229,000 increase in selling expenses associated with higher underlying sales activity in Tornado. Therefore, EBITDA decreased to \$422,000 for the three months ended March 31, 2009 compared to \$1.5 million in the prior year. Amortization of \$368,000 for the most recent quarter was unchanged from the prior year resulting in EBIT decreasing by \$1 million to \$54,000 for the three months ended March 31, 2009.

5.3 Corporate Expenses

Corporate expenses For the three months ended March 31 <i>(in thousands)</i>	2009	2008	Better (Worse)
Miscellaneous income	22	-	22
<u>Operating, general & administrative expenses</u>	<u>(388)</u>	<u>(486)</u>	<u>98</u>
EBITDA	(366)	(486)	120
<u>Amortization</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>
<u>EBIT</u>	<u>(367)</u>	<u>(486)</u>	<u>119</u>

OG&A expenses decreased by \$98,000 to \$388,000 for the three months ended March 31, 2009, comprised largely of a \$103,000 decrease in non-cash stock-based compensation expenses; a \$52,000 decrease in fees and memberships offset by a \$55,000 increase in professional fees associated with the introduction of quarterly reviews, the transition of auditors and services associated with documenting internal controls over financial reporting.

6. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information For the three months ended March 31 <i>(in thousands, per share amounts)</i>	2009	2008	Better (Worse)
Sales	41,952	38,693	3,259
Cost of goods sold	(38,090)	(31,946)	(6,144)
Gross profit	3,862	6,747	(2,885)
Earnings from equity investment	119	44	75
Operating, general & administrative expenses	(5,121)	(4,728)	(393)
EBITDA	(1,140)	2,063	(3,203)
Amortization	(862)	(824)	(38)
EBIT	(2,002)	1,239	(3,241)
Gain on disposal of assets	2	(9)	11
Amortization of deferred gain on sales and leasebacks	72	72	-
Interest expense	(674)	(748)	74
Unrealized gain (loss) on foreign exchange hedges	(114)	(500)	386
	(2,716)	54	(2,770)
Provision for income tax recovery (expense)			
Current	226	(505)	731
Future	877	466	411
	1,103	(39)	1,142
Net earnings	(1,613)	15	(1,628)
Weighted average common shares issued and outstanding	91,240	91,168	72
Earnings per share			
Basic & fully diluted	\$ (0.02)	\$ -	\$ (0.02)
Earnings per share, excluding unrealized gain (loss) on hedges			
Basic & fully diluted per share	\$ (0.02)	\$ -	\$ (0.02)

6.1 Gross Profit, EBITDA and EBIT

The Company's gross profit for the three months ended March 31, 2009 decreased by \$2.9 million over the three months ended March 31, 2008 with a \$2.1 million decrease in steel fabrication and installation services coupled with an \$804,000 decrease in specialized engineered products. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

OG&A expenses increased \$393,000 or 8.3% largely reflecting an increase in steel fabrication and installation of \$264,000 combined with a \$227,000 increase in specialized engineered products offset by a reduction in corporate expenses of \$98,000. Consequently, EBITDA decreased by \$3.2 million to a loss of \$1.1 million for the three months ended March 31, 2009.

Amortization expenses increased \$38,000 to \$862,000 for the quarter ended March 31, 2009 compared to \$824,000 for the same quarter last year. As a result, EBIT decreased \$3.2 million to a loss of \$2 million for the most recent quarter compared to the three months ended March 31, 2008.

6.2 Gain on Disposal of Assets

The modest gain on disposal of assets for the three months ended March 31, 2009 reflects proceeds received in excess of net book value from the disposition of property, plant and equipment in the normal course of business. The loss on disposal of assets in the same quarter last year arose entirely from the sale of property, plant and equipment in the ordinary course of business.

6.3 Interest Expenses

Interest costs of \$674,000 for the quarter ended March 31, 2009 declined slightly from \$748,000 for the same three months last year as a result of a modest decline in interest-bearing funded debt to \$40.5 million coupled with the effect of \$5.5 million in scheduled debt repayments for the three months ended March 31, 2008 and lower interest rates in the most recent quarter compared to the same quarter last year.

6.4 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark-to-market basis using closing market quotations. Open foreign exchange forward contracts marked to market in this way remain unrealized and the \$114,000 loss for the three months ended March 31, 2009 therefore represents a non-cash pre-tax loss (March 31, 2008 - \$500,000 non-cash pre-tax loss) in the period.

6.5 Income Taxes

The Company's income tax recovery of \$1.1 million or an effective tax recovery rate of 40.6% (March 31 2008 – 72.2% tax expense rate) for the three months ended March 31, 2009 is higher than the underlying statutory rate in large part due to a \$427,000 tax recovery associated with an increase in the underlying tax base of EDSSL's real property assets.

6.6 Loss for the Period

The net loss of \$1.6 million (\$0.02 basic and diluted loss per share) for the three months ended March 31, 2009 was \$1.6 million worse than the restated earnings of \$15,000 (\$nil basic and diluted earnings per share) reported in 2007 (originally reported as earnings of \$344,000 or \$nil basic and diluted earnings per share).

6.7 Selected Quarterly Financial Information

Selected Quarterly Financial Information								
For the quarters ended								
<i>(in thousands, except per share amounts)</i>								
<i>(Unaudited)</i>								
	2009 Q1	2008 Q4	(Restated) 2008 Q3	(Restated) 2008 Q2	(Restated) 2008 Q1	(Restated) 2007 Q4	(Restated) 2007 Q3	(Restated) 2007 Q2
Sales and revenue from services	\$ 41,952	\$ 40,214	\$ 57,391	\$ 43,715	\$ 38,693	\$ 35,969	\$ 27,833	\$ 31,767
Net income (loss)	(1,613)	(1,750)	290	(314)	15	519	826	1,668
Earnings (loss) per share:								
Basic	(0.02)	(0.02)	-	-	-	-	0.01	0.03
Diluted	(0.02)	(0.02)	-	-	-	-	0.01	0.03

The quarterly results for fiscal 2008 and the second, third and fourth quarters of fiscal 2007 were restated to reflect the re-designation of certain foreign currency hedges as fair value hedges, with the change in fair value in foreign exchange hedge contracts previously designated as cash flow hedges and included in other comprehensive income, now included in net earnings. The fair value of the hedges at each of the quarters remained unchanged from that previously disclosed and therefore shareholders' equity and comprehensive income for each of the quarters were also unaffected by these restatements.

The quarterly results for fiscal 2008 for the first and third quarters were restated to reflect the value of stock options cancelled or forfeited of \$20,554. These cancellations and forfeitures were originally recorded as a direct increase in retained earnings and, although there is no resulting impact on retained earnings and shareholders' equity, should have first been reflected as a non-cash reduction in operating, general and administrative expenses and a corresponding increase in net earnings.

The first, second and third quarters of fiscal 2008 also were restated to charge the non-cash accretion in the convertible debenture of \$2,781 to interest expense instead of contributed surplus although there is no resulting impact on shareholders' equity.

In addition, the fourth quarter earnings for fiscal 2007 and the first, second and third quarters of fiscal 2008 were restated to reflect:

- A nominal change arising from re-designating a foreign subsidiary as an integrated operation with changes in values on currency translation included in net earnings, rather than as a self-sustaining operation with changes in values on currency translation included in other comprehensive income; and
- An increase in the unrealized gain on foreign exchange hedge contracts the fourth quarter of fiscal 2007 of \$232,021 (net of future income taxes of \$104,241) associated with the change in fair value of a contract acquired in fiscal 2007.

