



2nd Quarter 2010

Management's Discussion & Analysis

For the 3 and 6 month periods ending
June 30, 2010

Consolidated Financial Statements

June 30, 2010
Unaudited



Management's Discussion and Analysis

For the Second Quarter and Six months ended June 30, 2010

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operation of Empire Industries Ltd. ("EIL" or the "Company") is supplemental to, and should be read in conjunction with, the unaudited consolidated financial statements and accompanying notes of the Company for the second quarter and six months ended June 30, 2010 and the Company's annual MD&A for the year ended December 31, 2009 included in its 2009 Annual Report.

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

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on August 30, 2010. Disclosure contained in this document is current to this date, unless otherwise stated.

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

1. FORWARD-LOOKING INFORMATION

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

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

Important factors that could cause actual results, events or activities to differ materially from these expectations include, among other things, the risks and uncertainties associated with operating results, liquidity requirements, credit risk, interest rate risk, foreign exchange risk, bonding capacity, cost of raw material, project performance,

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

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

2. BUSINESS DESCRIPTION

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

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

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

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

3. 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.

4. RESTRUCTURING PLAN

Against the backdrop of the ongoing effects of the economic recession, throughout much of fiscal 2009 and 2010 the Company has been pursuing a number of restructuring initiatives as it fine-tunes its strategy to narrow its focus within the context of "adding value to steel." These initiatives include the Company divesting itself of non-core business units and assets, reducing its debt levels and reducing its overhead structure to match the reduced volume of activity it has experienced since 2009. Management believes that these initiatives will improve the Company's financial position and financial performance going forward.

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

Restructuring Objective	Outcome
Disposition of redundant or non-core assets.	<ul style="list-style-type: none"> • On July 31, 2009, the Company completed the sale & leaseback of its Kingsway facility for total proceeds of \$9.5 million and a gain on sale of \$1.5 million. Of the total proceeds, \$7.2 million was applied to fully repay the Company's term debt with GE (including interest of \$519,000) and \$2.2 million was applied to reduce the Company's draws on its operating line with HSBC. • On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield, completed the sale of the assets of its combustion business for \$10.1 million. Of this amount, \$6.8 million was used to fully repay the operating line and term debt owed to BMO. A further \$1.8 million was paid to RBC and HSBC. The remainder of \$1.5 million was used for working capital and general corporate purposes. • On July 20, 2010 the Company's wholly-owned subsidiary, Petrofield, completed the sale of its patents related to hydrovac trucks for \$1.2 million cash proceeds and a gain of about \$1.2 million. • The settlement of these debts improved the Company's net funded debt to capitalization from 69% at June 30, 2009 to 47% at June 30, 2010. On a pro forma basis, the sale of the patents on July 20, 2010 would have further improved the Company's net funded debt to capitalization to 36%.

Restructuring Objective	Outcome
<p>Cost containment and cost reductions.</p>	<ul style="list-style-type: none"> • In September 2009, the Company transferred responsibility for the remaining term of its Norland property lease in Vancouver to a new tenant with expected annual savings in lease and related operating costs of about \$125,000 per annum. • On November 2, 2009, the Company transferred responsibility for the remaining 44 month term of its Fawcett property lease in Vancouver to a new tenant with expected savings in lease and related operating costs of about \$500,000 per annum. • The lease cost of the Kingsway facility under the sale & leaseback is expected to save about \$840,000 per year over the near-term relative to the cash cost of servicing the related debt (principal and interest). • In April 2010, the Company agreed to transfer responsibility for the remaining term of its primary office and plant lease in Calgary, Alberta to a new tenant with expected annual savings in lease and related operating costs of about \$340,000 per annum. • In April 2010, the Company agreed to sublet about 50% of its facility lease at its secondary operating plant in Calgary, Alberta for the remaining term with expected annual savings in lease and related operating costs of about \$140,000 per annum. • In August 2010, the Company agreed to sublet the remaining 50% of its facility lease at its secondary operating plant in Calgary, Alberta for the remaining term with expected annual savings in lease and related operating costs of about \$120,000 per annum. • The Company has undertaken a number of initiatives to contain and reduce costs throughout its subsidiaries including a combination of not filling vacancies, staff lay-offs, reduced work weeks, salary rollbacks and terminations as well as the curtailment of discretionary non-payroll expenses. Operating expenses declined \$4.3 million for the twelve months ended December 31, 2009 and a further \$2.9 million for the six months ended June 30, 2010 compared to the same periods last year related to these initiatives and the disposition of non-core assets noted above.
<p>Working capital management</p>	<p>The Company has actively sought to reduce the non-cash working capital it must finance with its bank operating lines by reducing the average number of days in receivables while continuing to obtain normal trade credit terms from its trade suppliers:</p> <ul style="list-style-type: none"> • Days in receivable during the twelve months ended June 30, 2010 averaged about 40 days consistent with fiscal 2009. • Days in accounts payable during the twelve months ended June 30, 2010 averaged about 43 days compared to 42 days for fiscal 2009.
<p>Limit capital spending to sustaining capital expenditures</p>	<ul style="list-style-type: none"> • The Company has actively limited its capital expenditures in the current year to spending levels necessary to sustain its property, plant and equipment. As a result, capital spending declined to \$1.3 million for the twelve months ended December 31, 2009 compared to \$6.6 million for the same period in fiscal 2008. Capital expenditures for the first six months of fiscal 2010 were about \$176,000. • The Company disposed of a large piece of underutilized mobile equipment and the proceeds were used to reduce its capital lease obligation by \$227,000. • In addition, the Company is actively seeking to dispose of further underutilized or redundant assets, which are not considered essential to the Company's continuing operations, for fair value.

Restructuring Objective	Outcome
Re-financing of certain long-term assets	<p>On March 4, 2010, the Company successfully completed the issue of \$7.5 million in term debt from Canadian Western Bank, the proceeds of which were used to fully repay the term debt of \$2.3 million owed to Royal Bank of Canada and the remainder used to repay short-term debt and improve liquidity and working capital.</p> <p>From December 31, 2009 to June 30, 2010, the issuance of additional long-term debt used to repay, in part, short-term debt, and the subordination of other debt improved the Company's net funded debt to capitalization ratio from 55.4% to 47.4% and its working capital ratio from 1.09 times to 1.23 times. After considering the disposition of the Company's patents on July 20, 2010 noted above, the Company's current ratio at June 30, 2010 would have improved to 1.29 times on a pro forma basis.</p>
Consolidation of bank operating lines and term debt	The Company historically had operating lines with three banks, BMO, HSBC and RBC, as well as term debt with three institutions, BMO, GE and RBC. As noted above, the Company has fully repaid BMO and GE and on March 4, 2010, successfully completed a refinancing of its short-term operating line whereby the operating lines previously held with HSBC and Royal Bank were fully repaid and consolidated under a single operating line with Canadian Western Bank.
Reducing debt levels and increasing equity	As noted above, substantially all of the proceeds from the disposition of non-core or redundant assets have been applied to reduce term and operating debt.

5. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information For the periods ended June 30 <i>(in thousands, per share amounts)</i>	Quarter ended			Six months ended		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
Sales	22,141	28,559	(6,418)	42,718	70,511	(27,793)
Cost of goods sold	(17,675)	(27,008)	9,333	(35,373)	(65,097)	29,724
Gross profit	4,466	1,551	2,915	7,345	5,414	1,931
Earnings from equity investment and other revenue (expense)	(14)	(2)	(12)	404	117	287
Operating, general & administrative expenses	(3,316)	(4,454)	1,138	(6,655)	(9,575)	2,920
EBITDA	1,136	(2,905)	4,041	1,094	(4,044)	5,138
Amortization	(782)	(871)	89	(1,582)	(1,734)	152
EBIT	354	(3,776)	4,130	(488)	(5,778)	5,290
Gain (loss) on disposal of assets	(274)	-	(274)	(195)	2	(197)
Amortization of deferred gain on sales and leasebacks	110	72	38	221	144	77
Interest expense	(392)	(610)	218	(884)	(1,284)	400
Unrealized gain (loss) on foreign exchange hedges	(2,332)	1,432	(3,764)	(2,499)	1,318	(3,817)
	(2,534)	(2,882)	348	(3,845)	(5,598)	1,753
Provision for income tax recovery (expense)						
Current	(28)	(130)	102	(144)	96	(240)
Future	93	842	(749)	(92)	1,719	(1,811)
	65	712	(647)	(236)	1,815	(2,051)
Net earnings	(2,469)	(2,170)	(299)	(4,081)	(3,783)	(298)
Weighted average common shares issued and outstanding	91,240	91,240	-	91,240	91,240	-
Earnings per share						
Basic & fully diluted	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.04)	\$ -

5.1 Loss for the Period

The net loss of \$4.1 million (\$0.04 basic and diluted loss per share) for the six months ended June 30, 2010 increased from the net loss of \$3.8 million (\$0.04 basic and diluted loss per share) for the same six months in 2009 entirely due to an unrealized loss on foreign exchange hedges of \$2.5 million in the period (resulting from the reversal of the unrealized gain recorded in the prior year) compared to an unrealized gain on foreign exchange hedges of \$1.3 million in the same period last year as noted below under "5.5 – Unrealized Gain (Loss) on Foreign Exchange Hedges".

Similarly, the net loss of \$2.5 million (\$0.03 basic and diluted loss per share) for the quarter ended June 30, 2010 increased from a net loss of \$2.2 million (\$0.02 basic and diluted loss per share) for the same quarter in 2009 due to an unrealized loss on foreign exchange hedges of \$2.3 million in the quarter compared to an unrealized gain on foreign exchange hedges of \$1.4 million in the same quarter last year.

Cash flow provided by operations of \$795,000 for the quarter (\$0.01 cash flow provided per share) and \$57,000 for the six months ended June 30, 2010 (\$nil cash flow provided per share) improved significantly over the cash flow used in operations of \$3.5 million (\$0.04 cash flow used per share) and \$5.1 million (\$0.06 cash flow used per share) for the same periods last year, respectively. Cash flow provided by operations excludes such non-cash items as unrealized gains and losses from foreign exchange hedges.

Despite the impact of the unrealized foreign exchange gains and losses noted above, on a pre-tax basis, the net loss of \$2.5 million and \$3.8 million for the quarter and six months ended June 30, 2010, respectively, was \$348,000 and \$1.8 million better than the same periods last year, respectively.

The provision for income tax expense for the six months ended June 30, 2010 included the impact of a net accrued valuation allowance of \$1.2 million associated with the future tax value of its loss carry-forwards and investment tax credits. Excluding this valuation allowance, the provision for income tax recovery would have been \$1 million as noted below under "5.6 – Income Taxes" and the net loss for the six month period would have been \$2.8 million and the basic and diluted loss per share would have been \$0.03.

5.2 Gross Profit, EBITDA and EBIT

The Company's gross profit for the six months ended June 30, 2010 increased by \$1.9 million over the six months ended June 30, 2009 with a \$2 million increase in steel fabrication and installation services (despite a \$16.9 million reduction in sales) offset by a modest \$71,000 decrease in specialized engineered products steel fabrication and installation services (despite a \$10.9 million reduction in sales). The factors underlying these changes are discussed in greater detail below under "Business Segment Performance".

Operating, general and administrative ("OG&A") expenses decreased \$1.2 million (or 26%) in the quarter, reflecting a \$463,000 decrease in steel fabrication and installation combined with a \$826,000 decrease in specialized engineered products and offset by a \$149,000 increase in corporate expenses. OG&A expenses for the year-to-date of \$6.6 million improved by 2.9 million (or 30.5%) over the same period last year. The Company's equity investment earnings also improved by \$287,000 to \$404,000 for the current year-to-date. As a result, the loss before interest, taxes and depreciation of \$4 million for the six months period last year improved by \$5.1 million to an earnings before interest, taxes and depreciation ("EBITDA") of \$1.1 million for the six months ended June 30, 2010.

Amortization expenses decreased modestly to \$1.6 million for the latest six month period compared to the same period last year. As a result, the loss before interest and taxes of \$488,000 for the six months ended June 30, 2010 improved by \$5.3 million over a loss of \$5.8 million for the six months ended June 30, 2009.

5.3 Gain on Disposal of Assets

The loss on disposal of property, plant and equipment of \$275,000 in the quarter and \$195,000 for the six months ended June 30, 2010 related to assets disposed of in the ordinary course of business and was predominantly associated with dispositions by the Company's subsidiary, Petrofield.

5.4 Interest Expenses

Interest costs of \$392,000 for the quarter and \$884,000 for the six months ended June 30, 2010 improved by \$218,000 and \$400,000 over the same periods last year, respectively. Lower interest costs reflect both reductions in interest-bearing funded debt to \$18.1 million at June 30, 2010 from \$43.3 million at June 30, 2009 arising from scheduled and non-scheduled debt repayments and bank operating line repayments throughout the balance of last fiscal year, coupled with lower interest rates compared to the same period last year and offset by an increase in the mix of term debt relative to short-term borrowings.

5.5 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. The Company's derivatives do not qualify for hedge accounting and are therefore 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 \$2.5 million loss for the six months ended June 30, 2010 therefore includes a reversal of the \$2.2 million unrealized gain recorded in the prior year and represents a non-cash pre-tax loss (June 30, 2009 – a \$1.4 million non-cash pre-tax gain) in the period.

5.6 Income Taxes

The Company's income tax expense of \$236,000 includes a net charge of \$1.2 million for the six months ended June 30, 2010 in respect of valuation allowances on tax loss carry-forwards recognized in the current period. Excluding these valuation allowances the Company would have recorded an income tax recovery of \$1 million representing a more normalized effective tax recovery rate of 24.6% (June 30, 2009 – 32.4%). The future tax recovery of \$1.8 million recognized in the six months ended June 30, 2009 included a future tax recovery of \$428,000 recognized in respect of the revaluation of the tax basis of certain land assets. Excluding this recovery, the effective tax recovery rate for the six months ended June 30, 2009 was 24.7%.

As at June 30, 2010, the Company had consolidated tax loss carry-forwards of approximately \$19.7 million available to reduce income taxes otherwise payable in future years, expiring between 2027 and 2030. A future tax asset of \$5 million has been recorded at June 30, 2010 in respect of these unutilized losses. Management regularly assesses the Company's ability to realize net future income tax assets and has concluded that a valuation allowance is required in accordance with generally accepted accounting principles. Accordingly, the Company has recorded a valuation allowance of \$2.9 million in relation to these assets. If the Company's future earnings materialize to the extent required to permit the full realization of these loss carry-forwards, the Company would reverse the appropriate valuation allowance in the period when such a determination is made. This would result in an increase to reported earnings and a decrease to the Company's effective tax rate in that period.

