



1st Quarter 2010

Management's Discussion & Analysis

For the 3 month period ending
March 31, 2010

Consolidated Financial Statements

March 31, 2010
Unaudited



Management's Discussion and Analysis

For the First Quarter and Three Months ended March 31, 2010

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operation of Empire Industries Ltd. ("EIL" or the "Company") is supplemental to, and should be read in conjunction with, the unaudited consolidated financial statements and accompanying notes of the Company for the first quarter and three months ended March 31, 2010 and the Company's annual MD&A for the year ended December 31, 2009 included in its 2009 Annual Report.

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

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on May 28, 2010. Disclosure contained in this document is current to this date, unless otherwise stated.

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

1. EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to it in a timely manner. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities, particularly during the period in which this report was prepared.

2. FORWARD-LOOKING INFORMATION

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

All of the statements in the MD&A which contain forward-looking information are qualified by these cautionary statements and the other cautionary statements and factors contained herein. Although the Company believes

that the expectations reflected in such statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making such statement and actual results, events or activities may differ materially from those expressed or implied in such statements. In addition to other assumptions specifically identified, assumptions have been made that include, but are not limited to, the economic, regulatory, and competitive environment in Canada and abroad. Additional assumptions applied in making these statements may also be made in respect of the specific variables associated with key performance drivers as outlined in the Company's annual MD&A included in its 2009 Annual Report in the section entitled "Business Segment Performance".

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

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

3. BUSINESS DESCRIPTION

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

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

Steel Fabrication and Installation Services (EIW, GTS, Hopkins and Sorge), encompasses structural steel fabrication, module fabrication, plate steel fabrication, pipe fabrication and spooling, complex infrastructure fabrication and installations (such as bridges), steel erection services, multi-trade installation services and emergency welding repair services, principally in the western Canadian market place. Current operations are positioned to capitalize on Western Canadian opportunities in industrial, commercial and institutional/infrastructure capital spending in the areas of fabrication and installation services. EIL's fabrication plants have a shop capacity of over 200,000 square feet with a capacity workforce of about 360 hourly employees or about 565,000 hours plus peak field installation capacity of 340 staff or about 550,000 hours.

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

4. SEASONALITY AND CYCLICALITY

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

5. RESTRUCTURING PLAN

Against the backdrop of the ongoing effects of the economic recession, throughout much of fiscal 2009 the Company has been pursuing a number of restructuring initiatives as it fine-tunes its strategy to narrow its focus within the context of "adding value to steel." These initiatives include the Company divesting itself of non-core business units and assets, reducing its debt levels and reducing its overhead structure to match the reduced volume of activity it has been experiencing in 2009. Management believes that these initiatives will improve the Company's financial position and financial performance going forward.

The following table outlines the Company's accomplishments to date relative to its previously disclosed plans.

Restructuring Objective	Outcome
Disposition of redundant or non-core assets.	<ul style="list-style-type: none"> • On July 31, 2009, the Company completed the sale & leaseback of its Kingsway facility for total proceeds of \$9.5 million and a gain on sale of \$1.5 million. Of the total proceeds, \$7.2 million was applied to fully repay the Company's term debt with GE (including interest of \$519,000) and \$2.2 million was applied to reduce the Company's draws on its operating line with HSBC. • On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield, completed the sale of the assets of its combustion business for \$10.1 million. Of this amount, \$6.8 million was used to fully repay the operating line and term debt owed to BMO. A further \$1.8 million was paid to RBC and HSBC. The remainder of \$1.5 million was used for working capital and general corporate purposes. • The settlement of these debts improved the Company's net funded debt to capitalization from 55% at December 31, 2008 to 39% at December 31, 2009.

Restructuring Objective	Outcome
<p>Cost containment and cost reductions.</p>	<ul style="list-style-type: none"> • In September 2009, the Company transferred responsibility for the remaining term of its Norland property lease in Vancouver to a new tenant with expected annual savings in lease and related operating costs of about \$125,000 per annum. • On November 2, 2009, the Company transferred responsibility for the remaining 44 month term of its Fawcett property lease in Vancouver to a new tenant with expected savings in lease and related operating costs of about \$500,000 per annum. • The lease cost of the Kingsway facility under the sale & leaseback is expected to save about \$840,000 per year over the near-term relative to the cash cost of servicing the related debt (principal and interest). • In April 2010, the Company agreed to transfer responsibility for the remaining term of its primary office and plant lease in Calgary, Alberta to a new tenant with expected annual savings in lease and related operating costs of about \$340,000 per annum. • In April 2010, the Company agreed to sublet about 50% of its facility lease at its secondary operating plant in Calgary, Alberta for the remaining term with expected annual savings in lease and related operating costs of about \$140,000 per annum. • The Company has undertaken a number of initiatives to contain and reduce costs throughout its subsidiaries including a combination of not filling vacancies, staff lay-offs, reduced work weeks, salary rollbacks and terminations as well as the curtailment of discretionary non-payroll expenses. Operating expenses declined \$4.3 million for the twelve months ended December 31, 2009 and a further \$1.7 million for the first quarter ended March 31, 2010 compared to the same periods last year related to these initiatives and the disposition of non-core assets noted above.
<p>Working capital management</p>	<p>The Company has actively sought to reduce the non-cash working capital it must finance with its bank operating lines by reducing the average number of days in receivables while continuing to obtain normal trade credit terms from its trade suppliers:</p> <ul style="list-style-type: none"> • Days in receivable during the twelve months ended March 31, 2010 averaged about 40 days consistent with fiscal 2009. • Days in accounts payable during the twelve months ended March 31, 2010 averaged about 43 days compared to 42 days for fiscal 2009.
<p>Limit capital spending to sustaining capital expenditures</p>	<ul style="list-style-type: none"> • The Company has actively limited its capital expenditures in the current year to spending levels necessary to sustain its property, plant and equipment. As a result, capital spending declined to \$1.3 million for the twelve months ended December 31, 2009 compared to \$6.6 million for the same period in fiscal 2008. Capital expenditures for the first quarter of fiscal 2010 were about \$83,000. • The Company disposed of a large piece of underutilized mobile equipment and the proceeds were used to reduce its capital lease obligation by \$227,000. • In addition, the Company is actively seeking to dispose of further underutilized or redundant assets for fair value which are not considered essential to the Company's continuing operations.

