



Empire Industries Ltd.

2nd Quarter 2009

Management Discussion & Analysis

For the 3 and 6 month periods ending
June 30, 2009

Consolidated Financial Statements

June 30, 2009
Unaudited



Empire Industries Ltd.

Management's Discussion and Analysis

for the Second Quarter and Six months ended June 30, 2009

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operation of Empire Industries Ltd. ("EIL" or the "Company") is supplemental to, and should be read in conjunction with, the unaudited consolidated financial statements and accompanying notes of the Company for the second quarter and six months ended June 30, 2009 and the Company's annual MD&A for the year ended December 31, 2008 included in its 2008 Annual Report.

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

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on August 27, 2009. Disclosure contained in this document is current to this date, unless otherwise stated.

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

1. EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to it in a timely manner. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2009 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities, particularly during the period in which this report was prepared.

2. FORWARD-LOOKING INFORMATION

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

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

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

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

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

3. BUSINESS DESCRIPTION

Empire Industries Ltd. adds value to steel through its leading Western Canadian steel fabrication and installation services providers, engineered products manufacturing and its Fort McMurray based strategic partnership in the maintenance services sector. The Company owns and lease 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 Tornado Technologies Inc. ("Tornado"). The Company also owns a 49% interest in Sorge's Welding Ltd. ("Sorge") and its wholly-owned subsidiary, Lemax Machine & Welding Inc. EIW operates two branches located in Winnipeg, Manitoba and Edmonton, Alberta. In addition, EIW has three wholly owned subsidiaries, Hopkins Steel Works Ltd. ("Hopkins"), Ward Industrial Equipment Ltd. ("Ward"), and Parr Metal Fabricators Ltd. ("Parr"). Ward and Hopkins are both based in Welland, Ontario. Parr is based in Winnipeg, Manitoba. GTS and DSL have operations in Vancouver, British Columbia and GTS has a wholly owned subsidiary, KWH Constructors, Inc., based in Seattle, Washington. Tornado has operations in Calgary, Gadsby, and Stettler, Alberta, and a wholly owned subsidiary, Tornado Technologies, Inc., in Houston, Texas. All of these companies, with the exception of Tornado, fabricate, install or manufacture steel products for a wide variety of customers and end-uses. Tornado fabricates industrial equipment used primarily in the oil field sector.

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

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

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

4. SEASONALITY AND CYCLICALITY

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

5. BUSINESS SEGMENT PERFORMANCE

5.1 Steel Fabrication and Installation Services

Steel Fabrication and Installation Services For the periods ended June 30 (in thousands, except per DLH amounts)	Quarter ended			Six months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	16,443	23,043	(6,600)	37,362	44,124	(6,762)
Cost of goods sold	(16,847)	(20,269)	3,422	(36,910)	(38,356)	1,446
Gross profit	(404)	2,774	(3,178)	452	5,768	(5,316)
Earnings from equity investment	(2)	190	(192)	117	235	(118)
Operating, general & administrative expenses	(2,059)	(2,628)	569	(4,230)	(4,570)	340
EBITDA	(2,465)	336	(2,801)	(3,661)	1,433	(5,094)
Amortization	(523)	(518)	(5)	(1,017)	(982)	(35)
EBIT	(2,988)	(182)	(2,806)	(4,678)	451	(5,129)
Operating highlights						
Direct Labour Hours (DLH)	107.1	163.6	(34.57%)	268.5	304.6	(11.83%)
Sales per DLH	\$ 153.59	\$ 140.83	\$ 12.76	\$ 139.13	\$ 144.88	\$ (5.75)
Gross profit per DLH	\$ (3.77)	\$ 16.95	\$ (20.72)	\$ 1.68	\$ 18.94	\$ (17.26)

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

Direct labour hours (both fabrication and erection) declined 11.8% from 305,000 hours for the first half of fiscal 2008 to 269,000 hours for the six months ended June 30, 2009 driven by a decline of 57,000 hours during the most recent quarter. Direct labour hours in GTS remained stable, supported by 127,000 fabrication and erection hours on the Coast Meridian Overpass project. The decline in hours was associated with EIW as larger projects in the first six months of fiscal 2008 were replaced by fewer and smaller projects throughout the first half of fiscal 2009 following the contraction and deferral of large construction projects in the Alberta oilsands.

Sales of \$37.4 million for the six months ended June 30, 2009 declined from the \$44.1 million of sales recorded for the six months ended June 30, 2008 with a \$3.3 million increase in sales in GTS being more than offset by an \$8.4 million reduction in EIW, an \$814,000 reduction in sales in Hopkins and the change in accounting treatment for Sorge's Pro from consolidation to the equity method. The increased sales activity in GTS for the most recent quarter and six months reflects the large Coast Meridian Overpass project which represented sales of \$13.4 million. The lower sales in EIW are consistent with the reduction in underlying direct labour hours for the reasons noted above. Average sales per direct labour hour ("per DLH"), a measure of fabrication activity, strengthened during the quarter ended June 30, 2009 compared to the same quarter last year, although sales per DLH decreased modestly by 3.5% from \$144 per hour to \$139 per hour in the six months ended June 30, 2009, largely driven by reductions in EIW.

Gross profit reflects the cost of direct material and labour as well as indirect production and overhead costs allocated to specific jobs. The Company incurred negative gross profit of \$3.77 per DLH during the quarter ended June 30, 2009, a \$20.72 per DLH decline from the same quarter last year and contributing to a gross margin per DLH for the six months ended June 30, 2009 of only \$1.68. The lower gross profit per DLH for the most recent quarter was driven in large part by higher erection costs associated with the Coast Meridian Overpass (the first cable-stayed bridge and heaviest steel structure launched in North America, incorporating the greatest single span ever launched) and, coupled with fabrication cost overruns during the first quarter of fiscal 2009 due to the more complex design of the structure than originally bid, contributed to a project loss of \$312,000 in the first six months of fiscal 2009 (offset by project margins realized in fiscal 2008 on the percentage of completion basis), before indirect production and overhead costs. Excluding the Coast Meridian Overpass, average sales and gross profit per DLH would increase to \$169 and \$5.45, respectively, for the six months ended June 30, 2009. In addition, indirect production and overhead costs increased by about \$900,000, largely due to higher indirect wages and benefits which, coupled with lower direct labour hour activity, decreased gross profit by about \$6 per DLH in fiscal 2009.

The Company's 49% interest in Sorge's Welding Ltd. is accounted for as an equity investment. Higher operating expenses coupled with lower revenues from Sorge's Welding in the most recent quarter, partially offset by higher profits from the acquisition of Lemax, accounted for the majority of the decline in earnings from equity of \$193,000 and \$118,000 for the quarter and six months ended June 30, 2009, respectively.

Operating, general & administrative ("OG&A") expenses of \$2.1 million for the quarter and \$4.2 million for the six months ended June 30, 2009 decreased \$569,000 and \$340,000 over the same periods last year, respectively, reflecting staff reductions undertaken in late fiscal 2008, partially offset by increased non-payroll costs associated with additional leased office space and a change in categorization during fiscal 2008 to include project manager salaries in OG&A rather than cost of sales. Staff reductions undertaken in late fiscal 2008 as well as further staff and salary reductions which commenced late in the second quarter are expected to contribute to lower OG&A and cost of sales throughout the balance of fiscal 2009.

As a result, the loss before interest, taxes, depreciation and amortization for the six months ended June 30, 2009 of \$3.7 million deteriorated by \$5.1 million compared to the same period last year. Amortization increased marginally to \$1 million for the six months ended June 30, 2009 as a result of higher capital spending during the latter half of 2008. Accordingly, the loss before interest and taxes of \$4.7 million also declined by \$5.1 million from EBIT of \$451,000 for the six months ended June 30, 2008.

5.2 Specialized Engineered Products

Specialized Engineered Products For the periods ended June 30 (in thousands, except percentages)	Quarter ended			Six months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	12,094	20,672	(8,578)	33,105	38,285	(5,180)
Cost of goods sold	(10,161)	(16,867)	6,706	(28,187)	(30,692)	2,505
Gross profit	1,933	3,805	(1,872)	4,918	7,593	(2,675)
Operating, general & administrative expenses	(1,835)	(2,568)	733	(4,397)	(4,903)	506
EBITDA	98	1,237	(1,139)	521	2,690	(2,169)
Amortization	(347)	(391)	44	(715)	(752)	37
EBIT	(249)	846	(1,095)	(194)	1,938	(2,132)
Operating highlights Margin (% of Sales)	15.98%	18.41%	(2.43%)	14.86%	19.83%	(4.97%)

Sales of \$12.1 million for the quarter and \$33.1 million for the six months ended June 30, 2009, decreased by \$8.6 million and \$5.2 million over the same periods last year, respectively. The quarter over quarter decline was comprised of a \$5.1 million decrease in Tornado sales due to reduced sales of combustion units as a result of a shift in seasonal buying patterns and lower overall activity in the oil and gas sector due to weak commodity prices, coupled with a \$2.1 million reduction in DSL sales, a \$790,000 reduction in Parr and a \$199,000 reduction in sales in Ward due to reduced activity.