6. BUSINESS SEGMENT PERFORMANCE

6.1 Steel Fabrication and Installation Services

Steel Fabrication and Installation Services For the periods ended June 30 <i>(in thousands, except per DLH amounts)</i>	Quarter ended			Six months ended		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
Sales	10,656	16,443	(5,787)	20,488	37,362	(16,874)
Cost of goods sold	(9,322)	(16,847)	7,525	(18,031)	(36,910)	18,879
Gross profit	1,334	(404)	1,738	2,457	452	2,005
Earnings from equity investment and other revenue (expense)	46	(2)	48	154	117	37
Operating, general & administrative expenses	(1,596)	(2,059)	463	(3,262)	(4,230)	968
EBITDA	(216)	(2,465)	2,249	(651)	(3,661)	3,010
Amortization	(385)	(523)	138	(790)	(1,017)	227
EBIT	(601)	(2,988)	2,387	(1,441)	(4,678)	3,237
Operating highlights						
Direct Labour Hours (DLH)	110.7	148.0	(25.22%)	175.8	309.5	(43.19%)
Sales per DLH	\$ 96.28	\$ 111.10	\$ (14.82)	\$ 116.53	\$ 120.72	\$ (4.19)
Gross profit per DLH	\$ 12.05	\$ (2.73)	\$ 14.78	\$ 13.98	\$ 1.46	\$ 12.52

Direct labour hours ("DLH") (both fabrication and erection) declined 43% from 310,000 hours for the first six months of fiscal 2009 to 176,000 hours for the six months ended June 30, 2010, although the decline was less pronounced in the quarter then ended. GTS fabrication and erection activity included 127,000 hours for the first six months of fiscal 2009 to substantially complete the fabrication of the Coast Meridian Overpass ("CMO") bridge project. The Coast Meridian Overpass was the first cable-stayed bridge and heaviest steel structure launched in North America, incorporating the greatest single span ever launched. Both GTS and EIW experienced reduced DLHs in the current quarter compared to the same period last year as a result of a general contraction and deferral of larger construction projects, particularly in the Alberta oil sands for EIW, coupled with increased competition for fewer remaining industrial and infrastructure projects.

Sales of \$20.5 million for the six months ended June 30, 2010 declined from \$37.4 million for the same six months ended June 30, 2009 consistent with the overall decline in DLHs as average sales per DLH of \$117 for the current period remained consistent with the \$121 per DLH earned for the same six month period last year.

Gross profit reflects the cost of direct material and labour as well as indirect production and overhead costs allocated to specific jobs. Despite flat sales per DLH, the Company realized higher gross profit of \$13.98 per DLH during the six months ended June 30, 2010 compared to \$1.46 per DLH in the same six months last year. The improved gross profit per DLH in the current year represents, in part, the absence of fabrication cost overruns during the first quarter of fiscal 2009 associated with the CMO project which contributed to a project loss of \$312,000 in the first six months of fiscal 2009. Excluding the Coast Meridian Overpass project, average sales and gross profit per DLH in the first quarter of fiscal 2009 would have been about \$131 and \$4, respectively. Management's successful efforts to reduce indirect production and overhead costs by \$2.7 million compared to the same six month period last year contributed to a \$1 decrease in indirect production and overhead costs per DLH despite significantly lower DLHs in the current year.

The Company's 49% interest in ACE is accounted for as an equity investment. Equity earnings of \$46,000 in the quarter ended June 30, 2010 increased over the same quarter last year and contributed to year-to-date earnings of \$154,000.

OG&A expenses of \$3.3 million for the six months ended June 30, 2010 decreased \$968,000 over the same period last year reflecting staff reductions and other cost control measures undertaken in mid-2009.

The positive effects of cost reductions and containment, albeit on lower sales activity, improved the EBITDA loss by \$3 million to \$651,000 compared to an EBITDA loss of \$3.7 million in the six months ended June 30, 2009. Amortization decreased marginally to \$790,000 for the six months ended June 30, 2010 as a result of lower capital spending during the course of fiscal 2009 and early fiscal 2010. As a result, the loss before interest and

taxes of \$1.4 million also improved by \$3.2 million from an EBIT loss of \$4.7 million for the same six months last year.

6.2 Specialized Engineered Products

Specialized Engineered Products For the periods ended June 30 (in thousands, except percentages)	Quarter ended			Six months ended		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
Sales	11,464	12,094	(630)	22,189	33,105	(10,916)
Cost of goods sold	<u>(8,353)</u>	<u>(10,161)</u>	1,808	<u>(17,342)</u>	<u>(28,187)</u>	10,845
Gross profit	3,111	1,933	1,178	4,847	4,918	(71)
Other revenue (expense)	(60)	-	(60)	250	-	250
Operating, general & administrative expenses	<u>(1,010)</u>	<u>(1,835)</u>	825	<u>(2,254)</u>	<u>(4,397)</u>	2,143
EBITDA	2,041	98	1,943	2,843	521	2,322
Amortization	<u>(363)</u>	<u>(347)</u>	(16)	<u>(746)</u>	<u>(715)</u>	(31)
EBIT	<u>1,678</u>	<u>(249)</u>	1,927	<u>2,097</u>	<u>(194)</u>	2,291
Operating highlights						
Margin (% of Sales)	27.14%	15.98%	11.16%	21.84%	14.86%	6.98%

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

Sales of \$22.2 million decreased by \$10.9 million compared to the same six month period ended June 30, 2009 as a result of a \$18.6 million reduction in Petrofield sales (associated with the disposition of the combustion business and lower process equipment sales), offset by higher sales in DSL (associated with the assembly of a new amusement ride) and Parr/Ward.

Gross profit of \$4.8 million for the six months ended June 30, 2010 remained consistent with gross profit of \$4.9 million during the same period last year. However, gross margin (gross profit as a percentage of sales) improved significantly from 14.9% to 21.8% for the six months ended June 30, 2010, reflecting an improved mix of product sales with higher margins. Although indirect and production expenses included in cost of goods sold decreased by \$1.3 million over the same six month period last year, these expenses as a percentage of sales increased about 3% for the six months ended June 30, 2010 due to the lower underlying sales activity levels. Indirect and production expenses for DSL increased due to the lease costs on the plant arising from the sale and leaseback of the plant on July 31, 2009, which were more than offset by lower indirect and production expenses in Petrofield as well as lower cash outflows associated with the principal and interest payments of the underlying debt repaid.

OG&A expenses for the six months ended June 30, 2010 decreased \$2.1 million over the same period last year, almost entirely the result of the reduction in Petrofield OG&A expenses associated with the disposition of the combustion business on October 5, 2009 as well as ongoing restructuring and cost containment efforts in that subsidiary. As a percentage of sales, OG&A expenses for the six months ended June 30, 2010 declined to 10.2% from 13.3% for the same period last year despite lower underlying sales activity in the current year.

Therefore, the segment realized EBITDA of \$2.8 million for the six months ended June 30, 2010 compared to EBITDA of \$521,000 in the same period last prior year. Amortization of \$747,000 for the most recent six months were consistent with the same quarter last year resulting in EBIT increasing by \$2.3 million to \$2.1 million for the six months ended June 30, 2010.

6.3 Corporate Expenses

Corporate expenses For the periods ended June 30 (in thousands)	Quarter ended			Six months ended		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
Miscellaneous income	21	22	(1)	41	44	(3)
Operating, general & administrative expenses	(710)	(560)	(150)	(1,139)	(948)	(191)
EBITDA	(689)	(538)	(151)	(1,098)	(904)	(194)
Amortization	(34)	(1)	(33)	(46)	(2)	(44)
EBIT	(723)	(539)	(184)	(1,144)	(906)	(238)

OG&A expenses increased by \$191,000 to \$1.1 million for the six months ended June 30, 2010, comprised largely of an increase in professional fees, fees and memberships, governance costs and higher advertising and promotional costs; offset by lower salary costs and business travel costs. Higher amortization costs reflect the amortization of deferred financing costs associated with the debt re-financing completed in March 2010 and amortized over the term of the underlying debt.

6.4 Selected Quarterly Financial Information

Selected Quarterly Financial Information For the quarters ended (in thousands, except per share amounts) (Unaudited)	2009 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	(Restated) 2008 Q3
Sales and revenue from services	\$ 22,141	\$ 20,577	\$ 18,472	\$ 20,337	\$ 28,559	\$ 41,952	\$ 40,214	\$ 57,391
Net income (loss)	(2,469)	(1,612)	(7,139)	(4,539)	(2,170)	(1,613)	(1,750)	290
Earnings (loss) per share:								
Basic	(0.03)	(0.02)	(0.08)	(0.05)	(0.02)	(0.02)	(0.02)	-
Diluted	(0.03)	(0.02)	(0.08)	(0.05)	(0.02)	(0.02)	(0.02)	-

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

The quarterly results for the third and fourth quarters of fiscal 2009 include a write-down of goodwill related to Petrofield of \$6.5 million which contributed a \$0.07 loss per share. The quarterly results for the fourth quarter of fiscal 2009 also includes a valuation allowance of about \$2 million associated with the future tax value of its loss carry-forwards and investment tax credits which represented a \$0.02 basic and diluted loss per share. The quarterly results for the first and second quarter of fiscal 2010 also includes further valuation allowance of about \$610,000 and \$574,000, respectively, related to the value of the Company's future tax assets which represents about \$0.01 basic and diluted loss per share in each quarter.

