



2nd Quarter 2011

Management's Discussion & Analysis

For the 3 and 6 month periods ending
June 30, 2011

Consolidated Financial Statements

June 30, 2011
Unaudited

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 quarters ended June 30, 2011 and June 30, 2010, as well as the audited consolidated financial statements for the fiscal year ended December 31, 2010. Reference should also be made to the annual MD&A for the year ended December 31, 2010.

The unaudited consolidated financial statements and accompanying notes of the Company for the quarter ended June 30, 2011 have been prepared in conformity with International Financial Reporting Standards ("IFRS") 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 24, 2011. 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

BUSINESS DESCRIPTION

The Company's operations take place primarily through its wholly owned subsidiary, Empire Iron Works Ltd. Empire Iron Works Ltd. has the following operating divisions:

Division	Business
Dynamic Structures	Design and fabrication of premium amusement park rides, complex ride systems, telescopes and custom machinery and equipment. Leased facility is in Port Coquitlam, BC.
Tornado Hydrovacs	Manufacture hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. Leased facility is in Stettler, AB.
Ward Industrial Equipment	Design and fabrication of bulk material handling equipment and air cleaning equipment. Leased facility is in Welland, ON.
Parr Metal Fabricators	Fabrication of tanks, pressure vessels and other specialty carbon and stainless steel products. Leased facility is in Winnipeg, MB.
Empire Iron Works	Structural steel fabrication and installation. Two owned facilities: one in Winnipeg, MB and one west of Edmonton, AB
Hopkins Steel Works	Structural steel fabrication. Leased facility is in Welland, ON
KWH Constructors	Structural steel installation and related construction services. Leased facility is in Burnaby, BC.
Somerset Engineering	Engineering services, particularly related to complex installation of structural steel. Leased facility is in Burnaby, BC.

In addition to these wholly owned businesses, the Company holds significant equity interests in two major business enterprises:

Enterprise	Business
Athabasca Chipewyan Empire (ACE) Industrial Services Ltd. (49%)	Steel fabrication and installation, machining, multi-trade industrial construction and maintenance services, primarily serving the oil sands market. Facilities are in Fort McMurray, AB. This is a joint venture between the Athabasca Chipewyan First Nation Business Group and Empire Industries Ltd.
Dongguan Qiguang Dynamic Steel Structures, Ltd. (45%)	Fabrication and installation of complex structural steel projects in China through a joint venture Company owned 55% by Guangdong Qiguang Steel Structures Co. Ltd. and 45% by Empire Industries Ltd. Incorporation documentation has been submitted to the authorities and is expected to be granted in the second quarter of 2011 with operations commencing at the same time.

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.

SIGNIFICANT EVENTS

In the quarter, the Company

- Closed a private placement of 42,000,000 units, each comprised of a common share and one warrant. Each whole warrant entitles the holder to purchase an additional common share at \$0.10, expiring 2 years after closing. 2,000,000 of these units were acquired using funds redeemed from convertible debentures issued in the first quarter. Gross proceeds of this private placement was \$2.1 million. If the warrants issued under this private placement are exercised, a further \$4.2 million would be raised.
- Exited the lease and disposed of the surplus equipment related to its discontinued Trapp Avenue steel fabrication facility.

CONSOLIDATED FINANCIAL RESULTS

REVENUES AND GROSS MARGIN

Periods ended June 30	Quarter ended			Six months ended		
	2011	2010	Variance	2011	2010	Variance
(\$000's, except for percentages)	\$	\$	\$	\$	\$	\$
Revenues	22,110	18,743	3,367	41,293	36,023	5,270
Direct cost of sales	(16,516)	(10,350)	(6,166)	(30,928)	(20,186)	(10,742)
Direct margin	5,594	8,393	(2,799)	10,365	15,837	(5,472)
% of revenue	25%	45%	(20%)	25%	44%	(19%)
Indirect production costs	(2,220)	(1,835)	(385)	(4,496)	(4,188)	(308)
Indirect salaries and wages	(1,383)	(1,572)	189	(2,597)	(3,265)	668
Depreciation expense	(361)	(372)	11	(666)	(756)	90
Amortization of intangible assets	(38)	(38)	-	(76)	(76)	-
Total indirect cost of goods expenses	(4,002)	(3,817)	(185)	(7,835)	(8,285)	450
Gross margin	1,592	4,576	(2,984)	2,530	7,552	(5,022)
% of revenue	7.2%	24.5%	(17.3%)	6.1%	21.0%	(14.9%)

Revenues in the first six months of 2011 increased by 15% over 2010, and total indirect expenses decreased by \$450,000 in the same six month period. Direct margin as a percentage of revenue was 25% in the six month period, vs. 44% in 2010. This direct margin is partly due to competitive pressures in the steel fabrication business. However, the direct margin of 44% for the first six months of 2010 was exceptionally high, due to a particularly high margin mix of work that was being processed by the Company at the time.

