Empire Industries Ltd.

3rd Quarter 2008

Management Discussion & Analysis

For the 3 and 9 month periods ending
September 30, 2008

Consolidated Financial Statements

September 30, 2008
Unaudited

Empire Industries Ltd.

Management's Discussion and Analysis

for the three and nine months ended
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This management discussion and analysis of financial condition and results of operations ("MD&A") dated November 18, 2008 of Empire Industries Ltd. ("EIL" or the "Company"), is supplemental to and should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2008, in addition to the audited consolidated financial statements of EIL for the fiscal year ended December 31, 2007. This MD&A is based on the Company's accounting policies that are in compliance with Canadian generally accepted accounting principles ("GAAP"). Additional information on EIL is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The preparation of consolidated financial statements requires the Company's management to make estimates and judgments that affect the amounts recorded for assets, liabilities, shareholders' equity, sales, expenses, as well as disclosures on contingencies. These assumptions are reviewed by the Company based on historical results and new events.

The Company's management is responsible for maintaining appropriate control systems, procedures and information systems, thereby ensuring that the information it discloses is reliable and complete.

BUSINESS DESCRIPTION

Empire Industries Ltd. is a leading high-growth Western Canadian enterprise focused on steel fabrication and installation services and specialty engineered products. The Company owns several steel fabrication shops and complementary businesses (including operations in construction and maintenance services, and specialized manufacturing), each with longstanding track records of success. EIL's mission is to increase shareholder value by adding value to steel. Through a combination of organic growth and strategic acquisitions EIL intends to continue to profitably expand its market share in the burgeoning industrial, commercial and institutional construction marketplace of Western Canada as well as other markets. 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 both Sorge's Welding Ltd. ("SW") and Sorge's Pro Welding Ltd. ("SPW") based in Fort McMurray, Alberta. EIW operates two branches in Winnipeg, Manitoba, and one branch in 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, and Parr is based in Winnipeg, Manitoba. GTS and EDSL have operations in Vancouver, British Columbia. Tornado has operations in Calgary, Gadsby, and Stettler, Alberta, and in Houston, Texas.

Through its subsidiaries, EIL operates in two distinct business segments: (1) structural steel fabrication and installation services; and (2) specialty engineered products. Its structural steel fabrication and installation services operations are carried out by EIW, GTS, Hopkins, SW and SPW. EIL's specialty engineered products are manufactured by Tornado, EDSL, Ward, and Parr.

Current operations are positioned to capitalize on Western Canadian growth in industrial, commercial and institutional capital spending. There is a shortage of capacity in Western Canada available to handle larger, more complex projects. To address this shortage Empire has grown its workforce to over 800 employees and its fabrication capacity to over 400,000 square feet.

In addition, the engineered products segment is positioned for substantial export based growth in the oil and gas markets and amusement ride markets worldwide.

FINANCIAL INFORMATION

Internal Controls

The Company's management is responsible for maintaining appropriate information systems, procedures and control systems, to ensure that the information disclosed by the Company is complete and reliable. The Company applies the financial reporting rules and takes the necessary actions to comply with the new accounting standards once they come into force. The Company also applies the standards imposed by the capital market regulatory authorities. The Company has developed and maintains internal reporting controls and procedures designed to provide reasonable assurance that material information from the Company and its consolidated subsidiaries is disclosed in accordance with GAAP. The Company has evaluated these controls and procedures and concluded that they are effective.

The Company has established an insider trading policy for officers, directors, and senior management.

Changes in Accounting Policies

On January 1, 2008, the Company adopted CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. These sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855 – Financial Instruments – Recognition and Measurement and Section 3865 – Hedges. The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new standards have no impact on the classification and measurement of the Company's financial instruments.

On January 1, 2008, the Company adopted CICA Handbook Section 1535 – Capital Disclosures Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may pay dividends to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

On January 1, 2008, the Company adopted CICA Handbook Section 3031 – Inventories. The section prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. The Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

There is no adjustment to opening equity at the beginning of the year as a result of adopting the new standards and the impact on the nine months ended September 30, 2008 was minimal.

Future Changes in Accounting Policies

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.

In January 2006, the CICA Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS.

The Company is currently considering the effect of the new standards on its financial statements and the accompanying notes.

Non-GAAP Measure

Operating income and funds from operations as used in the Company's financial statements are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. Management believes these measures are useful supplemental measures. Operating income provides an indication of the results generated by the Company's principal business activities prior to financing activities, amortization of assets, stock based compensation, gains or losses on sale, or taxation in various jurisdictions. Funds from operations indicate the funds available for financing and investing activities. Investors should be cautioned that these indicators should not replace net earnings as an indicator of GAAP performance. The following table reconciles operating income to net income:

Reconciliation of Operating Income to Net Income (000's)

Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Operating Income	**$2,537**	$ 2,680	**$ 5,836**	$ 7,011
Interest on long term debt and notes payable	**(337)**	(343)	**(960)**	(513)
Other interest	**(474)**	(271)	**(1,334)**	(814)
Amortization of property, plant, equipment and patents	**(1,014)**	(766)	**(2,817)**	(1,521)
Stock based compensation expense	**(87)**	(244)	**(320)**	(499)
Amortization of deferred gain on sale and leaseback	**72**	28	**216**	84
Gain on disposal of property, plant and equipment, and investments	**16**	6	**29**	8
Income tax (expense) recovery	**(188)**	(399)	**(165)**	(1,375)
Net Income (loss)	**525**	691	**485**	2,381

Foreign Currency

All amounts in the MD&A are expressed in Canadian dollars, unless otherwise indicated. All tabular figures herein are also expressed in thousands of dollars, except for per share amounts.

Significant Event During The Third Quarter of 2008

On July 31, 2008, the Athabasca Chipewyan First

Nation Holding Corporation ("ACFN") purchased 51% of the shares of SPW from EIW and also purchased the 51% controlling interest in SW from the majority shareholder. EIW received proceeds of $0.85 million on the sale and recorded a loss of $0.094 million on the transaction. EIL and one of its subsidiaries continue to hold a 49% interest in both SW and SPW.

Subsequent Event

On November 1, 2008, EIL and the ACFN, through their joint ownership of SPW, have acquired Lemax Machine and Welding ("Lemax") based in Fort McMurray, Alberta, for $1.2 million plus working capital. Lemax was established in 1981 and operates a full service machine shop, welding, plate and steel fabrication facility. In addition, Lemax provides an extensive variety of onsite and field machining maintenance services.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to ensure that material information with respect to EIL including its consolidated subsidiaries is made known to them. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and to report any material changes in internal controls over financial reporting.

The Company's management, including the CEO and the CFO, does not expect that the disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, have been detected. The Company is continually evolving and enhancing its system of controls and procedures.

During the quarter, an issue relating to the enforcement of internal controls in one of the Company's operations was identified and was subsequently resolved.

Based on the evaluation of the disclosure controls and procedures, the CEO and the CFO have concluded that, to their knowledge, subject to the inherent limitations noted above, the disclosure controls and procedures are effective.

OPERATING RESULTS

For the three and nine months ended September 30, 2008 and 2007

Revenues and Gross Margin (000's)

Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Revenue	**$ 57,448**	$ 27,546	**$ 139,590**	$ 81,562
Cost of goods sold	**49,307**	22,312	**118,356**	66,617
Gross profit	**$ 8,141**	$ 5,234	**$ 21,234**	$ 14,945
Gross margin	**14.2%**	19.0%	**15.2%**	18.3%

In general, numbers are not comparable due to the material acquisitions that took place both during and after Q2 2007.

Revenue for the third quarter ended September 30, 2008 was $57.4 million compared to $27.5 million in the same period of the prior year. Revenue for the nine months ended September 30, 2008 was $139.6 million compared to $81.6 million for the same period in 2007. The acquisitions of EDSL, and KWH Constructors Corp. ("KWH") in Q2 2007, and Tornado in Q3 2007 resulted in significant quarter over quarter increases in revenue. KWH amalgamated with GTS in the first quarter of 2008.

In the three months ended September 30, 2008, gross profit increased to $8.1 million versus $5.2 million during the same period in 2007. Gross profit for the nine months ended September 30, 2008 was $21.2 million compared to $15.0 million for the nine months ended September 30, 2007. Gross margins were 14.2% in the third quarter ended September 30, 2008 compared to 19.0% for the same period in 2007. For the nine months ended September 30, 2008, gross margin was 15.2% compared to 18.3% for the same period in the prior year. Gross margin in the current quarter and year to date as compared to the same periods in the prior year has been negatively impacted by much weaker operating results from the steel fabrication and installation segment (see the Segmented Results below for a more specific description of the reasons for these reduced margins).

General and Administration Expenses & Other Operating Earnings (000's)				
Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
General and Administration Expenses	**$5,788**	$ 2,895	**$ 16,009**	$ 8,490
- as a percent of revenue	**10.1%**	10.5%	**11.5%**	10.4%
Gain (loss) on foreign exchange	**(39)**	287	**153**	217
Share of income from subsidiaries	**223**	54	**458**	339
Total other operating earnings (loss)	**184**	341	**611**	556
Operating income	**$2,537**	$2,680	**$5,836**	$7,011
- as a percent of revenue	**4.4%**	9.7%	**4.2%**	8.6%

General and administration expenses increased from $2.9 million in the third quarter ended September 30, 2007 to $5.8 million in the third quarter of 2008. For the nine months ended September 30, 2008 general and administration expenses were $16.0 million compared to $8.5 million for the same period in 2007. The increase in general and administration expenses in the current quarter compared to the same quarter in the prior year is largely due to the addition of Tornado and Parr to the Company's operations in the fourth quarter of 2007. In addition, there were integration and moving costs in both Vancouver and Welland in the current quarter.

Other operating earnings were $0.2 million for the quarter ended September 30, 2008 and $0.3 million for the same period in 2007. For both nine month periods ended September 30, 2007 and 2008, other operating earnings were $0.6 million. Most of the change in the foreign exchange is due to realized gains or losses on foreign exchange hedges on US sales flowing through EDSL for its share in two joint ventures. The remainder of the other operating earnings results from picking up the Company's 49% of the earnings in Sorge's Welding Ltd. and Sorge's Pro Welding Ltd.