7. OTHER MATTERS

7.1 Related Party Transactions

The Company and its subsidiaries transact with each other and other related parties in the normal course of business at commercial rates and terms. EIW and GTS subcontract steel fabrication and installation services between the companies. EDSL subcontract fabrication and installation services to GTS. Sorge's subcontracts steel fabrication services to EIW and GTS. These inter-segment sales have been eliminated from the segmented and consolidated financial results discussed above.

Rent was paid to companies controlled by officers, directors and members of their families in the ordinary course of operations and measured at the value of consideration established and agreed to by the parties in the amount of \$146,000 for the three months ended March 31, 2009 (March 31, 2008 - \$149,000).

7.2 Accounting Policy Changes

7.2.1 Goodwill and Intangibles

CICA Handbook Section 3064 – Goodwill and Intangibles is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises.

7.3 Future Changes in Accounting Policies

7.3.1 International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS as issued by the International Accounting Standards Board ("IASB") for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis with comparative data on an IFRS basis, including an opening balance sheet as at December 31, 2010.

In the fiscal year immediately prior to the fiscal year in which the Company commences reporting under IFRS, the Company will, effectively, have to maintain concurrently one set of books of account prepared using the contemporary version of Canadian GAAP and one set of books of account prepared using IFRS – to be used for reporting comparative amounts for the first fiscal year subsequent to when the Company's changeover to IFRS occurs.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences concerning recognition, measurements and disclosures. In order to meet the requirement to transition to IFRS, the Company plans to:

Phase	Progress to Date
Assess and scope the differences in Canadian GAAP and IFRS accounting policies relevant to the Company and options available to first time adopters and the impact on the Company's financial reporting.	This process was ongoing during the first quarter of fiscal 2009.
Identify, evaluate and select accounting policies necessary for the Company to change over to IFRS. As well, this phase will address other business activities that may be influenced by GAAP measures such as: <ul style="list-style-type: none"> • information technology, • disclosure controls and procedures, • internal controls over financial reporting, and • other activities, such as debt covenants. 	The Company plans to complete its selections under its various options during the course of fiscal 2009.
Integrate these accounting policies into the Company's financial reporting systems and processes necessary for the Company to changeover to IFRS.	

The IASB is expected to continue issuing new accounting standards during the transition period, and as a result, the final impact of IFRS on the Corporation's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 Sources and Uses

8.1.1 Cash Flow Provided by Operations

Cash Flow Provided by (Used in) Operations For the three months ended March 31 <i>(in thousands, per share amounts)</i>	2009	2008	Better (Worse)
EBITDA	(1,140)	2,063	(3,203)
Add (deduct):			
Non-cash compensation expense	31	135	(104)
Distributions (earnings) from equity investments	(119)	(44)	(75)
Investment tax credits received	-	-	-
Adjusted EBITDA	(1,228)	2,154	(3,382)
Interest expense	(674)	(748)	74
Capitalized interest	102	-	102
Pre-tax cash flow provided by operations	(1,800)	1,406	(3,206)
Current income taxes	226	(505)	731
Cash flow provided by operations	(1,574)	901	(2,475)
Cash flow provided by operations per share	\$ (0.02)	\$ 0.01	\$ (0.03)

Non-cash compensation expense relates to stock based compensation expenses attributed to stock options issued and outstanding offset by recoveries for expired stock options. Some interest on notes payable was capitalized as principal in accordance with the terms of the note rather than being settled in cash and the non-cash accretion in the convertible debentures was charged to interest expense.

Current income tax recoveries for the quarter ended March 31, 2009 are significantly lower than the prevailing tax rate on pre-tax cash flows due to income taxes on taxable earnings in some of the Company's subsidiaries offset by income tax recoveries associated with pre-tax losses in the remaining subsidiaries recoverable in the future.

8.1.2 Non-Cash Working Capital

Non-cash Working Capital As at March 31 <i>(in thousands)</i>	2009	2008	Sources (Uses)
Accounts receivable	35,905	40,536	4,631
Inventory	15,759	18,158	2,399
Other current assets	1,625	752	(873)
Intercompany receivable (liability)	783	192	(591)
Accounts payable and accrued expenses	(21,971)	(21,916)	55
	32,101	37,722	5,621

Overall inventory levels at March 31, 2009 decreased \$2.4 million from the same period last year, entirely comprised of a \$2.5 million decrease in Tornado's work-in-progress inventories associated with improved inventory management processes and despite underlying increases in sales activity during the first quarter of 2009.

Accounts receivable at March 31, 2009 decreased \$4.6 million from the prior year attributed to improved collections of receivables in steel fabrication and installation services of \$3.7 million in GTS, EIW and Hopkins coupled with \$1.5 million in improved collections of receivables in specialized engineered products. All subsidiaries have demonstrated consistent maintenance or improvement in accounts receivable turns over the past 12 months.

The \$873,000 increase in other current assets is largely attributed to increased income taxes recoverable coupled with a modest \$245,000 increase in prepaid expenses and deposits.

The intercompany receivable from Sorge of \$783,000 at March 31, 2009 increased \$591,000 from the same period last year as a result of Sorge's subcontracting additional fabrication work to GTS during the first quarter of fiscal 2009 compared to the same period last year.

Accounts payable and accrued expenses at March 31, 2009 was consistent with March 31, 2008 despite increased sales activity in the first quarter of fiscal 2009 compared to the same period last year.

8.1.3 Net Capital Expenditures and Investments

Capital expenditures of \$476,000 for the three months ended March 31, 2009 decreased \$257,000 over the same period last year as the Company actively reduced its capital spending program in response to reduced industrial and commercial capital spending projects. At the same time, the Company's Tornado subsidiary disposed of non-core assets for total proceeds of \$223,000, representing the majority of total proceeds from capital disposals in the most recent quarter. The Company expects to use cash flow provided by operations or proceeds of dispositions to fund planned capital expenditures in fiscal 2009.

8.2 Debt

8.2.1 Short-term Debt

Despite cash flow used by operations during the three months ended March 31, 2009 of \$1.6 million compared to cash flow provided by operations of \$901,000 during the same quarter last year, cash flow from operating activities actually improved by \$4.3 million due to improved utilization of non-cash working capital. Non-cash working capital decreased \$5.8 million year-over-year for the reasons noted under "Sources and Uses – Non-Cash Working Capital" resulting in cash flow provided by operating activities of \$5.2 million for the 12 months ended March 31, 2009.

Bank operating loans at March 31, 2009 were \$2.2 million higher than a year earlier as uses of cash exceeded sources, entirely driven by a reduction in cash and cash equivalents. The Company generated free cash flow for the 12 months ended March 31, 2009 as cash flow provided by operating activities of \$5.2 million and proceeds from the disposition of investments of \$545,000 exceeded net capital expenditures and other investments of \$5 million. Positive free cash flow of \$723,000 coupled with the proceeds from the disposition of 51% of the Company investment in Sorge Pro Welding Ltd. of \$850,000 and \$12,000 proceeds from the issue of common shares exceeded scheduled debt repayments, net of advances, of \$898,000 for the 12 months ended March 31, 2009.