Gross margin in the first six months of 2011 decreased to 2,530,000 (6.1% of revenue) over 2010. This was due to a combination of the reduced direct margin and a change in the sales mix. The Company expects to obtain higher direct margin jobs through the year arising from the expected recovery of industrial and infrastructure spending.

Similar analysis applies to the 3 month period.

EXPENSES AND OTHER OPERATING INCOME

Periods ended June 30	Quarter ended			Six months ended		
	2011	2010	Variance	2011	2010	Variance
(\$000's, except for percentages)	\$	\$	\$	\$	\$	\$
Selling, General and Administration Expenses	(2,713)	(2,843)	130	(5,233)	(5,730)	497
Other operating income	125	(50)	175	131	29	102
Finance costs	(355)	(392)	37	(692)	(778)	86
Share of profit from an associate	30	(14)	44	(101)	404	(505)
Fair value changes of derivative instruments	(228)	(2,332)	2,104	(192)	(2,499)	2,307
Total Expenses and Other operating Income (before taxes)	(3,141)	(5,631)	2,490	(6,087)	(8,574)	2,487

Selling, General and Administration expenses improved by \$130,000 over the second quarter of 2010 and \$497,000 over the first six months of 2010, primarily due to continued planned cost reductions to dovetail with more strategically focused operations.

Other operating income represents a non-recurring gain on disposal of assets.

Finance costs represent interest on long term debt, notes payable, and revolving bank facility. The lower interest costs in the second quarter of 2011 and through the first six months are primarily due to permanent reductions in overall debt levels in 2010 on continued pay down of existing debt through 2011.

Share of profit from an associate represents the Company's share of the equity earnings (loss) from its investment in ACE Industrial Services Ltd.

Fair value changes of derivative instruments arise from the Company's foreign exchange hedging strategy. 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.

NET EARNINGS

Periods ended June 30 (\$000's, except for per share amounts)	Quarter ended			Six months ended		
	2011 \$	2010 \$	Variance \$	2011 \$	2010 \$	Variance \$
Net Income	(1,569)	(2,580)	1,187	(3,589)	(4,303)	890
Basic Earnings per share	(0.01)	(0.03)	0.02	(0.03)	(0.05)	0.02
Diluted Earnings per share	(0.01)	(0.03)	0.02	(0.03)	(0.05)	0.02

The change in net income during the period compared to the corresponding period last year is explained by the reasons previously disclosed in this section.

SELECTED QUARTERLY FINANCIAL INFORMATION

Selected Quarterly Financial Information For the quarters ended (\$000's, except for per share amounts)	2011	2011	2010	2010	2010	2010	2009	2009
	Q2 IFRS	Q1 IFRS	Q4 GAAP	Q3 GAAP	Q2 IFRS	Q1 IFRS	Q4 GAAP	Q3 GAAP
Sales	22,110	19,183	13,743	16,507	18,743	17,280	13,948	13,953
Net income (loss)	(1,569)	(2,020)	(4,169)	(9,362)	(2,580)	(1,723)	(7,137)	(4,539)
Earnings (loss) per share								
- Basic	(0.01)	(0.02)	(0.05)	(0.10)	(0.03)	(0.02)	(0.08)	(0.05)
- Diluted	(0.01)	(0.02)	(0.05)	(0.10)	(0.03)	(0.02)	(0.08)	(0.05)

Sales volume has been trending upwards since the end of 2009. Net loss over the quarters has been driven primarily by sales volumes that have not yet reached pre-recessionary levels. The net losses in the third quarter of 2010 and the 4th quarter of 2009 are also driven by non-cash goodwill writedowns.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The Company's operations in the second quarter used \$0.5 million of cash flow, compared with \$1.8 million of cash provided by operations in the same period in 2010. Through the first six months of 2011, the Company's operations used \$2.0 million of cash, compared with \$2.3 million of cash provided by operations through the first six months in 2010. This use of cash by operations was more than offset by \$4.6 million of cash raised in private placements in the six month period. The Company expects that its operations will generate sufficient cash on a go forward basis to meet the Company's objectives.