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. 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 \$227,000 for the six months ended June 30, 2010 (June 30, 2009 - \$292,674).

7.2 Future Changes in Accounting Policies

7.2.1 International Financial Reporting Standards ("IFRS")

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

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

Phase	Progress to Date
Assess and scope the differences in Canadian GAAP and IFRS accounting policies relevant to the Company and options available to first time adopters and the impact on the Company's financial reporting.	This process was ongoing during fiscal 2009 and 2010. The Company has completed its initial diagnostics concerning these differences.
Identify, evaluate and select accounting policies necessary for the Company to change over to IFRS. As well, this phase will address other business activities that may be influenced by GAAP measures such as: <ul style="list-style-type: none"> • information technology, • disclosure controls and procedures, • internal controls over financial reporting, and • other activities, such as debt covenants. 	The Company plans to complete its selections under its various options during the course of fiscal 2010. Following the initial diagnostic of differences in Canadian GAAP and IFRS, the Company is now assessing the accounting policy options available, if any.
Integrate these accounting policies into the Company's financial reporting systems and processes necessary for the Company to changeover to IFRS.	Not commenced.

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

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		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
EBITDA	1,136	(2,905)	4,041	1,094	(4,044)	5,138
Add (deduct):						
Non-cash compensation expense	74	35	39	99	66	33
Distributions (earnings) from equity investments	(46)	1	(47)	(154)	(118)	(36)
Investment tax credits received	-	-	-	-	-	-
Adjusted EBITDA	1,164	(2,869)	4,033	1,039	(4,096)	5,135
Interest expense	(392)	(610)	218	(884)	(1,284)	400
Capitalized interest	51	105	(54)	46	207	(161)
Pre-tax cash flow provided by operations	823	(3,374)	4,197	201	(5,173)	5,374
Current income taxes	(28)	(130)	102	(144)	96	(240)
Cash flow provided by operations	795	(3,504)	4,299	57	(5,077)	5,134
Cash flow provided by operations per share	\$ 0.01	\$ (0.04)	\$ 0.05	\$ -	\$ (0.06)	\$ 0.06

The Company's EBITDA for the six months ended June 30, 2010 improved by \$5.1 million over the six months ended June 30, 2009 with a \$3 million increase in steel fabrication and installation services coupled with a \$2.3 million increase in specialized engineered products and a \$194,000 increase in net Corporate expenses. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

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

8.1.2 Non-Cash Working Capital

Non-cash Working Capital As at June 30 (in thousands)	2010	2009	Sources (Uses)
Accounts receivable	19,301	30,710	11,409
Inventory	6,229	15,397	9,168
Other current assets	1,218	2,458	1,240
Intercompany receivable (liability)	(3)	479	482
Accounts payable and accrued expenses	(12,061)	(19,209)	(7,148)
	14,684	29,835	15,151

Overall inventory levels at June 30, 2010 decreased \$9.2 million from the same period last year, largely due to a decrease in Petrofield's work-in-progress inventories associated with improved inventory management processes coupled with a \$5.1 million inventory disposition associated with the sale of Petrofield's combustion business on October 5, 2009.

Accounts receivable at June 30, 2010 decreased \$11.4 million from the prior year principally attributed to an \$8.9 million reduction in receivables in steel fabrication and installation services in GTS, EIW and Hopkins and a \$2.5 million reduction in receivables in specialized engineered products, including a \$2.6 million disposition of receivables associated with the sale of Petrofield's combustion business on October 5, 2009. All subsidiaries have demonstrated consistent maintenance or improvement in accounts receivable collections over the past 12 months. Reductions in overall receivables reflect reductions in underlying sales activity.

The \$1.2 million decrease in other current assets primarily reflects a \$1.1 million decrease in income tax recoverable and modest reductions in prepaid expenses.

Accounts payable and accrued expenses of \$12.1 million at June 30, 2010 decreased \$7.1 million from June 30, 2009 as sales activity levels have slowed in the current fiscal year with the resulting reduction in underlying trade credit outstanding, combined with the assumption of \$1.4 million in accounts payable assumed by the purchaser of Petrofield's combustion business. The Company's subsidiaries continue to maintain consistent trade payment terms despite the lower aggregate level of trade credit.

8.1.3 Net Capital Expenditures, Divestitures and Investments

Capital expenditures of \$176,000 for the six months ended June 30, 2010 increased modestly over the same period last year as the Company actively limited its capital spending program to sustaining capital expenditures in response to reduced industrial and commercial capital spending projects. The Company generated proceeds from the sale of under-utilized or redundant assets of \$454,000 in the latest quarter compared to nominal proceeds in the same quarter ended June 30, 2009.

On July 20, 2010, subsequent to year-end, the Company completed the sale of its Petrofield subsidiary's patents for \$1.2 million in cash proceeds and a gain on disposition of about \$1.2 million. The proceeds from the sale of the patents will be applied to reduce the Company's draw on its overdraft facility as well as general corporate purposes.

8.2 Debt

8.2.1 Short-term Debt

Short-term Debt As at June 30 (in thousands)	2010	2009	Better (Worse)	Trailing Twelve Months ended 2009
Cash flow provided by (used in) operations	57	(5,077)	5,134	(4,420)
Decrease (increase) in non-cash working capital	1,475	11,078	(9,603)	15,151
Less: Working capital acquired (disposed of)	-	-	-	-
Less: Other balance sheet adjustments	59	422	(363)	(1,664)
Cash flow provided by operating activities	1,591	6,423	(4,832)	9,067
Net capital and investment divestitures (expenditures)	1,018	(991)	2,009	14,972
Other investments	(159)	15	(174)	(209)
Free cash flow	2,450	5,447	(2,997)	23,830
Financing activities				
Scheduled debt repayments, net of advances	6,573	(1,654)	8,227	5,608
Non-scheduled debt repayments	(2,224)	-	(2,224)	(9,461)
Decrease (increase) in cash and cash equivalents	3,972	(889)	4,861	1,167
Sources (uses) of cash	10,771	2,904	7,867	21,144
Bank operating loans, beginning of periods	(13,739)	(27,016)	13,277	(24,112)
Bank operating loans, end of periods	(2,968)	(24,112)	21,144	(2,968)
Revolving Credit facilities:				
Revolving facilities	10,000	31,500	(21,500)	
Available uncommitted revolving facilities	6,512	2,339	4,173	

The Company's cash flow provided by operations during the six months ended June 30, 2010 of \$57,000 improved \$5.1 million compared to cash flow used in operations of \$5.1 million during the same six month period last year.

Non-cash working capital decreased \$15.2 million year-over-year for the reasons noted under "Sources and Uses – Non-Cash Working Capital", offset by a \$4.4 million decrease in cash flow provided by operations and resulting in a \$4.8 million decrease in cash flow provided by operating activities for the 12 months ended June 30, 2010 to \$9.1 million. The Company generated \$23.8 million in free cash flow for the 12 months ended June 30, 2010 due to net proceeds from the disposition of property, plant & equipment of \$15 million and cash flow provided by operating activities of \$9.1 million, offset by outlays related to deferred financing costs and other investments of \$209,000.

Bank operating loans at June 30, 2010 were \$21.1 million lower than a year earlier as a result of \$23.8 million of free cash flow over the 12 months ended June 30, 2010 coupled with new long-term advances of \$7.5 million and decreased cash and cash equivalents of \$1.2 million, offset by scheduled debt repayments of \$1.9 million and \$9.5 million of non-scheduled debt repayments associated with the repayment of term debt owed to GE Capital, Bank of Montreal and Royal Bank of Canada.