Short-term Debt As at March 31 (in thousands)	2009	2008	Better (Worse)	Trailing Twelve Months ended 2009
Cash flow provided by (used in) operations	(1,574)	901	(2,475)	(580)
Decrease (increase) in non-cash working capital	9,189	2,312	6,877	5,621
Less: Working capital acquired (disposed of)	-	-	-	(741)
Less: Other balance sheet adjustments	(53)	-	(53)	889
Cash flow from operating activities	7,562	3,213	4,349	5,189
Net capital expenditures and investments	(249)	(725)	476	(5,011)
Other investments	8	23	(15)	545
Free cash flow	7,321	2,511	4,810	723
Business divestitures	-	-	-	850
Debt disposed of	-	-	-	7
Financing activities				-
Scheduled debt repayments, net of advances	(904)	(5,474)	4,570	(905)
Proceeds of issue of common shares	-	12	(12)	12
Decrease (increase) in cash and cash equivalents	(1,855)	1,473	(3,328)	(2,922)
Sources (uses) of cash	4,562	(1,478)	6,040	(2,235)
Bank operating loans, beginning of period	(27,016)	(18,741)	(8,275)	(20,219)
Bank operating loans, end of period	(22,454)	(20,219)	(2,235)	(22,454)
Revolving Credit facilities:				
Revolving facilities	31,500	28,000	3,500	
Available uncommitted revolving facilities	4,622	4,590	32	

The Company increased its revolving facilities with HSBC year over year, offset by a reduction in the credit facility available from the Bank of Montreal, although actual availability of these facilities was limited by the Company's underlying marginable assets available to secure them. The Company's available uncommitted short-term revolving facilities at March 31, 2009 increased modestly by \$32,000 as increased access to credit from increased revolving facilities compared to March 31, 2008 exceeded uses of cash of \$2.3 million.

EIW, Ward and Hopkins share a line of credit with the Royal Bank of Canada of \$6 million, payable on demand, secured by a general assignment of inventories and accounts receivable, a fixed charge on all property, a floating charge on all assets and a postponement of claim given by certain shareholders. Although the Company was not in compliance with the bank's maximum debt to tangible net worth covenant at December 31, 2008, it returned to compliance at March 31, 2009. In an amendment to the bank agreement, the funded debt to EBITDA covenant which the Company was not in compliance with at December 31, 2008 was replaced by a debt service charge covenant. The new debt service charge covenant is effective for quarters ending on or after June 30, 2009. The borrowers continue to operate within the credit and marginable limits of the revolving facility. During the quarter, the Royal Bank revised the credit facility to increase the financing rate by 2% to prime plus 3.3%. The bank has also requested a capital injection of \$1.2 million plus a detailed action plan to remedy the default by May 31, 2009.

GTS and EDSL share a line of credit with HSBC of \$15 million, payable on demand, secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrowers and a floating charge over all of the borrowers' present and after acquired real property except for certain priorities granted to GE Capital and AMEC. The Company was not in compliance with the bank's maximum debt to tangible net worth and minimum current ratio covenants as at March 31, 2009. The borrowers continue to operate within the credit and marginable limits of the revolving facility. The bank has not made any demands, either formally or informally, on the Company to date.

Tornado has a maximum credit facility with the Bank of Montreal in the amount of \$10.5 million, payable on demand, secured by a registered general security agreement and an assignment of insurance in favour of the bank as a first loss payable on equipment and inventory. The bank's financial covenants for maximum senior debt to EBITDA, minimum current ratio and minimum tangible net worth were all met as at March 31, 2009.

The Company is pursuing a number of initiatives to improve its covenant compliance including, but not limited to, a reduction in funded debt through settlement of receivables from related companies, working capital management, increased revenue generating activity, cost containment, cost reductions, disposition of redundant or non-core assets, refinancing of certain long-term assets and increasing the company's equity.

8.2.2 Long-term Debt

The Company made \$712,000 of scheduled principal repayments during the course of the year. The Company also repaid \$192,000 in notes payable. There were no non-scheduled repayments of debt during the most recent three months ended March 31, 2009.

Total long-term debt of \$20.1 million as at March 31, 2009 consisted of \$13.9 million of scheduled Long-Term Debt including capital lease obligations, \$5 million of Notes Payable and \$485,000 in Shareholder Loans. Of this amount, \$3 million is scheduled for repayment within the next 12 months plus \$1.4 million in notes to AMEC scheduled to mature April 30, 2010 based on draft amended payment terms and an additional \$2 million in long-term debt reclassified to current portion as a result of the covenant breaches on the HSBC operating line noted above.

8.2.3 Convertible Debentures

The acquisition of Tornado on November 30, 2007 included assuming convertible debentures ("the Debentures") bearing interest at 8%, maturing June 1, 2011 and convertible into common shares at the rate of 100 common shares of EIL for each \$67 of principal value. As at March 31, 2009, \$60,000 of Debentures remained issued and outstanding, comprised of \$50,733 ascribed to long-term debt and \$12,975 ascribed to contributed surplus. As at March 31, 2009, none of the Debentures had been converted into common shares.

8.3 Share Capital and Retained Earnings

Retained earnings of \$1.4 million at March 31, 2009 were \$1.6 million lower than December 31, 2008 due to the net loss for the three months ended March 31, 2009, including a \$114,000 unrealized non-cash foreign exchange hedge loss. No dividends were declared or paid in the year.

Certain foreign exchange hedges at March 31, 2008 previously designated as cash flow hedges were re-designated as fair value hedges and a foreign operation previously reported as a self-sustaining foreign operation was re-designated as an integrated foreign operation. As a result of these and other changes, retained earnings at March 31, 2008 were restated resulting in an increase in retained earnings of \$473,000 over the \$4.4 million level originally reported last year and the accumulated other comprehensive income ("AOCI") of \$241,000 originally reported at March 31, 2008 was restated to nil. As a result, shareholders' equity for the three months ended March 31, 2008 increased by \$232,000.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. As a result of expiry of 561,600 options during the quarter, the Company had 6,519,230 outstanding options at March 31, 2009. The average exercise price of the outstanding options is \$0.51 per share and the average exercise price of the 3,749,480 exercisable options is \$0.48 per share.

The Company's outstanding warrants are unchanged from December 31, 2008 and allow the warrant holders to purchase up to 300,000 common shares at a price of \$0.77 until expiry on November 30, 2009.

8.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at May 22, 2009 was \$18.2 million or \$0.20 per share compared with the Company's book value of \$0.41 per share at March 31, 2009. The issued and outstanding common shares at May 22, 2009, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares	
As at May 22, 2009 (Unaudited)	
Issued and outstanding common shares	91,239,608
Securities convertible into common shares	
\$60,000 - 8% convertible debentures, maturing June 1, 2011 convertible at 1492.537 shares per \$1,000 principal amount	89,552
Stock options	6,519,230
Warrants	300,000
	98,148,390

8.5 Financial Ratios

The Company's net funded debt of \$40.5 million at March 31, 2009 decreased \$1.1 million compared to the same date last year due to decreased non-cash working capital, lower sustaining capital expenditures net of proceeds of disposal offset by lower cash flow provided by operations as noted above under "Debt – Short-term Debt".

The Company's leverage ratio (net funded debt to capitalization) may fluctuate from month-to-month due to underlying cyclical and seasonal variations in short-term debt used to finance working capital requirements. The Company's leverage ratio increased modestly to 51.5% at March 31, 2009 compared to the same date last year but improved compared to the 54.5% reported at December 31, 2008.

Despite a significant reduction in fixed charges from \$16.2 million for the year ended December 31, 2008 to \$9.3 million for the 12 months ended March 31, 2009, the Company's EBITDA to fixed charge coverage deteriorated compared to the year ended December 31, 2008 due to a loss before interest, taxes, depreciation and amortization for the most recent quarter of \$1.1 million compared to EBITDA of \$2.1 million for the same period last year.

The Company's current ratio of 1.03 times at March 31, 2009 decreased from 1.13 times at March 31, 2008, due largely to the reclassification of all HSBC capital leases from long-term debt to current liabilities as noted above. Excluding this reclassification of long-term debt, the current ratio would have increased to 1.07 times at March 31, 2009.