Operating income for the third quarter of 2008 decreased to 4.4% of revenue to $2.5 million versus $2.7 million or 9.7% of revenue for the third quarter of 2007. For the nine months ended September 30, 2008 operating income was $5.8 million or 4.2% of revenue compared to $7.0 million or 8.6% of revenue for the same period in 2007.

Third quarter operating income was $0.2 million less that it was for the same period last year but as a percentage of revenue was less than half of the value for the prior year. As previously indicated, this is mainly due to the decrease in gross margin percentage and the increase in administrative costs.

Other Operating Expenses (000's)				
Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Amortization of property, plant and equipment	**$ 1,014**	$ 766	**$ 2,817**	$ 1,521
Interest on long term debt and notes payable	**337**	344	**960**	513
Other interest	**474**	271	**1,334**	814
Stock based compensation	**87**	244	**320**	499
Total Other Expenses	**$ 1,912**	$ 1,625	**$ 5,431**	$ 3,347

Amortization was $1.0 million during the three months ended September 30, 2008 compared to $0.8 million for the same period in the prior year. This increase is due to the operations of Tornado and Parr being included in the figures adding significant fixed assets to the balance sheet. Interest on long term debt and notes payable was the same for the three month periods ended September 30, 2007 and 2008. Other interest mainly results from draws on the line of credit and the interest on the shareholder loans. Other interest has increased from $0.3 million for the three months ended September 30, 2007 to $0.5 million for the same period in 2008.

For the nine months ended September 30, 2008 amortization, interest on long term debt, and other interest were $2.8 million, $1.0 million, and $1.3 million respectively compared to $1.5 million, $0.5 million, and $0.8 million respectively for the same period in 2007.

Stock based compensation expenses are being amortized on the stock options that were issued to the directors, officers, and employees of the Company and its subsidiaries. These expenses are being amortized over the vesting periods associated with the stock options. The fair value associated with the options issued is calculated using the Black-Scholes model for option valuation.

Other Income (Expense) (000's)

Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Amortization of deferred gain on sale and leaseback	**$ 72**	$ 28	**$ 216**	$ 84
Gain on disposal of property, plant and equipment, and investments	**16**	6	**29**	8
Total Other Earnings	**$ 88**	$ 34	**$ 245**	$ 92

During 2004, EIW entered into two separate agreements to sell and leaseback its Delta property and its office building in Edmonton at fair market value. The full amount of the proceeds were received in cash and the gain on disposition was deferred for future recognition, on a straight-line basis, over the eight year term of the leases as required under GAAP presentation. Since the first quarter of 2005, the amortization of this deferred gain was $0.03 million per quarter and will continue until the leases expire in 2012.

In November 2007, Tornado entered into a sale and leaseback agreement relating to one of its Calgary properties. The full amount of the proceeds were received in cash and the gain on disposition was deferred for future recognition, on a straight-line basis, over the five year term of the lease as required under GAAP presentation. Amortization in the amount of $0.04 million per quarter will continue until the lease expires in 2011.

The gain on disposal of property, plant and equipment, and investments of $0.02 million for the quarter ended September 30, 2008 and $0.03 million for the nine months then ended relates to the disposal of assets that were not vital to operations.

Income Taxes (000's)

Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Current (recovery)	**$ 37**	$ 864	**$ 325**	$ 1,903
Future (recovery)	**151**	(465)	**(160)**	(528)
Income taxes	**$ 188**	$ 399	**$ 165**	$ 1,375

Income taxes have been calculated based on applying statutory tax rates to the income for the period. The effective tax rate of approximately 25% resulted from a reduction of a reserve for uncertain tax positions.

Net Earnings (Loss), Basic Earnings (Loss) and Diluted Earnings (Loss) per Share

Periods ended September 30	Three (3) Months		Nine (9) Months	
	2008	2007	**2008**	2007
Net earnings (loss) (000's)	**$ 525**	$ 691	**$ 485**	$ 2,381
Weighted average common shares outstanding - basic (000's)	**91,240**	59,830	**91,202**	58,165
Weighted average common shares outstanding - diluted (000's)	**91,769**	59,914	**91,984**	58,179
Stock options outstanding (000's)	**7,013**	5,157	**7,013**	5,157
Warrants outstanding (000's)	**300**	0	**300**	0
Convertible debentures outstanding (000's)	**90**	0	**90**	0
Basic Earnings per share	**$ .01**	$ .01	**$ .01**	$ .04
Diluted Earnings per share	**$ .01**	$ .01	**$ .01**	$ .04

Net earnings for the third quarter ended September 30, 2008 was $0.5 million compared to earnings of $0.7 million for the same period in 2007. The net earnings for the nine months ended September 30, 2008 was $0.5 million compared to earnings of $2.4 million for the same period in 2007. Although net earnings is down $0.2 million in the current quarter compared to the same period in 2007, earnings have significantly improved from losses of $0.4 million in the second quarter of 2008.

At September 30, 2008, the weighted average shares outstanding for the three months then ended totaled 91,239,608 basic and 91,769,222 diluted. The Company uses the treasury method for all dilution calculations. The weighted average shares outstanding for the three months ended September 30, 2007 was 59,830,210 basic and 59,913,744 diluted. There were no preferred shares outstanding at September 30, 2008. For the nine months ended September 30, 2008 the weighted average shares outstanding were 91,201,590 basic and 91,984,466 diluted compared to 58,165,077 basic and 58,179,129 diluted for the same period in 2007.

Basic and diluted earnings per share were $0.01 for the quarter ended September 30, 2008 and were $0.01 basic and diluted for the same period in 2007. For the nine months ended September 30, 2008 basic and diluted earnings per share were $0.01 compared to $0.04 basic and diluted for the same period in the prior year. Earnings were soft in the first two quarters of 2008 but have strengthened in the third quarter.

SUMMARY OF QUARTERLY RESULTS

	Q3 2008 Sep. 30	Q2 2008 Jun. 30	Q1 2008 Mar. 31	Q4 2007 Dec. 31	Q3 2007 Sep. 30	Q2 2007 Jun. 30	Q1 2007 Mar. 31	Q4 2006 Dec. 31	Q3 2006 Sep. 30
Revenue	**$57,448**	$43,703	$38,439	$35,460	$27,547	$31,767	$22,170	$16,650	$16,840
Net earnings (loss)	**$525**	$(384)	$344	$767	$691	$749	$941	$319	$363
- Basic per share	**$.01**	$.00	$.00	$.01	$.01	$.01	$.02	$.01	$.01
- Diluted per share	**$.01**	$.00	$.00	$.01	$.01	$.01	$.02	$.01	$.01

Note: For comparison purposes, earnings per share for all quarters in 2006 are calculated using the weighted average number of shares outstanding from July 1, 2006 to December 31, 2006 being 53,787,593 basic and 57,790,019 fully diluted and therefore the earnings per share on this table may vary from the previous information.

Historically, the Company has not had seasonality in sales. Quarterly results are more dependent on overall industry activity levels, contract award performance, and shop and field activity levels.

SEGMENTED RESULTS

The Company operates in the following industry segments:

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 EIW, Hopkins, SPW, SW and GTS.

Specialty engineered products involves manufacturing items such as combustion equipment, production equipment, hydrovac and vacuum trucks, pressure vessels, air cleaning equipment, material handling equipment, and amusement park rides. These products are supplied by Tornado, Ward, EDSL, and Parr.

The following table summarizes the segmented results for the three and nine month periods ended September 30, 2008 and 2007:

Segmented results for the three and nine months ended September 30, 2008 and 2007 (000's)																
	Segment Description															
	Steel Fabrication & Erection				**Specialty Engineered Products**				**Corporate**				**Total**			
	Three (3) Months		**Nine (9) Months**		**Three (3) Months**		**Nine (9) Months**		**Three (3) Months**		**Nine (9) Months**		**Three (3) Months**		**Nine (9) Months**	
Periods ended September 30	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Sales	**$35,581**	$24,108	**$79,608**	$71,886	**$21,867**	$3,439	**$59,982**	$9,676	**$0**	$0	**$0**	$0	**$57,448**	$27,547	**$139,590**	$81,562
Cost of goods sold	**31,446**	18,791	**69,663**	57,506	**17,861**	3,521	**48,693**	9,111	**0**	0	**0**	0	**49,307**	22,312	**118,356**	66,617
Gross profit	**4,135**	5,317	**9,945**	14,380	**4,006**	(82)	**11,289**	565	**0**	0	**0**	0	**8,141**	5,235	**21,234**	14,945
Gross profit percent	**11.6%**	22.1%	**12.5%**	20.0%	**18.3%**	(2.4%)	**18.8%**	5.8%	**0%**	0%	**0%**	0%	**14.2%**	19.0%	**15.2%**	18.3%
Operating expenses (income) excluding the undernoted	**2,972**	2,641	**7,099**	7,115	**2,483**	429	**7,595**	1,275	**149**	(516)	**704**	(456)	**5,604**	2,554	**15,398**	7,934
Operating Income (loss) before the undernoted	**1,163**	2,676	**2,846**	7,265	**1,523**	(511)	**3,694**	(710)	**(149)**	516	**(704)**	456	**2,537**	2,681	**5,836**	7,011
Other (income) expenses	**44**	(34)	**(28)**	(91)	**(132)**	0	**(217)**	0	**87**	244	**320**	499	**(1)**	210	**75**	408
Amortization	**624**	583	**1,674**	1,225	**389**	183	**1,141**	296	**1**	0	**2**	0	**1,014**	766	**2,817**	1,521
Interest Expense	**294**	306	**780**	772	**272**	49	**882**	123	**245**	260	**632**	431	**811**	615	**2,294**	1,326
Segmented profit (loss) before income tax	**$201**	$1,821	**$420**	$5,359	**$994**	$(743)	**$1,888**	$(1,129)	**$(482)**	$12	**$(1,658)**	$(474)	**$713**	$1,090	**$650**	$3,756

For steel fabrication and erection, revenue for the third quarter ended September 30, 2008 was $35.5 million compared to $24.1 million for the same period in 2007. Gross profit was $4.1 million (11.6% of sales) for the three months ended September 30, 2008 compared to $5.3 million (22.1% of sales) for the same period in 2007. The segmented profit before income tax for the three months ended September 30, 2008 was $0.2 million compared to profit before income tax of $1.8 million for the same period in the prior year.