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

Despite a significant reduction in the Company's revolving facility under the new operating line with Canadian Western Bank, as a result of other restructuring initiatives including the issue of additional long-term debt, the Company's available uncommitted short-term revolving facilities at June 30, 2010 of \$6.5 million increased by \$4.2 million compared to June 30, 2009.

8.2.2 Long-term Debt

The Company made \$927,000 of scheduled principal repayments during the first six months of the year combined with non-scheduled debt repayments of \$2.2 million associated with the full repayment of the Company's term debt to the Royal Bank of Canada..

Total long-term debt of \$15.2 million as at June 30, 2010 consisted of \$9.3 million of scheduled long-term debt including capital lease obligations, \$2.1 million of notes payable, \$3.8 million of subordinated notes and \$56,295 of convertible debentures. Of these amounts: \$1.6 million is scheduled for repayment within the next 12 months; \$1.5 million in notes payable to AMEC are scheduled to be repaid on the completion of the joint venture project with AMEC; and an additional \$485,000 in notes payable are due on a demand basis. The subordinated notes payable are subordinated and postponed to the CWBank and cannot be repaid while the CWBank debt is outstanding.

8.2.3 Convertible Debentures

The acquisition of Petrofield on November 30, 2007 included assuming convertible debentures ("the Debentures") bearing interest at 8%, maturing June 1, 2011 and convertible into common shares at the rate of 100 common shares of EIL for each \$67 of principal value. As at June 30, 2010, \$60,000 of Debentures remained issued and outstanding, comprised of \$56,295 ascribed to long-term debt and \$12,975 ascribed to contributed surplus, offset by \$9,270 in non-cash interest charged to retained earnings. During the six months ended June 30, 2010, none of the Debentures had been converted into common shares.

8.3 Share Capital and Retained Earnings

The retained deficit of \$16.5 million at June 30, 2010 was \$4.1 million higher than the retained deficit at December 31, 2009 due to the net loss for the six months ended June 30, 2010, including a \$1.1 million valuation allowance on the future tax value of the Company's loss carry-forwards and investment tax credits. No dividends were declared or paid in the year.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 5,247,850 outstanding options at June 30, 2010. The average exercise price of the outstanding options is \$0.52 per share and the average exercise price of the 3,870,350 exercisable options is \$0.51 per share.

8.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at August 23, 2010 was \$6.8 million or \$0.075 per share compared with the Company's book value of \$0.217 per share at June 30, 2010. The issued and outstanding common shares at August 23, 2010, 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	5,247,850
	96,577,010

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 \$15.6 million at June 30, 2010 decreased \$27.4 million compared to the same date last year due to decreased non-cash working capital and proceeds from sale of capital assets in excess of sustaining capital expenditures, offset by lower cash flow provided by operations as noted above under "Debt – Short-term Debt".

The Company's leverage ratio (net funded debt to capitalization) may fluctuate from month-to-month due to underlying cyclical and seasonal variations in short-term debt used to finance working capital requirements. The Company's leverage ratio decreased to 47.4% at June 30, 2010 from 69.2% at the same date last year and 55.4% at December 31, 2009.

The Company's current ratio of 1.23 times at June 30, 2010 improved from 0.98 times at June 30, 2009, due in part to the use of proceeds from the sale of under-utilized or non-core assets, coupled with the issue of additional long-term debt, to pay down the Company's operating line of credit. After taking into consideration the disposition of patents on July 20, 2010 as noted above under "Gain on Disposal of Assets", the Company's current ratio at June 30, 2010 would have improved to about 1.29 times.

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 Petrofield have increased the percentage of revenue from the United States, but a majority of these contracts have been hedged with forward contracts to sell US dollars.

9.6 Bonding Capacity

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

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 value of the Company's steel fabrication and installation project backlog at June 30, 2010 was \$25.1 million, down from \$28.3 million at December 31, 2009 as recent project awards have not fully offset the pace of completion of other projects. Management has not changed its view from the first quarter that 2010 will remain challenging for the Company's steel fabrication and installation segment. The Company's aboriginal partnership continues to seek additional means to strengthen its focus on providing maintenance and related services to Alberta's oil sands producers.

One of two world class projects for leading entertainment companies in the U.S. was substantially completed during the second quarter of fiscal 2010 and a second project was nearing completion of the fabrication phase. As a result, the Company is actively marketing its competitive strengths in engineering and quality management and amusement ride and telescope enclosure systems. The Company also continues to see stable backlog orders related to the manufacture of its proprietary hydrovac trucks and ongoing reductions in overhead costs associated with its Petrofield subsidiary.

The Company continues to seek opportunities to dispose of non-core, redundant or under-performing assets (such as the disposition of some patents in July 2010), to strengthen its financial position and take full advantage of recovery in its primary operating segments. The Company remains focused on exploring a number of options to further reduce its operating costs to reflect a slower than expected recovery in the western Canadian non-residential capital expenditures market and a longer selling cycle in the engineered products segment. The Company is also seeking access to additional long-term capital to further improve its financial position.

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>		
	2010	2009	Better (Worse)	2010	2009	Better (Worse)
Gross profit	4,466	1,551	2,915	7,345	5,414	1,931
Earnings from equity investment	(14)	(2)	(12)	404	117	287
Operating, general and administrative expenses	<u>(3,316)</u>	<u>(4,454)</u>	<u>1,138</u>	<u>(6,655)</u>	<u>(9,575)</u>	<u>2,920</u>
EBITDA	1,136	(2,905)	4,041	1,094	(4,044)	5,138
Amortization	<u>(782)</u>	<u>(871)</u>	<u>89</u>	<u>(1,582)</u>	<u>(1,734)</u>	<u>152</u>
EBIT	354	(3,776)	4,130	(488)	(5,778)	5,290
Cash flow provided by operations	795	(3,504)	4,299	57	(5,077)	5,134
Decrease (increase) in working capital	1,273	2,587	(1,314)	1,534	11,500	(9,966)
Property, plant and equipment expenditures	(93)	(966)	873	(176)	(995)	819
Proceeds from disposal of property, plant and equipment	454	1	453	1,194	4	1,190
Decrease (increase) in other long-term assets	<u>-</u>	<u>7</u>	<u>(7)</u>	<u>(159)</u>	<u>15</u>	<u>(174)</u>
Free cash flow	2,429	(1,875)	4,304	2,450	5,447	(2,997)
Bank operating loans				2,968	24,112	(21,144)
Current portion of long-term debt and notes payable				3,647	10,400	(6,753)
Long-term debt reclassified to current portion				-	3,825	(3,825)
Long-term debt and notes payable				7,657	4,463	3,194
Bank indebtedness				<u>1,298</u>	<u>131</u>	<u>1,167</u>
Net funded debt				15,570	42,931	(27,361)
Convertible debentures				56	53	3
Subordinated shareholder loans				3,811	485	3,326
Deferred gain on sale and leaseback				2,109	993	1,116
Shareholders' equity				19,792	35,511	(15,719)
Less: Goodwill and intangible assets				<u>(8,509)</u>	<u>(17,913)</u>	<u>9,404</u>
Tangible net worth				17,259	19,129	(1,870)
Capitalization				32,829	62,060	(29,231)
Net funded debt : Capitalization				47.4%	69.2%	21.8%
Current assets				27,319	59,852	(32,533)
Current liabilities				<u>(22,300)</u>	<u>(61,300)</u>	<u>39,000</u>
Working capital				5,019	(1,448)	6,467
Current ratio (Current assets : Current liabilities)				1.23	0.98	0.25



Empire Industries Ltd.