Gross profit of \$4.9 million for the six months ended June 30, 2009 declined by \$2.7 million over the same period last year. Although margin on sales of 16% during the second quarter ended June 30, 2009 improved over the first quarter, margins were still lower compared to the same quarter and six month period ended June 30, 2008. DSL margins increased slightly for the six months ended June 30, 2009 led by stronger margins in the most recent quarter from a new ride system and consulting contracts offset by lower margins in the quarter from Ward and Parr. Margin reductions in Tornado were attributed to margin compression on some contracts as well as the disposition of slow moving inventory without margin during the first quarter.

OG&A expenses for the six months ended June 30, 2009 decreased \$506,000 over the same period last year as a result of a reduction of \$733,000 in the most recent quarter. OG&A expenses in Tornado for the most recent quarter declined by \$330,000 (due to lower selling expenses and restructuring savings) compared to the same quarter last year, coupled with a \$138,000 reduction in DSL and a \$316,000 decrease in Ward (as a result of restructuring undertaken last year) offset by a modest increase of \$52,000 in Parr.

Therefore, EBITDA decreased to \$521,000 for the six months ended June 30, 2009 compared to \$2.7 million in the prior year. Amortization of \$715,000 for the most recent six months declined by \$37,000 over the prior year resulting in EBIT decreasing by \$2.1 million to a loss of \$194,000 for the six months ended June 30, 2009.

Subsequent to the quarter-end, on July 31, 2009, the Company announced that it had completed a sale and leaseback of its Kingsway facility owned by DSL. The net proceeds of sale of \$9.5 million, which represented a gain on sale of about \$1.1 million, were used to repay \$2.2 million in draws on operating lines with HSBC and \$6.6 million in term debt to GE. At the same time, the Company entered into a ten year fixed rate lease with the purchaser, providing an initial cash flow saving of about \$840,000 per year compared to the former debt servicing cost associated with the property, with an option to extend the lease beyond ten years at market rates.

5.3 Corporate Expenses

Corporate expenses For the periods ended June 30 (in thousands)	Quarter ended			Six months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Miscellaneous income	22	-	22	44	-	44
Operating, general & administrative expenses	(560)	(559)	(1)	(948)	(1,045)	97
EBITDA	(538)	(559)	21	(904)	(1,045)	141
Amortization	(1)	(1)	-	(2)	(1)	(1)
EBIT	(539)	(560)	21	(906)	(1,046)	140

OG&A expenses decreased by \$97,000 to \$948,000 for the six months ended June 30, 2009, comprised largely of a \$103,000 decrease in non-cash stock-based compensation expenses; a \$52,000 decrease in fees and memberships offset by a \$55,000 increase in professional fees associated with the introduction of quarterly reviews, the transition of auditors and services associated with documenting internal controls over financial reporting.

6. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information For the periods ended June 30 (in thousands, per share amounts)	Quarter ended			Six months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	28,559	43,715	(15,156)	70,511	82,409	(11,898)
Cost of goods sold	(27,008)	(37,136)	10,128	(65,097)	(69,048)	3,951
Gross profit	1,551	6,579	(5,028)	5,414	13,361	(7,947)
Earnings from equity investment	(2)	190	(192)	117	235	(118)
Operating, general & administrative expenses	(4,454)	(5,755)	1,301	(9,575)	(10,518)	943
EBITDA	(2,905)	1,014	(3,919)	(4,044)	3,078	(7,122)
Amortization	(871)	(910)	39	(1,734)	(1,735)	1
EBIT	(3,776)	104	(3,880)	(5,778)	1,343	(7,121)
Gain on disposal of assets	1	21	(20)	3	13	(10)
Amortization of deferred gain on sales and leasebacks	72	72	-	144	144	-
Interest expense	(611)	(736)	125	(1,285)	(1,484)	199
Unrealized gain (loss) on foreign exchange hedges	1,432	8	1,424	1,318	(492)	1,810
	(2,882)	(531)	(2,351)	(5,598)	(476)	(5,122)
Provision for income tax recovery (expense)						
Current	(130)	218	(348)	96	(288)	384
Future	842	(1)	843	1,719	466	1,253
	712	217	495	1,815	178	1,637
Net earnings	(2,170)	(314)	(1,856)	(3,783)	(298)	(3,485)
Weighted average common shares issued and outstanding	91,240	91,197	43	91,240	91,182	58
Earnings per share						
Basic & fully diluted	\$ (0.02)	\$ -	\$ (0.02)	\$ (0.04)	\$ -	\$ (0.04)
Earnings per share, excluding unrealized gain (loss) on hedges						
Basic & fully diluted per share	\$ (0.02)	\$ -	\$ (0.02)	\$ (0.04)	\$ -	\$ (0.04)

6.1 Gross Profit, EBITDA and EBIT

The Company's gross profit for the six months ended June 30, 2009 decreased by \$7.9 million over the six months ended June 30, 2008 with a \$5.3 million decrease in steel fabrication and installation services coupled with a \$2.7 million decrease in specialized engineered products. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

OG&A expenses decreased \$943,000 or 9%, largely reflecting a \$340,000 decrease in steel fabrication and installation combined with a \$506,000 decrease in specialized engineered products and a reduction in corporate expenses of \$97,000. Consequently, EBITDA decreased by \$7.1 million to a loss of \$4 million for the six months ended June 30, 2009 and by \$3.9 million to a loss of \$2.9 million for the quarter ended June 30, 2009.

Amortization expenses decreased modestly to \$871,000 for the quarter and \$1.7 million for the six months ended June 30, 2009 compared to the same periods last year. As a result, EBIT decreased \$7.1 million to a loss of \$5.8 million for the most recent six month period compared to the six months ended June 30, 2008.

6.2 Gain on Disposal of Assets

The modest gain on disposal of assets for the quarter and six months ended June 30, 2009 reflects proceeds received in excess of net book value from the disposition of property, plant and equipment in the normal course of business. The modest gain on disposal of assets in the same quarter and six months last year arose entirely from the sale of property, plant and equipment in the ordinary course of business.

6.3 Interest Expenses

Interest costs of \$611,000 for the quarter and \$1.3 million for the six months ended June 30, 2009 declined slightly from \$736,000 for the same quarter and \$1.5 million for the same six months last year, respectively, as a result of a modest decline in interest-bearing funded debt to \$42.4 million coupled with the effect of \$4.6 million in scheduled debt repayments and bank operating line repayments for the six months ended June 30, 2009 as well as lower interest rates compared to the same periods last year.

6.4 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark-to-market basis using closing market quotations. Open foreign exchange forward contracts marked to market in this way remain unrealized and the \$1.3 million gain for the six months ended June 30, 2009 therefore represents non-cash pre-tax earnings (June 30, 2008 - \$491,000 non-cash pre-tax loss) in the period.

6.5 Income Taxes

The Company's income tax recovery of \$712,000, or an effective tax recovery rate of 24.7% (June 30, 2008 - 40.8% tax recovery rate) for the quarter ended June 30, 2009, contributed to an income tax recovery of \$1.8 million, or an effective tax recovery rate of 32.4% (June 30, 2008 - 37.3%), for the six months ended June 30, 2009 and is consistent with the underlying statutory rate.

6.6 Loss for the Period

The net loss of \$2.2 million (\$0.02 basic and diluted loss per share) for the quarter ended June 30, 2009 was \$1.9 million worse than the restated net loss of \$314,000 (\$nil basic and diluted earnings per share) for the same quarter in 2008 (originally reported as a net loss of \$384,000 or \$nil basic and diluted earnings per share). The net loss of \$3.8 million (\$0.04 basic and diluted loss per share) for the six months ended June 30, 2009 was \$3.5 million worse than the restated net loss of \$298,000 (\$nil basic and diluted earnings per share) reported for the same period in fiscal 2008 (originally reported as a net loss of \$40,000 or \$nil basic and diluted earnings per share).