9. RISKS & UNCERTAINTIES

9.1 Operating Results

EIL's mix of businesses typically require significant financial resources, and there is no assurance that future revenues will be sufficient to generate the funds required to continue EIL's business development and marketing activities. In certain markets, the Company competes with local, regional, national and international companies for work. With the experience of the Company's operating subsidiaries, management believes it has developed systems, policies, and procedures to mitigate this risk.

9.2 Liquidity Requirements

The Company requires significant amounts of working capital in order to be able to operate. The Company's contracts are primarily based upon firm prices and billing is generally performed on a monthly basis. Projects often involve changes or requests for extra work and although the Company endeavors to bill promptly for this extra work, any delay in issuing change orders can impact cash flows. Construction projects typically allow for the general contractor to withhold between five and ten percent of the Company's total billings until the completion of the project. As a consequence, larger and longer-term projects can greatly increase capitalization requirements for working capital.

The Company's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the construction industry. There can be no assurance that the current working capital of EIL will be sufficient to enable it to implement all of its objectives. Furthermore, the current credit contraction in the world's financial markets may limit the Company's ability to access credit in the event that it identifies a potential acquisition or some other business opportunity that would require a significant investment in resources. There can be no assurance that if and when EIL seeks equity or debt financing, it will be able to obtain the required funding on favourable commercial terms, or at all. Any such future financing may also result in additional dilution to existing shareholders.

EIL requires sufficient financing to fund its operations. Failure to obtain financing on a timely basis could cause missed acquisition opportunities, delays in expansion and may also impact ongoing operations.

9.3 Credit Risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. Notwithstanding the Company's current credit policies and practices, there can be no assurance that customers will remain able to fulfill their commitments to the Company which may have an adverse effect on the Company's financial performance.

9.4 Interest Rate Risk

Fluctuations in interest rates will affect that portion of the Company's debt that is subject to variable interest rates, and will also affect the prices for other financial instruments. Such fluctuations could have an adverse effect on the Company's financial performance.

9.5 Foreign Exchange Risk

Rapid currency fluctuations can have a significant impact on un-hedged non-Canadian dollar denominated projects. The Company has exported some fabricated steel products over the years to the United States, but generally speaking this has aggregated less than 5% of revenue in any given year. The purchase of EDSL and Tornado have increased the percentage of revenue from the United States, but a majority of these contracts have been hedged with forward contracts to sell US dollars.

9.6 Bonding Capacity

Some customers require performance bonds underwritten by insurance providers, or irrevocable letters of credit as a condition of contract award. To date, the Company has been able to provide such bonds or letters of credit when required. However, there can be no assurance that the Company will be able to continue to obtain such bonds or letters of credit in the future.

9.7 Cost of Raw Material

The principal cost of raw material is structural steel and other steel products. These supply and pricing arrangements are negotiated directly with steel manufacturers or steel supply companies that buy and warehouse steel products. Where appropriate, the company will endeavour to include an escalation clause for material costs in jobs being tendered in the industrial, commercial and institutional sector in each contract. In the absence of an escalation clause, the Company mitigates its risk, to the extent possible, through contracted buying arrangements or limitations on the length of time that bids can remain outstanding prior to acceptance. In the circumstance of volatility in the commodity price of steel, unexpected increases in steel prices which are not hedged by escalation

clauses or similar means, may negatively impact margins on a particular job and therefore the company's future results of operations or financial position.

9.8 Project Performance

Most of EIL's sales contracts are fixed-price contracts resulting from competitive bids. When bidding on a project, the Company estimates its costs, including projected increases in the costs of labour, materials and services. Despite these estimates, actual costs could vary from the estimated amounts. These variations could adversely affect the Company's business. Any inability of the Company's subsidiaries to execute customer projects in accordance with requirements, including adherence to completion timetables, may have a material adverse effect on the Company's business, operations and prospects.

9.9 Percentage of Completion Accounting Method

The Company recognizes revenue from its fabrication and erection contracts using the percentage of completion accounting method, based on costs incurred as compared to projected costs. Estimates losses on contracts are immediately recognized. Revenue estimates are based on management assumptions supported by historical experience. There can be no assurance that these estimates made during the contract execution phase will not vary from the actual results measured at the completion of the contract.

9.10 Competitive Market

Competitors tend to be based in Western Canada and are virtually all privately or family owned businesses. The Company's approach to competitive risk is to develop strong relationships with clients, increase the breadth of services offered and to broaden our geographic coverage to enhance service and competitiveness. From time to time, competitors out of the United States, Asia, Ontario and Quebec have bid on work and been awarded work in Western Canada. Incremental transportation costs, scheduling issues and quality standards have tended to make these options less attractive to owners and owners' engineers.

Due to the competitive nature of the business, the Company must compete on price and quality of service. A significant portion of the Company's business is to provide a contracted scope of work to clients on a fixed price or unit price basis. There can be no assurance that the fixed price commitment adequately recovers the full cost of providing the contracted scope of work. Nor can there be any assurance that the contracted scope of work is so clear as to prevent disagreements over the interpretation of what has been contracted for. Management is of the view that the Company's experience in the industry provides it with the necessary expertise to resolve disputes that may arise in a manner that is satisfactory to the Company's overall requirements.

9.11 Global Economic Environment

The current economic downturn has demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Company, such as the recent extraordinary developments in global financial markets, may adversely affect the Company over the course of time. For example, the credit contraction in financial markets, combined with reduced economic activity, may adversely affect general contractors and other businesses that collectively constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases of the Company's products or services, or the Company may experience greater difficulty in receiving payment for the products or services that these customers purchase from the Company. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

9.12 Non-residential Construction Activity in Western Canada

The demand for the Company's products and services tends to fluctuate directly with non-residential construction activity. A decline in the demand for these products and services can occur if deteriorating economic conditions reduce non-residential capital expenditures which would have an adverse effect on the EIL's business, results of operations, and financial condition.

A large portion of EIL's revenues are derived from large projects (including joint ventures) which do not occur on a regular basis and could generate fluctuations in corporate revenues.

EIL's business is primarily influenced by the overall level of capital spending in the mining and oil and gas industries in Western Canada. Lower commodity prices results in lower corporate profits which provides less available funds for spending on capital projects. The Company's activity level is therefore dependent on oil and gas prices and commodity prices.

9.13 Reliance on Key Personnel

The business activities of the Company involve a certain degree of risk that even a combination of experience, knowledge and diligence may not be able to overcome. Shareholders must rely on the ability, expertise, judgment, direction and integrity of the management of EIL. Success will be dependent on the services of a number of key personnel, including its executive officers and other key employees, the loss of any one of whom could have an adverse effect on its operations and business prospects. The Company feels that by being a publicly traded company it will have more flexibility than its private competitors to implement attractive incentive plans for key employees to attract and retain the necessary employees.

9.14 Labour Relations

The employment of skilled tradespersons in the field and shops is subject to multi-year, collective agreements with a variety of unions. The increasing shortage of skilled tradespersons is increasing the wage expectations and concessions of all fabricators and manufacturers, especially those companies that provide their services closest to the active markets, such as Alberta. The Company has six non-union shops, and seven unionized shops that are subject to their own collective agreements and three different collective agreements relating to the field erection business. EIL is at risk if there are labour disruptions relating to any of these collective agreements. Management feels the staggering and independence of each collective agreement mitigates the issue of work stoppage that may arise at any one location. The Company also believes it has fostered a positive relationship with its workers as is evidenced by zero work stoppages in over 40 years of operations.