Restructuring Objective	Outcome
Re-financing of certain long-term assets	<p>On March 4, 2010, the Company successfully completed the issue of \$7.5 million in term debt from Canadian Western Bank, the proceeds of which were used to fully repay the term debt of \$2.2 million owed to Royal Bank of Canada and the remainder used to repay short-term debt and improve liquidity and working capital.</p> <p>From December 31, 2009 to March 31, 2010, the issuance of additional long-term debt used to repay, in part, short-term debt, and the subordination of other debt improved the Company's net funded debt to capitalization ratio from 45.4% to 38.8% and its working capital ratio from 1.09 times to 1.27 times.</p>
Consolidation of bank operating lines and term debt	<p>The Company historically had operating lines with three banks, BMO, HSBC and RBC, as well as term debt with three institutions, BMO, GE and RBC. As noted above, the Company has fully repaid BMO and GE and on March 4, 2010, successfully completed a refinancing of its short-term operating line whereby the operating lines previously held with HSBC and Royal Bank were fully repaid and consolidated under a single operating line with Canadian Western Bank.</p>
Reducing debt levels and increasing equity	<p>As noted above, substantially all of the proceeds from the disposition of non-core or redundant assets have been applied to reduce term and operating debt.</p>

6. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information For the three months ended March 31 <i>(in thousands, per share amounts)</i>	2010	2009	Better (Worse)
Sales	20,577	41,952	(21,375)
Cost of goods sold	(17,698)	(38,090)	20,392
Gross profit	2,879	3,862	(983)
Operating, general & administrative expenses	(3,339)	(5,121)	1,782
Earnings from equity investment	418	119	299
EBITDA	(42)	(1,140)	1,098
Amortization	(800)	(862)	62
EBIT	(842)	(2,002)	1,160
Gain on disposal of assets	79	2	77
Amortization of deferred gain on sales and leasebacks	111	72	39
Interest expense	(492)	(674)	182
Unrealized gain (loss) on foreign exchange hedges	(167)	(114)	(53)
	(1,311)	(2,716)	1,405
Provision for income tax recovery (expense)			
Current	(116)	226	(342)
Future	(185)	877	(1,062)
	(301)	1,103	(1,404)
Net loss	(1,612)	(1,613)	1
Weighted average common shares issued and outstanding	91,240	91,240	-
Earnings per share			
Basic & fully diluted	\$ (0.02)	\$ (0.02)	\$ -

6.1 Loss for the Period

The net loss of \$1.6 million (\$0.02 basic and diluted loss per share) for the quarter ended March 31, 2010 was unchanged from the net loss of \$1.6 million (\$0.02 basic and diluted loss per share) for the same quarter in 2009.

On a pre-tax basis, the net loss of \$1.3 million for the three months ended March 31, 2010 was \$1.4 million better than the same quarter last year.

The aggregate loss per share for the quarter ended March 31, 2010 included an accrued valuation allowance of \$610,000 associated with the future tax value of its loss carry-forwards and investment tax credits. Excluding this valuation allowance, the provision for income tax recovery would have been \$309,000 as noted below under "6.6 – Income Taxes" and the net loss for the period would have been \$1 million and the basic and diluted loss per share would have been \$0.01.

6.2 Gross Profit, EBITDA and EBIT

The Company's gross profit for the three months ended March 31, 2010 decreased by \$983,000 over the three months ended March 31, 2009 with a \$1.2 million decrease in specialized engineered products (as a result of a

\$10 million reduction in sales) offset by with a \$267,000 increase in steel fabrication and installation services (despite a \$11.1 million reduction in sales). The factors underlying these changes are discussed in greater detail below under "Business Segment Performance".

Operating, general and administrative ("OG&A") expenses decreased \$1.8 million or 35%, reflecting a \$505,000 decrease in steel fabrication and installation combined with a \$1.3 million decrease in specialized engineered products and offset by a small increase in corporate expenses. As a result, the loss before interest, taxes and depreciation of \$1.1 million for the same quarter last year improved by \$1.1 million to a loss of \$42,000 for the three months ended March 31, 2010.

Amortization expenses decreased modestly to \$800,000 for the latest quarter compared to the same period last year. As a result, the loss before interest and taxes of \$842,000 for the three months ended March 31, 2010 improved by \$1.2 million over a loss of \$2 million for the three months ended March 31, 2009.

6.3 Gain on Disposal of Assets

The modest gains on disposal of assets in both the current quarter and the same quarter last year arose entirely from the sale of property, plant and equipment in the ordinary course of business.

6.4 Interest Expenses

Interest costs of \$492,000 for the quarter ended March 31, 2010 declined by \$182,000 over the same quarter last year. Lower interest costs reflect both reductions in interest-bearing funded debt to \$21.8 million from \$41 million at March 31, 2009 arising from scheduled and non-scheduled debt repayments and bank operating line repayments throughout the balance of last fiscal year, coupled with lower interest rates compared to the same period last year.

6.5 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark-to-market basis using closing market quotations. Open foreign exchange forward contracts marked to market in this way remain unrealized and the \$167,000 loss for the three months ended March 31, 2010 therefore represents a non-cash pre-tax loss (March 31, 2009 – a \$114,000 non-cash pre-tax loss) in the period.

6.6 Income Taxes

The Company's income tax expense of \$301,000 includes a charge of \$610,000 in respect of increased valuation allowances recognized in the quarter on current period tax loss carry-forwards. Excluding these valuation allowances the Company would have recorded an income tax recovery of \$309,000 representing a more normalized effective tax recovery rate of 23.6% (March 31, 2009 – 40.6%). The future tax recovery of \$1.1 million recognized in March 2009 included a future tax recovery of \$428,000 recognized in respect of the revaluation of the tax basis of certain land assets. Excluding this recovery, the effective tax recovery rate for the three months ended March 31, 2009 was 24.9%.

As at March 31, 2010, the Company had consolidated tax loss carry-forwards of approximately \$16.7 million available to reduce income taxes otherwise payable in future years, expiring between 2027 and 2030. A future tax asset of \$4.2 million has been recorded at March 31, 2010 in respect of these unutilized losses. Management regularly assesses the Company's ability to realize net future income tax assets and has concluded that a valuation allowance is required in accordance with generally accepted accounting principles. Accordingly, the Company has recorded a valuation allowance of \$2.2 million in relation to these assets. If the Company's future earnings materialize to the extent required to permit the full realization of these loss carry-forwards, the Company would reverse the appropriate valuation allowance in the period when such a determination is made. This would result in an increase to reported earnings and a decrease to the Company's effective tax rate in that period.

7. BUSINESS SEGMENT PERFORMANCE

7.1 Steel Fabrication and Installation Services

Steel Fabrication and Installation Services For the three months ended March 31 <i>(in thousands, except for per DLH amounts)</i>	2010	2009	Better (Worse)
Sales	9,832	20,919	(11,087)
Cost of goods sold	(8,709)	(20,063)	11,354
Gross profit	1,123	856	267
Earnings from equity investment	108	119	(11)
Operating, general & administrative expenses	(1,666)	(2,171)	505
EBITDA	(435)	(1,196)	761
Amortization	(405)	(493)	88
EBIT	(840)	(1,689)	849
Operating highlights			
Direct Labour Hours (DLH)	65.1	161.5	(96.3)
Sales per DLH	\$ 150.95	\$ 129.54	\$ 21.41
Gross profit per DLH	\$ 17.24	\$ 5.30	\$ 11.94

Direct labour hours ("DLH") (both fabrication and erection) declined 60% from 162,000 hours for the first three months of fiscal 2009 to 65,000 hours for the three months ended March 31, 2010. GTS fabrication and erection activity included 59,000 hours for the first three months of fiscal 2009 to substantially complete the fabrication of the Coast Meridian Overpass ("CMO") bridge project. The Coast Meridian Overpass was the first cable-stayed bridge and heaviest steel structure launched in North America, incorporating the greatest single span ever launched. Both GTS and EIW experienced reduced DLHs in the current quarter compared to the same period last year as a result of a general contraction and deferral of larger construction projects, particularly in the Alberta oilsands for EIW, coupled with increased competition for fewer remaining industrial and infrastructure projects.

Sales of \$9.8 million for the three months ended March 31, 2010 declined from \$20.9 million for the same three months ended March 31, 2009 consistent with the overall decline in DLHs. Despite lower activity levels, average sales per DLH, a measure of fabrication activity, increased during the quarter ended March 31, 2010 to \$151 per DLH compared to \$130 per DLH for the same quarter last year, somewhat mitigating the impact of lower activity levels on overall sales. The increase in sales revenue reflects the higher value nature of projects fabricated in the most recent quarter compared to the same quarter last year, including a higher proportion of more labour-intensive projects.