Steel fabrication and erection revenue for the nine months ended September 30, 2008 was $79.6 million compared to $71.9 million for the same period in 2007. Gross profit was $9.9 million (12.5% of sales) for the nine months ended September 30, 2008 compared to $14.4 million (20.0% of sales) for the same period in 2007. In the nine months ended September 30, 2008 segmented profit before income tax was $0.4 million compared to $5.4 million for the same period in the prior year.

For specialty engineered products, revenue for the third quarter ended September 30, 2008 was $21.9 million compared to $3.4 million for the same period in 2007. Gross profit was $4.0 million (18.3% of sales) for the three months ended September 30, 2008 compared to a loss of $0.1 million (2.4% of sales) for the same period in 2007. The segmented profit for the three months ended September 30, 2008 was $1.0 million compared to a loss of $0.7 million for the same period in the prior year.

Specialty engineered products revenue for the nine months ended September 30, 2008 was $60.0 million compared to $9.7 million for the same period in 2007. Gross profit was $11.3 million (18.8% of sales) for the nine months ended September 30, 2008 compared to $0.6 million (5.8% of sales) for the same period in 2007. In the nine months ended September 30, 2008 segmented profit before income tax was $1.9 million compared to a loss of $1.1 million for the same period in 2007.

In the steel fabrication and erection segment, the reduced margins in the third quarter and year to date reflect higher costs to complete because of a rapid and unexpected escalation in material costs for steel as well as labour cost overruns which impacted the Company's ability to produce the margins that were originally anticipated on three specific jobs.

The improved results for the specialty engineered products segment in both the three and nine month periods ended September 30, 2008 are primarily a reflection of the fact that Tornado was acquired after the third quarter of 2007. The 2008 specialty engineered product results are mainly attributable to favorable market conditions for Tornado's engineered products and Tornado's ability to increase sales into the United States and overseas. These strong results from Tornado were somewhat offset because of one amusement ride project that was inherited with the acquisition of EDSL. This project continued to generate a low margin throughout the first nine months of 2008.

Operating expenses are up in the steel fabrication and erection segment in the current quarter primarily due to integration costs related to the three acquisitions in the greater Vancouver area. Operating expenses for the specialty engineered products segment are up significantly from the same period in the prior year because the prior year figures do not include the expenses of Tornado and Parr since they were acquired in the fourth quarter of 2007. In addition, Ward incurred additional integration costs as it vacated its own facility and moved into shared facilities with one of Empire's other subsidiaries in the current quarter.

CAPITAL RESOURCES & LIQUIDITY

Description of Securities and Capitalization of EIL

The equity of EIL excluding accumulated other comprehensive earnings is summarized in the following table:

Equity Summary

Designation of securities	Authorized	No. of Shares and Dollar Values Outstanding	
		Sept 30, 2008	Dec 31, 2007
Common shares	unlimited	91,239,608 $34,720,418	91,137,640 $34,695,945
Retained earnings	n/a	$4,515,682	$4,009,894
Contributed surplus	n/a	$1,416,843	$1,120,410
Total	n/a	$40,652,943	$39,826,249

Description of Shares

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, and the Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Options Outstanding

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company.

On January 30, 2008 the Company issued options to certain of the officers, directors, and employees of the Company and its subsidiaries to purchase up to 170,000 shares at an exercise price of $0.55 per share. A total of 130,000 options vest equally over a four year period commencing January 31, 2009 and expire on January 31, 2015. The remaining 40,000 options vest over a three period commencing January 30, 2008 and expire on November 13, 2013.

As of September 30, 2008, the Company had 7,013,370 outstanding options of which 4,201,537 were available to be exercised with the balance being restricted by vesting periods.

Warrants Outstanding

On November 30, 2007, warrants were issued to two parties as compensation for their assistance in relation to the acquisition of Tornado. These warrants allow the warrant holders to purchase up to 300,000 common shares at a price of $0.66 until November 30, 2008, and thereafter at a price of $0.77 until expiry on November 30, 2009.

Cash Dividends Declared

No cash dividends were declared or paid during the period.

Credit Facilities

EIW, Ward, Hopkins and Parr have a combined line of credit with the Royal Bank of Canada in the amount of $6 million with advances on the line being payable on demand and bearing interest at prime plus 1.2%. At September 30, 2008 the draws on the line of credit were $0.7 million.

The Royal Bank line of credit is secured by a general assignment of inventories and accounts receivable, a $6 million debenture secured by a floating charge on all assets and a fixed charge on all property, and a postponement of claim given by certain shareholders.

GTS and EDSL have a combined line of credit with HSBC in the amount of $15 million with advances on the line being payable on demand and bearing interest at prime plus 1%. At September 30, 2008 the draws on the line of credit were $14.1 million. The line of credit is secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrower, and a floating charge over all of the borrower's present and after acquired real property. In addition, EIL has provided an unlimited guarantee of indebtedness of the borrower. As of September 30, 2008, GTS and EDSL were not in compliance with financial covenants pertaining to maintaining a minimum required current ratio and a maximum debt to equity ratio as set out in their credit agreement with HSBC. The bank has issued a letter of forbearance that provides for an adjustment to the covenants to allow less stringent debt equity and current ratios until March 31, 2009 when management expects that the Company will be back in line with the original covenants.

The Company has provided a guarantee for half of the revolving loan of SW, a related party, to a maximum of $0.5 million in favour of The Alberta Treasury Branch. As of September 30, 2008, SW had $0.2 million in borrowings on the revolving loan.

Tornado has a maximum credit facility with the Bank of Montreal in the amount of $10.5 million payable on demand with interest ranging from prime to prime plus 1.5%. As of September 30, 2008 draws on the line of credit were $7.4 million. Security is comprised of a registered General Security Agreement and an assignment of insurance in favour of the bank as first loss payable on equipment and inventory. The bank senior debt to earnings before income tax depreciation and amortization ("EBITDA") ratio was exceeded as of December 31, 2007 and continues to be off side as of September 30, 2008. The degree of the covenant violation improved significantly during the third quarter ended September 30, 2008 and management believes the covenant will be on side within the next three months. The term debt of Tornado has been classified as current until the covenant is on side.

Cash Flow

The table below indicates the significant items that had an impact on the cash flows during the three and nine months ended September 30, 2008, compared to the same period for the previous year. Funds from operations decreased by $1.9 million in the three months ended September 30, 2008 versus a decrease of $3.9 million during the same period in the prior year. During the nine months ended September 30, 2008 funds from operations increased by $4.7 million compared to a decrease of $0.3 million for the same period in the prior year.

During the third quarter ended September 30, 2008, cash decreased by $1.4 million and in the same period in the prior year, cash decreased $3.2 million. Cash decreased by $3.7 million in the nine months ended September 30, 2008 compared to a decrease of $7.0 million in the same period in 2007. Convertible debentures in the amount of $3.2 million were paid out in the first quarter of 2008.

Statement of Cash Flow (000's)

Periods ended September 30	Three (3) Months 2008	Three (3) Months 2007	Nine (9) Months 2008	Nine (9) Months 2007
Cash provided by (used in):				
Operating:				
Earnings (loss) for the period	**$ 525**	$ 691	**$ 485**	$ 2,381
Items not involving cash-				
Gain on disposal of property, plant and equipment	**(16)**	(6)	**(29)**	(8)
Loss (gain) on foreign exchange	**39**	(287)	**(153)**	(217)
Amortization of property, plant and equipment	**1,014**	766	**2,816**	1,521
Amortization of deferred gain on sale and leaseback	**(72)**	(28)	**(216)**	(83)
Equity investment pick up	**(223)**	(54)	**(458)**	(339)
Interest accretion on convertible debentures	**1**	-	**3**	-
Stock based compensation	**86**	244	**320**	499
Future income taxes (reduction)	**1,637**	2,706	**1,631**	2,314
Change in non-cash working capital	**(4,893)**	(7,936)	**262**	(6,378)
Net Funds from Operations – Received (Used)	**(1,902)**	(3,904)	**4,662**	(310)
Financing activities:				
Advances from (payments to) shareholders	**(6)**	-	**(44)**	45
Repayment of notes payable	**363**	(490)	**(1,176)**	(762)
Repayment of long-term debt	**(691)**	1,419	**(1,854)**	(1,164)
Repayment of convertible debentures	-	-	**(3,222)**	-
Paid to related parties	**891**	-	**(335)**	-
Proceeds from common shares issued	**-**	46	**24**	65
Proceeds on issuance of long-term debt	-	-	**-**	13,305
Net Funds from Financing Activities	**557**	975	**(6,607)**	11,489
Investing activities:				
Repayment of notes receivable	**85**	9	**143**	33
Purchase of investment	**-**	-	**(3)**	(36)
Proceeds on disposal of property, plan and equipment	**388**	8	**822**	8
Proceeds on sale of 51% of Sorge's Pro Welding Ltd.	**850**	-	**850**	-
Investment in Empire Dynamic Structures Ltd.	**-**	-	**-**	(11,637)
Investment in KWH Constructors Corp.	**-**	-	**-**	(5,225)
Purchase of property, plant and equipment	**(1,364)**	(332)	**(3,558)**	(1,360)
Net Funds from Investing Activities	**(41)**	(315)	**(1,746)**	(18,217)
Change in cash	**$ (1,386)**	**$ (3,244)**	**$ (3,691)**	**$ (7,038)**

BALANCE SHEET

Assets

As at September 30, 2008 the Company had assets of $120.9 million compared to $110.9 million on December 31, 2007. This increase of $10.0 million resulted primarily from an $8.1 million increase in receivables, a $2.3 million increase in inventory, a decrease in property, plant and equipment of $0.2 million, an increase in investments of $1.0 million, a decrease in goodwill of $0.9 million, a decrease in the foreign exchange hedge of $0.8 million, and an increase in income taxes recoverable of $0.5 million.