9.15 Acquisitions

The Company may seek to expand its business through acquisitions and may divest underperforming or non-core businesses. Empire's success depends, in part, upon management's ability to identify such acquisition and divestiture opportunities and to negotiate favourable contractual terms. The Company's ability to successfully integrate acquisitions into its operations could affect Empire's financial results.

9.16 Technological Change

EIL assesses the "labour/capital" tradeoff that is associated with the increased usage of software to enhance employee productivity and increase profitability. Management has historically invested in prudent capital expenditures designed to mitigate the increasing cost of labour and the historically tight supply of skilled tradespersons. To the extent that the Company is unable to continue to invest in technological advancements designed to enhance its competitive cost structure, it may have an adverse effect on the Company's operations and prospects.

9.17 Environment/Regulatory

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that environmental laws will not result in an increase in the costs of the Company's activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

EIL maintains insurance consistent with industry practice to protect against losses due to sudden and accidental environmental contamination, accidental destruction of assets, and other operating accidents or disruption. The Company also has operational and emergency response procedures, and safety and environmental programs in place to reduce potential loss exposure. EIL believes that it is in substantial compliance, in all material respects, with all current environmental legislation and is taking such steps as it believes are prudent to ensure that compliance will be maintained.

10. OUTLOOK

Despite the value of the Company's steel fabrication backlog of \$46 million at March 31, 2009 was largely unchanged compared to a backlog of \$47 million at December 31, 2008, for the balance of fiscal 2009, the Company expects its steel fabrication group to continue to be negatively impacted by the contraction and deferral of large construction projects in western Canada. However, various announcements by federal and provincial governments to invest up to \$21 billion in infrastructure spending over the next two years may improve the outlook for the steel fabrication group for 2010.

The Company's outlook for its engineered products group and its aboriginal partnership both remain relatively positive for 2009. EIL's engineered products group is expected to continue to benefit from environmental regulations which create a demand for its proprietary products. The Company's unique aboriginal strategic venture is well-positioned to capitalize on the demand for maintenance services in the Alberta oilsands region. The recent announcement by Imperial Oil concerning the restart of its Kearl project in the Alberta oilsands also has positive implications for engineered products, maintenance services and steel fabrication.

As stated in the Company's news release dated April 30, 2009, the Company and the board of directors are continuing to evaluate alternatives to maximize shareholder value while seeking to optimize the value and performance of its steel fabrication group. These alternatives may include the formation of a strategic partnership to put in place a significantly stronger competitive solution to respond to future bidding opportunities. Other options being considered by the Company include improved working capital management, the disposition of non-core or redundant assets, cost containment and cost reduction, refinancing of certain long-term assets and increases in shareholder equity.

USE OF NON-GAAP TERMS

Earnings before interest, taxes, depreciation and amortization, gains or losses on asset disposals ("EBITDA") and earnings before interest, taxes, gains or losses on assets disposals, ("EBIT") are provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges, income taxes, items not considered to be in the ordinary course of business and investing activities. A reconciliation of such measures to net income is provided in Note 10 to the Consolidated Financial Statements and in the table below. Certain items are excluded in the determination of such measures as they are non-cash in nature, income taxes, financing charges or otherwise are not considered to be in the ordinary course of business. EBITDA and EBIT provide important management information concerning business segment performance since the Company does not allocated all financing charges to these individual segments. Such measures should not be considered in isolation to or as a substitute for (i) net income or loss, as an indicator of the Company's operating performance or (ii) cash flows from operating, investing and financing activities, as a measure of the Company's liquidity.

Free cash flow is provided to assist investors and is used by management in determining the cash flow available to meet ongoing financial obligations, including principal repayments on debt and refers to cash flow provided by operations less sustaining investing activities. Such measure should not be considered in isolation or as a substitute for cash flow provided by operations as a measure of the Company's liquidity.

Net funded debt is provided to assist investors and is used by management in assessing the Company's liquidity position and is used to monitor how much debt the Company has after taking into account the Company's liquid assets such as cash and cash equivalents. Such measure should not be considered in isolation or as a substitute for current liabilities, short-term debt, or long-term debt as a measure of the Company's indebtedness.

Net funded debt to capitalization is provided to assist investors and is used by management to determine the Company's leverage. The measure is applied net of cash and cash equivalents, as the Company either has the ability and may elect to use a portion of cash and cash equivalents to retire debt or to incur additional expenditures without increasing debt or to the extent that cheques are drawn in excess of funds on deposit, the resulting bank indebtedness represents a further increase in net funded debt.

Such measures do not have any standardized meanings prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Reconciliations of each of the calculations in respect of the above measures are provided in the table below.

Non-GAAP Terms, Reconciliations and Calculations			
For the three months ended March 31			
<i>(in thousands, except percentages and ratios)</i>			
	2009	2008	Better (Worse)
Gross profit	3,862	6,747	(2,885)
Earnings from equity investment	119	44	75
<u>Operating, general and administrative expenses</u>	<u>(5,121)</u>	<u>(4,728)</u>	<u>(393)</u>
EBITDA	(1,140)	2,063	(3,203)
<u>Amortization</u>	<u>(862)</u>	<u>(824)</u>	<u>(38)</u>
EBIT	(2,002)	1,239	(3,241)
Cash flow provided by operations	(1,574)	901	(2,475)
Decrease (increase) in working capital	9,136	2,312	6,824
Property, plant and equipment expenditures	(475)	(732)	257
Proceeds from disposal of property, plant and equipment	226	7	219
<u>Decrease (increase) in other long-term assets</u>	<u>8</u>	<u>23</u>	<u>(15)</u>
Free cash flow	7,321	2,511	4,810
Bank operating loans	22,454	20,219	2,235
Current portion of long-term debt	6,452	6,420	32
Long-term debt	12,397	12,838	(441)
<u>Bank indebtedness (cash)</u>	<u>(835)</u>	<u>2,088</u>	<u>(2,923)</u>
Net funded debt	40,468	41,565	(1,097)
Convertible debentures	52	48	4
Subordinated shareholder loans	485	487	(2)
<u>Shareholders' equity</u>	<u>37,645</u>	<u>40,795</u>	<u>(3,150)</u>
Capitalization	78,650	82,895	(4,245)
Net funded debt : Capitalization	51.5%	50.1%	(1.4%)
Current assets	54,976	60,006	(5,030)
<u>Current liabilities</u>	<u>(53,577)</u>	<u>(53,017)</u>	<u>(560)</u>
Working capital	1,399	6,989	(5,590)
Current ratio (Current assets : Current liabilities)	1.03	1.13	(0.10)
<i>Trailing Twelve Months ended</i>			
	March 31 2009	December 31 2008	Better (Worse)
EBITDA	2,074	5,277	(3,203)
Property, plant and equipment expenditures, net of proceeds	5,011	5,487	476
Scheduled long-term debt repayments	2,474	7,237	4,763
Interest expenses	3,178	3,252	74
less: non-cash interest expenses	(498)	(396)	102
<u>Current income taxes</u>	<u>(134)</u>	<u>597</u>	<u>731</u>
Fixed charges	10,031	16,177	6,146
EBITDA : Fixed Charges	0.21	0.33	(0.12)

EMPIRE INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(unaudited)

EMPIRE INDUSTRIES LTD.