6.7 Selected Quarterly Financial Information

Selected Quarterly Financial Information								
For the quarters ended								
<i>(in thousands, except per share amounts)</i>								
<i>(Unaudited)</i>	2009 Q2	2009 Q1	2008 Q4	(Restated) 2008 Q3	(Restated) 2008 Q2	(Restated) 2008 Q1	(Restated) 2007 Q4	(Restated) 2007 Q3
Sales and revenue from services	\$ 28,559	\$ 41,952	\$ 40,214	\$ 57,391	\$ 43,715	\$ 38,693	\$ 35,969	\$ 27,833
Net income (loss)	(2,170)	(1,613)	(1,750)	290	(314)	15	519	826
Earnings (loss) per share:								
Basic	(0.02)	(0.02)	(0.02)	-	-	-	-	0.01
Diluted	(0.02)	(0.02)	(0.02)	-	-	-	-	0.01

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

The quarterly results for fiscal 2008 for the third quarter of fiscal 2007 were restated to reflect the value of stock options cancelled or forfeited of \$16,037. These cancellations and forfeitures were originally recorded as a direct increase in retained earnings and, although there is no resulting impact on retained earnings and shareholders' equity, should have first been reflected as a non-cash reduction in operating, general and administrative expenses and a corresponding increase in net earnings.

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

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

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

7. OTHER MATTERS

7.1 Related Party Transactions

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

Rent was paid to companies controlled by officers, directors and members of their families in the ordinary course of operations and measured at the value of consideration established and agreed to by the parties in the amount of \$292,674 for the six months ended June 30, 2009 (June 30, 2008 - \$294,383).

7.2 Accounting Policy Changes

7.2.1 Goodwill and Intangibles

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

7.3 Future Changes in Accounting Policies

7.3.1 International Financial Reporting Standards (“IFRS”)

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

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

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

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

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

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 Sources and Uses

8.1.1 Cash Flow Provided by Operations

Cash Flow Provided by (Used in) Operations For the periods ended June 30 (in thousands, per share amounts)	Quarter ended			Six months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
EBITDA	(2,905)	1,014	(3,919)	(4,044)	3,078	(7,122)
Add (deduct):						
Non-cash compensation expense	35	94	(59)	66	228	(162)
Distributions (earnings) from equity investments	2	(191)	193	(118)	(235)	117
Investment tax credits received	-	402	(402)	-	402	(402)
Adjusted EBITDA	(2,868)	1,319	(4,187)	(4,096)	3,473	(7,569)
Interest expense	(611)	(736)	125	(1,285)	(1,484)	199
Capitalized interest	105	157	(52)	207	158	49
Pre-tax cash flow provided by operations	(3,374)	740	(4,114)	(5,174)	2,147	(7,321)
Current income taxes	(130)	218	(348)	96	(288)	384
Cash flow provided by operations	(3,504)	958	(4,462)	(5,078)	1,859	(6,937)
Cash flow provided by operations per share	\$ (0.04)	\$ 0.01	\$ (0.05)	\$ (0.06)	\$ 0.02	\$ (0.08)

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. Some interest on notes payable was capitalized as principal in accordance with the terms of the note rather than being settled in cash and the non-cash accretion in the convertible debentures was charged to interest expense.

Current income tax recoveries for the quarter and six months ended June 30, 2009 are significantly lower than the prevailing tax rate on pre-tax cash flows due to income taxes on taxable earnings in some of the Company's subsidiaries offset by income tax recoveries associated with pre-tax losses in the remaining subsidiaries recoverable in the future.

8.1.2 Non-Cash Working Capital

Non-cash Working Capital As at June 30 (in thousands)	2009	2008	Sources (Uses)
Accounts receivable	29,407	40,722	11,315
Inventory	15,397	18,953	3,556
Other current assets	2,458	1,475	(983)
Intercompany receivable (liability)	839	908	69
Accounts payable and accrued expenses	(17,906)	(25,298)	(7,392)
	30,195	36,760	6,565

Overall inventory levels at June 30, 2009 decreased \$3.6 million from the same period last year, almost entirely comprised of a \$3.4 million decrease in Tornado's work-in-progress inventories associated with improved inventory management processes and despite consistent sales activity during the first six months of 2009 compared to the same period last year.

Accounts receivable at June 30, 2009 decreased \$11.3 million from the prior year attributed to a \$7.8 million reduction in receivables in steel fabrication and installation services in GTS, EIW and Hopkins coupled with a

\$3.5 million reduction in receivables in specialized engineered products. All subsidiaries have demonstrated consistent maintenance or improvement in accounts receivable collections over the past 12 months.

The \$983,000 increase in other current assets is largely attributed to increased income taxes recoverable coupled with a modest \$67,000 increase in prepaid expenses and deposits.

The intercompany receivable from Sorge of \$839,000 at June 30, 2009 decreased slightly from \$908,000 for the same period last year.

Accounts payable and accrued expenses of \$17.9 million at June 30, 2009 decreased \$7.4 million from June 30, 2008 as sales activity levels have slowed in the first six months of fiscal 2009. All subsidiaries continue to maintain consistent trade payment terms despite the lower aggregate level of trade credit.

8.1.3 Net Capital Expenditures and Investments

Capital expenditures of \$931,000 for the six months ended June 30, 2009 decreased \$1.2 million over the same period last year as the Company actively reduced its capital spending program in response to reduced industrial and commercial capital spending projects. At the same time, the Company's Tornado subsidiary disposed of non-core assets for total proceeds of \$203,000, representing the majority of total proceeds from capital disposals for the most recent six month period. The Company expects to use cash flow provided by operating activities or proceeds of dispositions to fund planned capital expenditures for the balance of fiscal 2009.

8.2 Debt

8.2.1 Short-term Debt

The Company's cash flow provided by operating activities during the six months ended June 30, 2009 of \$6.2 million increased \$731,000 compared to cash flow provided by operating activities of \$5.4 million during the same six month period last year. Non-cash working capital decreased \$6.6 million year-over-year for the reasons noted under "Sources and Uses – Non-Cash Working Capital", offset by a \$5 million reduction in cash flow provided by operations and contributing to a \$1.6 million increase in cash flow provided by operating activities for the 12 months ended June 30, 2009.

Bank operating loans at June 30, 2009 were \$4.2 million higher than a year earlier as a result of negative free cash flow over the 12 months ended June 30, 2009 coupled with higher scheduled debt repayments and increased cash and cash equivalents, offset by proceeds from the divestiture of one of the Company's businesses in July 2008. The Company generated negative free cash flow for the 12 months ended June 30, 2009 as net capital expenditures and investments of \$4.5 million (of which \$3.8 million was incurred in the latter half of fiscal 2008) exceeded cash flow provided by operating activities of \$1.6 million and proceeds from the disposition of investments of \$521,000.

Short-term Debt As at June 30 (in thousands)	2009	2008	Better (Worse)	Trailing Twelve Months ended 2009
Cash flow provided by (used in) operations	(5,078)	1,859	(6,937)	(5,042)
Decrease (increase) in non-cash working capital	11,095	3,274	7,821	6,565
Less: Working capital acquired (disposed of)	-	-	-	(741)
Less: Other balance sheet adjustments	139	292	(153)	789
Cash flow from operating activities	6,156	5,425	731	1,571
Net capital expenditures and investments	(725)	(1,691)	966	(4,521)
Other investments	16	55	(39)	521
Free cash flow	5,447	3,789	1,658	(2,429)
Business divestitures	-	-	-	850
Debt disposed of	-	-	-	7
Financing activities	-	-	-	-
Scheduled debt repayments, net of advances	(1,654)	(6,118)	4,464	(1,011)
Proceeds of issue of common shares	-	24	(24)	-
Decrease (increase) in cash and cash equivalents	(889)	1,087	(1,976)	(1,570)
Sources (uses) of cash	2,904	(1,218)	4,122	(4,153)
Bank operating loans, beginning of periods	(27,016)	(18,741)	(8,275)	(19,959)
Bank operating loans, end of periods	(24,112)	(19,959)	(4,153)	(24,112)
Revolving Credit facilities:				
Revolving facilities	31,500	28,000	3,500	
Available uncommitted revolving facilities	2,339	4,888	(2,549)	

The Company increased its revolving facilities with HSBC year over year by \$5 million, offset by a reduction in the credit facility available from the Bank of Montreal of \$1.5 million, although actual availability of these facilities was limited by the Company's underlying marginable assets available to secure them. The Company's available uncommitted short-term revolving facilities at June 30, 2009 decreased by \$2.5 million as increased access to credit from larger revolving facilities compared to June 30, 2008 exceeded uses of cash of \$4.2 million.