Liabilities

As at September 30, 2008, the Company had liabilities of $80.2 million compared to $70.5 million on December 31, 2007. This increase of $9.7 million is the result of a decrease in long term debt of $1.8 million, an increase in accounts payable and accrued liabilities and payable to shareholders of $11.9 million, a decrease in payable to related parties of $0.3 million, a bank indebtedness increase of $3.7 million, an income tax payable decrease of $0.8 million, a decrease in notes payable of $1.2 million, a decrease in convertible debentures of $3.2 million, an increase in future income taxes of $1.6 million, and a decrease in deferred gain on sale and leaseback of $0.2 million.

Shareholders' Equity

Shareholders' equity increased from $40.4 million at December 31, 2007 to $40.7 million at September 30, 2008. This increase of $0.3 million was the result of the earnings of $0.5 million and the other comprehensive loss of $0.5 million, plus $0.3 million in contributed surplus on stock based compensation.

Working Capital

Working capital increased from $8.1 million on December 31, 2007 to $8.6 million on September 30, 2008, representing an increase of $0.5 million. The working capital ratio stands at 1.13 on September 30, 2008 compared to 1.15 on December 31, 2007.

RISKS AND UNCERTAINTIES

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.

Operating Risks

EIL's mix of business involves a high degree of operating risk. Human error in design, fabrication or installation can cause material damage or physical injury, as well as warranty claims arising from non-performance of the products, equipment, or services provided to the client. The occurrence of any of these events could result in loss of revenue, increased costs and liability to third parties.

Fixed Price Contracts

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.

Competitive Market

Due to the competitive nature of the business, price is a major factor considered in determining which qualified contractor or supplier is awarded a contract. In certain markets, the Company competes with local, regional, national and international companies for work. 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.

Cost of Raw Material

The principal cost of raw material is structural steel and other steel products. When bidding on a project, the Company estimates its costs, including projected increases in the costs of steel. Despite these estimates, actual costs could vary from the estimated amounts. Fluctuation in steel prices could impact the Company's financial performance by decreasing the profitability of existing contracts, and by depressing the demand for future projects.

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.

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.

Technological Change

EIL assesses the "labour/capital" tradeoff that is associated with the increased usage of software and capital equipment to enhance employee productivity and increase profitability. Management's view is that the increasing cost of labour and the expected tight supply of skilled tradespersons has now reached a stage where capital expenditures may be required to help mitigate the shortage of skilled tradespersons available in the shops. Implementation of these capital expenditures may result in financial and operational risk.

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.

Changes to Alberta Royalty Regime

The modifications to the Alberta Provincial Oil and Gas Royalty and Tax Regime may negatively impact oil and gas prices and the overall level of capital spending in the oil and gas industry, which could have an impact on EIL's level of business activity.

Liquidity and Financing 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.

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. 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 favorable 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.

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.

Credit Risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. The Company has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. The Company may require letters of credit or credit insurance. Notwithstanding these steps, there can be no assurance that customers will become unable to fulfill their commitments to the Company, adversely affecting the Company's financial performance.

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. Estimated 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 will not vary from the actual results measured at the completion of the contract.

Currency Fluctuations

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, and with the purchase of EDSL and Tornado, has significantly increased the percentage of revenue from exports denominated in US dollars to approximately 15% of gross sales. A majority of these contracts have been hedged to reduce the impact of exchange rate fluctuations.

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.

Environment/Regulatory

The Company is subject to federal, provincial, and local laws, as well as international trade agreements that govern the Company's operations, including environmental laws and regulations.

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. However, the Company cannot determine the extent to which it could be affected by new laws, new regulations or changes in the interpretation of current regulations or by the loss or revocation of any license, authorization, or permit.

There can be no assurance that the products manufactured by the Company will not be subject to trade tariffs in the countries to which they are exported.

Acquisitions

The Company's ability to successfully integrate acquisitions into its operations could affect Empire's financial results. 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.

OUTLOOK

EIL's total backlog was $92 million as of September 30, 2008 down from $110 million as of June 30, 2008. In the steel fabrication and erection segment, backlog was $61 million as of September 30, 2008 down from $70 million as of June 30, 2008. In the engineered products segment, backlog was $31 million as of September 30, 2008 down from $40 million as of June 30, 2008.

The backlog decreased from June levels but remains strong enough to ensure the efficient use of shop capacity. Non residential capital expenditures have been negatively impacted by the global liquidity crisis. Notwithstanding this uncertainty, bidding activity in Western Canada remains very robust but project awards are taking longer to consummate. Management remains cautiously optimistic that any delays will end sooner in Western Canada than in other parts of the world, but at the same time because of the current economic conditions and the reduction of backlog, management will be reviewing all aspects of operations to ensure the Company is responsive to these delays.

The Company will continue to focus on reducing its long term debt and strengthening its balance sheet in order to continue to meet its strategic objectives.

FORWARD-LOOKING INFORMATION

The MD&A contains forward-looking statements, which reflect Empire Industries Ltd.'s current expectations regarding future events, its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "plans," "believes," "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future acquisitions or dispositions, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company and economic factors. Forward-looking statements are not promises or guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made about the Company. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decision and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware that the Company disclaims any obligation to publicly update or revise any such forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Discussion and Analysis to be released by the Company or except as required by law.

EMPIRE INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Unaudited)

EMPIRE INDUSTRIES LTD.

Consolidated Balance Sheets
(unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Accounts receivable (Note 5)	$ 51,805,807	$ 43,660,203
Current portion of note receivable (Note 6)	11,682	117,670
Income taxes recoverable	533,640	48,461
Inventories (Note 7)	18,775,350	16,481,548
Prepaid expenses and deposits	1,079,687	1,051,778
Receivable from related parties (Note 9)	17,030	-
Foreign exchange hedge (Note 8)	-	670,066
	72,223,196	62,029,726
Note receivable (Note 6)	18,186	55,009
Investments (Note 9)	1,700,251	662,482
Property, plant and equipment (Note 10)	29,454,860	29,642,296
Foreign exchange hedge (Note 8)	34,875	167,635
Patents	43,870	45,549
Goodwill (Note 11)	17,395,067	18,301,870
	$ 120,870,305	$ 110,904,567
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (Note 12)	$ 23,046,714	$ 19,355,465
Accounts payable and accrued liabilities	31,500,339	19,559,555
Income taxes payable	525,514	1,329,959
Current portion of convertible debentures (Note 13)	-	3,221,900
Current portion of long-term debt (Note 14)	3,199,925	3,306,824
Current portion of notes payable (Note 15)	1,400,000	4,080,527
Current portion of future income taxes (Note 16)	3,167,109	2,436,038
Current portion of deferred gain on sale and leaseback (Note 17)	287,900	287,900
Foreign exchange hedge (Note 8)	27,982	-
Payable to shareholders (Note 18)	485,000	529,207
Payable to related parties (Note 9)	-	318,405
	63,640,483	54,425,780
Long-term debt (Note 14)	10,252,507	12,000,309
Notes payable (Note 15)	3,585,139	2,081,250
Convertible debentures (Note 13)	49,806	47,025
Future income taxes (Note 16)	1,706,423	813,119
Deferred gain on sale and leaseback (Note 17)	920,804	1,136,729
	80,155,162	70,504,212
Shareholders' equity:		
Capital stock (Note 19)	34,720,418	34,695,945
Contributed surplus (Note 20)	1,416,843	1,120,410
Retained earnings	4,515,682	4,009,894
Accumulated other comprehensive income (Note 21)	62,200	574,106
	4,577,882	4,584,000
	40,715,143	40,400,355
	$ 120,870,305	$ 110,904,567

See accompanying notes to the unaudited consolidated financial statements

Approved by the Board:

"Guy Nelson" Director

"Campbell McIntyre" Director

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Operations and Retained Earnings
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Sales	$ 57,447,967	$ 27,546,690	$ 139,589,814	$ 81,562,114
Cost of goods sold	49,307,356	22,312,231	118,355,490	66,617,313
Gross profit	8,140,611	5,234,459	21,234,324	14,944,801
General & administration expenses	5,788,255	2,895,388	16,009,240	8,490,348
Gain (loss) on foreign exchange	(38,799)	286,785	152,740	217,533
Income from equity accounted for investments (Note 9)	223,153	54,398	458,295	339,378
	5,603,901	2,554,205	15,398,205	7,933,437
Operating income before the undernoted	2,536,710	2,680,254	5,836,119	7,011,364
Amortization of deferred gain on sale and leaseback	(71,975)	(27,875)	(215,925)	(83,625)
Amortization	1,013,700	766,061	2,816,663	1,521,125
Gain on disposal of property, plant and equipment, and investments	(16,243)	(6,450)	(29,377)	(7,722)
Stock based compensation expense (Note 20)	86,636	243,832	319,768	499,284
	1,012,118	975,568	2,891,129	1,929,062
Earnings before the undernoted	1,524,592	1,704,686	2,944,990	5,082,302
Interest expense:				
Interest on long term debt and notes payable	337,005	343,748	960,030	512,672
Other interest	474,523	271,062	1,334,726	813,505
	811,528	614,810	2,294,756	1,326,177
Net earnings before income taxes	713,064	1,089,876	650,234	3,756,125
Income taxes expense (recovery): (Note 16)				
Current	37,090	863,647	325,000	1,903,030
Future	150,906	(464,752)	(160,000)	(528,288)
	187,996	398,895	165,000	1,374,742
Net earnings for the period	525,068	690,981	485,234	2,381,383
Retained earnings, beginning of the period	3,974,577	2,546,074	4,009,894	855,672
Stock options forfeited (Note 20)	16,037	13,917	20,554	13,917
Retained earnings, end of period	$ 4,515,682	$ 3,250,972	$ 4,515,682	$ 3,250,972
Earnings per share:				
Basic	$ 0.01	$ 0.01	$ 0.01	$ 0.04
Diluted	0.01	0.01	0.01	0.04
Weighted average number of shares outstanding:				
Basic	91,239,608	59,830,210	91,201,590	58,165,077
Diluted	91,769,222	59,913,744	91,984,466	58,179,129