Consolidated Balance Sheets

As at March 31, 2009

(unaudited)

	March 31, 2009 (unaudited)	March 31, 2008 (unaudited) (Restated – Note 6)	December 31, 2008 (audited)
Assets			
Current assets:			
Cash	\$ 834,880	\$ -	\$ -
Accounts receivable (Note 7)	35,904,989	40,535,763	44,696,357
Current portion of notes receivable	6,275	130,317	6,275
Income taxes recoverable	627,625	-	204,147
Receivable from related parties	783,017	191,530	647,188
Inventories	15,759,307	18,158,029	18,365,879
Prepaid expenses and deposits	997,830	752,109	1,504,030
Foreign exchange hedge contracts	-	238,268	-
Future income taxes (Note 9)	61,965	-	135,232
	54,975,888	60,006,016	65,559,108
Notes receivable	17,736	19,428	18,126
Foreign exchange hedge contracts	-	99,450	-
Investments	1,380,470	707,111	1,207,950
Property, plant and equipment	30,710,399	29,405,432	31,321,076
Patents	35,301	44,982	43,323
Goodwill	17,395,067	18,301,870	17,395,067
Future income taxes (Note 9)	2,785,640	-	2,259,743
	\$ 107,300,501	\$ 108,584,289	\$ 117,804,393
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness	\$ -	\$ 2,087,680	\$ 1,020,409
Bank operating lines (Note 8)	22,454,177	20,219,213	27,015,994
Accounts payable and accrued liabilities	21,169,177	21,915,515	23,095,833
Income taxes payable	802,046	-	1,031,140
Long-term debt due within one year -			
Long-term debt (Note 8)	5,024,805	3,782,739	5,403,404
Notes payable	1,427,603	2,637,500	1,591,475
Payable to shareholders	485,000	487,207	485,000
Foreign exchange hedge contracts	354,601	-	577,567
Deferred gain on sale and leaseback	287,900	287,900	287,900
Future income taxes (Note 9)	1,572,150	1,599,695	1,505,570
	53,577,459	53,017,449	62,014,292
Long-term debt (Note 8)	8,828,765	10,975,786	9,162,312
Notes payable	3,568,065	1,862,500	3,494,532
Convertible debentures	51,660	47,952	50,733
Foreign exchange hedge contracts	361,979	-	24,570
Deferred gain on sale and leaseback	776,854	1,064,754	848,829
Future income taxes (Note 9)	2,490,502	821,276	2,981,260
Basis of Presentation (Note 2)	69,655,284	67,789,717	78,576,528
Shareholders' equity:			
Capital stock	34,720,418	34,707,945	34,720,418
Contributed surplus	1,481,173	1,255,214	1,450,461
Retained earnings	1,443,626	4,831,413	3,056,986
	37,645,217	40,794,572	39,227,865
	\$ 107,300,501	\$ 108,584,289	\$ 117,804,393

See accompanying notes to the unaudited consolidated financial statements

Approved by the Board: "Guy Nelson"
Director

"Norman Harrison"
Director

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Operations
For the three months ended March 31
(unaudited)

	2009	2008 (Restated – Note 6)
Sales	\$ 41,952,388	\$ 38,693,436
Cost of goods sold	(38,089,382)	(31,945,947)
Gross profit	3,863,006	6,747,489
Operating, general and administrative expenses	(5,121,667)	(4,728,617)
Income from equity accounted for investments and other investments	119,121	44,629
Earnings before the undernoted	(1,139,540)	2,063,501
Amortization	(862,614)	(824,413)
Operating income	(2,002,154)	1,239,088
Other income (expenses):		
Amortization of deferred gain on sale and leaseback	71,975	71,975
Gain (loss) on disposal of property, plant and equipment, and investment	2,460	(8,460)
Interest on long term debt and notes payable	(324,369)	(249,667)
Other interest	(349,779)	(498,471)
Unrealized loss on foreign exchange hedge contracts	(114,443)	(499,983)
	(714,156)	(1,184,606)
Net earnings (loss) before income taxes:	(2,716,310)	54,482
Income taxes recovery (expense):		
Current	226,144	(505,434)
Future (Note 9)	876,806	466,344
	1,102,950	(39,090)
Net earnings (loss) for the period	\$ (1,613,360)	\$ 15,392
Earnings (loss) per share:		
Basic and diluted (Note 4)	\$ (0.02)	\$ -

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity
For the three months ended March 31
(unaudited)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders Equity
As at March 31, 2008 (as previously reported)	34,707,945	1,254,287	241,755	4,358,564	40,562,551
Restatement (Note 6)		927	(241,755)	472,849	232,021
As at March 31, 2008 (as restated)	34,707,945	1,255,214	-	4,831,413	40,794,572
Issued common stock	12,473	-	-	-	12,473
Stock-based compensation	-	211,284	-	-	211,284
Executive stock options forfeited	-	(16,037)	-	-	(16,037)
Loss for the period	-	-	-	(1,774,427)	(1,774,427)
As at December 31, 2008	34,720,418	1,450,461	-	3,056,986	39,227,865
Stock-based compensation	-	30,712	-	-	30,712
Loss for the period	-	-	-	(1,613,360)	(1,613,360)
As at March 31, 2009	34,720,418	1,481,173	-	1,443,626	37,645,217

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Cash Flow
For the three months ended March 31
(unaudited)

	2009	2008 (Restated – Note 6)
Cash provided by (used in):		
Operating:		
Net earnings (loss) for the period	\$ (1,613,360)	\$ 15,392
Amortization of property, plant and equipment, and patents	862,614	824,413
Gain on disposal of property, plant and equipment	(2,460)	8,460
Deferred gain on sale or leaseback	(71,975)	(71,975)
Income from equity accounted for investments	(119,121)	(44,629)
Non-cash interest expense	102,075	927
Stock based compensation	30,712	134,804
Unrealized foreign exchange hedge contract loss (gain)	114,443	499,983
Future income tax expense (recovery)	(876,806)	(466,344)
Cash flow provided by (used in) operations	(1,573,878)	901,031
Change in non-cash working capital	9,135,682	2,312,156
Cash flow provided by (used in) operating activities	7,561,804	3,213,187
Investing activities:		
Proceeds on disposal of property, plant and equipment	226,047	6,852
Purchase of property, plant & equipment	(475,502)	(732,116)
Proceeds on disposal of intangible assets	8,000	-
Repayment of notes receivable	390	22,934
	(241,065)	(702,330)
Financing activities:		
Increase (decrease) in bank operating lines	(4,561,817)	1,477,933
Repayment of long-term debt	(712,146)	(548,608)
Repayment of shareholders loans	-	(42,000)
Repayment of notes payable	(191,487)	(1,661,777)
Repayment of convertible debentures	-	(3,221,900)
Proceeds of issue of common shares	-	12,000
	(5,465,450)	(3,984,352)
Change in bank indebtedness	1,855,289	(1,473,495)
Bank indebtedness beginning of the period	(1,020,409)	(614,185)
Bank indebtedness end of the period	\$ 834,880	\$ (2,087,680)
Supplementary cash flow information:		
Interest paid	\$ 765,453	\$ 2,895,096
Income taxes paid	\$ 426,428	\$ 416,962

See accompanying notes to the unaudited consolidated financial statements

1. Nature of the business

The consolidated financial statements include the accounts of Empire Industries Ltd. and its wholly-owned subsidiaries, Empire Iron Works Ltd., George Third & Son Ltd., Empire Dynamic Structures Ltd., Tornado Technologies Inc., and its 49% investment in Sorge's Welding Ltd. Sorge's Pro Welding Ltd. was amalgamated with Sorge's Welding Ltd. January 1, 2009. The investment in Sorge's Welding Ltd. is accounted for using the equity method.