Gross profit reflects the cost of direct material and labour as well as indirect production and overhead costs allocated to specific jobs. As with sales, the Company realized higher gross profit of \$17.24 per DLH during the quarter ended March 31, 2010 compared to \$5.30 per DLH in the same three months last year. The improved gross profit per DLH in the current year largely represents the absence of fabrication cost overruns during the first quarter of fiscal 2009 associated with the CMO project which contributed to a project loss of \$175,000 in the first three months of fiscal 2009. Excluding the Coast Meridian Overpass project, average sales and gross profit per DLH in the first quarter of fiscal 2009 would have been about \$126 and \$10, respectively. Despite management's successful efforts to reduce indirect production and overhead costs by \$1.5 million compared to the same quarter last year, lower DLHs contributed to a \$6 increase in indirect production and overhead costs per DLH.

The Company's 49% interest in ACE Industrial is accounted for as an equity investment. Equity earnings of \$108,000 in the quarter ended March 31, 2010 are consistent with earnings of \$119,000 for the same quarter last

year. The Company also realized interest revenue of about \$60,000 on tax refunds regarding KWH Inc.'s fiscal 2004 and 2005 years as well as other revenue of \$250,000 arising from a transaction break-fee.

Operating, general & administrative ("OG&A") expenses of \$1.7 million for the three months ended March 31, 2010 decreased over the same period last year reflecting staff reductions and other cost control measures undertaken in mid-2009.

The positive effects of cost reductions and containment, albeit on lower sales activity, improved the EBITDA loss by \$761,000 to \$435,000 compared to an EBITDA loss of \$1.2 million in the quarter ended March 31, 2009. Amortization decreased marginally to \$405,000 for the three months ended March 31, 2010 as a result of lower capital spending during the course of fiscal 2009. As a result, the loss before interest and taxes of \$840,000 also improved by \$848,000 from an EBIT loss of \$1.7 million for the same three months last year.

7.2 Specialized Engineered Products

Specialized Engineered Products For the three months ended March 31 <i>(in thousands, except for percentages)</i>	2010	2009	Better (Worse)
Sales	10,725	21,011	(10,286)
Cost of goods sold	(8,989)	(18,027)	9,038
Gross profit	1,736	2,984	(1,248)
Operating, general & administrative expenses	(1,244)	(2,562)	1,318
EBITDA	802	422	380
Amortization	(383)	(368)	(15)
EBIT	419	54	365
Operating highlights			
Margin (% of Sales)	16.19%	14.20%	1.99%

On July 31, 2009, the Company completed the sale of its Kingsway facility owned by DSL for net proceeds of \$9.5 million and concurrently entered into a ten year fixed rate lease with the purchaser at an average lease cost of about \$66,000 per month, with an option to extend the lease beyond ten years at market rates. On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield, sold the assets of its combustion business, including the operating assets of its U.S. subsidiary, 1366377 Texas Inc. Accordingly, the timing of these divestitures will affect the comparability of the results relative to the prior year.

Sales of \$10.7 million for the quarter ended March 31, 2010, decreased by \$10.3 million over the same quarter last year as a result of a \$13.6 million reduction in Petrofield sales (associated with the disposition of the combustion business and lower process equipment sales), offset by higher sales in DSL (associated with the assembly of a new amusement ride) and Parr/Ward.

Gross profit of \$1.7 million for the three months ended March 31, 2010 declined by \$1.2 million over the same period last year reflecting the general decline in sales activity levels. However, during the same quarter, sales margin of 16% improved by 2% over the 14.2% in the same quarter last year reflecting an improved mix of product sales with higher margins. Although indirect and production expenses included in cost of goods sold decreased by \$679,000 over the same quarter last year, indirect and production expenses as a percentage of sales increased 9% in the current quarter due to the lower underlying sales activity levels. Indirect and production expenses for DSL increased due to the lease costs on the plant arising from the sale and leaseback of the plant on July 31, 2009, but more than offset by lower cash outflows associated with the principal and interest of the underlying debt which was repaid.

OG&A expenses for the three months ended March 31, 2010 decreased \$1.3 million over the same period last year, largely the result of a \$1.5 million reduction in Petrofield OG&A expenses associated with both the disposition of the combustion business on October 5, 2009 as well as ongoing restructuring and cost containment efforts. As a percentage of sales, OG&A expenses for the quarter ended March 31, 2010 declined to 11.6% from 14.2% for the same quarter last year.

Therefore, the segment realized EBITDA of \$802,000 for the three months ended March 31, 2010 compared to EBITDA of \$422,000 in the same period last prior year. Amortization of \$383,000 for the most recent three months were consistent with the same quarter last year resulting in EBIT increasing by \$365,000 to \$419,000 for the three months ended March 31, 2010.

7.3 Corporate Expenses

Corporate expenses For the three months ended March 31 <i>(in thousands)</i>	2010	2009	Better (Worse)
Miscellaneous income	20	22	(2)
Operating, general & administrative expenses	(429)	(388)	(41)
EBITDA	(409)	(366)	(43)
Amortization	(12)	(1)	(11)
EBIT	(421)	(367)	(54)

OG&A expenses increased by \$41,000 to \$429,000 for the three months ended March 31, 2010, comprised largely of a \$47,000 increase in fees and memberships coupled with salary expense and higher advertising and promotional costs; offset by a \$25,000 reduction in business travel costs and a \$23,000 decrease in professional fees. Higher amortization costs reflect the amortization of deferred financing costs associated with the debt re-financing completed in March 2010 and amortized over the term of the underlying debt.

7.4 Selected Quarterly Financial Information

Selected Quarterly Financial Information								
For the quarters ended								
<i>(in thousands, except per share amounts)</i>								
<i>(Unaudited)</i>								
	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	(Restated) 2008 Q3	(Restated) 2008 Q2
Sales and revenue from services	\$ 20,577	\$ 18,472	\$ 20,337	\$ 28,559	\$ 41,952	\$ 40,214	\$ 57,391	\$ 43,715
Net income (loss)	\$ (1,612)	\$ (7,139)	\$ (4,539)	\$ (2,170)	\$ (1,613)	\$ (1,750)	\$ 290	\$ (314)
Earnings (loss) per share:								
Basic	\$ (0.02)	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ -	\$ -
Diluted	\$ (0.02)	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ -	\$ -

The quarterly results for fiscal 2008 were restated to reflect: the re-designation of certain foreign currency hedges as fair value hedges, with the change in fair value in foreign exchange hedge contracts previously designated as cash flow hedges and included in other comprehensive income, now included in net earnings; the value of stock options cancelled or forfeited; the non-cash accretion in the convertible debenture to interest expense; and a nominal charge arising from re-designating a foreign subsidiary as an integrated operation with changes in values on currency translation included in net earnings.

The quarterly results for the third and fourth quarters of fiscal 2009 include a write-down of goodwill related to Petrofield of \$6.5 million which contributed a \$0.07 loss per share. The quarterly results for the fourth quarter of fiscal 2009 also includes a valuation allowance of about \$2 million associated with the future tax value of its loss carry-forwards and investment tax credits which represented a \$0.02 basic and diluted loss per share. The quarterly results for the first quarter of fiscal 2010 also includes further valuation allowance of about \$610,000 related to the value of the Company's future tax assets which represents about \$0.01 basic and diluted loss per share.