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Comprehensive Income (loss)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net earnings for the period	$ 525,068	$ 690,981	$ 485,234	$ 2,381,383
Other comprehensive income (loss):				
Change in derivatives designated as cash flow hedges (Note 21)	(232,435)	134,699	(569,105)	1,054,173
Unrealized gain on translation of foreign operatior	(18,235)	-	57,199	-
	(250,670)	134,699	(511,906)	1,054,173
Comprehensive income (loss)	$ 274,398	$ 825,680	$ (26,672)	$ 3,435,556

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Cash Flow
(unaudited)

	Three months ended September 30 2008	Three months ended September 30 2007	Nine months ended September 30 2008	Nine months ended September 30 2007
Cash provided by (used in):				
Operating:				
Net earnings for the period	$ 525,068	$ 690,981	$ 485,234	$ 2,381,383
Items not involving cash-				
Gain on disposal of property, plant and equipment, and investments	(16,243)	(6,450)	(29,377)	(7,722)
Loss (gain) on foreign exchange	38,799	(286,785)	(152,740)	(217,533)
Amortization of property, plant and equipment, and patents	1,013,700	766,061	2,816,663	1,521,125
Amortization of deferred gain on sale and leaseback	(71,975)	(27,875)	(215,925)	(83,625)
Share of earnings from subsidiary	(223,152)	(54,398)	(458,295)	(339,378)
Interest accretion on convertible debentures	927	-	2,781	-
Stock based compensation (Note 20)	86,636	243,832	319,768	499,284
Future income taxes	1,637,703	2,705,576	1,631,176	2,314,319
Change in non-cash working capital	(4,893,216)	(7,935,745)	262,304	(6,377,691)
Funds from operations	(1,901,753)	(3,904,803)	4,661,589	(309,838)
Financing activities:				
Paid to (advances from) shareholders	(6,090)	-	(44,207)	45,177
Repayment of notes payable	362,905	(489,562)	(1,176,638)	(762,058)
Repayment of long-term debt	(690,975)	1,418,874	(1,853,511)	(1,164,383)
Repayment of convertible debentures	-	-	(3,221,900)	-
Paid to related parties	890,736	-	(335,435)	-
Proceeds from common shares issued	-	45,724	24,473	64,970
Proceeds on issuance of long-term debt	-	-	-	13,305,388
	556,576	975,036	(6,607,218)	11,489,094
Investing activities:				
Repayment of notes receivable	85,392	9,272	142,811	33,255
Purchase of investment	-	-	(3,000)	(36,000)
Investment in Empire Dynamic Structures Ltd.	-	-	-	(11,636,904)
Investment in KWH Constructors Corp.	-	-	-	(5,225,000)
Proceeds on sale of 51% interest in Sorge's Pro Welding Ltd.	850,000	-	850,000	-
Proceeds on disposal of property, plant and equipment	388,375	8,100	822,592	8,100
Purchase of property, plant and equipment	(1,364,706)	(331,820)	(3,558,023)	(1,360,714)
	(40,939)	(314,448)	(1,745,620)	(18,217,263)
Change in bank indebtedness	(1,386,116)	(3,244,215)	(3,691,249)	(7,038,007)
Bank indebtedness, beginning of the period	(21,660,598)	(9,354,629)	(19,355,465)	(5,560,837)
Bank indebtedness, end of the period	$ (23,046,714)	$ (12,598,844)	$ (23,046,714)	$ (12,598,844)
			-	
Supplementary cash flow information:				
Interest paid	464,441	578,288	1,750,630	1,239,300
Income taxes paid	398,260	32,657	196,559	59,328

See accompanying notes to the unaudited consolidated financial statements

1. Basis of Presentation

These unaudited financial statements have been prepared by management and are based upon Canadian generally accepted accounting principles (GAAP) consistent with those used and described in the audited annual financial statements except for the changes in accounting policies noted below. In accordance with Canadian GAAP, these interim statements do not contain all the financial statement disclosures included in audited annual financial statements and, accordingly, should be read in conjunction with the audited annual financial statements for the year ended December 31, 2007.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the allowance for doubtful accounts, loss provisions, revenue recognition under the percentage of completion method, and the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known.

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 investment in Sorge's Welding Ltd. The investments in Sorge's Welding Ltd. is accounted for using the equity method, whereby the investment is recorded at its acquisition cost and is increased by the proportionate share of post acquisition earnings and decreased by post acquisition losses.

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., Parr Metal Fabricators Ltd., and its equity investment in Sorge's Pro Welding Ltd. The financial statements of George Third & Son Ltd. contained herein include the accounts of its wholly owned subsidiary, KWH Constructors Inc. The financial statements of Empire Dynamic Structures Ltd. contained herein include the proportionate investment in two 50% joint ventures with AMEC International (Canada) Ltd. The financial statements of Tornado Technologies Inc. contained herein include the accounts of its wholly owned subsidiary, Tornado Technologies, Inc.

2. Accounting Policy Changes:

(a) On January 1, 2008, the Company adopted CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. These sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855 – Financial Instruments – Recognition and Measurement and Section 3865 – Hedges. The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new standards have no impact on the classification and measurement of the Company’s financial instruments.

(b) On January 1, 2008, the Company adopted CICA Handbook Section 1535 – Capital Disclosures Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed.

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

2. Accounting Policy Changes (Cont'd):

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. There are external restrictions to capital as lending limits are based on asset availability and financing agreements are impacted by covenants. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

(c) On January 1, 2008, the Company adopted CICA Handbook Section 3031 – Inventories. The section prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. The Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories (Note 7).

There was no adjustment to opening equity at the beginning of the year as a result of adopting the new standards.

3. Future changes to accounting policies:

(a) CICA Handbook Section 3064 – Goodwill and Intangibles will be 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.

(b) In January 2006, the CICA Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS.

The Company is currently considering the effect of the new standards on its financial statements and the accompanying notes.

4. Risk management and fair values:

Risk management -

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management’s close involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. The Company manages its risks and risk exposures through a combination of financial instruments, insurance, a system of internal and disclosure controls and sound business practices. These risks include, and the actions taken to manage them are as follows:

Liquidity risk -

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. A range of alternatives is available to the Company including cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Company’s forseeable financial obligations associated with financial liabilities.

4. Risk management and fair values (Cont'd):

Credit risk -

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. The Company may require letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

Market risk -

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: currency risk, interest rate risk and commodity price risk.

Currency risk -

The Company sells its products, as well as, purchases goods in both Canadian and U.S. currencies. Accordingly, the Company is exposed to currency risk as it relates to customer accounts receivable balances and trade accounts payable denominated in U.S. currency. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company may enter into forward exchange contracts or use other hedging activities to manage part of the foreign risk exposures relating to customer accounts receivable balances and trade accounts payable denominated in U.S. currency.

Interest rate risk -

Fluctuations in interest rates can create a cash flow risk for debt subject to variable interest rates and price risk for other fianancial instruments.

There is a risk that interest rates will change subsequent to the date the Company commits to a fixed interest rate with the lender. Obtaining long-term debt with fixed interest rates minimizes cash flow risk.

Commodity price risk -

Manufacturing costs for the Company's products are affected by fluctuations in the price of raw materials, primarily steel. In order to manage its risk, the Company implements selling price adjustments in order to match raw material cost changes, albeit with a slight time lag. This matching is not always possible as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets. For long term contracts, the Company may negotiate the inclusion of price index clauses into contracts whereby the customer agrees to price changes based on the underlying market value of steel. In order to limit the risk associated with steel price increases, the Company locks in order prices to the extent possible as soon as contracts are awarded.

Sensitivity analysis -

For the nine months ended September 30, 2008, if interest rates had been 50 basis points lower with all other variables held constant, after-tax net income for the period would have been $61,647 (September 30, 2007 - $32,130) higher, arising mainly as a result of lower interest expenses on variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, after-tax net income would have been $61,647 (September 30, 2007 - $32,130) lower, arising mainly as a result of higher interest expenses on variable borrowings. The sensitivity is higher in the period ended September 30, 2008 than for the same period in 2007 because of an increase in outstanding borrowings.

For the nine months ended September 30, 2008, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, after-tax net income for the period would have been $1,556,157 (September 30, 2007 - $772,822) lower. Conversely, if the Canadian dollar had strenghtened 10 percent against the US dollar with all other variables held constant, after-tax net income would have been $1,556,157 (September 30, 2007 - $772,822) higher. The higher foreign currency exchange rate sensitivity in net income in the first nine months of 2008 compared with the same period in 2007 is attributable to an increase in foreign currency transactions.

The sensitivity analyses do not take into consideration that the Company's liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs or be mitigated by managements actions to reduce exposure to risks.

4. Risk management and fair values (Cont'd):

Other limitations in the above sensitivity analyses includes the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Fair values -

For the purposes of disclosure, the Company calculates the fair value of certain financial assets and financial liabilities.

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable parties. Fair value is based on available public market information or when such information is not available is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at a specific point in time and in the respective geographic locations and may not be reflective of future fair values.

The fair values of the Company's financial assets and liabilities, included in net working capital (components of accounts receivable, bank indebtedness, and accounts payable), approximate their recorded values as at September 30, 2008 and December 31, 2007 due to their short-term nature.

The carrying value of the note receivable is impacted by changes in market yields that can result in differences between the carrying value and fair value of the financial instruments. The fair values of the note receivable has been estimated based on the current market rates for receivables with similar terms and conditions. The carrying value of the note receivable for the period ended September 30, 2008 and December 31, 2007 approximates fair value.

The carrying values of the notes payable, payable to shareholders and payable to related parties are impacted by changes in market yields that can result in differences between the carrying value and fair value of the financial instruments. The fair values of the notes payable, payable to shareholders and payable to related parties have been estimated based on the current market rates for debts with similar terms and conditions. The carrying values of the notes payable, payable to shareholders and payable to related parties for the period ended September 30, 2008 and December 31, 2007 approximates fair value.

The Company's long-term debt bears interest at fixed and variable rates. The carrying value of long-term debt with variable interest rates for the period ended September 30, 2008 and December 31, 2007 approximates fair value. The fair value of the Company's GE mortgage is $5,622,188 as at September 30, 2008 due to changes in market interest rates since the date on which the long-term debt was assumed. The fair value of the Company's GE equipment loan is $2,080,042 as at September 30, 2008 due to changes in market interest rates since the date on which the long-term debt was assumed. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms and conditions. No adjustments have been made in the financial statements to reflect the fair value of the GE mortgage or loan.