The financial statements of Empire Iron Works Ltd. contained herein include the accounts of its wholly owned subsidiaries, Hopkins Steel Works Ltd., Ward Industrial Equipment Ltd., and Parr Metal Fabricators Ltd. The financial statements of George Third & Son Ltd. contained herein include the accounts of its wholly owned U.S. subsidiary, KWH Constructors Inc. The financial statements of Empire Dynamic Structures Ltd. contained herein include the investment in two 50% joint ventures with AMEC International (Canada) Ltd. which are accounted for under the proportionate consolidation method. The financial statements of Tornado Technologies Inc. contained herein include the accounts of its wholly owned U.S. subsidiary, Tornado Technologies, Inc.

2. Basis of presentation

These consolidated financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP"). The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they come due. If the going concern basis of accounting is not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used and such adjustments could be material.

Certain of the Company's debt obligations, including those disclosed in Note 8, are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. As at March 31, 2009, the Company was not in compliance with certain of its financial covenants on debt obligations. In addition, the Company's ability to maintain compliance with its other financial covenants in the future is dependent upon various factors, some of which are outside the control of the Company.

Based upon uncertainties associated with the Company's current operating projections including, but not limited to, the possibility of higher interest rates, commodity price increases, curtailment in industrial or institutional capital spending or credit losses or a combination of these factors, the Company may not be able to maintain compliance with all of its existing covenants throughout fiscal 2009. Failure to maintain financial covenants under the respective credit facilities would result in default permitting the lenders to demand payment of amounts outstanding under the lending agreements. While the Company has received no such demand for payment to date, either formally or informally, these circumstances add risk as to the ability of the Company to meet its obligations as they come due and accordingly, the use of accounting principles applicable to a going concern.

To meet these potential demands, the Company would need to generate additional cash flows through either the issue of new debt financing, renegotiation of credit terms and conditions, disposal of certain non-core assets and operations, cost containment efforts, equity issues or some combination thereof. The Company is proactively looking at all available alternatives and management believes that progress is being made in implementing the Company's plans. While there is no assurance as to their outcome or success, the Company continues to aggressively pursue strategies to improve operating results, cash flows and capital structure in order to ensure the availability of funds to continue to meet its obligations.

3. Accounting principles

These interim unaudited consolidated financial statements are based on accounting principles consistent with those used and described in the December 31, 2008 audited annual consolidated financial statements. However, these interim consolidated financial statements do not include all of the information and disclosures required for annual financial statement presentation and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2008. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

4. Earnings per share

For the three months ended March 31

	2009			2008 (Restated – Note 6)		
	Net loss for the period	Shares	Per Share	Net earnings for the period	Shares	Per Share
Basic earnings (loss) per share	(1,613,360)	91,239,608	\$ (0.02)	15,392	91,167,860	\$ -
Add:						
Executive stock options					829,917	
Convertible debentures					89,522	
Diluted earnings (loss) per share	\$ (1,613,360)	91,239,608	\$ (0.02)	\$ 15,392	92,087,329	\$ -

Basic earnings per share is derived by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding for the period. The effect of potentially dilutive securities ("in-the-money" executive stock options, "in-the-money" warrants and convertible debentures) are excluded if they are anti-dilutive.

5. Seasonal and cyclical nature of the business

There is limited seasonality to the Company's steel fabrication and install business although unseasonably cold or hot weather can impact productivity rates for field installation services. The Company's earnings from steel fabrication and installation services tend to lag the underlying cycles of commercial, industrial, institutional and infrastructure construction activity. The distributed nature of the Company's steel fabrication and installation services capacity in Manitoba, Alberta and British Columbia mitigates, to some extent, localized or regional cycles. To the extent that specialized engineered products for the oil and gas sector support the development of new oil and gas production, earnings may be impacted by the underlying cycles of oil and gas capital spending activity. The Company's earnings from specialized engineered products for amusement ride systems tend to follow the underlying cycles of capital spending by amusement park operators and earnings from the development of observatory telescopes systems and enclosures are essentially tied to financial support from government and academic stakeholders.

6. Restated comparative figures

(a) Foreign exchange derivatives, subsidiaries and income taxes

	Period ended March 31, 2008 (As previously reported)	Period ended March 31, 2008 (As restated)	Ref.
Property, plant & equipment	\$ 29,535,254	\$ 29,405,432	(i)
Future income tax liabilities, net	2,782,814	2,420,971	(i)
Retained earnings	4,358,564	4,831,413	(i) (ii)(iii)(v)
Accumulated other comprehensive income	241,755	-	(i) (ii) (iii)
Shareholders' equity	40,562,551	40,794,572	(i)
Sales	38,683,299	38,693,436	(iii)
Gross profit	6,283,641	6,293,778	(iii)
Operating, general and administrative expenses	(4,245,396)	(4,240,879)	(iv)
Interest expense	(747,211)	(748,138)	(v)
Unrealized foreign exchange hedge contract loss	-	(499,983)	(ii)
Net earnings before income taxes	540,738	54,482	(ii)(iii)(iv)(v)
Future income tax recovery	308,849	466,344	(ii)
Net earnings	344,153	15,392	(ii)(iii)(iv)(v)
Other comprehensive income	(332,351)	-	(ii) (iii)
Comprehensive income	11,802	15,392	(iv) (v)
Earnings per share – basic and diluted	\$ -	\$ -	-

- (i) The cumulative impact of the restated results for the year ended December 31, 2007 included a reduction in Property, Plant and Equipment of \$129,822, a reduction in net future income tax liabilities of \$361,843, an \$806,127 increase in retained earnings and a \$574,106 reduction in accumulated other comprehensive income, resulting in a net increase in shareholders' equity of \$232,021.
- (ii) Commencing April 17, 2007, the Company had been recording unrealized gains or losses on foreign exchange derivatives, determined to be cash flow hedges for reporting purposes, in OCI. It has been determined that at the date of inception of the hedges, the Company did not have sufficient evidence to support the treatment of these foreign exchange hedge contracts as being effective (as defined by GAAP) and accordingly, the transactions should have been reported as fair value hedges for financial reporting purposes. As a result, the 2008 figures for the first quarter ended March 31, 2008 have been re-stated such that the unrealized losses of \$342,488 (net of future income tax recovery of \$157,495) previously included in OCI have now been included in net earnings.
- (iii) Commencing with the acquisition of Tornado Technologies Inc. ("Tornado Canada") on November 30, 2007, the Company had been treating Tornado Canada's wholly owned U.S. subsidiary, Tornado Technologies, Inc. ("Tornado USA") as a self-sustaining foreign operation with changes in values on currency translation being reported in OCI. On the basis that management and financing of Tornado USA are handled principally by Tornado Canada, it has been determined that Tornado USA is in fact an integrated foreign operation for financial reporting purposes. As a result, the 2008 figures for the first quarter ended March 31, 2008 have been re-stated such that the foreign currency translation gains of \$10,137 previously included in OCI have now been included in net earnings.

- (iv) The Company had been treating the forfeiture and cancellation of outstanding stock options as a direct increase to retained earnings. It has been subsequently determined that the company should have been recording this recovery as a reduction in stock compensation expense included in operating, general and administrative expenses. As a result, the 2008 figures have been re-stated such that the recovery of stock options forfeited of \$4,517 during the quarter is first applied to reduce operating, general and administrative expenses with no resulting change in retained earnings and shareholders' equity.
- (v) The Company had been charging the accretion in the convertible debenture to contributed surplus. It has been determined that the non-cash accretion should be charged to interest expense. As a result, the 2008 figures have been restated such that the accretion of \$927 is charged to interest expense with no resulting change in shareholders' equity.