EIW, Ward and Hopkins share a line of credit with the Royal Bank of Canada of \$6 million, payable on demand, secured by a general assignment of inventories and accounts receivable, a fixed charge on all property, a floating charge on all assets and a postponement of claim given by certain shareholders. Although the Company was not in compliance with the bank's maximum debt to tangible net worth covenant at December 31, 2008, it returned to compliance at March 31, 2009 and June 30, 2009. In an amendment to the bank agreement, the funded debt to EBITDA covenant which the Company was not in compliance with at December 31, 2008 was replaced by a debt service charge covenant. The Company was not in compliance with the new debt service charge covenant effective for the quarter ended June 30, 2009. As a result of the continuing covenant violations, the Company has provided a letter to RBC agreeing to make every reasonable effort to repay in full the amounts due under the senior secured credit agreement with RBC by September 30, 2009 with the possibility to extend repayment to no later than October 31, 2009 under specific conditions acceptable to RBC. In return for the receipt of the letter, RBC has agreed not to enforce its rights under the credit agreement for a period up to September 30, 2009, provided there is no material adverse change in the bank's risk during the period and the Company complies with the conditions outlined in the commitment letter.

GTS and DSL share a line of credit with HSBC of \$15 million, payable on demand, secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrowers and a floating charge over all of the borrowers' present and after acquired real property except for certain priorities granted to other lenders. The Company was not in compliance with the bank's maximum debt to tangible net worth and minimum current ratio covenants as at March 31, 2009 and June 30, 2009. On August 10, 2009, the Company announced that it had successfully negotiated a

forbearance agreement with HSBC. Under the terms of the agreement, HSBC is reviewing the Company's operations and outlook and has agreed not to enforce its rights under the senior secured credit agreement for a period up to October 31, 2009, provided there is no event of default under the forbearance agreement. Subsequent to quarter-end, the proceeds of the sale of the Kingsway facility on July 31, 2009 discussed above were used to reduce operating line draws with HSBC by \$2.2 million on that date.

Tornado has a maximum credit facility with the Bank of Montreal in the amount of \$10.5 million, payable on demand, secured by a registered general security agreement and an assignment of insurance in favour of the bank as a first loss payable on equipment and inventory. The bank's financial covenants for maximum senior debt to EBITDA, minimum current ratio and minimum tangible net worth were all met as at June 30, 2009.

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

8.2.2 Long-term Debt

The Company made \$1.5 million of scheduled principal repayments during the first six months of the year. The Company also repaid \$192,000 in notes payable. There were no non-scheduled repayments of debt during the most recent six months ended June 30, 2009.

Total long-term debt of \$18.7 million as at June 30, 2009 consisted of \$13.1 million of scheduled long-term debt including capital lease obligations, \$5.1 million of notes payable and \$485,000 in shareholder loans. Of these amounts: \$2.9 million is scheduled for repayment within the next 12 months; \$5.6 million was reclassified to current portion of long-term debt related to \$8.4 million in property, plant and equipment reclassified as assets held for sale; plus \$1.5 million in notes to AMEC scheduled to mature April 30, 2010 based on draft amended payment terms; and an additional \$3.8 million in long-term debt otherwise due beyond one year but reclassified to current portion in accordance with generally accepted accounting principles as a result of the covenant breaches on the HSBC and RBC operating lines noted above.

Subsequent to quarter-end, the proceeds of the sale of the Kingsway facility on July 31, 2009 discussed above were used to retire \$6.6 million of term debt on that date.

8.2.3 Convertible Debentures

The acquisition of Tornado on November 30, 2007 included assuming convertible debentures ("the Debentures") bearing interest at 8%, maturing June 1, 2011 and convertible into common shares at the rate of 100 common shares of EIL for each \$67 of principal value. As at June 30, 2009, \$60,000 of Debentures remained issued and outstanding, comprised of \$52,587 ascribed to long-term debt and \$12,975 ascribed to contributed surplus. During the six months ended June 30, 2009, none of the Debentures had been converted into common shares.

8.3 Share Capital and Retained Earnings

The deficit of \$726,000 at June 30, 2009 was \$3.8 million lower than retained earnings December 31, 2008 due to the net loss for the six months ended June 30, 2009, including a \$1.3 million unrealized non-cash foreign exchange hedge gain. No dividends were declared or paid in the year.

Certain foreign exchange hedges at June 30, 2008 previously designated as cash flow hedges were re-designated as fair value hedges and a foreign operation previously reported as a self-sustaining foreign operation was re-designated as an integrated foreign operation. As a result of these and other changes, retained earnings and contributed surplus at June 30, 2008 were restated resulting in an increase in retained earnings of \$543,000 over the \$4 million level originally reported at June 30, 2008 and an increase in contributed surplus of \$2,000 to \$1.3 million at June 30, 2008, offset by the restatement of accumulated other comprehensive income

("AOCI") of \$313,000 originally reported at June 30, 2008 to nil. As a result, shareholders' equity for the six months ended June 30, 2008 increased by \$232,000.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 6,476,690 outstanding options at June 30, 2009. The average exercise price of the outstanding options is \$0.51 per share and the average exercise price of the 3,776,940 exercisable options is \$0.47 per share.

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

8.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at August 24, 2009 was \$12.3 million or \$0.135 per share compared with the Company's book value of \$0.39 per share at June 30, 2009. The issued and outstanding common shares at August 24, 2009, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares	
As at August 24, 2009 (Unaudited)	
Issued and outstanding common shares	91,239,608
Securities convertible into common shares	
\$60,000 - 8% convertible debentures, maturing June 1, 2011 convertible at 1492.537 shares per \$1,000 principal amount	89,552
Stock options	6,476,690
Warrants	300,000
	98,105,850

8.5 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 \$42.4 million at June 30, 2009 increased \$2 million compared to the same date last year due to lower cash flow provided by operations offset by decreased non-cash working capital and lower sustaining capital expenditures net of proceeds of disposal as noted above under "Debt – Short-term Debt".

The Company's leverage ratio (net funded debt to capitalization) may fluctuate from month-to-month due to underlying cyclical and seasonal variations in short-term debt used to finance working capital requirements. The Company's leverage ratio increased to 53.4% at June 30, 2009 compared to the same date last year but improved compared to the 54.5% reported at December 31, 2008. On a *pro forma* basis, had the sale of the Kingsway facility occurred at June 30, 2009, it would have reduced net funded debt by \$8.8 million and reduced capitalization to \$71.8 million thus improving the Net Funded Debt:Capitalization ratio to 47%.

Despite a significant reduction in fixed charges from \$16.2 million for the year ended December 31, 2008 to \$10.1 million for the 12 months ended June 30, 2009, the Company's EBITDA to fixed charge coverage deteriorated compared to the year ended December 31, 2008 due to a loss before interest, taxes, depreciation and amortization for the six months ended June 30, 2009 of \$4 million compared to EBITDA of \$3.1 million for the same period last year.

The Company's current ratio of 0.98 times at June 30, 2009 decreased from 1.15 times at June 30, 2008, due in part to the reclassification of the long-term scheduled portion of RBC term debt and HSBC capital leases of \$3.8 million to current liabilities as noted above. Excluding this reclassification of long-term debt, the current ratio would have increased to 1.05 times at June 30, 2009.

9. RISKS & UNCERTAINTIES

9.1 Operating Results

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

9.2 Liquidity Requirements

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

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

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

9.3 Credit Risk

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

9.4 Interest Rate Risk

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

9.5 Foreign Exchange Risk

Rapid currency fluctuations can have a significant impact on un-hedged non-Canadian dollar denominated projects. The Company has exported some fabricated steel products over the years to the United States and the purchase of DSL and Tornado have increased the percentage of revenue from the United States, but a majority of these contracts have been hedged with forward contracts to sell US dollars. Tornado's wholly owned subsidiary operates in the United States exposing the Company to fluctuations in foreign currency translation on capital denominated in Canadian dollars.

9.6 Bonding Capacity

Some customers require performance bonds underwritten by insurance providers, or irrevocable letters of credit as a condition of contract award. To date, the Company has been able to provide such bonds or letters of credit

when required. However, there can be no assurance that the Company will be able to continue to obtain such bonds or letters of credit in the future.

9.7 Cost of Raw Material

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

9.8 Project Performance

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

9.9 Percentage of Completion Accounting Method

The Company recognizes revenue from its fabrication and erection contracts using the percentage of completion accounting method, based on costs incurred as compared to projected costs. 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.

9.10 Competitive Market

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

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

9.11 Global Economic Environment

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

turmoil in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

9.12 Non-residential Construction Activity in Western Canada

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

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

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

9.13 Reliance on Key Personnel

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

9.14 Labour Relations

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

9.15 Acquisitions

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

9.16 Technological Change

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

9.17 Environment/Regulatory

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

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

10. OUTLOOK

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 Company's steel fabrication backlog at June 30, 2009 was about \$33 million compared to \$46 million at March 31, 2009. As noted in the previous quarter, the Company expects its steel fabrication group to continue to be negatively impacted by the contraction and deferral of large construction projects in western Canada, pending the positive impact of federal and provincial infrastructure spending programs and the strengthening of commodity prices which are the central driver of the western Canadian economy. Despite the lower backlog, the Company has substantial value in bids on pending work which are dependent on both a decision of the client to proceed and notification that the Company is the successful bidder.