The investments are in private companies and therefore their fair values are not readily available.

5. Accounts receivable:

	September 30, 2008	December 31, 2007
Accounts receivable on contracts excluding holdbacks	$ 41,176,534	$ 33,978,764
Holdbacks	6,174,108	8,358,110
Unbilled contract receivables, net of advance billings	4,455,165	1,323,329
	$ 51,805,807	$ 43,660,203

Unbilled contract receivables consist of costs plus margins on unbilled contracts that are to be billed in the near term, net of advance billings.

5. Accounts receivable (Cont'd):

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

	September 30, 2008	December 31, 2007
Current	$ 22,308,241	$ 16,427,587
Unbilled contract receivables	9,575,731	6,226,698
Advance billings	(5,120,566)	(4,903,369)
	26,763,406	17,750,916
Past due amounts:		
31 -60 days	13,060,991	11,012,351
61 - 90 days	3,418,589	2,524,084
Greater than 90 days	2,774,997	4,411,913
Holdbacks	6,174,108	8,358,110
Less: Allowance for doubtful accounts	(386,284)	(397,171)
Total accounts receivable, net	$ 51,805,807	$ 43,660,203

When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. A balance is considered past due when a debtor fails to make a payment when contractually due.

6. Notes receivable:

	September 30, 2008	December 31, 2007
Notes Receivable:		
Ironshore Holdings Inc.	$ -	$ 111,670
North American Tool & Die Co.	29,868	61,009
	29,868	172,679
Current portion	11,682	117,670
	$ 18,186	$ 55,009

On May 23, 2006, Empire Iron Works Ltd. redeemed its preferred shares in Ironshore Holdings Inc. in exchange for a note receivable from Ironshore Holdings Inc. (formerly ISH Acquisition Corp.). The note was paid on September 30, 2008.

Ward Industrial Equipment Ltd. sold certain production equipment to North American Tool & Die on September 30, 2005 for $70,000. The terms provided for a cash payment of $20,000 with the balance in exchange for a note that is to be repaid based on $10 per hour that the equipment is used on outsourced work. On January 2, 2006, Ward Industrial Equipment Ltd. sold an additional piece of production equipment to North American Tool & Die for $54,000. The terms provided for a downpayment of $3,416 with the balance in exchange for a note that is to be repaid at a minimum of $500 per month commencing January 30, 2006.

7. Inventories:

Inventories are comprised of the following:

	September 30, 2008	December 31, 2007
Finished goods	$ 2,519,620	$ 4,029,242
Work-in-progress	5,189,298	2,564,939
Raw materials - specialty engineered products	8,764,245	7,569,734
Raw materials - structural steel	2,302,187	2,317,633
	$ 18,775,350	$ 16,481,548

Raw material inventory is stated at the lower of cost and replacement value on a specific unit basis. Inventory of finished goods and work in progress are stated at the lower of the average cost and net realizable value.

Structural steel inventory includes handling costs associated with bringing the inventory to its present location. As soon as inventory of structural steel is commissioned for a job it is transferred to unbilled receivables where overheads and other costs of the job are accumulated until they are sold. Inventory relating to specialty engineered products is transferred to work-in-progress upon being commissioned where overheads and other costs are accumulated until they are transferred to finished goods.

8. Foreign exchange hedge:

The Company utilized forward currency contracts to provide protection against foreign exchange rate movements during long-term sales contracts. These contracts have been designated as cash flow hedges for financial reporting purposes. The Company's policy is to not utilize derivative financial instruments for trading or speculative purposes.

The table below summarizes the transactions that qualify for hedge accounting. As these transactions have been fully effective, all gains and losses related to theses hedges have been recognized through other comprehensive income.

	September 30, 2008	December 31, 2007
Fair value of foreign currency contracts, beginning balance	$ 837,701	$ (336,262)
Change in forward currency contracts' fair value		
Existing forward currency contracts	(420,893)	1,737,846
Purchased forward currency contracts	(85,168)	222,566
Less: Realized gains on forward currency contracts	(324,747)	(786,449)
Fair value of foreign currency contracts, ending balance	6,893	837,701
Current portion	(27,982)	670,066
Long-term portion	$ 34,875	$ 167,635

As at September 30, 2008, the Company had United States dollar forward currency contracts for $5,825,000 (December 31, 2007 - $12,850,000) with a weighted average exchange rate of 1.06539 ($1.06539 CDN/$1.00 US) and maturity dates ranging from October 2008 to November 2009.

9. Investments:

Investments consist of:

	September 30, 2008	December 31, 2007
Investments where the Company does not exercise significant influence:		
15% investment in River City Detailers Ltd.	$ 30,000	$ 30,000
25% investment in Sky Trolley Inc.	21,650	18,650
	51,650	48,650
Equity accounted for investments in Sorge's Welding Ltd. and Sorge's Pro Welding Ltd.:		
Equity accounted for investment, beginning balance	613,832	613,832
Equity investment in Sorge's Pro Welding Ltd.	906,141	-
Equity earnings - 49% of Sorge's Pro Welding Ltd.	30,815	
Equity earnings - 49% of Sorge's Welding Ltd.	427,480	380,349
Management fees from Sorge's Welding Ltd.	(329,667)	(380,349)
Equity accounted for investments, ending balance	1,648,601	613,832
Total investments	$ 1,700,251	$ 662,482

The equity accounted for investments consist of 49 Class A voting common shares and 75 Class F non-voting preferred shares in Sorge's Welding Ltd. and 54 Class A voting common shares in Sorge's Pro Welding Ltd.

On July 31, 2008, the Company sold 51% of its interest in Sorge's Pro Welding Ltd. for cash consideration of $850,000. A loss of $93,782 was recorded on the transaction. After the sale, the Company retained a 49% interest in Sorge's Pro Welding Ltd. and has changed its accounting for this investment from consolidation to equity.

At September 30, 2008, the Company had a receivable from Sorge's Welding Ltd. in the amount of $677,030 (December 31, 2007 - payable of $318,405) and a payable to Sorge's Pro Welding Ltd. in the amount of $660,000 (December 31, 2007 - payable of $nil).

10. Property, plant and equipment:

	September 30, 2008		December 31, 2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 4,805,133	$ -	$ 4,805,133	$ -
Buildings	9,198,200	2,492,234	9,048,980	2,402,441
Machinery and equipment	20,162,745	8,970,164	20,501,885	9,095,573
Vehicles	997,076	559,332	1,984,225	1,274,099
Office furniture and equipment	5,691,718	3,279,808	5,396,470	3,114,676
Cranes	2,860,552	1,100,098	2,840,712	843,066
Fence	6,550	6,445	6,550	6,131
Rail spur	50,390	21,864	50,390	21,472
Parking lot	60,608	45,934	57,958	38,140
Product development	1,203,488	184,968	932,997	72,724
Leasehold improvements	2,191,537	1,112,290	2,273,419	1,388,101
	$ 47,227,997	$ 17,773,137	$ 47,898,719	$ 18,256,423
Net book value	$ 29,454,860		$ 29,642,296	

11. Goodwill:

Goodwill is the result of the difference between the purchase price and the values assigned to the underlying net assets acquired in the purchase of the shares of George Third & Son Ltd., Sorge's Pro Welding Ltd., KWH Constructors Corp., and Tornado Technologies Inc. Goodwill decreased by $906,803 as a result of the sale of 51% of Sorge's Pro Welding Ltd. (note 9) and change in accounting for the continuing 49% interest from consolidation to equity.

12. Bank indebtedness:

The Company has the following bank indebtedness:

Bank indebtedness of $23,046,714 (December 31, 2007 - $19,355,465) is made up of total draws on the line of credit of $22,215,849 (December 31, 2007 - $18,741,280) plus cheques drawn in excess of funds on deposit of $830,865 (December 31, 2007 - $614,185).

A line of credit with the Royal Bank of Canada in the amount of $6,000,000 (December 31, 2007 - $6,000,000) of which $670,000 (December 31, 2007 - $4,040,000) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 1.2% (December 31, 2007 - prime plus 1.2%).

A line of credit with HSBC in the amount of $15,000,000 (December 31, 2007 - $10,000,000) of which $14,146,563 (December 31, 2007 - $7,180,857) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 1% (December 31, 2007 - prime plus 1%).

A line of credit with Bank of Montreal in the amount of $10,500,000 (December 31, 2007 - $12,000,000) of which $7,399,286 (December 31, 2007 - $7,520,423) has been drawn down. Advances on the line are payable on demand and bear interest at prime to prime plus 1.5% per annum, depending on the Earnings Before Income Tax Depreciation and Amortization ("EBITDA") ratio.

12. Bank indebtedness (Cont'd):

The Royal Bank line of credit, and the term facilities are secured by a general assignment of inventories and accounts receivable, a $6,000,000 debenture secured by a floating charge on all assets and a fixed charge on all property, and a postponement of claim given by certain shareholders.

The HSBC line of credit is secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrower and a floating charge over all of the borrower's present and after acquired real property. In addition, the Company has provided an indemnity agreement with respect to a master lease agreement. As of September 30, 2008, George Third & Sons Ltd. and Empire Dynamic Structures Ltd. were not in compliance with the financial covenants included in their combined HSBC credit facility agreement. The bank has issued a letter of forbearance that provides for an adjustment to the covenants to allow less stringent debt equity and current ratios until March 31, 2009 when management expects that the Company will be back in line with the original covenants.

The Bank of Montreal line of credit is secured by a general security agreement of insurance in favour of the bank as first loss payable on equipment and inventory. Tornado Technologies Inc. is not in compliance with one of the credit facility's restrictive covenants. The bank senior debt to EBITDA ratio was exceeded as of September 30, 2008. As the Bank of Montreal credit facility includes the term loan described in note 14, the term loan has been shown as current and will remain there until Tornado Technologies Inc. is in compliance with the senior debt to EBITDA ratio.

The Company has guaranteed 50% of the credit facility provided by the Alberta Treasury Branch to Sorge's Welding Ltd. to a maximum of $500,000. As of September 30, 2008, the draws on this line of credit amounted to $200,000.