Consolidated Financial Statements

June 30, 2010

(Unaudited)

EMPIRE INDUSTRIES LTD.
Consolidated Balance Sheets

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)	December 31, 2009 (audited)
Assets			
Current assets:			
Cash (Note 8)	\$ 437,371	\$ 1,004,644	2,674,061
Accounts receivable (Note 6)	19,301,029	30,709,650	16,406,407
Receivable from related party	-	478,912	643,533
Income taxes recoverable	214,993	1,327,923	59,162
Inventories	6,229,269	15,397,296	8,070,662
Prepaid expenses and deposits	1,003,008	1,129,798	979,238
Assets held for sale (Note 14)	6,659	8,414,342	-
Current portion of other long-term assets	127,080	-	27,381
Foreign exchange hedge contracts (Note 7)	-	715,420	2,233,298
Future income taxes	-	673,689	192,864
	27,319,409	59,851,674	31,286,606
Other long-term assets	115,847	16,966	39,585
Advances to related party	296,836	360,085	291,117
Investments	1,455,223	1,378,940	1,300,859
Property, plant and equipment	16,499,115	21,091,574	19,137,689
Intangible assets	335,820	517,725	454,561
Goodwill	8,173,029	17,395,067	8,173,029
Future income taxes	2,414,047	5,689,723	2,442,948
	\$ 56,609,326	\$ 106,301,754	\$ 63,126,394
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness (Note 8)	\$ 1,734,948	\$ 1,135,727	\$ -
Bank operating line (Note 8)	2,968,161	24,112,359	13,739,226
Accounts payable and accrued liabilities	11,909,980	17,963,690	9,804,998
Income taxes payable	150,880	1,244,989	195,024
Payable to related party	3,280	-	-
Long-term debt due within one year:			
Long-term debt (Note 9)	1,594,076	12,283,994	1,634,387
Notes payable (Note 10)	2,052,540	1,940,540	1,997,000
Deferred gain on sale and leaseback	442,451	287,900	442,451
Foreign exchange hedge contracts (Note 7)	265,403	-	-
Future income taxes	1,178,361	2,331,280	794,146
	22,300,080	61,300,479	28,607,232
Long-term debt (Note 9)	7,656,647	819,079	3,267,164
Notes payable (Note 10)	3,811,186	3,644,132	3,811,186
Convertible debentures	56,295	52,587	54,441
Deferred gain on sale and leaseback	1,666,268	704,879	1,887,493
Future income taxes	1,327,078	4,270,065	1,724,890
Basis of presentation (Note 2)	36,817,554	70,791,221	39,352,406
Shareholders' equity:			
Capital stock	34,720,418	34,720,418	34,720,418
Contributed surplus	1,556,580	1,516,500	1,458,003
Retained deficit	(16,485,226)	(726,385)	(12,404,433)
	19,791,772	35,510,533	23,773,988
	\$ 56,609,326	\$ 106,301,754	\$ 63,126,394

See accompanying notes to the unaudited consolidated financial statements

Approved by the Board:

"Guy Nelson"

 Director

"Ian Macdonald"

 Director

EMPIRE INDUSTRIES LTD.
Consolidated Statements of Operations
For the periods ended June 30
(unaudited)

	Three months		Six months	
	2010	2009	2010	2009
Sales (Note 7)	\$ 22,140,531	\$ 28,558,807	\$ 42,717,537	\$ 70,511,195
Cost of goods sold	(17,674,898)	(27,007,439)	(35,372,500)	(65,096,821)
Gross profit	4,465,633	1,551,368	7,345,037	5,414,374
Operating, general and administrative expenses	(3,314,964)	(4,454,466)	(6,654,244)	(9,576,133)
Income from equity accounted for investments and other revenue (expenses)	(13,566)	(1,530)	404,365	117,591
Earnings (loss) before the undernoted	1,137,103	(2,904,628)	1,095,158	(4,044,168)
Amortization	(782,960)	(871,362)	(1,582,853)	(1,733,976)
Operating earnings (loss)	354,143	(3,775,990)	(487,695)	(5,778,144)
Other income (expenses):				
Amortization of deferred gain on sale and leaseback	110,613	71,975	221,225	143,950
Gain (loss) on disposal of property, plant and equipment, intangibles and other assets	(274,042)	522	(195,078)	2,982
Interest on long term debt and notes payable	(282,549)	(287,383)	(506,870)	(611,752)
Other interest	(109,614)	(323,062)	(377,639)	(672,841)
Unrealized gain (loss) on foreign exchange hedge contracts (Note 7)	(2,332,134)	1,432,000	(2,498,701)	1,317,557
Net loss before income taxes	(2,533,583)	(2,881,938)	(3,844,758)	(5,598,248)
Income tax recovery (expense):				
Current	(27,762)	(130,167)	(143,609)	95,977
Future	92,597	842,094	(92,426)	1,718,900
	64,835	711,927	(236,035)	1,814,877
Net loss for the period	\$ (2,468,748)	\$ (2,170,011)	\$ (4,080,793)	\$ (3,783,371)
Loss per share:				
Basic and diluted (Note 4)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.04)

See accompanying notes to the unaudited consolidated financial statements

Consolidated Statements of Shareholders' Equity

As at June 30
(unaudited)

	Share Capital	Contributed Surplus	Retained Deficit	Total Shareholders Equity
As at June 30, 2009 (unaudited)	\$ 34,720,418	\$ 1,516,500	\$ (726,385)	\$ 35,510,533
Stock-based compensation, net of forfeitures	-	(58,497)	-	(58,497)
Net loss for the period	-	-	(11,678,048)	(11,678,048)
As at December 31, 2009 (audited)	\$ 34,720,418	\$ 1,458,003	\$ (12,404,433)	\$ 23,773,988
Stock-based compensation	-	98,577	-	98,577
Net loss for the period	-	-	(4,080,793)	(4,080,793)
As at June 30, 2010 (unaudited)	\$ 34,720,418	\$ 1,556,580	\$ (16,485,226)	\$ 19,791,772

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	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating:				
Net loss for the period	\$ (2,468,748)	\$ (2,170,011)	\$ (4,080,793)	\$ (3,783,371)
Amortization	782,960	871,362	1,582,853	1,733,976
Loss (gain) on disposal of property, plant, equipment, intangibles and other assets	274,042	(522)	195,078	(2,982)
Deferred gain on sale and leaseback	(110,613)	(71,975)	(221,225)	(143,950)
Loss (income) from equity accounted for investments	(46,442)	1,530	(154,364)	(117,591)
Non-cash interest expense	50,613	104,931	46,425	207,006
Stock based compensation	73,577	35,327	98,577	66,039
Unrealized foreign exchange hedge contract loss (gain)	2,332,134	(1,432,000)	2,498,701	(1,317,557)
Future income tax expense (recovery)	(92,597)	(842,094)	92,426	(1,718,900)
Cash flow provided by (used in) operations	794,926	(3,503,452)	57,678	(5,077,330)
Decrease in non-cash working capital	1,272,543	2,587,437	1,533,313	11,500,172
Cash flow provided by operating activities	2,067,469	(916,015)	1,590,991	6,422,842
Investing activities:				
Proceeds on disposal of property, plant and equipment	454,195	520	1,193,696	3,620
Purchase of property, plant and equipment	(93,321)	(965,198)	(176,131)	(994,806)
Increase in other long term assets	(4,350)	-	(158,301)	-
Proceeds on disposal of intangible assets	-	-	-	8,000
Decrease in related party advance	-	7,045	-	7,435
	356,524	(957,633)	859,264	(975,751)
Financing activities:				
Increase (decrease) in bank operating lines	(2,588,468)	1,658,182	(10,771,065)	(2,903,635)
Issue of long-term debt	-	-	7,500,000	-
Repayment of long-term debt	(391,344)	(750,497)	(3,150,828)	(1,462,643)
Repayment of notes payable	-	-	-	(191,487)
	(2,979,812)	907,685	(6,421,893)	(4,557,765)
Increase (decrease) in cash and cash equivalents	(555,819)	(965,963)	(3,971,638)	889,326
Cash and cash equivalents, beginning of period	(741,758)	834,880	2,674,061	(1,020,409)
Cash and cash equivalents, end of period	\$ (1,297,577)	\$ (131,083)	\$ (1,297,577)	\$ (131,083)
Supplementary cash flow information:				
Interest paid	\$ (450,188)	(534,168)	\$ (847,646)	\$ (1,299,621)
Income taxes recovered (paid)	\$ 256,325	\$ (76,979)	\$ 265,921	\$ (503,407)

See accompanying notes to the unaudited consolidated financial statements

1. Nature of the business

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

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

2. Basis of presentation

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

The Company's debt obligations are described in Notes 8, 9, 10 and 12 and certain of these debt obligations are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. The Company was in compliance with its new covenants following the refinancing of its operating and term debt on March 4, 2010. The Company was not in compliance with one of its covenants at June 30, 2010 however, it subsequently cured this covenant violation (Note 12).