8. OTHER MATTERS

8.1 Related Party Transactions

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

Rent was paid to companies controlled by officers, directors and members of their families in the ordinary course of operations and measured at the value of consideration established and agreed to by the parties in the amount of \$113,500 for the three months ended March 31, 2010 (March 31, 2009 - \$146,000).

8.2 Future Changes in Accounting Policies

8.2.1 International Financial Reporting Standards ("IFRS")

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

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

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

Phase	Progress to Date
Assess and scope the differences in Canadian GAAP and IFRS accounting policies relevant to the Company and options available to first time adopters and the impact on the Company's financial reporting.	This process was ongoing during fiscal 2009 and 2010.

Phase	Progress to Date
Identify, evaluate and select accounting policies necessary for the Company to change over to IFRS. As well, this phase will address other business activities that may be influenced by GAAP measures such as: <ul style="list-style-type: none"> • information technology, • disclosure controls and procedures, • internal controls over financial reporting, and • other activities, such as debt covenants. 	The Company plans to complete its selections under its various options during the course of fiscal 2010 with particular progress planned during the second quarter.
Integrate these accounting policies into the Company's financial reporting systems and processes necessary for the Company to changeover to IFRS.	Not commenced.

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

9. LIQUIDITY AND CAPITAL RESOURCES

9.1 Sources and Uses

9.1.1 Cash Flow Provided by Operations

Cash Flow Provided by (Used in) Operations For the three months ended March 31 <i>(in thousands, per share amounts)</i>	2010	2009	Better (Worse)
EBITDA	(42)	(1,140)	1,098
Add (deduct):			
Non-cash compensation expense	25	31	(6)
Distributions (earnings) from equity investments	(108)	(119)	11
Adjusted EBITDA	(125)	(1,228)	1,103
Interest expense	(492)	(674)	182
Capitalized interest	1	102	(101)
Pre-tax cash flow provided by operations	(616)	(1,800)	1,184
Current income taxes	(116)	226	(342)
Cash flow provided by operations	(732)	(1,574)	842
Cash flow provided by operations per share	\$ (0.01)	\$ (0.02)	\$ 0.01

The Company's EBITDA for the three months ended March 31, 2010 improved by \$1.1 million over the three months ended March 31, 2009 with a \$761,000 increase in steel fabrication and installation services coupled with a \$380,000 increase in specialized engineered products. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

Non-cash compensation expense relates to stock based compensation expenses attributed to stock options issued and outstanding offset by recoveries for cancelled and expired stock options. The non-cash accretion in the convertible debentures was charged to interest expense and in the prior year, some interest on notes

payable was capitalized as principal in accordance with the terms of the note rather than being settled in cash.

Current income taxes for the three months ended March 31, 2010 approximate the prevailing tax rate on pre-tax cash flows on taxable subsidiaries offset by investment tax credit recoveries included in future income tax expense.

9.1.2 Non-Cash Working Capital

Non-cash Working Capital			
As at March 31			Sources
<i>(in thousands)</i>	2010	2009	<i>(Uses)</i>
Accounts receivable	19,093	37,368	18,275
Inventory	7,046	15,759	8,713
Other current assets	1,048	1,626	578
Intercompany receivable (liability)	905	398	(507)
Accounts payable and accrued expenses	(12,009)	(23,434)	(11,425)
	16,083	31,717	15,634

Overall inventory levels at March 31, 2010 decreased \$8.7 million from the same period last year, largely due to a decrease in Petrofield's work-in-progress inventories associated with improved inventory management processes coupled with a \$5.1 million inventory disposition associated with the sale of Petrofield's combustion business on October 5, 2009.

Accounts receivable at March 31, 2010 decreased \$18.3 million from the prior year principally attributed to an \$15.1 million reduction in receivables in steel fabrication and installation services in GTS, EIW and Hopkins and a \$3.2 million reduction in receivables in specialized engineered products, including a \$2.6 million disposition of receivables associated with the sale of Petrofield's combustion business on October 5, 2009. All subsidiaries have demonstrated consistent maintenance or improvement in accounts receivable collections over the past 12 months.

The \$507,000 decrease in other current assets primarily reflects modest decreases in both income tax recoverable and prepaid expenses.

The intercompany receivable from ACE Industrial of \$905,000 at March 31, 2010 largely reflects increased steel fabrication work being undertaken by EIW and GTS for contracts secured by ACE Industrial.

Accounts payable and accrued expenses of \$12 million at March 31, 2010 decreased \$11.4 million from March 31, 2009 as sales activity levels have slowed in the current fiscal year with the resulting reduction in underlying trade credit outstanding, combined with the assumption of \$1.4 million in accounts payable assumed by the purchaser of Petrofield's combustion business. The Company's subsidiaries continue to maintain consistent trade payment terms despite the lower aggregate level of trade credit.

9.1.3 Net Capital Expenditures and Investments

Capital expenditures of \$82,000 for the three months ended March 31, 2010 increased modestly over the same period last year as the Company actively limited its capital spending program to sustaining capital expenditures in response to reduced industrial and commercial capital spending projects. The Company generated proceeds from the sale of under-utilized or redundant assets of \$740,000 in the latest quarter compared to nominal proceeds in the same quarter ended March 31, 2009.

9.2 Debt

9.2.1 Short-term Debt

Short-term Debt As at March 31 <i>(in thousands)</i>	2010	2009	Better (Worse)	<i>Trailing Twelve Months ended</i> 2010
Cash flow provided by (used in) operations	(732)	(1,574)	842	(8,712)
Decrease (increase) in non-cash working capital	76	9,196	(9,120)	15,634
Less: Other balance sheet adjustments	185	(276)	461	(840)
Cash flow from operating activities	(471)	7,346	(7,817)	6,082
Net capital expenditures and investments	657	(26)	683	13,646
Other investments	(159)	8	(167)	(202)
Free cash flow	27	7,328	(7,301)	19,526
Financing activities				-
Scheduled debt repayments, net of advances	6,964	(911)	7,875	5,256
Non-scheduled debt repayments	(2,224)	-	(2,224)	(9,461)
Decrease (increase) in cash and cash equivalents	3,416	(1,855)	5,271	1,577
Sources (uses) of cash	8,183	4,562	3,621	16,898
Bank operating loans, beginning of period	(13,739)	(27,016)	13,277	(22,454)
Bank operating loans, end of period	(5,556)	(22,454)	16,898	(5,556)
Revolving Credit facilities:				
Revolving facilities	10,000	31,500	(21,500)	
Available uncommitted revolving facilities	4,444	4,622	(178)	

The Company's cash flow used in operations during the three months ended March 31, 2010 of \$732,000 improved \$842,000 compared to cash flow used in operations of \$1.6 million during the same three month period last year.

Non-cash working capital decreased \$15.6 million year-over-year for the reasons noted under "Sources and Uses – Non-Cash Working Capital", offset by \$8.7 in cash flow used in operations and resulting in a \$7.8 million decrease in cash flow provided by operating activities for the 12 months ended March 31, 2010 to \$6.1 million. The Company generated \$19.5 million in free cash flow for the 12 months ended March 31, 2010 due to net capital proceeds of \$13.6 million and cash flow provided by operating activities of \$6.1 million, offset by deferred financing costs and other investments of \$202,000.