13. Convertible debentures:

Convertible debentures formed part of the November 30, 2007 acquisition of Tornado Technologies Inc. These convertible debentures carried a face value of $3,250,000 and were convertible into Empire common shares at a conversion price of $0.67. The convertible debentures were set to mature on June 1, 2011 and attracted interest at 8% annually. Under the terms of the convertible debenture, Empire was required to offer to repurchase the debentures from debenture holders at 101% of the face value. Empire issued that offer on December 21, 2007, and the offer expired on February 28, 2008. All but $60,000 of the convertible debentures were paid out on February 28, 2008.

Convertible debentures consist of:

	September 30, 2008	December 31, 2007
Debt component:		
Debentures paid out February 28, 2008	$ -	$ 3,190,000
Debenture premium paid February 28, 2008	-	31,900
Debentures maturing June 1, 2011	49,806	47,025
	49,806	3,268,925
Current portion of convertible debentures	-	(3,221,900)
	$ 49,806	$ 47,025
Equity component:		
Debentures maturing June 1, 2011	$ 10,194	$ 12,975

The above noted convertible debentures are unsecured.

14. Long-term debt:

	September 30, 2008	December 31, 2007
GE Mortgage, monthly payments of $59,142 including interest at 6.27% per annum, due May 1, 2019	5,531,029	5,799,566
GE Equipment Loan, monthly payments of $72,206 including interest at 6.58% per annum, due April 16, 2011	2,053,712	2,587,325
Bank of Montreal Term Loan, monthly payments of $14,012 plus interest at prime plus 4.0% per annum for 60 months effective May 1, 2008	770,664	840,729
HSBC Capital Lease, monthly payments of $19,920 including interest at 5.68% per annum with a purchase option of $148,463 on April 13, 2014 If the purchase option is not exercised, the monthly payments increase to $21,510. The lease covers a crane and expires on November 12, 2014	1,235,757	1,359,218
HSBC Capital Lease, monthly payments of $8,926 including interest at 5.89% per annum with a purchase option of $50,290 on February 21, 2012 If the purchase option is not exercised, the monthly payments increase to $9,156. The lease covers a crane and expires on July 20, 2012	364,819	427,408
HSBC Demand Term Loan, monthly payments of $3,042 including interest at prime plus 1.75% per annum, due March 30, 2008	-	11,998
Capital Equipment Loans, bearing interest up to 13% per annum, monthly payments from $110 to $2,742 including interest, due from August 2008 to October 2013	577,451	669,389
Royal Bank of Canada non-revolving term facility, payable $69,500 monthly plus interest at prime plus 2.0%, due May 31, 2010	2,919,000	3,611,500
	13,452,432	15,307,133
Current portion of long-term debt	(3,199,925)	(3,306,824)
	$ 10,252,507	$ 12,000,309

Principal amounts due on long-term debt in the current year and each of the next five years and thereafter are approximately as follows:

October 1, 2008 to September 30, 2009	3,199,925
October 1, 2009 to December 31, 2009	609,232
2010	3,537,058
2011	1,125,508
2012	795,677
2013	720,682
Thereafter	3,464,351
	13,452,432

As described in note 12, the Bank of Montreal term loan has been shown as current.

14. Long-term debt (Cont'd):

Security on the Royal Bank term facility is outlined in note 12.

The HSBC leases are secured by the equipment that is being leased.

The GE mortgage is secured by a general security agreement from Empire Industries Ltd., second to the Royal Bank general security agreement, and a first charge on the land and buildings of Empire Dynamic Structures Ltd.

The GE equipment loan is secured by a first charge on the machinery and equipment of Empire Dynamic Structures Ltd., and a second charge on the land and buildings.

The Bank of Montreal loan is secured by a general security agreement and a $500,000 collateral mortage on certain real property owned by Tornado Technologies Inc.

15. Notes payable:

	September 30, 2008	December 31, 2007
Notes payable to related parties - George Third & Son Ltd. vendors	$ 1,718,750	$ 1,718,750
Notes payable to related parties - KWH Constructors Corp. vendors	1,503,482	1,928,917
Note payable to AMEC - Dynamic Structures Ltd. vendor	1,400,000	1,400,000
Payable to vendor for acquisition of Parr Metal Fabricators Ltd.	-	1,010,140
	4,622,232	6,057,807
Accrued interest	362,907	103,970
Current portion of notes payable	(1,400,000)	(4,080,527)
	$ 3,585,139	$ 2,081,250

The related parties as noted above, are officers and/or directors of Empire Industries Ltd. and/or its wholly owned subsidiaries. During the nine months ended September 30, 2008, interest of $21,840 (September 30, 2007 - $116,094) was paid to these related parties.

The notes payable to the George Third & Son Ltd. vendors were issued on August 31, 2006 as part of the consideration for the purchase of the shares of George Third & Son Ltd. Effective June 30, 2008, the principal plus accrued interest on these unsecured notes is due on August 31, 2010. Interest is compounded quarterly at a rate of 8.5% until August 31, 2009 at which time the rate increases to 10%. The Company has the option to pay off any portion of the notes plus accrued interest at any time prior to the due date without penalty.

The notes payable to the KWH Constructors Corp. vendors were issued on April 30, 2007 as part of the consideration for the purchase of the shares of KWH Constructors Corp. Effective June 30, 2008, the principal plus accrued interest on these unsecured notes is due on April 30, 2011. Interest is compounded quarterly at a rate of 8.5% until April 31, 2010 at which time the rate increases to 10%. The Company has the option to pay off any portion of the notes plus accrued interest at any time prior to the due date without penalty.

The note payable to AMEC was issued on April 16, 2007 as part of the consideration for the purchase of the shares of AMEC Dynamic Structures Ltd., subsequently known as Empire Dynamic Structures Ltd. The unsecured note requires one lump sum payment of principal plus accrued interest at 8% per annum on October 31, 2008. As of November 18, 2008, this note remains unpaid. The Company is currently negotiating extended payment terms with the note holder.

The payable to vendor for the acquisition of Parr Metal Fabricators Ltd. bore no interest and had no fixed terms of repayment and was repaid in the first quarter of 2008.

16. Future income taxes:

The balance of future income taxes consists of the difference between undepreciated capital cost and net book value arising from the difference between the Company's depreciation rates and those prescribed for income tax purposes, holdbacks, loss carry forwards, and other temporary differences.

16. Future income taxes (Cont'd):

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the accounts:

	September 30, 2008			December 31, 2007		
Earnings before income taxes	$	650,234		$	4,844,132	
Statutory income tax		234,734	36.1 %		1,764,148	36.1 %
Adjusted for other tax effects		(69,734)	(10.7)%		(68,413)	(1.4)%
Income tax expense		165,000	25.4 %		1,695,735	35.0 %

The effective tax rate of 25.4% resulted from a reduction of a reserve for uncertain tax positions.

17. Deferred gain on sale and leaseback:

During 2004, Empire Iron Works Ltd. entered into two separate agreements to sell and leaseback certain of its land and buildings, with the full gain on disposition being deferred for future recognition, on a straight-line basis, over the 8 year term of the leases. Of the original deferred $891,829 gain, $418,125 has been recognized in operations to date with $83,625 (September 30, 2007 - $83,625) recognized in earnings for the nine months ended September 30, 2008.

During 2007, Tornado Technologies Inc. entered into an agreement to sell and leaseback certain of its land and buildings, with the full gain on disposition being deferred for future recognition, on a straight-line basis, over the 5 year term of the lease. Of the original deferred $882,000 gain, $147,000 has been recognized in operations to date with $132,300 (September 30, 2007 - $Nil) recognized in earnings for the nine months ended September 30, 2008.

18. Payable to shareholders:

The payable to shareholders bears interest at a rate of 7%, is unsecured, and is payable on demand.

During the nine months ended September 30, 2008, interest was paid to the shareholders in the amount of $25,462 (September 30, 2007 - $25,518).

19. Capital stock:

Authorized and issued capital stock -

The Company is permitted to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, and the Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

	September 30, 2008	December 31, 2007
Issued-		
91,239,608 common shares (2007 - 91,137,640)	$ 34,720,418	$ 34,695,945

On February 6, 2008, the Company issued 50,000 common shares at a price of $0.24 per share for a total cost of $12,000 pursuant to an exercise of employee stock options.

On April 9, 2008, the Company issued 6,968 common shares at a price of $0.24 per share for a total cost of $1,673 pursuant to an exercise of employee stock options.

On June 24, 2008, the Company issued 45,000 common shares at a price of $0.24 per share for a total cost of $10,800 pursuant to an exercise of employee stock options.

19. Capital stock (Cont'd):

Stock Option Plan -

The Company maintains a stock option plan for the benefit of officers, directors, key employees, and consultants of the Company. At September 30, 2008, the Company was permitted to issue up to a maximum of 9,123,961 stock options, being 10% of the outstanding common shares.

The fair value associated with the options issued was calculated using the Black-Scholes model for options valuation, assuming volatility ranging between 13% and 58% on the underlying units, and a risk free interest rate ranging from 3.7% to 4.6% depending on the date the options were granted. Share prices for the calculation were the closing price on the TSX Venture Exchange on the date of issue of the options, with the exception of the July 1, 2006, August 31, 2006, and November 30, 2007 issues. A share price of $0.55 was used for those calculations, reflecting the significant private placements of shares that were issued on those dates at that price.

Under the stock option plan, the following options were outstanding at September 30, 2008:

	---------------------Options Outstanding------------------------			-----------Options Exercisable-----------------	
Exercise Price	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Exercise Price ($)
0.62	1,433,000	5.98	0.62	358,250	0.62
0.57	250,800	2.89	0.57	250,800	0.57
0.55	3,600,000	4.77	0.55	1,950,000	0.55
0.39	261,250	3.11	0.39	174,167	0.39
0.36	459,800	0.39	0.36	459,800	0.36
0.24	1,008,520	2.13	0.24	1,008,520	0.24
Total	7,013,370	4.23	0.50	4,201,537	0.46

On January 30, 2008 the Company issued options to certain of the officers, directors, and employees of the Company and its subsidiaries to purchase up to 170,000 shares at an exercise price of $0.55 per share. A total of 130,000 options vest equally over a four year period commencing January 31, 2009 and expire on January 31, 2015. The remaining 40,000 options vest over a three period commencing January 30, 2008 and expire on November 13, 2013. The fair value of $39,375 associated with these options has been calculated using the Black-Scholes model for options valuation, assuming a volatility of 58%, and a seven year weighted average risk free interest rate of 3.66%.