The Company's outlook for its engineered products group and its aboriginal partnership both remain relatively positive for the balance of fiscal 2009. As with the steel fabrication group, Tornado has provided significant quotes on future work which are dependent on the decision of the customer to proceed and notification that the Company's quote has been accepted. The Company's aboriginal strategic venture remains well positioned to capitalize on the demand for maintenance services in the Alberta oilsands region.

As disclosed previously, the Company and the board of directors are continuing to evaluate alternatives to optimize the value and performance of its steel fabrication group including improved working capital management, the disposition of non-core or redundant assets, cost containment and cost reduction, refinancing of certain long-term assets and increases in shareholder equity. To that end the Company announced on July 31, 2009 that it had entered into a sale and leaseback of its Kingsway facility. The net proceeds of sale of \$9.5 million, which represented a gain on sale of about \$1.1 million, were used to repay draws on operating lines and term debt as discussed earlier in this MD&A. At the same time, the Company entered into a ten year fixed rate lease with the purchaser, providing an initial cash flow saving of about \$840,000 per year compared to the former debt servicing cost associated with the property, with an option to extend the lease beyond ten years at market rates. Commencing in the latter part of the second quarter and extending into July and August, the Company's operations in BC and at EIW implemented a number of cost reduction strategies including, but not limited to, consolidation of office space, a reduced number of man shifts as well as layoffs and reduced work hours for salaried staff to lower the Company's direct and indirect cost structure to better fit the current level of fabrication, erection and manufacturing activity.

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 periods ended June 30 <i>(in thousands, except percentages and ratios)</i>	<i>Quarter ended</i>			<i>Six months ended</i>		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Gross profit	1,551	6,579	(5,028)	5,414	13,361	(7,947)
Earnings from equity investment	(2)	190	(192)	117	235	(118)
Operating, general and administrative expenses	(4,454)	(5,755)	1,301	(9,575)	(10,518)	943
EBITDA	(2,905)	1,014	(3,919)	(4,044)	3,078	(7,122)
Amortization	(871)	(910)	39	(1,734)	(1,735)	1
EBIT	(3,776)	104	(3,880)	(5,778)	1,343	(7,121)
Cash flow provided by operations	(3,504)	958	(4,462)	(5,078)	1,859	(6,937)
Decrease (increase) in working capital	2,321	1,254	1,067	11,234	3,566	7,668
Property, plant and equipment expenditures	(902)	(1,410)	508	(931)	(2,142)	1,211
Proceeds from disposal of property, plant and equipment	203	444	(241)	206	451	(245)
Decrease (increase) in other long-term assets	8	32	(24)	16	55	(39)
Free cash flow	(1,874)	1,278	(3,152)	5,447	3,789	1,658
Bank operating loans				24,112	19,959	4,153
Current portion of long-term debt and notes payable				9,915	4,690	5,225
Long-term debt reclassified to current portion				3,825	-	3,825
Long-term debt and notes payable				4,463	14,077	(9,614)
Bank indebtedness				131	1,701	(1,570)
Net funded debt				42,446	40,427	2,019
Convertible debentures				53	49	4
Subordinated shareholder loans				485	491	(6)
Deferred gain on sale and leaseback				993	1,281	(288)
Shareholders' equity				35,510	40,587	(5,077)
Capitalization				79,487	82,835	(3,348)
Net funded debt : Capitalization				53.4%	48.8%	(4.6%)
Current assets				57,905	62,402	(4,497)
Current liabilities				(58,994)	(54,108)	(4,886)
Working capital				(1,089)	8,294	(9,383)
Current ratio (Current assets : Current liabilities)				0.98	1.15	(0.17)
				<i>Trailing Twelve Months ended</i>		
				June 30	December	Better
				2009	31	(Worse)
				2008	2008	(Worse)
EBITDA				(1,845)	5,277	(7,122)
Property, plant and equipment expenditures, net of proceeds				4,521	5,487	966
Scheduled long-term debt repayments				2,771	7,237	4,466
Interest expenses				3,052	3,251	199
less: non-cash interest expenses				(445)	(396)	49
Current income taxes				214	598	384
Fixed charges				10,113	16,177	6,064
EBITDA : Fixed Charges				(0.18)	0.33	(0.51)

EMPIRE INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

EMPIRE INDUSTRIES LTD.

Consolidated Balance Sheets

	June 30, 2009 (unaudited)	June 30, 2008 (unaudited) (Restated – Note 4)	December 31, 2008 (audited)
Assets			
Current assets:			
Accounts receivable (Note 7)	29,407,367	40,722,187	44,696,357
Current portion of notes receivable	-	88,650	6,275
Income taxes recoverable	1,327,923	412,098	204,147
Receivable from related parties	838,997	907,766	647,188
Inventories	15,397,296	18,953,205	18,365,879
Prepaid expenses and deposits	1,129,798	1,062,623	1,504,030
Assets held for sale (Note 13)	8,414,342	-	-
Foreign exchange hedge contracts	715,420	255,712	-
Future income taxes (Note 9)	673,689	-	135,232
	57,904,832	62,402,241	65,559,108
Notes receivable	16,966	26,610	18,126
Foreign exchange hedge contracts	-	90,500	-
Investments	1,378,940	665,482	1,207,950
Property, plant and equipment	21,574,437	29,482,872	31,321,076
Patents	34,862	44,422	43,323
Goodwill	17,395,067	18,301,870	17,395,067
Future income taxes (Note 9)	5,689,723	-	2,259,743
	\$ 103,994,827	\$ 111,013,997	\$ 117,804,393
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness (Note 8)	\$ 131,083	\$ 1,701,158	\$ 1,020,409
Bank operating lines (Note 8)	24,112,359	19,959,440	27,015,994
Accounts payable and accrued liabilities	16,661,407	23,425,457	23,095,833
Income taxes payable	1,244,989	1,872,619	1,031,140
Long-term debt due within one year - Long-term debt (Note 13)	12,283,994	3,289,886	5,403,404
Notes payable	1,455,540	1,400,000	1,591,475
Payable to shareholders	485,000	491,090	485,000
Foreign exchange hedge contracts	-	-	577,567
Deferred gain on sale and leaseback	287,900	287,900	287,900
Future income taxes (Note 9)	2,331,280	1,679,995	1,505,570
	58,993,552	54,107,545	62,014,292
Long-term debt (Note 13)	819,079	10,854,711	9,162,312
Notes payable	3,644,132	3,222,234	3,494,532
Convertible debentures	52,587	48,879	50,733
Foreign exchange hedge contracts	-	-	24,570
Deferred gain on sale and leaseback	704,879	992,779	848,829
Future income taxes (Note 9)	4,270,065	1,200,792	2,981,260
	68,484,294	70,426,940	78,576,528
Basis of Presentation (Note 2)			
Shareholders' equity:			
Capital stock	34,720,418	34,720,418	34,720,418
Contributed surplus	1,516,500	1,349,025	1,450,461
Retained earnings (deficit)	(726,385)	4,517,614	3,056,986
	35,510,533	40,587,057	39,227,865
	\$ 103,994,827	\$ 111,013,997	\$ 117,804,393

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 June 30
(unaudited)

	Three months		Six months	
	2009	2008 (Restated) (Note 4)	2009	2008 (Restated) (Note 4)
Sales	\$ 28,558,807	\$ 43,715,384	\$ 70,511,195	\$ 82,408,820
Cost of goods sold	(27,007,439)	(37,136,214)	(65,096,821)	(69,048,134)
Gross profit	1,551,368	6,579,170	5,414,374	13,360,686
Operating, general and administrative expenses	(4,454,466)	(5,755,263)	(9,576,133)	(10,517,907)
Income (loss) from equity accounted for investments and other investments	(1,530)	190,513	117,591	235,142
	(4,455,996)	(5,564,750)	(9,458,542)	(10,282,765)
Earnings (loss) before the under noted	(2,904,628)	1,014,420	(4,044,168)	3,077,921
Amortization	(871,362)	(910,243)	(1,733,976)	(1,734,656)
Operating income (loss)	(3,775,990)	104,177	(5,778,144)	1,343,265
Other income (expenses):				
Amortization of deferred gain on sale and leaseback	71,975	71,975	143,950	143,950
Gain on disposal of property, plant and equipment, and investment	522	21,594	2,982	13,134
Interest on long term debt and notes payable	(287,383)	(298,309)	(611,752)	(547,976)
Other interest	(323,062)	(438,635)	(672,841)	(937,106)
Unrealized gain (loss) on foreign exchange hedge contracts	1,432,000	8,493	1,317,557	(491,490)
	894,052	(634,882)	179,896	(1,819,488)
Net loss before income taxes	(2,881,938)	(530,705)	(5,598,248)	(476,223)
Income taxes recovery (expense):				
Current	(130,167)	217,524	95,977	(287,910)
Future (Note 9)	842,094	(618)	1,718,900	465,726
	711,927	216,906	1,814,877	177,816
Net loss for the period	\$ (2,170,011)	\$ (313,799)	\$ (3,783,371)	\$ (298,407)
Loss per share:				
Basic and diluted (Note 5)	\$ (0.02)	\$ -	\$ (0.04)	\$ -