Bank operating loans at March 31, 2010 were \$16.9 million lower than a year earlier as a result of \$19.5 million of free cash flow over the 12 months ended March 31, 2010 coupled with new long-term advances of \$7.5 million and decreased cash and cash equivalents of \$1.6 million, offset by scheduled debt repayments of \$2.2 million and \$9.5 million of non-scheduled debt repayments associated with the sale and leaseback of the Kingsway plant and repayment of term debt owed to Bank of Montreal and Royal Bank of Canada.

On March 4, 2010, the Company completed the re-financing of its operating and term debt with the Canadian Western Bank. The proceeds of the re-financing were used to fully repay the amounts owed under the RBC Credit agreement and a revolving operating facility under the HSBC Credit Agreement.

Despite a significant reduction in the Company's revolving facility under the new operating line with Canadian Western Bank, as a result of other restructuring initiatives including the issue of additional long-term debt, the Company's available uncommitted short-term revolving facilities at March 31, 2010 of \$4.4 million only decreased by \$178,000 compared to March 31, 2009.

9.2.2 Long-term Debt

The Company made \$536,000 of scheduled principal repayments during the first three months of the year combined with non-scheduled debt repayments of \$2.2 million associated with the full repayment of the Company's term debt to the Royal Bank of Canada.

Total long-term debt of \$15.5 million as at March 31, 2010 consisted of \$9.6 million of scheduled long-term debt including capital lease obligations, \$5.8 million of notes payable and \$55,368 of convertible debentures. Of these amounts: \$1.8 million is scheduled for repayment within the next 12 months; \$1.5 million in notes payable to AMEC are scheduled to be repaid on the completion of the joint venture project with AMEC; and an additional \$485,000 in notes payable are due on a demand basis.

9.2.3 Convertible Debentures

The acquisition of Petrofield on November 30, 2007 included assuming convertible debentures ("the Debentures") bearing interest at 8%, maturing June 1, 2011 and convertible into common shares at the rate of 100 common shares of EIL for each \$67 of principal value. As at March 31, 2010, \$60,000 of Debentures remained issued and outstanding, comprised of \$55,368 ascribed to long-term debt and \$12,975 ascribed to contributed surplus, offset by \$8,343 in non-cash interest charged to retained earnings. During the three months ended March 31, 2010, none of the Debentures had been converted into common shares.

9.3 Share Capital and Retained Earnings

The retained deficit of \$14 million at March 31, 2010 was \$1.6 million higher than the retained deficit at December 31, 2009 due to the net loss for the three months ended March 31, 2010, including a \$610,000 valuation allowance on the future tax value of the Company's loss carry-forwards and investment tax credits. No dividends were declared or paid in the year.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 5,352,350 outstanding options at March 31, 2010. The average exercise price of the outstanding options is \$0.515 per share and the average exercise price of the 3,922,350 exercisable options is \$0.501 per share.

9.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at May 25, 2010 was \$7.3 million or \$0.08 per share compared with the Company's book value of \$0.24 per share at March 31, 2010. The issued and outstanding common shares at March 25, 2010, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares	
As at May 25, 2010 (Unaudited)	
Issued and outstanding common shares	91,239,608
Securities convertible into common shares	
\$60,000 - 8% convertible debentures, maturing June 1, 2011 convertible at 1492.537 shares per \$1,000 principal amount	89,552
Stock options	5,352,350
	96,681,510

9.5 Financial Ratios

The following information is based on the table of Non-GAAP Terms, Reconciliations and Calculations presented at the end of this report.

The Company's net funded debt of \$17.9 million at March 31, 2010 decreased \$23 million compared to the same date last year due to decreased non-cash working capital and proceeds from sale of capital assets in excess of sustaining capital expenditures, offset by lower cash flow provided by operations as noted above under "Debt – Short-term Debt".

The Company's leverage ratio (net funded debt to capitalization) may fluctuate from month-to-month due to underlying cyclical and seasonal variations in short-term debt used to finance working capital requirements. The Company's leverage ratio decreased to 38.8% at March 31, 2010 from 51.4% at the same date last year and the 45.4% reported at December 31, 2009.

The Company's current ratio of 1.27 times at March 31, 2010 improved from 1.02 times at March 31, 2009, due in part to the use of proceeds from the sale of under-utilized or non-core assets, coupled with the issue of additional long-term debt, to pay down the Company's operating line of credit.

10. RISKS & UNCERTAINTIES

10.1 Operating Results

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

10.2 Liquidity Requirements

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

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

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

10.3 Credit Risk

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

10.4 Interest Rate Risk

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

10.5 Foreign Exchange Risk

Rapid currency fluctuations can have a significant impact on un-hedged non-Canadian dollar denominated projects. The Company has exported some fabricated steel products over the years to the United States and the purchase of DSL and Petrofield have increased the percentage of revenue from the United States, but a majority of these contracts have been hedged with forward contracts to sell US dollars.

10.6 Bonding Capacity

Some customers require performance bonds underwritten by insurance providers, or irrevocable letters of credit as a condition of contract award. However, there can be no assurance that the Company will be able to obtain such bonds or letters of credit.

10.7 Cost of Raw Material

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

10.8 Project Performance

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

10.9 Percentage of Completion Accounting Method

The Company recognizes revenue from its fabrication and erection contracts using the percentage of completion accounting method, based on costs incurred as compared to projected costs. 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 phase will not vary from the actual results measured at the completion of the contract.

10.10 Competitive Market

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

Due to the competitive nature of the business, the Company must compete on price and quality of service. A significant portion of the Company's business is to provide a contracted scope of work to clients on a fixed price or unit price basis. There can be no assurance that the fixed price commitment adequately recovers the full cost

of providing the contracted scope of work. Nor can there be any assurance that the contracted scope of work is so clear as to prevent disagreements over the interpretation of what has been contracted for. Management is of the view that the Company's experience in the industry provides it with the necessary expertise to resolve disputes that may arise in a manner that is satisfactory to the Company's overall requirements.

10.11 Global Economic Environment

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

10.12 Non-residential Construction Activity in Western Canada

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

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

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

10.13 Reliance on Key Personnel

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

10.14 Labour Relations

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

10.15 Acquisitions

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

10.16 Technological Change

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

10.17 Environment/Regulatory

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

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

11. OUTLOOK

In addition to other sections of the Company's report, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. For more information, see "Forward-Looking Information" on page 1 of this report.

The value of the Company's steel fabrication and installation project backlog at March 31, 2010 was \$31.1 million, up from \$28.3 million at December 31, 2009 as a result of several recent project awards. Management continues to be of the view that 2010 will be challenging for the steel fabrication and installation segment as it lags the engineering and general contracting market place. In addition to recent projects awarded to this segment, the Company's aboriginal partnership has benefited from recent project awards in its focus area of providing maintenance services to Alberta's oil sands producers.

The specialized engineered products segment continues to work toward the substantial completion of two world class projects for two leading entertainment companies in the U.S. during the second and third quarter of fiscal 2010. The Company is continuing its efforts to leverage its competitive strengths and experience in engineering and quality management and has recently signed a memorandum of understanding in that regard.

The Company has recently re-financed its operating and term debt and, as a result, strengthened its financial position at March 31, 2010 compared to December 31, 2009. However, the Company must continue to strengthen its financial position if it is to take full advantage of recovery in its primary operating segments and the general economy as a whole. The Company expects to continue to take steps to contain and reduce operating costs, dispose of non-core, redundant or under-performing assets and seek access to additional long-term capital.