A summary of the Company's options as at September 30, 2008 and December 31, 2007 and changes during the periods then ended is as follows:

	Nine months ended September 30 2008		Weighted Average Exercise Price	Year ended December 31 2007		Weighted Average Exercise Price
Balance, beginning of the period	7,606,888	$	0.50	3,840,000	$	0.55
Options granted	170,000		0.55	4,046,888		0.46
Options forfeited	(661,550)		0.57	(280,000)		0.56
Options exercised	(101,968)		0.24	-		-
Balance, end of the period	7,013,370	$	0.50	7,606,888	$	0.50
Exercisable	4,201,537	$	0.46	3,142,147	$	0.50
Weighted remaining average life (years)	4.23			4.90		

Warrants -

On November 30, 2007, warrants were issued to two parties as compensation for their assistance in relation to the acquisition of Tornado Technologies Inc. These warrants allow the warrant holders to purchase up to 300,000 common shares at a price of $0.66 until November 30, 2008, and thereafter at a price of $0.77 until expiry on November 30, 2009.

19. Capital stock (Cont'd):

A summary of the Company's warrants as at September 30, 2008 and December 31, 2007 and changes during the periods then ended is as follows:

	Nine months ended September 30 2008	Weighted Average Exercise Price	Year ended December 31 2007	Weighted Average Exercise price
Balance, beginning of the period	300,000	$ 0.71	-	$ -
Warrants granted			300,000	0.71
Balance, end of the period	300,000	$ 0.71	300,000	$ 0.71
Exercisable	300,000	$ 0.71	300,000	$ 0.71
Weighted remaining average life (years)	1.17		1.92	

The fair value associated with these warrants was calculated using the Black-Scholes model, assuming volatility of 58% on the underlying units, expiry dates as described above, and a risk free interest rate of 3.65%. A share price of $0.55 was used for these calculations, reflecting the significant private placement of shares that were issued on that date at that price.

20. Contributed surplus:

Changes in contributed surplus consisted of the following:

	Nine months ended September 30 2008	Year ended December 31 2007
Balance, beginning of the period	$ 1,120,410	$ 316,383
Amortization of the fair value of options granted	347,212	190,185
Less recovery for forfeited options (Income statement portion)	(27,444)	(16,472)
Total amortization of the fair value of options granted	319,768	173,713
Vested options of Tornado on acquisition	-	573,321
Warrants issued on acquisition of Tornado	-	49,843
Change in equity portion of Tornado convertible debentures (Note 13)	(2,781)	12,975
Less recovery for forfeited options (Retained earnings portion)	(20,554)	(5,825)
Balance, end of the period	$ 1,416,843	$ 1,120,410

21. Accumulated other comprehensive income:

	Nine months ended September 30 2008	Year ended December 31 2007
Forward currency contracts, beginning of the period (net of tax of $263,876)	$ 573,825	$ -
Change in derivatives designated as cash flow hedges		
Change in forward currency contracts' fair value		
Existing forward currency contracts (net of tax of $132,581 (December 31, 2007 - $441,498))	(288,312)	960,085
Purchased forward currency contracts (net of tax of $26,828 (December 31, 2007 - $70,108))	(58,340)	152,458
Forward currency contracts realized gain (net of tax of $102,294 (December 31, 2007 - $247,731))	(222,453)	(538,718)
Total change in derivatives designated as cash flow hedges (net of tax of $261,705)	(569,105)	573,825
Forward currency contracts, end of the period (net of tax of $2,171 (December 31, 2007 - $263,876))	4,720	573,825
Unrealized gain on translation of foreign operation, beginning of the period	281	-
Change in unrealized gain on translation of foreign operations	57,199	281
Balance, end of the period	$ 62,200	$ 574,106

22. Foreign currency:

In the normal course of operations, the Company is exposed to movements in the United States dollar exchange rate relative to the Canadian dollar. The accounts noted below include amounts denominated in United States currency that have been converted to the Canadian dollar equivalent on the balance sheet date at a rate of 1.0642 ($1.0642 CDN/ $1.00 US) (December 31, 2007 - $0.9913):

	September 30, 2008	December 31, 2007
Cash (bank balance less outstanding cheques)	$ 1,688,266	$ 862,601
Accounts receivable	11,117,038	5,840,081
Note receivable - current portion	-	111,670
Accounts payable & accrued liabilities	(4,961,228)	(1,247,921)
Long-term debt	(25,942)	(15,952)

As outlined in note 8, the Company utilizes foreign currency contracts to minimize foreign exchange risk associated with fluctuations in exchange rates.

23. 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 Pro Welding Ltd., 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, hydrovac 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 September 30, 2008

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	$ 35,580,546	$ 21,867,421	$ -	$ 57,447,967
Cost of goods sold	31,445,721	17,861,635	-	49,307,356
Gross profit	4,134,825	4,005,786	-	8,140,611
Operating expenses before the undernoted	2,971,398	2,483,631	148,872	5,603,901
Operating Income (loss) before the undernoted	1,163,427	1,522,155	(148,872)	2,536,710
Other (income) expenses	44,120	(132,338)	86,636	(1,582)
Amortization	623,789	388,942	969	1,013,700
Interest expense	294,224	272,034	245,270	811,528
Segmented profit (loss) before income tax	$ 201,294	$ 993,517	$ (481,747)	$ 713,064
Total Assets	$ 61,575,940	$ 59,186,872	$ 107,493	$ 120,870,305
Property, plant and equipment	12,052,181	17,390,590	12,089	29,454,860
Capital expenditures	754,807	607,893	2,006	1,364,706
Goodwill	8,173,029	9,222,038	-	17,395,067

23. Segmented information (Cont'd):

For the Nine Months Ended September 30, 2008

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	$ 79,608,158	$ 59,981,656	$ -	$ 139,589,814
Cost of goods sold	69,662,802	48,692,688	-	118,355,490
Gross profit	9,945,356	11,288,968	-	21,234,324
Operating expenses before the undernoted	7,098,755	7,594,958	704,492	15,398,205
Operating Income (loss) before the undernoted	2,846,601	3,694,010	(704,492)	5,836,119
Other (income) expenses	(27,981)	(217,321)	319,768	74,466
Amortization	1,673,793	1,140,943	1,927	2,816,663
Interest expense	780,172	882,511	632,073	2,294,756
Segmented profit (loss) before income tax	$ 420,617	$ 1,887,877	$ (1,658,260)	$ 650,234
Total Assets	$ 61,575,940	$ 59,186,872	$ 107,493	$ 120,870,305
Property, plant and equipment	12,052,181	17,390,590	12,089	29,454,860
Capital expenditures	1,869,572	1,678,464	9,987	3,558,023
Goodwill	8,173,029	9,222,038	-	17,395,067

For the Three Months Ended September 30, 2007

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	$ 24,107,743	$ 3,438,947	$ -	$ 27,546,690
Cost of goods sold	18,791,114	3,521,117	-	22,312,231
Gross profit	5,316,629	(82,170)	-	5,234,459
Operating expenses (income)before the undernoted	2,641,565	428,613	(515,973)	2,554,205
Operating Income (loss) before the undernoted	2,675,064	(510,783)	515,973	2,680,254
Other (income) expenses	(34,325)	-	243,832	209,507
Amortization	582,342	183,385	334	766,061
Interest expense	305,921	48,825	260,064	614,810
Segmented profit (loss) before income tax	$ 1,821,126	$ (742,993)	$ 11,743	$ 1,089,876
Total Assets	$ 55,009,811	$ 18,639,660	$ 608,393	$ 74,257,864
Property, plant and equipment	13,541,282	9,892,519	4,646	23,438,447
Capital expenditures	267,745	60,907	3,168	331,820
Goodwill	9,079,832	-	-	9,079,832

For the Nine Months Ended September 30, 2007

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	$ 71,886,438	$ 9,675,676	$ -	$ 81,562,114
Cost of goods sold	57,506,147	9,111,166	-	66,617,313
Gross profit	14,380,291	564,510	-	14,944,801
Operating expenses before the undernoted	7,115,448	1,274,563	(456,574)	7,933,437
Operating Income (loss) before the undernoted	7,264,843	(710,053)	456,574	7,011,364
Other (income) expenses	(91,347)	-	499,284	407,937
Amortization	1,224,699	296,092	334	1,521,125
Interest expense	771,784	123,291	431,102	1,326,177
Segmented profit (loss) before income tax	$ 5,359,707	$ (1,129,436)	$ (474,146)	$ 3,756,125
Total Assets	$ 55,009,811	$ 18,639,660	$ 608,393	$ 74,257,864
Property, plant and equipment	13,541,282	9,892,519	4,646	23,438,447
Capital expenditures	1,256,658	99,075	4,981	1,360,714
Goodwill	9,079,832	-	-	9,079,832

24. Lease commitments:

The Company is committed to payments under long-term operating leases for buildings, vehicles, and equipment through 2014, as follows:

Remainder of 2008	$	925,866
2009		3,787,919
2010		3,538,298
2011		3,333,164
2012		1,985,602
2013		455,472
2014		214,516
	$	14,240,837

25. Other related party transactions:

Rent was paid to companies controlled by officers, directors, and members of their families in the amount of $432,482 for the nine months ended September 30, 2008 (September 30, 2007 - $324,003). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

26. Subsequent Event:

On November 1, 2008, one of the Company's investees, Sorge's Pro Welding Ltd., acquired Lemax Machine and Welding ("Lemax") based in Fort McMurray, Alberta, for $1,200,000 plus working capital. Lemax was established in 1981 and operates a full service machine shop, welding, plate and steel fabrication facility. In addition, Lemax provides an extensive variety of onsite and field machining maintenance services.

27. Comparative figures:

Certain of the 2007 amounts presented for comparative purposes have been restated to conform with the presentation adopted in the current year.