Based on 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 be unable to maintain compliance with its new financial covenants in the future. Failure to maintain financial covenants under its credit facilities would result in default permitting the lender to demand payment of amounts outstanding under the lending agreement. These circumstances add risk to the ability of the Company to meet its obligations as they come due and accordingly, the use of accounting principles to a going concern.

To meet these potential demands, the Company has generated additional cash flows through the refinancing of its operating and term debt (Note 8) and through the disposal of certain non-core assets (Note 14). The Company is proactively looking at all available alternatives in implementing the Company's plans. The Company continues to aggressively pursue strategies to improve operating results, cash flows and capital structure in order to ensure the availability of funds to continue to meet its obligations however, there can be no assurance as to their outcome or success.

3. Accounting principles

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

4. Loss per share

For the three months ended June 30

	2010			2009		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (2,468,748)	91,239,608	\$ (0.03)	\$ (2,170,011)	91,239,608	\$ (0.02)

For the six months ended June 30

	2010			2009		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (4,080,793)	91,239,608	\$ (0.04)	\$ (3,783,371)	91,239,608	\$ (0.04)

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

5. Seasonal and cyclical nature of the business

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

6. Accounts receivable:

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

	June 30, 2010	December 31, 2009
Holdbacks	\$ 4,716,548	\$ 3,838,740
Current	5,937,198	5,950,283
31 – 60 days	4,080,752	3,034,928
61 – 90 days	561,483	826,932
Greater than 90 days	1,119,728	871,478
Billed receivables	16,415,709	14,522,361
Unbilled contract receivables	4,586,605	2,767,150
Deferred revenue	(1,463,745)	(1,290,004)
Other receivables	193,332	856,666
Less: Allowance for doubtful accounts	(430,872)	(449,766)
Total accounts receivable, net	\$ 19,301,029	\$ 16,406,407

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

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

		June 30, 2010		December 31, 2009
Allowance for doubtful accounts – opening	\$	449,766	\$	568,744
Add: Net bad debt provisions (recoveries)		(18,894)		(74,450)
Less: accounts written off		-		(44,528)
Allowance for doubtful accounts – closing	\$	430,872	\$	449,766

7. Foreign exchange hedge contracts

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

The table below summarizes the transactions and changes in fair values during the period.

		June 30, 2010		December 31, 2009
Fair value of foreign currency hedge contracts, beginning balance	\$	2,233,298	\$	(602,137)
Change in forward currency contracts' fair value				
Existing forward currency contracts		313,871		2,701,243
Purchased forward currency contracts		(265,403)		7,515
Less: Realized losses (gains) on forward currency contracts		(2,547,169)		126,677
Unrealized gain (loss) on foreign exchange hedge contracts		(2,498,701)		2,835,435
Fair value of foreign currency hedge contracts, ending balance		(265,403)		2,233,298
Current portion		(265,403)		2,233,298
Long-term portion	\$	-	\$	-

Realized gains and losses on forward currency contracts are included in sales in the period in which they are settled.

Unrealized gains and losses on forward currency contracts include the reversal of unrealized gains of \$2.2 million recorded in the prior year.

8. Bank indebtedness and bank operating lines

The Company's bank indebtedness of \$1,734,948 (December 31, 2009 – cash \$2,101,818) represents cheques issued in excess of funds on deposit. In addition, the Company had \$437,371 (December 31, 2009 – \$572,243) in funds on deposit under its two joint ventures operated with AMEC International (Canada) Ltd.

On March 4, 2010, funds drawn under the Royal Bank of Canada \$6,000,000 revolving operating facility and the HSBC Bank of Canada \$8,500,000 revolving operating facility were fully repaid from the proceeds of the new revolving operating facility and term loans issued by the Canadian Western Bank (Note 12).

At June 30, 2010, the Company had an overdraft facility with Canadian Western Bank ("CWBank Overdraft Facility") in the amount of \$10,000,000 (Note 12) of which \$2,968,161 (December 31, 2009 - \$Nil) had been drawn down. Advances on the facility are payable on demand and bear interest at prime plus 2.25%. The CWBank Overdraft Facility is secured by general security agreements providing a first security interest in all present and after-acquired property and a \$25,000,000 demand debenture providing the bank with fixed and floating charges on all assets of Empire Industries Ltd. and Empire Iron Works Ltd.

9. Long-term debt

	June 30, 2010	December 31, 2009
Canadian Western Bank term loan, monthly payments of \$25,992 including interest at 6.5% per annum, due March 4, 2025.	\$ 2,969,397	\$ -
Canadian Western Bank term loan, monthly payments of \$87,866 including interest at 6.5% per annum, due March 4, 2015.	4,306,659	-
Royal Bank of Canada non-revolving term facility, payable \$69,500 monthly plus interest at prime plus 5%, due May 31, 2010.	-	2,363,000
HSBC Capital Lease, monthly payments of \$2,227 including interest at 6.38% per annum with a purchase option of \$26,867 on October 29, 2013. If the purchase option is not exercised, the monthly payments increase to \$2,305. The lease expires on October 28, 2014.	100,008	109,998
HSBC Capital Lease, monthly payments of \$5,798 including interest at 6.38% per annum with a purchase option of \$33,973 on April 13, 2014. If the purchase option is not exercised, the monthly payments decrease to \$4,931. The lease expires on November 12, 2014.	257,341	283,679
HSBC Capital Lease, monthly payments of \$15,395 including interest at 6.13% per annum with a purchase option of \$57 on October 29, 2011. The lease expires on October 28, 2011.	221,820	536,686
HSBC Capital Lease, monthly payments of \$19,920 including interest at 5.68% per annum with a purchase option of \$148,463 on April 13, 2014. If the purchase option is not exercised, the monthly payments increase to \$21,510. The lease expires on November 12, 2014.	925,694	1,017,480
HSBC Capital Lease, monthly payments of \$8,926 including interest at 5.89% per annum with a purchase option of \$50,290 on February 21, 2012. If the purchase option is not exercised, the monthly payments increase to \$9,156. The lease expires on July 20, 2012.	202,551	254,018
Capital Equipment Leases, bearing interest up to 13% per annum, monthly payments from \$110 to \$1,842 including interest, due from July 2010 to April 2013.	267,253	336,690
	9,250,723	4,901,551
Current portion of long-term debt	(1,594,076)	(1,634,387)
	\$ 7,656,647	\$ 3,267,164

On March 4, 2010, the Royal Bank of Canada non-revolving term facility was fully repaid from the proceeds of the term loans issued by the Canadian Western Bank ("CWBank Term Loans") (Note 12).