USE OF NON-GAAP TERMS

Earnings before interest, taxes, depreciation and amortization, gains or losses on asset disposals ("EBITDA") and earnings before interest, taxes, gains or losses on assets disposals, ("EBIT") are provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges, income taxes, items not considered to be in the ordinary course of business and investing activities. A reconciliation of such measures to net income is provided in Note 11 to the Consolidated Financial Statements and in the table below. Certain items are excluded in the determination of such measures as they are non-cash in nature, income taxes, financing charges or otherwise are not considered to be in the ordinary course of business. EBITDA and EBIT provide important management information concerning business segment performance since the Company does not allocated all financing charges to these individual segments. Such measures should not be considered in isolation to or as a substitute for (i) net income or loss, as an indicator of the Company's operating performance or (ii) cash flows from operating, investing and financing activities, as a measure of the Company's liquidity.

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

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

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

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

Non-GAAP Terms, Reconciliations and Calculations			
For the three months ended March 31 <i>(in thousands, except percentages and ratios)</i>	2010	2009	Better (Worse)
Gross profit	2,879	3,862	(983)
Operating, general and administrative expenses	(3,339)	(5,121)	1,782
Income from equity accounted for investments and other revenue	418	119	299
EBITDA	(42)	(1,140)	1,098
Amortization	(800)	(862)	62
EBIT	(842)	(2,002)	1,160
Cash flow provided by operations	(732)	(1,574)	842
Decrease (increase) in working capital	261	8,920	(8,659)
Property, plant and equipment expenditures	(83)	(29)	(54)
Proceeds from disposal of property, plant and equipment	740	3	737
Decrease (increase) in other long-term assets	(159)	8	(167)
Free cash flow	27	7,328	(7,301)
Bank operating loans	5,556	22,454	(16,898)
Current portion of long-term debt	3,776	6,938	(3,162)
Long-term debt	7,863	12,397	(4,534)
Bank indebtedness (cash)	742	(835)	1,577
Net funded debt	17,937	40,954	(23,017)
Convertible debentures	56	52	4
Subordinated shareholder loans	3,811	-	3,811
Deferred gain on sale and leaseback	2,219	1,065	1,154
Shareholders' equity	22,187	37,645	(15,458)
Capitalization	46,210	79,716	(33,506)
Net funded debt : Capitalization	38.8%	51.4%	12.6%
Current assets	30,725	56,054	(25,329)
Current liabilities	(24,187)	(55,040)	30,853
Working capital	6,538	1,014	5,524
Current ratio (Current assets : Current liabilities)	1.27	1.02	0.25



Empire Industries Ltd.

Consolidated Financial Statements

March 31, 2010

(Unaudited)

EMPIRE INDUSTRIES LTD.
Consolidated Balance Sheets

	March 31, 2010 (unaudited)	March 31, 2009 (unaudited)	December 31, 2009 (audited)
Assets			
Current assets:			
Cash	\$ 415,483	\$ 834,880	2,674,061
Accounts receivable (Note 6)	19,093,262	37,367,793	16,406,407
Receivable from related party	905,381	397,979	643,533
Income taxes recoverable	248,118	627,625	59,162
Inventories	7,045,879	15,759,307	8,070,662
Prepaid expenses and deposits	800,448	997,830	979,238
Current portion of other long-term assets	149,285	6,275	27,381
Foreign exchange hedge contracts	2,066,731	-	2,233,298
Future income taxes	-	61,965	192,864
	30,724,587	56,053,654	31,286,606
Other long-term assets	122,962	17,736	39,585
Advances to related party	296,232	385,038	291,117
Investments	1,408,781	1,380,470	1,300,859
Property, plant and equipment	17,827,294	30,208,966	19,137,689
Intangible assets	398,506	536,734	454,561
Goodwill	8,173,029	17,395,067	8,173,029
Future income taxes	2,470,739	2,785,640	2,442,948
	\$ 61,422,130	\$ 108,763,305	\$ 63,126,394
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness (Note 7)	\$ 1,157,241	\$ -	\$ -
Bank operating lines (Note 7)	5,556,629	22,454,177	13,739,226
Accounts payable and accrued liabilities	11,821,335	22,631,981	9,804,998
Income taxes payable	188,359	802,046	195,024
Long-term debt due within one year:			
Long-term debt (Note 8)	1,779,167	5,024,805	1,634,387
Notes payable	1,997,000	1,912,603	1,997,000
Deferred gain on sale and leaseback	442,451	287,900	442,451
Foreign exchange hedge contracts	-	354,601	-
Future income taxes	1,244,571	1,572,150	794,146
	24,186,753	55,040,263	28,607,232
Long-term debt (Note 8)	7,862,900	8,828,765	3,267,164
Notes payable	3,811,186	3,568,065	3,811,186
Convertible debentures	55,368	51,660	54,441
Deferred gain on sale and leaseback	1,776,881	776,854	1,887,493
Foreign exchange hedge contracts	-	361,979	-
Future income taxes	1,542,099	2,490,502	1,724,890
Basis of presentation (Note 2)	39,235,187	71,118,088	39,352,406
Shareholders' equity:			
Capital stock	34,720,418	34,720,418	34,720,418
Contributed surplus	1,483,003	1,481,173	1,458,003
Retained earnings (deficit)	(14,016,478)	1,443,626	(12,404,433)
	22,186,943	37,645,217	23,773,988
	\$ 61,422,130	\$ 108,763,305	\$ 63,126,394

See accompanying notes to the unaudited consolidated financial statements

Approved by the Board:

"Guy Nelson"

 Director

"Joe Robertson"

 Director

EMPIRE INDUSTRIES LTD.
Consolidated Statements of Operations
For the periods ended March 31
(unaudited)

	Three months	
	2010	2009
Sales	\$ 20,577,006	\$ 41,952,388
Cost of goods sold	(17,697,602)	(38,089,382)
Gross profit	2,879,404	3,863,006
Operating, general and administrative expenses	(3,339,280)	(5,121,667)
Income from equity accounted for investments and other revenue	417,931	119,121
Loss before the undernoted	(41,945)	(1,139,540)
Amortization	(799,893)	(862,614)
Operating loss	(841,838)	(2,002,154)
Other income (expenses):		
Amortization of deferred gain on sale and leaseback	110,612	71,975
Gain on disposal of property, plant and equipment, intangibles and other assets	78,964	2,460
Interest on long term debt and notes payable	(224,321)	(324,369)
Other interest	(268,025)	(349,779)
Unrealized loss on foreign exchange hedge contracts	(166,567)	(114,443)
Net loss before income taxes	(1,311,175)	(2,716,310)
Income tax recovery (expense):		
Current	(115,847)	226,144
Future	(185,023)	876,806
	(300,870)	1,102,950
Net loss for the period	\$ (1,612,045)	\$ (1,613,360)
Loss per share:		
Basic and diluted (Note 4)	\$ (0.02)	\$ (0.02)