The Company has a \$10.0 million revolving credit facility with Canadian Western Bank, of which \$7.2 million was drawn as of June 30, 2011. The Company's marginable assets at June 30, 2011 were \$10.3 million which is \$3.1 million in excess of the Company's total draw on the operating line.

To ensure adequate liquidity in the short term, the Company has undertaken the following financing initiatives:

- private placement of common shares and warrants, raising \$2.0 million in the first quarter;
- private placement of convertible debentures, raising \$560,000 in the first six months;
- private placement of common shares and warrants, raising \$2.1 million in the first six months;
- the Company's Chinese joint venture partner has undertaken to invest a further \$1.0 million in Empire Industries for its North American working capital requirements.
- the Company continues to actively limit its capital spending program to sustaining capital expenditures

The Company made \$0.6 million of scheduled cash principal repayments and \$0.8 million of non-scheduled non-cash principal repayments during the quarter. Total long-term debt of \$11.6 million (including capital lease obligations) as at June 30, 2011 consisted of \$1.5 million of long term debt due within 12 months, \$6.1 million of long term debt due beyond 12 months (of which \$5.4 million is currently classified as short term debt as a result of the Company failing to comply with one of its loan covenants), \$0.2 million of notes payable \$3.4 million of subordinated notes and \$0.4 of subordinated convertible debentures. Of these amounts, \$0.2 million in notes payable are due on a demand basis. The subordinated notes payable are subordinated and postponed to the Canadian Western Bank and cannot be repaid while any Canadian Western Bank debt is outstanding.

SHAREHOLDERS' EQUITY

Share capital increased by \$1.9 million in the quarter to \$38.6 million, due to the private placement of common shares that closed in the quarter. The retained deficit of \$29.9 million at June 30, 2011 was \$3.3 million higher than the retained deficit at December 31, 2010 due to the net loss in the period. 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 12,198,650 outstanding options at June 30, 2011. The average exercise price of the outstanding options is \$0.22 per share and the average exercise price of the 6,380,400 exercisable options is \$0.31 per share.

MARKET CAPITALIZATION

The market capitalization of the Company's 173,239,608 issued and outstanding common shares at August 24, 2011 was \$8.7 million or \$0.05 per share compared with the Company's book value of \$0.06 per share at June 30, 2011. The issued and outstanding common shares at August 24, 2011, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares		
As at August 24, 2011		
Issued and outstanding common shares		173,239,608
Securities convertible into common shares		
Convertible Debentures	5,600,000	
Finders Options (with attached warrants)	6,400,000	
Warrants	62,000,000	
Stock Options	12,198,650	
Total Securities convertible into common shares		86,198,650
Fully Diluted Shares		259,438,258

FINANCIAL RATIOS

The following information is based on the data disclosed in Note 12 (Capital Disclosures and Management) from the 2nd Quarter Financial Statements:

Financial Ratios	June 30, 2011	December 31, 2010
Bank indebtedness (cash), net	862	704
Bank operating lines	7,189	7,352
Current portion of long-term debt and notes payable	7,100	7,692
Long-term debt and notes payable	708	954
Net funded debt	15,859	16,702
Convertible debentures	465	60
Subordinated notes (Note 16)	3,380	4,004
Shareholders' equity	10,812	10,192
Less: goodwill and intangibles	(116)	(224)
Tangible net worth	14,541	14,032
Capitalization	30,400	30,734
Net funded debt : Capitalization	52.2%	54.3%

The Company's net funded debt of \$15.9 million is \$0.8 million lower than December 31, 2010 was achieved by a non-scheduled principal repayment of subordinated notes payable.

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 52.2% from 54.3% at December 31, 2010.

The Company's current ratio of 0.92 is improved from the December 31, 2010 ratio of 0.86 due to equity raised and short-term debt paid down. The Company was not in compliance with one of its bank covenants as of June 30, 2011. Under IFRS presentation, this results in a re-classification of long term debt to current.