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

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

2011	\$ 1,594,076
2012	1,518,203
2013	1,379,112
2014	1,538,026
2015 and thereafter	<u>3,221,306</u>
	9,250,723
Interest on capital leases	<u>215,820</u>
	\$ <u>9,466,543</u>

10. Notes Payable

	June 30, 2010	December 31, 2009
Vendor notes payable to related parties – George Third & Son Ltd. vendors - includes accrued interest of \$339,091 (2009 - \$339,091)	\$ 2,057,841	\$ 2,057,841
Vendor notes payable to related parties – KWH Constructors Corp. vendors - includes accrued interest of \$249,863 (2009 - \$249,863)	1,753,345	1,753,345
Note payable to AMEC - Dynamic Structures Ltd. vendor - includes accrued interest of \$167,540 (2009 - \$112,000)	1,567,540	1,512,000
Other notes payable	485,000	485,000
	5,863,726	5,808,186
Current portion of notes payable	(2,052,540)	(1,997,000)
	\$ 3,811,186	\$ 3,811,186

The related parties as noted above are officers and/or directors of Empire Industries Ltd. and/or its wholly owned subsidiaries. During the year, interest of \$181,775 (December 31, 2009 - \$nil) was paid to these related parties. Total interest expense to the two related parties amounted to \$181,775 (December 31, 2009 - \$316,654).

The vendor notes payable to the George Third & Son Ltd. vendors were issued on August 31, 2006 as part of the consideration for the purchase of the shares of George Third & Son Ltd. The principal plus accrued interest on these notes is due on April 30, 2011 and is secured by a general security agreement over select assets of George Third & Son Ltd. Interest was compounded quarterly at a rate of 8.5% until August 31, 2009 at which time the rate increased to 10%. The Company has the option to pay off any portion of the notes plus accrued interest at any time prior to the due date without penalty.

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

In conjunction with the re-financing, the vendor notes of \$3,811,186, due April 30, 2011, are subordinated and postponed to the CWBank and cannot be repaid while the CWBank debt remains outstanding. Accordingly, the vendor notes are classified as long-term debt.

The note payable to AMEC was issued on April 16, 2007 as part of the consideration for the purchase of the shares of AMEC Dynamic Structures Ltd., subsequently known as Dynamic Structures Ltd. The unsecured note required one lump sum payment of principal plus accrued interest at 8% per annum on October 31, 2008. This note remains unpaid and the Company has an informal agreement in principle with the note holder to extend payment terms, under the same terms and conditions, until the windup of the joint ventures in 2010.

Other notes payable bear interest at a rate of 7% are secured by a general security agreement and are payable on demand. During the year, interest of \$16,835 (December 31, 2009 - \$33,950) was paid to these noteholders.

11. Segmented information

The Company operates in the following industry segments:

Steel fabrication and erection

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

Specialty engineered products

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

For the three months ended June 30, 2010

	Steel Fabrication and Erection	Specialized Engineered Products	Corporate	Total
Sales	\$ 10,655,752	\$ 11,463,458	\$ 21,321	\$ 22,140,531
Cost of goods sold	(9,322,336)	(8,352,562)	-	(17,674,898)
Gross profit	1,333,416	3,110,896	21,321	4,465,633
Operating, general and administrative expenses	(1,595,698)	(1,009,648)	(709,618)	(3,314,964)
Income from equity investments and other revenue (expense)	46,443	(60,009)	-	(13,566)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(215,839)	2,041,239	(688,297)	1,137,103
Amortization	(384,992)	(363,321)	(34,647)	(782,960)
Earnings before interest and taxes (EBIT)	(600,831)	1,677,918	(722,944)	354,143
Other income (expense)	34,780	(198,209)	-	(163,429)
Interest expense	(55,463)	(23,458)	(313,242)	(392,163)
Unrealized loss on foreign exchange hedge contracts	-	(2,332,134)	-	(2,332,134)
Segmented loss before income tax	\$ (621,514)	\$ (875,883)	\$ (1,036,186)	\$ (2,553,583)

For the three months ended June 30, 2009

	Steel Fabrication and Erection	Specialized 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
Operating, general and administrative expenses	(2,058,554)	(1,835,483)	(560,429)	(4,454,466)
Income from equity investments and other revenue (expense)	(1,530)	-	-	(1,530)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(2,464,252)	98,067	(538,443)	(2,904,628)
Amortization	(523,326)	(346,803)	(1,233)	(871,362)
Earnings before interest and taxes (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 loss 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 six months ended June 30, 2010

	Steel Fabrication and Erection	Specialized Engineered Products	Corporate	Total
Sales	\$ 20,488,051	\$ 22,188,049	\$ 41,437	\$ 42,717,537
Cost of goods sold	(18,031,241)	(17,341,259)	-	(35,372,500)
Gross profit	2,456,810	4,846,790	41,437	7,345,037
Operating, general and administrative expenses	(3,262,156)	(2,253,519)	(1,138,569)	(6,654,244)
Income from equity investments and other revenue	154,365	250,000	-	404,365
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(650,981)	2,843,271	(1,097,132)	1,095,158
Amortization	(790,211)	(745,948)	(46,694)	(1,582,853)
Earnings before interest and taxes (EBIT)	(1,441,192)	2,097,323	(1,143,826)	(487,695)
Other income	175,306	(149,159)	-	26,147
Interest expense	(307,577)	(87,856)	(489,076)	(884,509)
Unrealized loss on foreign exchange hedge contracts	-	(2,498,701)	-	(2,498,701)
Segmented loss before income tax	\$ (1,573,463)	\$ (638,393)	\$ (1,632,902)	\$ (3,844,758)

For the six months ended June 30, 2009

	Steel Fabrication and Erection	Specialized 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
Operating, general and administrative expenses	(4,230,625)	(4,397,654)	(947,854)	(9,576,133)
Income from equity investments and other revenue	117,591	-	-	117,591
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(3,660,914)	520,515	(903,769)	(4,044,168)
Amortization	(1,016,543)	(714,967)	(2,466)	(1,733,976)
Earnings before interest and taxes (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 loss 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)

12. 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 capitalization is defined as interest bearing debt divided by total interest bearing debt plus the book value of tangible net worth. Interest bearing debt is the aggregate of bank indebtedness, bank operating loans, current portion of long-term debt, long-term debt and notes payable. Tangible net worth includes shareholders' equity, deferred gain on sale and leaseback and subordinated debt such as subordinated notes payable and convertible debentures, less the value of goodwill and intangible assets.

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, 2010	December 31, 2009	Increase (Decrease)
Bank indebtedness (cash), net	\$ 1,297,577	\$ (2,674,061)	\$ 3,971,638
Bank operating loans	2,968,161	13,739,226	(10,771,065)
Current portion of long-term debt and notes payable	3,646,616	3,631,387	15,229
Long-term debt and notes payable	7,656,647	7,078,350	578,297
Net funded debt	15,569,001	21,774,902	(6,205,901)
Convertible debentures	56,295	54,441	1,854
Subordinated notes (Note 10)	3,811,186	-	3,811,186
Deferred gain on sale and leaseback	2,108,719	2,329,944	(221,225)
Shareholders' equity	19,791,772	23,773,988	(3,982,216)
Less: goodwill and intangibles	(8,508,849)	(8,627,590)	118,741
Tangible net worth	17,259,123	17,530,783	(271,660)
Capitalization	\$ 32,828,124	\$ 39,305,685	\$ (6,477,561)
Net funded debt : Capitalization	47.4%	55.4%	(8.0%)

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

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

As at June 30, 2010, the Company was not in compliance with its current ratio covenant contained in the CWBank Overdraft Facility and CWBank Term Loans. On July 20, 2010, the Company was once again in compliance with its covenants following the receipt of proceeds from the sale of the Company's patents (Note 14).

13. 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, 2010, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$650,000 (December 31, 2009 - \$650,000). In addition, the Company has provided an unlimited guarantee on behalf of an equity investment over which the Company exercises significant influence.

Director and officer indemnification

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

Other indemnification provisions

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

Other contingencies

As at June 30, 2010, there are no other material claims against the Company therefore a provision in the consolidated financial statements is considered to be unnecessary.

14. Subsequent Event

On July 20, 2010, the Company completed the sale of patents for cash proceeds of \$1,200,000 resulting in a gain on sale of \$1,193,341. The proceeds were applied to reduce the Company's draw on its CWBank Overdraft Facility, thus improving its current ratio.

15. Comparative figures

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