(b) Definition of cash and cash equivalents

The Company had previously included its bank operating loans as a component of cash and cash equivalents on the statement of cash flows. The Company has subsequently determined that its bank operating loans would be more appropriately included on the statement of cash flows as a financing activity. As a result, the 2008 figures have been re-stated to reflect this change.

	March 31, 2008 (As previously reported)		March 31, 2008 (As restated)	
Cash flow provided by (used in):				
Operating activities				
Cash flow provided by operations	\$	569,006	\$	901,031
Changes in non-cash working capital		3,188,710		2,312,156
Investing activities		(736,924)		(702,330)
Financing activities – excluding bank operating lines		(5,972,220)		(5,462,285)
		(2,951,428)		(2,951,428)
Financing activities – bank operating lines assumed		-		1,477,933
Change in cash	\$	(2,951,428)	\$	(1,473,495)

7. Accounts receivable:

The following table outlines details of the Company's aged receivables and related allowance for doubtful accounts:

	March 31, 2009		December 31, 2008	
Holdbacks	\$	6,434,700	\$	6,362,317
Current		15,083,922		17,542,920
31 – 60 days		7,402,443		9,436,507
61 – 90 days		790,171		4,262,623
Greater than 90 days		3,536,986		4,788,834
Billed receivables		33,248,222		42,393,201
Unbilled receivables		7,969,089		9,467,553
Advance billings		(4,752,226)		(6,595,653)
Allowance for doubtful accounts		(560,096)		(568,744)
Total accounts receivable, net	\$	35,904,989	\$	44,696,357

8. Bank indebtedness and bank operating lines

At March 31, 2009, the Company had total draws on its bank operating lines of credit of \$22,454,177 (December 31, 2008 - \$27,015,994) consisting of:

- (a) A line of credit with the Royal Bank of Canada in the amount of \$6,000,000 (December 31, 2008 - \$7,000,000) of which \$4,755,000 (December 31, 2008 - \$6,230,000) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 3.3% (December 31, 2008 – 1.3%). The Company is in compliance with its total liabilities to tangible net worth covenant ratio at March 31, 2009. The Company may not be in compliance with its new debt service coverage ratio, effective June 30, 2009, at some point over the next 12 month period. As a result of covenant violations at December 31, 2008, the bank has requested a capital injection of \$1,200,000 plus a detailed action plan by May 31, 2009, which the Company has submitted.

- (b) A line of credit with HSBC in the amount of \$15,000,000 (December 31, 2008 - \$15,000,000) of which \$12,649,411 (December 31, 2008 - \$12,914,086) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 1% (December 31, 2008 – prime plus 1%). The Company is not in compliance with its two covenants contained in the bank operating agreement as at March 31, 2009. HSBC has not made any demands, either formally or informally, on the Company to date. The long term portion of the Company's capital lease facilities with HSBC of \$2,047,661 have been reclassified as a current liability and will remain there until the Company achieves compliance with the bank covenants.
- (c) A line of credit with the Bank of Montreal in the amount of \$10,500,000 (December 31, 2008 - \$10,500,000) of which \$5,049,766 (December 31, 2008 - \$7,871,908) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 3.5% per annum, depending on the Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA") ratio.

9. Future income taxes

The tax recovery for the period ended March 31, 2009 includes an amount of \$427,535 recognized in the first quarter to reduce the future tax liability previously recorded on certain land assets in Empire Dynamic Structures Ltd. ("EDSL"). The original liability was set up on the acquisition of EDSL in 2007 to reflect the temporary difference between the accounting and tax basis of these assets at the time of the acquisition. A subsequent tax planning exercise and amalgamation executed on January 1, 2009 resulted in a corresponding increase in the tax basis of these assets, reversing this temporary difference. Accordingly, the reduction to the tax liability has been reflected in the tax recovery in the current period.

10. Segmented information

The Company operates in the following industry segments:

Steel fabrication and erection

Steel fabrication and erection involves the supply and or installation of structural steel for the commercial, industrial, and institutional sectors. Projects include, but are not limited to, construction of buildings, bridges, plants, mine shafts, and heavy industrial equipment. Steel fabrication and erection is carried out by Empire Iron Works Ltd., Hopkins Steelworks Limited, Sorge's Welding Ltd., George Third & Son Ltd. and KWH Constructors Inc.

Specialty engineered products

Specialty engineered products involves manufacturing items such as combustion equipment, production equipment, hydro vac and vacuum trucks, pressure vessels, air cleaning equipment, and amusement park rides. These products are supplied by Tornado Technologies Inc., Ward Industrial Equipment Ltd., Empire Dynamic Structures Ltd., and Parr Metal & Fabricators Ltd.

For the three months ended March 31, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 20,918,991	\$ 21,011,298	\$ 22,099	\$ 41,952,388
Cost of goods sold	(20,062,703)	(18,026,679)	-	(38,089,382)
Gross profit	856,288	2,984,619	22,099	3,863,006
Income from equity and other investments	119,121	-	-	119,121
Operating, general and administrative expenses	(2,172,071)	(2,562,171)	(387,425)	(5,121,667)
EBITDA	(1,196,662)	422,448	(365,326)	(1,139,540)
Amortization	(493,217)	(368,164)	(1,233)	(862,614)
EBIT	(1,689,879)	54,284	(366,559)	(2,002,154)
Other income	26,849	47,586	-	74,435
Interest expense	(264,619)	(195,668)	(213,861)	(674,148)
Unrealized loss on foreign exchange hedge contracts	-	(114,443)	-	(114,443)
Segmented earnings (loss) before income tax	\$ (1,927,649)	\$ (208,241)	\$ (580,420)	\$ (2,716,310)

Notes to the Consolidated Financial Statements
 March 31, 2009
 (unaudited)

For the three months ended March 31, 2008

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 21,079,968	\$ 17,613,468	\$ -	\$ 38,693,436
Cost of goods sold	(18,120,897)	(13,825,050)	-	(31,945,947)
Gross profit	2,959,071	3,788,418	-	6,747,489
Income from equity and other investments	44,629	-	-	44,629
Operating, general and administrative expenses	(1,907,329)	(2,335,165)	(486,123)	(4,728,617)
EBITDA	1,096,371	1,453,253	(486,123)	2,063,501
Amortization	(463,079)	(360,997)	(337)	(824,413)
EBIT	633,292	1,092,256	(486,460)	1,239,088
Other income	26,608	36,907	-	63,515
Interest expense	(232,419)	(332,854)	(182,865)	(748,138)
Unrealized gain on foreign exchange hedge contracts	-	(499,983)	-	(499,983)
Segmented earnings (loss) before income tax	\$ 427,481	\$ 296,326	\$ (669,325)	\$ 54,482

11. Guarantees and contingencies

Loan guarantees

The Company is contingently liable under two guarantees given to third-party lenders who have provided certain financing facilities to affiliated companies. As at March 31, 2009, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$650,000 (December 31, 2008 - \$650,000). In addition, the Company has provided an unlimited guarantee on behalf of an equity investment over which the Company exercises significant influence.

Director and officer indemnification

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers as well as those of its wholly-owned subsidiaries and certain affiliated companies.

Other indemnification provisions

From time to time, the Company enters into agreements in the normal course of operations and in connection with business or asset acquisitions and dispositions. By their nature, these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Other contingencies

As at March 31, 2009, there are claims against the Company in varying amounts for which a provision in the financial statements is not considered necessary. The occurrence of the confirming future event is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims. Management believes that any such amounts would not have a material impact on the business or financial position of the Company, or the occurrence of the confirming event is not determinable.

12. Comparative figures

Certain of the 2008 amounts presented for comparative purposes have been restated to conform to the presentation adopted in the current year.