OTHER MATTERS

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

Revenue Recognition – Cost to Complete

Sales and accounts receivable include the uncertainty inherent in estimating the costs of completing construction projects, amounts ultimately realizable on unpriced change orders and therefore estimated margins to completion of the construction contract. Revenues and income from construction contracts are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs and those indirect costs relating to contract performance such as indirect labour, supplies, tools and maintenance. Provision is made for anticipated contract losses as soon as they are evident. Contract revenues and costs are adjusted to reflect change orders that have been approved as to both price and scope. For change orders that have not been approved as to price or are unpriced, contract revenues and projected costs to complete are estimated by management. In circumstances where significant advance purchases under a contract, such as materials, would result in a materially higher percentage of completion estimate for sales, margin and accounts receivable than indicated by other measures such as labour hours, management adjusts the percentage of completion to the lower level indicated by the alternative measure.

Valuation of Long-lived Assets and Asset Impairment

The Company periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying value of the asset, an impairment loss would be recognized based on the excess of the carrying value of the asset over the fair market value calculated using discounted future cash flows.

Future Income Taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment concerning the carrying values of assets and liabilities. The current and future income tax assets and liabilities are also impacted by expectations about future operating results and the timing of the reversal of temporary differences as well as possible audits of tax filings by regulatory agencies. Changes or differences in these estimates or assumptions may result in changes to the current and future income tax assets and liabilities on the Consolidated Balance Sheet and a charge to or recovery of income tax expense.

As at June 30, 2011, the Company had loss carry-forwards of about \$25.8 million (2010 - \$19.7 million), expiring between 2027 and 2030 and available to reduce income taxes otherwise payable in future years. Losses subject to expiry represent the non-capital losses of the Company including discretionary deductions such as capital cost allowance.

A future income tax asset of \$6.5 million has been recorded as at June 30, 2011 in respect of the Company's unutilized losses. Management regularly assesses the Company's ability to realize on loss carry-forwards based on all relevant information available including, among other things, historical and projected future earnings, and has concluded that a valuation allowance is required in accordance with IFRS. Accordingly, the Company has recorded a valuation allowance related to these loss carry-forwards of \$4.1 million. If the Company's projected future earnings materialize to the extent required to permit the full realization of these loss carry-forwards, the Company would record an appropriate recovery of 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 expense rate in that period.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2011, the Company adopted International Financial Reporting Standards (IFRS) for financial reporting, and using January 1, 2010 as the transition date. The financial statements for the quarter ended June 30, 2011, including the corresponding comparative information, have been prepared in accordance with International Accounting Standard IFRS 1 "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standard Board ("IASB"). Previously, the Corporation prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless otherwise noted, fiscal 2011 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS has not had a significant impact on the Company's operations, strategic decisions and cash flows. Further information on the IFRS impacts is provided in Note 21 to the 1st Quarter Consolidated Financial Statements (Transition to IFRS).

RELATED PARTY TRANSACTIONS

Rent was paid to companies controlled by officers, directors and members of their families in the ordinary course of operations and based on fair market value.

During the quarter, the Company exited the lease and disposed of the surplus equipment related to its discontinued Trapp Avenue steel fabrication facility. At the time of the transaction, one of the principals of the landlord and the purchaser was a director of Empire Industries Ltd.

RISKS AND UNCERTAINTIES

The reader should take into account the risks and uncertainties, including economic and industry factors, described in the December 31, 2010 Annual MD&A. They could impact on the Company's ability to fulfill its strategic vision and growth objectives.

FORWARD LOOKING INFORMATION

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

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 the section titled "Forward-Looking Information" in this MD&A.

The Company's structural fabricated steel unit continues to experience competitive price pressures due to industry capacity exceeding demand. The Company has strengthened management and is undertaking additional initiatives aimed at increasing efficiency. The Company is also finalizing export licensing efforts in respect of its Chinese Joint Venture to enable it to bring in fabricated landed steel into Canada at very attractive prices in further efforts to increase margin and improve competitiveness. Management believes that the long term outlook for business capital expenditures in western Canada is very positive with demand likely to outstrip capacity.