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity

As at June 30

(unaudited)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Shareholders Equity
As at June 30, 2008 (as previously reported)	34,720,418	1,347,171	312,870	3,974,577	40,355,036
Restatement (Note 4)	-	1,854	(312,870)	543,037	232,021
As at June 30, 2008 (as restated)	34,720,418	1,349,025	-	4,517,614	40,587,057
Stock-based compensation	-	117,473	-	-	117,473
Executive stock options forfeited	-	(16,037)	-	-	(16,037)
Loss for the period	-	-	-	(1,460,628)	(1,460,628)
As at December 31, 2008	34,720,418	1,450,461	-	3,056,986	39,227,865
Stock-based compensation	-	66,039	-	-	66,039
Loss for the period	-	-	-	(3,783,371)	(3,783,371)
As at June 30, 2009	34,720,418	1,516,500	-	(726,385)	35,510,533

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Cash Flow
For the periods ended June 30
(unaudited)

	Three months		Six months	
	2009	2008 (Restated) (Note 4)	2009	2008 (Restated) (Note 4)
Cash provided by (used in):				
Operating:				
Net loss for the period	\$ (2,170,011)	\$ (313,799)	\$ (3,783,371)	\$ (298,407)
Amortization	871,362	910,243	1,733,976	1,734,656
Gain on disposal of property, plant and equipment	(522)	(21,594)	(2,982)	(13,134)
Deferred gain on sale and leaseback	(71,975)	(71,975)	(143,950)	(143,950)
Loss (income) from equity accounted for investments	1,530	(190,513)	(117,591)	(235,142)
Non-cash interest expense	104,931	157,177	207,006	158,104
Stock based compensation	35,327	93,811	66,039	228,615
Unrealized foreign exchange hedge contract loss (gain)	(1,432,000)	(8,493)	(1,317,557)	491,490
Future income tax expense (recovery)	(842,094)	618	(1,718,900)	(465,726)
Investment tax credits received	-	401,872	-	401,872
Cash flow provided by (used in) operations	(3,503,452)	957,347	(5,077,330)	1,858,378
Change in non-cash working capital	2,321,252	1,254,580	11,233,987	3,566,736
Cash flow provided by (used in) operating activities	(1,182,200)	2,211,927	6,156,657	5,425,114
Investing activities:				
Proceeds on disposal of property, plant and equipment	202,646	444,540	205,746	451,392
Purchase of property, plant & equipment	(901,139)	(1,410,069)	(930,747)	(2,142,185)
Purchase of investment	-	(3,000)	-	(3,000)
Proceeds on disposal of intangible assets	-	-	8,000	-
Repayment of notes receivable	7,045	34,485	7,435	57,419
	(691,448)	(934,044)	(709,566)	(1,636,374)
Financing activities:				
Increase (decrease) in bank operating lines	1,658,182	(259,773)	(2,903,635)	1,218,160
Issue of long-term debt	-	-	-	39,155
Repayment of long-term debt	(750,497)	(613,928)	(1,462,643)	(1,201,691)
Issue of shareholders loans	-	3,883	-	3,883
Repayment of shareholders loans	-	-	-	(42,000)
Repayment of notes payable	-	(34,016)	(191,487)	(1,695,793)
Repayment of convertible debentures	-	-	-	(3,221,900)
Proceeds of issue of common shares	-	12,473	-	24,473
	907,685	(891,361)	(4,557,765)	(4,875,713)
Change in bank indebtedness	(965,963)	386,522	889,326	(1,086,973)
Cash (bank indebtedness) beginning of the period	834,880	(2,087,680)	(1,020,409)	(614,185)
Bank indebtedness end of the period	\$ (131,083)	\$ (1,701,158)	\$ (131,083)	\$ (1,701,158)
Supplementary cash flow information:				
Interest paid	\$ (534,168)	\$ (626,826)	\$ (1,299,621)	\$ (1,286,189)
Income taxes (paid) recovered	\$ (76,979)	\$ 232,370	\$ (503,407)	\$ 201,701

See accompanying notes to the unaudited consolidated financial statements

1. Nature of the business

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

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

2. Basis of presentation

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

Certain of the Company's debt obligations, including those disclosed in Note 8 and Note 11, are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. As at June 30, 2009, the Company was not in compliance with certain of its financial covenants on debt obligations. In addition, the Company's ability to maintain compliance with its other financial covenants in the future is dependent upon various factors, some of which are outside the control of the Company.

Based upon uncertainties associated with the Company's current operating projections including, but not limited to, the possibility of higher interest rates, commodity price increases, curtailment in industrial or institutional capital spending or credit losses, access to bonding, or a combination of these factors, the Company may not be able to maintain compliance with all of its existing covenants throughout fiscal 2009. Failure to maintain financial covenants under the respective credit facilities would result in default permitting the lenders to demand payment of amounts outstanding under the lending agreements. These circumstances add risk as to the ability of the Company to meet its obligations as they come due and accordingly, the use of accounting principles applicable to a going concern.

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

3. Accounting principles

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

EMPIRE INDUSTRIES LTD.

Notes to the Consolidated Financial Statements
June 30, 2009
(unaudited)

4. Restated comparative figures(a) Foreign exchange derivatives, subsidiaries and income taxes

	Three months ended June 30, 2008 (As previously reported)	Three months ended June 30, 2008 (As restated)	Ref.
Property, plant & equipment	\$ 29,612,694	\$ 29,482,872	(i)
Future income tax liabilities, net	3,242,630	2,880,787	(i)
Retained earnings	3,974,577	4,517,614	(i) (ii)(iii)(iv)
Contributed surplus	1,347,171	1,349,025	(iv)
Accumulated other comprehensive income	312,870	-	(i) (ii) (iii)
Shareholders' equity	40,355,036	40,587,057	(i)
Sales	43,650,087	43,715,384	(iii)
Gross profit	7,001,611	6,579,170	(iii)
Interest expense	(736,017)	(736,944)	(iv)
Unrealized foreign exchange hedge contract gain	-	8,493	(ii)
Net loss before income taxes	(603,568)	(530,705)	(ii)(iii)(iv)
Future income tax recovery	2,057	(618)	(ii)
Net loss	(383,987)	(313,799)	(ii)(iii)(iv)
Other comprehensive income	71,115	-	(ii) (iii)
Comprehensive loss	(312,872)	(313,799)	(iv)
Earnings per share – basic and diluted	\$ Nil	\$ Nil	

- (i) The cumulative impact of the restated results for the year ended December 31, 2007 and the three months ended March 31, 2008 included a reduction in Property, Plant and Equipment of \$129,822, a reduction in net future income tax liabilities of \$361,843, a \$472,849 increase in retained earnings and a \$241,755 reduction in accumulated other comprehensive income, resulting in a net increase in shareholders' equity of \$232,021.
- (ii) Commencing April 17, 2007, the Company had been recording unrealized gains or losses on foreign exchange derivatives, determined to be cash flow hedges for reporting purposes, in OCI. It has been determined that at the date of inception of the hedges, the Company did not have sufficient evidence to support the treatment of these foreign exchange hedge contracts as being effective (as defined by GAAP) and accordingly, the transactions should have been reported as fair value hedges for financial reporting purposes. As a result, the 2008 figures for the second quarter ended June 30, 2008 have been re-stated such that the unrealized gains of \$5,818 (net of future income tax provision of \$2,675) previously included in OCI have now been included in net earnings.
- (iii) Commencing with the acquisition of Tornado Technologies Inc. ("Tornado Canada") on November 30, 2007, the Company had been treating Tornado Canada's wholly owned U.S. subsidiary, Tornado Technologies, Inc. ("Tornado USA") as a self-sustaining foreign operation with changes in values on currency translation being reported in OCI. On the basis that management and financing of Tornado USA are handled principally by Tornado Canada, it has been determined that Tornado USA is in fact an integrated foreign operation for financial reporting purposes. As a result, the 2008 figures for the second quarter ended June 30, 2008 have been re-stated such that the foreign currency translation gains of \$65,297 previously included in OCI have now been included in net earnings.
- (iv) The Company had been charging the accretion in the convertible debenture to contributed surplus. It has been determined that the non-cash accretion should be charged to interest expense. As a result, the 2008 figures for the second quarter ended June 30, 2008 have been restated such that the accretion of \$927 is charged to interest expense with no resulting change in shareholders' equity.