See accompanying notes to the unaudited consolidated financial statements

Consolidated Statements of Shareholders' Equity

As at March 31
(unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Shareholders Equity
As at March 31, 2009 (unaudited)	\$ 34,720,418	\$ 1,481,173	\$ 1,443,626	\$ 37,645,217
Stock-based compensation, net of forfeitures	-	(23,170)	-	(23,170)
Net loss for the period	-	-	(13,848,059)	(13,848,059)
As at December 31, 2009 (audited)	\$ 34,720,418	\$ 1,458,003	\$ (12,404,433)	\$ 23,773,988
Stock-based compensation	-	25,000	-	25,000
Net loss for the period	-	-	(1,612,045)	(1,612,045)
As at March 31, 2010 (unaudited)	\$ 34,720,418	\$ 1,483,003	\$ (14,016,478)	\$ 22,186,943

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.
Consolidated Statements of Cash Flow
For the periods ended March 31
(unaudited)

	Three months	
	2010	2009
Cash provided by (used in):		
Operating:		
Net loss for the period	\$ (1,612,045)	\$ (1,613,360)
Amortization	799,893	862,614
Gain on disposal of property, plant and equipment	(78,964)	(2,460)
Deferred gain on sale and leaseback	(110,612)	(71,975)
Income from equity accounted for investments	(107,922)	(119,121)
Non-cash interest expense	927	102,075
Stock based compensation	25,000	30,712
Unrealized foreign exchange hedge contract loss	166,567	114,443
Future income tax expense (recovery)	185,023	(876,806)
Cash flow used in operations	(732,133)	(1,573,878)
Decrease in non-cash working capital	260,770	8,919,835
Cash flow provided by (used in) operating activities	(471,363)	7,345,957
Investing activities:		
Proceeds on disposal of property, plant and equipment	739,501	3,100
Purchase of property, plant and equipment	(82,810)	(29,608)
Increase in other long term assets	(153,951)	-
Proceeds on disposal of intangible assets	-	8,000
Repayment of notes receivable	-	390
Increase in advances to related party	(5,115)	-
	497,625	(18,118)
Financing activities:		
Decrease in bank operating lines	(8,182,597)	(4,561,817)
Issue of long-term debt	7,500,000	-
Repayment of long-term debt	(2,759,484)	(712,146)
Repayment of notes payable	-	(198,587)
	(3,442,081)	(5,472,550)
Change in cash and cash equivalents	(3,415,819)	1,855,289
Cash and cash equivalents, beginning of period	2,674,061	(1,020,409)
Cash and cash equivalents, end of period	\$ (741,758)	\$ 834,880
Supplementary cash flow information:		
Interest paid	\$ (397,458)	\$ (765,453)
Income taxes recovered (paid)	\$ 9,596	\$ (426,428)

See accompanying notes to the unaudited consolidated financial statements

1. Nature of the business

The consolidated financial statements include the accounts of Empire Industries Ltd. (the "Company" or "Empire") and its wholly-owned subsidiaries, Empire Iron Works Ltd., George Third & Son Ltd., Dynamic Structures Ltd., Petrofield Industries Inc. (formerly Tornado Technologies Inc.), and its 49% investment in Athabasca Chipewyan Empire Industries Inc. ("ACE Industries"), formerly Sorge's Welding Ltd. The investment in ACE Industries is accounted for using the equity method.

The financial statements of Empire Iron Works Ltd. contained herein include the accounts of its wholly owned subsidiaries, Hopkins Steel Works Limited, Ward Industrial Equipment Ltd., and Parr Metal Fabricators Ltd. The financial statements of George Third & Son Ltd. contained herein include the accounts of its wholly owned U.S. subsidiary, KWH Constructors Inc. The financial statements of Dynamic Structures Ltd. contained herein include the investment in two 50% joint ventures with AMEC International (Canada) Ltd. which are accounted for under the proportionate consolidation method. The financial statements of Petrofield Industries Inc. contained herein include the accounts of its wholly owned subsidiary, 1366377 Texas Inc. (formerly Tornado Technologies, Inc.).

2. Basis of presentation

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

The Company's debt obligations are described in Notes 7, 8, and 10 and certain of these debt obligations are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. The Company was in compliance, and continues to be, with its new covenants following the refinancing of its operating and term debt on March 4, 2010 (Note 10).

Based on uncertainties associated with the Company's current operating projections including, but not limited to, continued negative cash flow from operations, the possibility of higher interest rates, commodity price increases, curtailment in industrial or institutional capital spending or credit losses, access to bonding, or a combination of these factors, the Company may be unable to maintain compliance with its new financial covenants in the future. Failure to maintain financial covenants under its credit facilities would result in default permitting the lender to demand payment of amounts outstanding under the lending agreement. These circumstances add risk to the ability of the Company to meet its obligations as they come due and accordingly, the use of accounting principles to a going concern.

To meet these potential demands, the Company has generated additional cash flows through the refinancing of its operating and term debt (Note 7) and through the disposal of certain non-core assets. The Company is proactively looking at all available alternatives in implementing the Company's plans. The Company continues to aggressively pursue strategies to improve operating results, cash flows and capital structure in order to ensure the availability of funds to continue to meet its obligations, however, there can be no assurance as to their outcome or success.

3. Accounting principles

These interim unaudited consolidated financial statements are based on accounting principles consistent with those used and described in the December 31, 2009 audited annual consolidated financial statements. However, these interim consolidated financial statements do not include all of the information and disclosures required for annual financial statement presentation and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2009. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

4. Loss per share

For the three months ended March 31

	2010			2009		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (1,612,045)	91,239,608	\$ (0.02)	\$ (1,613,360)	91,239,608	\$ (0.02)

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

5. Seasonal and cyclical nature of the business

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

6. Accounts receivable:

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

	March 31, 2010	December 31, 2009
Holdbacks	\$ 4,222,343	\$ 3,838,740
Current	6,243,610	5,950,283
31 – 60 days	4,962,708	3,034,928
61 – 90 days	556,946	826,932
Greater than 90 days	1,302,939	871,478
Billed receivables	17,288,546	14,522,361
Unbilled contract receivables	2,545,164	2,767,150
Deferred revenue	(923,915)	(1,290,004)
Other receivables	661,252	856,666
Less: Allowance for doubtful accounts	(477,785)	(449,766)
Total accounts receivable, net	\$ 19,093,262	\$ 16,406,407

Unbilled contract receivables consist of costs plus margin on unbilled contracts that are to be billed in the near-term.

The following table outlines changes in the allowance for doubtful accounts.

	March 31, 2010	December 31, 2009
Allowance for doubtful accounts – opening	\$ 449,766	\$ 568,744
Add: Net bad debt provisions (recoveries)	28,019	(74,450)
Less: accounts written off	-	(44,528)
Allowance for doubtful accounts – closing	\$ 477,785	\$ 449,766

7. Bank indebtedness and bank operating lines

The Company's bank indebtedness of \$1,157,241 (December 31, 2009 – cash \$2,101,818) represents cheques issued in excess of funds on deposit. In addition, the Company had \$415,483 (December 31, 2009 – \$572,243) in funds on deposit under its two joint ventures operated with AMEC International (Canada) Ltd.

On March 4, 2010, funds drawn under the Royal Bank of Canada \$6,000,000 revolving operating facility and the HSBC Bank of Canada \$8,500,000 revolving operating facility were fully repaid from the proceeds of the new revolving operating facility and term loans issued by the Canadian Western Bank (Note 10).