With respect to the Engineered Products segment, the company's Hydrovac truck unit continues to operate at full capacity and has a strong backlog heading into year end. The Company has recently incorporated a new business unit called Dynamic Attractions Ltd. which is responsible for the marketing and sale of its integrated media based ride capability. Strong relationships have been formed with companies that have the required complimentary competencies required to enable the Company to successfully market, sell and fabricate media based attractions. The Company has several quotes outstanding and is highly confident that it will secure at least one, if not several, significant contracts prior to year end.

The Company's aboriginal partnership in Fort McMurray, ACE Industrial Services, provides maintenance and related services to Alberta's oil sands producers. Management believes that the outlook for ACE in 2011 and beyond is tied to the significantly increasing amount of capital and maintenance expenditures expected to be invested in the oil sands area of Alberta. Its management team and field erection operations were strengthened at the end of 2010.

The Company's backlog continues to grow as the economy strengthens and Empire's contract awards increase. For example, backlog at December 31, 2010 of \$19.5 million increased by \$3.9 million to \$23.4 million as of June 30, 2011.

As the Company returns to profitability, it will be in a position to utilize gross tax loss carry forwards of \$25.8 million.

2nd Quarter Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2011

Unaudited

NOTICE TO READER

These interim consolidated financial statements have been prepared by the Management of Empire Industries Ltd. and have not been audited or reviewed by an external auditor.



For the periods ended June 30 (In \$000's CAD, except per-share amounts)	Three Months		Six Months	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sales	22,110	18,743	41,293	36,023
Direct cost of sales	(16,516)	(10,350)	(30,928)	(20,186)
	5,594	8,393	10,365	15,837
Indirect production costs	(2,220)	(1,835)	(4,496)	(4,188)
Indirect salaries and wages	(1,383)	(1,572)	(2,597)	(3,265)
Depreciation Expense	(361)	(372)	(666)	(756)
Amortization of intangible assets	(38)	(38)	(76)	(76)
Gross margin	1,592	4,576	2,530	7,552
Expenses				
Selling, general and administrative [note 6(a)]	(2,713)	(2,843)	(5,233)	(5,730)
Gain on sale of property, plant and equipment	125	(50)	131	29
	(2,588)	(2,893)	(5,102)	(5,701)
Operating profit	(996)	1,683	(2,572)	1,851
Finance costs [note 6(b)]	(355)	(392)	(692)	(778)
Share of profit (loss) from an associate	30	(14)	(101)	404
Fair value changes of derivative instruments	(228)	(2,332)	(192)	(2,499)
Result before income taxes from continuing operations	(1,549)	(1,055)	(3,557)	(1,022)
Income tax expense				
Current	(20)	(138)	(32)	(362)
Deferred	—	92	—	(93)
	(20)	(46)	(32)	(455)
Result for the period from continuing operations	(1,569)	(1,101)	(3,589)	(1,477)
Result for the period from discontinued operations, after tax [Note 5]	—	(1,479)	—	(2,826)
Result for the period	(1,569)	(2,580)	(3,589)	(4,303)
Earnings per share - basic [note 4]	(0.01)	(0.03)	(0.03)	(0.05)
Earnings per share - diluted [note 4]	(0.01)	(0.03)	(0.03)	(0.05)
Earnings per share from continuing operations				
Earnings per share - basic [note 4]	(0.01)	(0.01)	(0.03)	(0.02)
Earnings per share - diluted [note 4]	(0.01)	(0.01)	(0.03)	(0.02)