	Six months ended June 30, 2008 (As previously reported)	Six months ended June 30, 2008 (As restated)	Ref.
Property, plant & equipment	\$ 29,612,694	\$ 29,482,872	(v)
Future income tax liabilities, net	3,242,630	2,880,787	(v)
Retained earnings	3,974,577	4,517,614	(v)(vi)(vii)(viii)(ix)
Contributed surplus	1,347,171	1,349,025	(viii)
Accumulated other comprehensive income	312,870	-	(v) (vi) (vii)
Shareholders' equity	40,355,036	40,587,057	(v)
Sales	82,333,386	82,408,820	(vii)
Gross profit	13,285,252	13,360,686	(vii)
Operating, general and administrative expenses ("OG&A")	(10,454,117)	(10,517,907)	(ix)
Interest expense	(1,483,228)	(1,485,082)	(viii)
Unrealized foreign exchange hedge contract gain	-	(491,490)	(vi)
Net loss before income taxes	(62,830)	(476,223)	(vi)(vii)(viii)(ix)
Future income tax recovery	310,906	465,726	(vi)
Net loss	(39,834)	(298,407)	(vi)(vii)(viii)(ix)
Other comprehensive income (loss)	(261,236)	-	(vi) (vii)
Comprehensive loss	(301,070)	(298,407)	(viii)(ix)
Earnings per share – basic and diluted	\$ Nil	\$ Nil	

- (v) The cumulative impact of the restated results for the year ended December 31, 2007 included a reduction in Property, Plant and Equipment of \$129,822, a reduction in net future income tax liabilities of \$361,843, an \$806,127 increase in retained earnings and a \$574,106 reduction in accumulated other comprehensive income, resulting in a net increase in shareholders' equity of \$232,021.
- (vi) Commencing April 17, 2007, the Company had been recording unrealized gains or losses on foreign exchange derivatives, determined to be cash flow hedges for reporting purposes, in other comprehensive income ("OCI"). It has been determined that at the date of inception of the hedges, the Company did not have sufficient evidence to support the treatment of these foreign exchange hedge contracts as being effective (as defined by GAAP) and accordingly, the transactions should have been reported as fair value hedges for financial reporting purposes. As a result, the 2008 figures for the six months ended June 30, 2008 have been re-stated such that the unrealized losses of \$(336,670) (net of future income tax recovery of \$154,820) previously included in OCI have now been included in net earnings.
- (vii) Commencing with the acquisition of Tornado Technologies Inc. ("Tornado Canada") on November 30, 2007, the Company had been treating Tornado Canada's wholly owned U.S. subsidiary, Tornado Technologies, Inc. ("Tornado USA") as a self-sustaining foreign operation with changes in values on currency translation being reported in OCI. On the basis that management and financing of Tornado USA are handled principally by Tornado Canada, it has been determined that Tornado USA is in fact an integrated foreign operation for financial reporting purposes. As a result, the 2008 figures for the six months ended June 30, 2008 have been re-stated such that the foreign currency translation gains of \$75,434 previously included in OCI have now been included in net earnings.
- (viii) The Company had been charging the accretion in the convertible debenture to contributed surplus. It has been determined that the non-cash accretion should be charged to interest expense. As a result, the 2008 figures for the six months ended June 30, 2008 have been restated such that the accretion of \$1,854 is charged to interest expense with no resulting change in shareholders' equity.
- (ix) The Company had been accreting retained earnings for the recovery of stock options forfeited. It has been determined that the non-cash accretion should be applied to reduce operating, general and administrative expenses ("OG&A"). As a result, the 2008 figures for the six months ended June 30, 2008 have been adjusted such that the reduction of \$4,517 is applied to reduce OG&A expenses with no resulting change in retained earnings or shareholders' equity.

(b) Definition of cash and cash equivalents

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

	Three months ended June 30, 2008 (As previously reported)		Three months ended June 30, 2008 (As restated)	
Cash flow provided by (used in):				
Operating activities				
Cash flow provided by operations	\$	1,074,526	\$	957,347
Changes in non-cash working capital		1,495,958		1,254,580
Investing activities		(967,757)		(934,044)
Financing activities – excluding bank operating lines		(956,432)		(631,588)
		646,295		646,295
Financing activities – bank operating lines		-		(259,773)
Change in cash	\$	646,295	\$	386,522

	Six months ended June 30, 2008 (As previously reported)		Six months ended June 30, 2008 (As restated)	
Cash flow provided by (used in):				
Operating activities				
Cash flow provided by operations	\$	1,642,965	\$	1,858,378
Changes in non-cash working capital		4,685,235		3,566,736
Investing activities		(1,704,681)		(1,636,374)
Financing activities – excluding bank operating lines		(6,928,652)		(6,093,873)
		(2,305,133)		(2,305,133)
Financing activities – bank operating lines		-		1,218,160
Change in bank indebtedness	\$	(2,305,133)	\$	(1,086,973)

5. Earnings per share

For the three months ended June 30

	2009			2008 (Restated – Note 4)		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (2,170,011)	91,239,608	\$ (0.02)	\$ (313,799)	91,196,962	\$ -

For the six months ended June 30

	2009			2008 (Restated – Note 4)		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (3,783,371)	91,239,608	\$ (0.04)	\$ (298,407)	91,182,373	\$ -

Basic earnings per share are 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.

6. Seasonal and cyclical nature of the business

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

7. Accounts receivable:

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

	June 30, 2009	December 31, 2008
Holdbacks	\$ 7,293,416	\$ 6,362,317
Current	12,300,658	17,542,920
31 – 60 days	6,913,891	9,436,507
61 – 90 days	1,231,286	4,262,623
Greater than 90 days	3,669,734	4,788,834
Billed receivables	31,408,985	42,393,201
Unbilled receivables	6,087,725	9,467,553
Advance billings	(7,666,005)	(6,595,653)
Allowance for doubtful accounts	(423,338)	(568,744)
Total accounts receivable, net	\$ 29,407,367	\$ 44,696,357

8. Bank indebtedness and bank operating lines

The Company's bank indebtedness of \$131,083 (December 31, 2008 - \$1,020,409) represents cheques drawn in excess of funds on deposit.

At June 30, 2009, the Company had total draws on its bank operating lines of credit of \$24,112,359 (December 31, 2008 - \$27,015,994) consisting of:

- (a) A line of credit with the Royal Bank of Canada in the amount of \$6,000,000 (December 31, 2008 - \$7,000,000) of which \$5,540,000 (December 31, 2008 - \$6,230,000) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 3.3% (December 31, 2008 – 1.3%). Effective July 24, 2009, interest has been increased to prime plus 4.5%. The Royal Bank line of credit and the term facilities are secured by a general assignment of inventories and accounts receivable, a \$6,000,000 debenture secured by a floating charge on all assets and a fixed charge on all property, and a postponement of claim given by certain shareholders (Note 11).
- (b) A line of credit with HSBC in the amount of \$15,000,000 (December 31, 2008 - \$15,000,000) of which \$13,908,879 (December 31, 2008 - \$12,914,086) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 1% (December 31, 2008 – prime plus 1%). Effective August 4, 2009, interest has been increased to prime plus 4.0%. The HSBC line of credit is secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrower and a floating charge over all of the borrower's present and after acquired real property. In addition, the Company has provided an indemnity agreement with respect to a master lease agreement (Note 11).
- (c) A line of credit with the Bank of Montreal in the amount of \$10,500,000 (December 31, 2008 - \$10,500,000) of which \$4,663,480 (December 31, 2008 - \$7,871,908) has been drawn down. Advances on the line are payable on demand and bear interest at prime to prime plus 3.5% per annum, depending on the Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA") ratio. The Bank of Montreal line of credit is secured by a general security agreement.

9. Future income taxes

The tax recovery for the six months ended June 30, 2009 includes an amount of \$427,535 recognized in the first quarter to reduce the future tax liability previously recorded on certain land assets in Empire Dynamic Structures Ltd. ("EDSL"). The original liability was set up on the acquisition of EDSL in 2007 to reflect the temporary difference between the accounting and tax basis of these assets at the time of

the acquisition. A subsequent tax planning exercise and amalgamation executed on January 1, 2009 resulted in a corresponding increase in the tax basis of these assets, reversing this temporary difference.