At March 31, 2010, the Company had a revolving operating facility with Canadian Western Bank ("CWBank Operating Facility") in the amount of \$10,000,000 (Note 10) of which \$5,556,629 (December 31, 2009 - \$Nil) had been drawn down. Advances on the line are payable on demand and bear interest at prime plus 2.25%. The CWBank Operating Facility is secured by general security agreements providing a first security interest in all present and after-acquired property and a \$25,000,000 demand debenture providing the bank with fixed and floating charges on all assets of Empire Industries Ltd. and Empire Iron Works Ltd.

8. Long-term debt

	March 31, 2010	December 31, 2009
Canadian Western Bank term loan, monthly payments of \$25,992 including interest at 6.5% per annum, due March 4, 2025.	\$ 3,000,000	\$ -
Canadian Western Bank term loan, monthly payments of \$87,866 including interest at 6.5% per annum, due March 4, 2015.	4,500,000	-
Royal Bank of Canada non-revolving term facility, payable \$69,500 monthly plus interest at prime plus 5%, due May 31, 2010.	-	2,363,000
HSBC Capital Lease, monthly payments of \$2,227 including interest at 6.38% per annum with a purchase option of \$26,867 on October 29, 2013. If the purchase option is not exercised, the monthly payments increase to \$2,305. The lease expires on October 28, 2014.	105,043	109,998
HSBC Capital Lease, monthly payments of \$5,798 including interest at 6.38% per annum with a purchase option of \$33,973 on April 13, 2014. If the purchase option is not exercised, the monthly payments decrease to \$4,931. The lease expires on November 12, 2014.	270,567	283,679
HSBC Capital Lease, monthly payments of \$15,395 including interest at 6.13% per annum with a purchase option of \$57 on October 29, 2011. The lease expires on October 28, 2011.	264,176	536,686
HSBC Capital Lease, monthly payments of \$19,920 including interest at 5.88% 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 expires on November 12, 2014.	971,762	1,017,480
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 expires on July 20, 2012.	230,822	254,018
Capital Equipment Leases, bearing interest up to 13% per annum, monthly payments from \$110 to \$2,742 including interest, due from April 2010 to April 2013.	299,697	336,690
	9,642,067	4,901,551
Current portion of long-term debt	(1,779,167)	(1,634,387)
	\$ 7,862,900	\$ 3,267,164

On March 4, 2010, the Royal Bank of Canada non-revolving term facility was fully repaid from the proceeds of the term loans issued by the Canadian Western Bank ("CWBank Term Loans") (Note 10).

The CWBank Term Loans are secured by general security agreements providing a first security interest in all present and after-acquired property and a \$25,000,000 demand debenture providing the bank with fixed and floating charges on all assets of Empire Industries Ltd. and Empire Iron Works Ltd. The HSBC and other capital leases are secured by the equipment that is being leased.

Principal amounts due on long-term debt in each of the next five years and thereafter and interest on capital leases are as follows:

2011	\$ 1,779,167
2012	1,705,342
2013	1,448,495
2014	1,427,872
2015	1,281,191
2016 and thereafter	<u>2,000,000</u>
	9,642,067
Interest on capital leases	<u>249,050</u>
	\$ <u>9,891,117</u>

9. 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 Steel Works Limited, ACE Industries, George Third & Son Ltd. and KWH Constructors Inc.

Specialty engineered products

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

For the three months ended March 31, 2010

	Steel Fabrication and Erection	Specialized Engineered Products	Corporate	Total
Sales	\$ 9,832,299	\$ 10,724,591	\$ 20,116	\$ 20,577,006
Cost of goods sold	(8,708,905)	(8,988,697)	-	(17,697,602)
Gross profit	1,123,394	1,735,894	20,116	2,879,404
Operating, general and administrative expenses	(1,666,458)	(1,243,871)	(428,951)	(3,339,280)
Income from equity investments and other revenue	107,922	310,009	-	417,931
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(435,142)	802,032	(408,835)	(41,945)
Amortization	(405,219)	(382,627)	(12,047)	(799,893)
Earnings before interest and taxes (EBIT)	(840,361)	419,405	(420,882)	(841,838)
Other income	140,526	49,050	-	189,576
Interest expense	(252,114)	(64,398)	(175,834)	(492,346)
Unrealized loss on foreign exchange hedge contracts	-	(166,567)	-	(166,567)
Segmented earnings (loss) before income tax	\$ (951,949)	\$ 237,490	\$ (596,716)	\$ (1,311,175)

For the three months ended March 31, 2009

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

10. Capital Disclosures

The Company's objective when managing capital is to strive for a long-term manageable level of debt to total capital. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in 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 return capital to shareholders, issue new shares or sell redundant or non-core assets to reduce debt.

Debt to total capital is defined as interest bearing debt divided by total interest bearing debt plus the book value of total shareholders' equity. Interest bearing debt is the aggregate of bank indebtedness, bank operating loans, current portion of long-term debt, long-term debt and notes payable. Shareholders' equity includes deferred gain on sale and leaseback and subordinated debt such as subordinated notes payable and convertible debentures.

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.

For the periods ended	March 31, 2010	December 31, 2009	Increase (Decrease)
Bank indebtedness (cash)	\$ 741,758	\$ (2,674,061)	\$ 3,415,819
Bank operating loans	5,556,629	13,739,226	(8,182,597)
Current portion of long-term debt and notes payable	3,776,167	3,631,387	144,780
Long-term debt and notes payable	7,862,900	7,078,350	784,550
Net funded debt	17,937,454	21,774,902	(3,837,448)
Convertible debentures	55,368	54,441	927
Subordinated notes	3,811,186	-	3,811,186
Deferred gain on sale and leaseback	2,219,332	2,329,944	(110,612)
Shareholders' equity	22,186,943	23,773,988	(1,587,045)
Capitalization	\$ 46,210,283	\$ 47,933,275	\$ (1,722,992)
Net funded debt : Capitalization	38.8%	45.4%	(6.6%)

On March 4, 2010, the Company completed a \$17,500,000 re-financing with the Canadian Western Bank, to provide a centralized \$10,000,000 revolving operating facility ("CWBank Operating Facility") and \$7,500,000 in term debt ("CWBank Term Loans"). The proceeds from the CWBank Operating Facility and CWBank Term Loans were used to fully repay the amounts owed under a revolving operating facility and term loan with the Royal Bank of Canada and a revolving operating facility with the HSBC Bank of Canada. The unused portion of the CWBank Operating Facility will be used for general corporate purposes in the normal course of business including financing future working capital needs.

The CWBank Term Loans include a \$3,000,000 tranche, amortized over 15 years, with a fixed interest rate of 6.5% over the initial five year term. The second tranche of \$4,500,000, amortized over five years, also carries a fixed interest rate of 6.5% over the five year term. The CWBank Operating Facility carries an interest rate of prime plus 2.25%.

In conjunction with the re-financing, the vendor notes of \$3,811,186, included in notes payable, were subordinated and postponed in favour of the CWBank.

11. Guarantees and contingencies

Loan guarantees

The Company is contingently liable under two guarantees given to third-party lenders who have provided certain financing facilities to affiliated companies. As at March 31, 2010, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$650,000 (December 31, 2009 - \$650,000). In addition, the Company has provided an unlimited guarantee on behalf of an equity investment over which the Company exercises significant influence.

Director and officer indemnification

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

Other indemnification provisions

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

Other contingencies

As at March 31, 2010, there are no other material claims against the Company therefore a provision in the consolidated financial statements is considered to be unnecessary.

12. Comparative figures

Certain of the 2009 amounts presented for comparative purposes have been restated to conform to the presentation adopted in the current period.