See accompanying notes

As at	30-Jun-11	31-Dec-10	01-Jan-10
(In \$000's CAD)	\$	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	—	40	2,674
Accounts receivable [note 7]	18,163	17,689	16,406
Receivable from related party	—	191	644
Inventory	5,059	5,039	8,071
Prepaid expenses and other assets	776	1,201	1,006
Income taxes receivable	4	14	59
Foreign currency forward contracts	—	101	2,233
Total current assets	24,002	24,275	31,093
Non-current assets			
Property, plant and equipment, net	15,747	16,458	21,532
Intangible assets, net	116	224	455
Other long term assets	137	146	40
Investment in an associate	1,178	1,279	1,196
Advances to related party	327	314	291
Available-for-sale investments	30	30	105
Deferred tax asset	1,684	1,684	2,635
Total non-current assets	19,219	20,135	26,254
Total assets	43,221	44,410	57,347
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10,841	11,567	9,805
Income taxes payable	186	167	195
Bank indebtedness [note 8]	862	744	—
Bank operating lines [note 8]	7,189	7,352	13,739
Current portion of long-term debt	1,495	1,549	1,634
Long-term debt classified as current [note 12]	5,405	5,873	5,529
Current portion of notes payable [note 9]	200	1,070	1,997
Current portion of convertible debentures [note 10]	—	60	—
Total current liabilities	26,178	28,382	28,899
Non-current liabilities			
Long-term debt	708	954	1,738
Notes payable [note 9]	3,380	3,204	3,811
Convertible debentures [note 10]	465	—	54
Deferred tax liability	1,678	1,678	2,520
Total non-current liabilities	6,231	5,836	8,123
Total liabilities	32,409	34,218	37,022
SHAREHOLDERS' EQUITY			
Capital Stock [note 11]	38,659	34,720	34,720
Equity component of convertible debentures	95	—	6
Contributed surplus	1,928	1,753	1,452
Retained deficit	(29,870)	(26,281)	(15,853)
Total shareholders' equity	10,812	10,192	20,325
Total liabilities and shareholders' equity	43,221	44,410	57,347

Commitments and contingencies [note 13]

Going concern basis of presentation [note 2]

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

"Ian Macdonald"

Director

"Guy Nelson"

Director

As at June 30, 2011

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained deficit	Available-for-sale reserve	Total equity
(In \$000's CAD)	\$	\$	\$	\$	\$	\$
As at December 31, 2010	34,720	—	1,753	(26,281)	—	10,192
Result for the period	—	—	—	(3,589)	—	(3,589)
Other comprehensive loss	—	—	—	—	—	—
	34,720	—	1,753	(29,870)	—	6,603
Conversion of subordinated debentures [note 10]	—	95	—	—	—	95
Transaction costs	—	—	—	—	—	—
Share capital raised	3,939	—	—	—	—	3,939
Share-based payment transactions	—	—	175	—	—	175
As at June 30, 2011	38,659	95	1,928	(29,870)	—	10,812

As at June 30, 2010

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained deficit	Available-for-sale reserve	Total equity
(In \$000's CAD)	\$	\$	\$	\$	\$	\$
As at January 1, 2010	34,720	6	1,452	(15,853)	—	20,325
Result for the period	—	—	—	(4,303)	—	(4,303)
Other comprehensive loss	—	—	—	—	—	—
	34,720	6	1,452	(20,156)	—	16,022
Conversion of subordinated debentures [note 10]	—	(1)	1	—	—	—
Transaction costs	—	—	—	—	—	—
Share-based payment transactions	—	—	99	—	—	99
As at June 30, 2010	34,720	5	1,552	(20,156)	—	16,121

As at December 31, 2010

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained deficit	Available-for-sale reserve	Total equity
(In \$000's CAD)	\$	\$	\$	\$	\$	\$
As at January 1, 2010	34,720	6	1,452	(15,853)	—	20,325
Result for the period	—	—	—	(10,428)	—	(10,428)
Other comprehensive loss	—	—	—	—	—	—
	34,720	6	1,452	(26,281)	—	9,897
Conversion of subordinated debentures [note 10]	—	(6)	6	—	—	—
Transaction costs	—	—	—	—	—	—
Share-based payment transactions	—	—	295	—	—	295
As at December 31, 2010	34,720	—	1,753	(26,281)	—	10,192