10. Segmented information

The Company operates in the following industry segments:

Steel fabrication and erection

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

Specialty engineered products

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

For the three months ended June 30, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 16,443,286	\$ 12,093,535	\$ 21,986	\$ 28,558,807
Cost of goods sold	(16,847,454)	(10,159,985)	-	(27,007,439)
Gross profit	(404,168)	1,933,550	21,986	1,551,368
Loss from equity and other investments	(1,530)	-	-	(1,530)
Operating, general and administrative expenses	(2,058,554)	(1,835,483)	(560,429)	(4,454,466)
EBITDA	(2,464,252)	98,067	(538,443)	(2,904,628)
Amortization	(523,326)	(346,803)	(1,233)	(871,362)
EBIT	(2,987,578)	(248,736)	(539,676)	(3,775,990)
Other income	27,875	44,622	-	72,497
Interest expense	(265,245)	(127,940)	(217,260)	(610,445)
Unrealized gain on foreign exchange hedge contracts	-	1,432,000	-	1,432,000
Segmented earnings (loss) before income tax	\$ (3,224,948)	\$ 1,099,946	\$ (756,936)	\$ (2,881,938)

For the three months ended June 30, 2008 (Restated Note 4)

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 23,043,662	\$ 20,671,722	\$ -	\$ 43,715,384
Cost of goods sold	(20,269,547)	(16,866,667)	-	(37,136,214)
Gross profit	2,774,115	3,805,055	-	6,579,170
Income from equity and other investments	190,513	-	-	190,513
Operating, general and administrative expenses	(2,628,828)	(2,568,181)	(558,254)	(5,755,263)
EBITDA	335,800	1,236,874	(558,254)	1,014,420
Amortization	(518,618)	(391,004)	(621)	(910,243)
EBIT	(182,818)	845,870	(558,875)	104,177
Other income	45,493	48,076	-	93,569
Interest expense	(253,529)	(279,477)	(203,938)	(736,944)
Unrealized gain on foreign exchange hedge contracts	-	8,493	-	8,493
Segmented earnings (loss) before income tax	\$ (390,854)	\$ 622,962	\$ (762,813)	\$ (530,705)

EMPIRE INDUSTRIES LTD.

Notes to the Consolidated Financial Statements
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(unaudited)

For the six months ended June 30, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 37,362,277	\$ 33,104,833	\$ 44,085	\$ 70,511,195
Cost of goods sold	(36,910,157)	(28,186,664)	-	(65,096,821)
Gross profit	452,120	4,918,169	44,085	5,414,374
Income from equity and other investments	117,591	-	-	117,591
Operating, general and administrative expenses	(4,230,625)	(4,397,654)	(947,854)	(9,576,133)
EBITDA	(3,660,914)	520,515	(903,769)	(4,044,168)
Amortization	(1,016,543)	(714,967)	(2,466)	(1,733,976)
EBIT	(4,677,457)	(194,452)	(906,235)	(5,778,144)
Other income	54,724	92,208	-	146,932
Interest expense	(529,864)	(323,608)	(431,121)	(1,284,593)
Unrealized gain on foreign exchange hedge contracts	-	1,317,557	-	1,317,557
Segmented earnings (loss) before income tax	\$ (5,152,597)	\$ 891,705	\$ (1,337,356)	\$ (5,598,248)

For the six months ended June 30, 2008 (Restated Note 4)

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 44,123,630	\$ 38,285,190	\$ -	\$ 82,408,820
Cost of goods sold	(38,356,417)	(30,691,717)	-	(69,048,134)
Gross profit	5,767,213	7,593,473	-	13,360,686
Income from equity and other investments	235,142	-	-	235,142
Operating, general and administrative expenses	(4,570,184)	(4,903,346)	(1,044,377)	(10,517,907)
EBITDA	1,432,171	2,690,127	(1,044,377)	3,077,921
Amortization	(981,697)	(752,001)	(958)	(1,734,656)
EBIT	450,474	1,938,126	(1,045,335)	1,343,265
Other income	72,101	84,983	-	157,084
Interest expense	(485,948)	(612,331)	(386,803)	(1,485,082)
Unrealized loss on foreign exchange hedge contracts	-	(491,490)	-	(491,490)
Segmented earnings (loss) before income tax	\$ 36,627	\$ 919,288	\$ (1,432,138)	\$ (476,223)

11. 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 subordinated debt such as shareholder loans 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	June 30, 2009	December 31, 2008	Increase (Decrease)
Bank indebtedness	\$ 131,083	\$ 1,020,409	\$ (889,326)
Bank operating loans	24,112,359	27,015,994	(2,903,635)
Current portion of long-term debt and notes payable	9,914,604	4,631,879	5,282,725
Long-term debt reclassified to current portion	3,824,930	2,363,000	1,461,930
Long-term debt and notes payable	4,463,211	12,656,844	(8,193,633)
Net funded debt	42,446,187	47,688,126	(5,241,939)
Convertible debentures	52,587	50,733	1,854
Subordinated shareholders loans	485,000	485,000	-
Deferred gain on sale and leaseback	992,779	1,136,729	(143,950)
Shareholders' equity	35,510,533	39,227,865	(3,717,332)
Capitalization	\$ 79,487,086	\$ 88,588,453	\$ (9,101,367)
Net funded debt : Capitalization	53.4%	53.8%	(0.4%)

As at June 30, 2009, the Company's subsidiary, Empire Iron Works Ltd., was in compliance with its total liabilities to tangible net worth covenant ratio but was not in compliance with its new debt service coverage ratio contained in the senior secured credit agreement with RBC (the "RBC Credit Agreement") and accordingly, the long-term portion of the term loan with RBC of \$1,946,000 (December 31, 2008 - \$2,363,000) has been reclassified as a current liability. As a result of continuing covenant violations, the Company has provided a letter to RBC agreeing to make every reasonable effort to repay in full the amounts due under the RBC Credit Agreement by September 30, 2009. In return for the receipt of the letter, RBC has agreed not to enforce its rights under the RBC Credit Agreement for a period up to September 30, 2009, provided that there is no material adverse change to the bank's risk during the period and the Company complies with the conditions outlined in the commitment letter.

As at June 30, 2009, the Company's subsidiaries, George Third & Son Ltd. and Empire Dynamic Structures Ltd. (the "BC Group"), were not in compliance with two covenants contained in the senior secured credit agreement with HSBC (the "HSBC Credit Agreement") and accordingly, the long-term portion of the BC Group's capital lease facility with HSBC of \$1,878,930 has been reclassified as a current liability. The Company announced on August 10, 2009 that it had successfully negotiated a forbearance agreement with HSBC. Under the terms of the agreement, HSBC is reviewing the Company's operations and outlook and has agreed not to enforce its rights under the HSBC Credit Agreement and to continue to provide advances thereunder for a period up to October 31, 2009, provided that there is no event of default under the forbearance agreement.

In addition to pursuing options for refinancing Empire Iron and the Company's other assets, the Company continues its efforts to reduce funded debt through revenue enhancement, cost containment, working capital management and the disposition of redundant or non-core assets. On July 31, 2009, the Company concluded the sale and leaseback of its Kingsway facility for net proceeds of \$9,500,000 (\$1,100,000 in excess of book value) which were applied to reduce the Company's long-term debt in B.C. and its operating loans with HSBC. Had this transaction occurred at June 30, 2009, it would have reduced net funded debt by \$8,800,000 to \$33,600,000, reduced Capitalization to \$71,800,000 and improved the Net Funded Debt: Capitalization ratio to 47%.

12. 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 June 30, 2009, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$650,000 (December 31, 2008 - \$650,000). In addition, the Company has provided an unlimited guarantee on behalf of an equity investment over which the Company exercises significant influence.

Director and officer indemnification

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

Other indemnification provisions

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

Other contingencies

As at June 30, 2009, there are no material claims against the Company therefore a provision in the financial statements is considered to be unnecessary.

13. Subsequent Events

On July 31, 2009, the Company concluded a sale and leaseback of its Kingsway facility for net sale proceeds of about \$9,500,000 (about \$1,100,000 in excess of book value) which were used to reduce both the Company's long-term debt in B.C. and its operating line with HSBC. Accordingly, book value of the Kingsway facility of \$8,414,342 has been reclassified as a current asset held for sale on the balance sheet and the long term debt associated with this asset of \$5,554,966 has been reclassified as a current liability. Concurrent with the sale of the property, the Company entered into a ten year fixed rate lease with the purchaser with an option to extend beyond ten years at market rates.

14. Comparative figures

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