See accompanying notes

(In \$000's CAD, except per-share amounts)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$			\$
OPERATING ACTIVITIES				
Result for the period before income taxes from continuing operations	(1,549)	(1,055)	(3,557)	(1,022)
Add (deduct) items not affecting cash				
Depreciation and impairment of property, plant and equipment	516	531	952	1,079
Amortization and impairment of intangible assets	53	55	108	110
Gain on sale of property, plant and equipment	(125)	50	(131)	(29)
Income from equity accounted investments	(30)	(46)	101	(154)
Non-cash component of interest expense	204	46	114	47
Stock-based compensation	175	74	175	99
Fair value changes on foreign currency forward contracts	254	2,332	192	2,499
Deferred income taxes	—	(93)	—	92
	(502)	1,894	(2,046)	2,721
Income tax paid	(20)	(46)	(32)	(455)
Cash flow from (used in) continuing operations	(522)	1,848	(2,078)	2,266
Cash flow used in discontinued operations	—	(1,058)	—	(2,208)
Net change in non-cash working capital balances related to operations	77	1,272	(1,147)	1,533
Cash used in operating activities	(445)	2,062	(3,225)	1,591
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(105)	(93)	(232)	(176)
Proceeds from sale of property, plant and equipment	674	454	674	1,193
Increase in other long term assets	—	(4)	—	(158)
Increase in advances to related party	(11)	5	(13)	—
Cash flow from continuing operations	558	362	429	859
Cash used in investing activities	558	362	429	859
FINANCING ACTIVITIES				
Issue of convertible debt	(100)	—	560	—
Issue of shares	1,939	—	3,939	—
Issue of long-term debt	—	—	—	7,500
Decrease in bank operating lines	(604)	(2,588)	(163)	(10,771)
Non-cash settlement of Note Payable	(800)	—	(800)	—
Repayment of long term debt	(611)	(392)	(898)	(3,151)
Cash used in financing activities	(176)	(2,980)	2,638	(6,422)
Net decrease in cash and cash equivalents during the period	(63)	(556)	(158)	(3,972)
Cash and cash equivalents, beginning of period	(799)	(742)	(704)	2,674
Cash and cash equivalents, end of period	(862)	(1,298)	(862)	(1,298)

See accompanying notes

1. Corporate information

Empire designs, fabricates, manufactures, erects and sells proprietary engineered products throughout the world. Key customer sectors include the entertainment industry, natural resource, manufacturing, and processing industries, excavation industry, and the government sector. Empire also provides fabrication and installation services to industrial and infrastructure markets, primarily in western Canada. It also participates in the lucrative market for oil sands maintenance services.

The consolidated financial statements were approved by the Board of Directors on August 24, 2011.

2. Basis of presentation

These financial statements are prepared on the historical cost basis except for derivative financial instruments and available for sale financial assets, which are measured at fair value.

Included in these consolidated financial statements are the accounts of Empire and all of its subsidiaries; together, the Group and its subsidiaries are referred to as the "Group".

Going concern basis of presentation

These consolidated financial statements have been prepared by management on a going concern basis in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The going concern basis of presentation assumes that the Group 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 Group's 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 Group was not in compliance with one of its financial covenants as at the reporting dates presented in these interim financial statements. As a result, pursuant to IAS 1, the long-term portion of term debt subject to the financial covenants has been reclassified to current liabilities. The Group continues to operate within the standard terms and conditions of its lending agreement.

Achieving the operating projections required to comply with the entities financial covenants is dependent upon various factors, some of which are outside the control of the Group, including but not limited to, negative cash flow from operations, the possibility of higher interest rates, commodity price increases, curtailment in industrial or institutional capital spending, credit losses, access to bonding, or a combination of these factors. Failure to maintain financial covenants under its credit facilities may result in default permitting the lender to demand payment of amounts outstanding under the lending agreement.

During the six months ended June 30, 2011 the group raised \$3,939 of equity and an additional \$560 in subordinated convertible debentures to assist the Group with meeting its current operating projections.

3. Summary of significant accounting policies

These interim unaudited consolidated financial statements are based on accounting principles consistent with those used and described in the March 31, 2011 interim unaudited consolidated financial statements which was the first applicable reporting period under IFRS. These interim consolidated financial statements should be read in conjunction with the March 31, 2011 unaudited consolidated financial statements.

4. Loss per share

For the three months ended June 30

	2011			2010		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share from continuing operations	\$ (1,569)	145,099,608	\$ (0.01)	\$ (1,101)	91,239,608	\$ (0.01)
Basic and diluted loss per share from discontinued operations	\$ -	145,099,608	\$ -	\$ (1,479)	91,239,608	\$ (0.02)
Basic and diluted loss per share	\$ (1,569)	145,099,608	\$ (0.01)	\$ (2,580)	91,239,608	\$ (0.03)

For the six months ended June 30

	2011			2010		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share from continuing operations	\$ (3,589)	128,379,608	\$ (0.03)	\$ (1,477)	91,239,608	\$ (0.02)
Basic and diluted loss per share from discontinued operations	\$ -	128,379,608	\$ -	\$ (2,826)	91,239,608	\$ (0.03)
Basic and diluted loss per share	\$ (3,589)	128,379,608	\$ (0.03)	\$ (4,303)	91,239,608	\$ (0.05)

Basic earnings (loss) per share are derived by dividing net the 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. Discontinued operations

During 2010, the Group made the decision to cease operating its processing division in Petrofield Industries Ltd, as well it's steel fabrication operation in George Third & Son Ltd. In 2010 (Trapp facility), the Group successfully terminated the lease of its remaining manufacturing facility directly related to the processing division and ceased operations in its steel fabrication facility. As a result, the Group has reported the results for the processing division and the steel fabrication facility as discontinued operations in its consolidated statement of operations. The KWH Constructors Inc. field operations included in George Third & Son Ltd is continuing with the core operations of the Group.

Petrofield Industries Ltd. – Processing division	Three months ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue	\$ -	582	-	1,164
Expenses	\$ -	(1,665)	-	(3,104)
Net loss from discontinued operations before taxes	\$ -	(1,083)	-	(1,940)
Income tax recovery (expense)	\$ -	45	-	90
Net loss from discontinued operations, net of tax	\$ -	(1,038)	-	(1,850)

George Third & Son – Trapp plant	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue	\$ -	2,816	-	5,531
Expenses	\$ -	(3,322)	-	(6,635)
Net loss from discontinued operations before taxes	\$ -	(506)	-	(1,104)
Income tax recovery (expense)	\$ -	65	-	128
Net loss from discontinued operations, net of tax	\$ -	(441)	-	(976)

6. Selling, general and administrative expense and finance costs

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	\$	\$	\$	\$
[a] Selling, general and administrative expenses				
Salaries & wages	1,521	1,644	3,129	3,389
Stock based compensation	175	74	175	99
Selling costs	185	176	368	402
Admin costs	661	773	1,242	1,483
Depreciation	156	161	287	327
Amortization of intangible assets	15	15	32	30
	2,713	2,843	5,233	5,730
[b] Finance costs				
Interest on overdrafts and other finance costs	98	70	189	223
Interest on debts and borrowings	193	276	399	464
Interest on convertible debentures	21	-	21	1
Finance charges payable under finance lease contracts	43	46	83	90
	355	392	692	778

7. Accounts receivable

The following table outlines the Group's trade receivables, construction contract receivables, holdbacks and allowance for doubtful accounts:

	June 30, 2011	December 31, 2010	January 1, 2010
Holdbacks	\$ 3,527	3,360	3,839
Current	5,840	4,845	5,950
31 – 60 days	2,722	4,060	3,035
61 – 90 days	1,330	1,654	827
Greater than 90 days	1,807	817	871
Billed receivables	15,226	14,736	14,522
Costs incurred, profits and losses on all ongoing construction contracts	78,787	67,928	94,355
Less: progress billings	(75,803)	64,980	(92,878)
Contract position	2,984	2,948	1,477
Unbilled receivables	4,539	4,056	2,767
Customer deposits	(1,555)	(1,108)	(1,290)
Other receivables	183	235	857
Less: Allowance for doubtful accounts	(230)	(230)	(450)
Total accounts receivable, net	\$ 18,163	17,689	16,406

8. Bank indebtedness and bank operating lines

The Company's cash balance of \$- (December 31, 2010 - \$40, January 1, 2010 - \$2,674) represents funds on deposit. The Company's bank indebtedness balance of \$862 (December 31, 2010 - \$744, January 1, 2010 - nil) represents outstanding checks drawn on the bank operating line.

At June 30, 2011, the Company had total draws on its bank operating lines of credit of \$7,189 consisting of:

- (i) An overdraft facility with Canadian Western Bank ("CWBank Overdraft Facility") in the amount of \$10,000 of which \$7,189 (December 31, 2010 - \$7,352, January 1, 2010 - 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 demand debenture providing the bank with fixed and floating charges on all assets of Empire Industries Ltd. and Empire Iron Works Ltd.

At January 1, 2010, the Company had total draws on its operating lines of credit of \$13,739 consisting of:

- (ii) A line of credit with the Royal Bank of Canada in the amount of \$6,000 of which \$4,916 had been drawn down. Advances on the line were payable on demand and bore interest at prime plus 4.5%. The Royal Bank line of credit, and the term facilities were secured by a general assignment of inventories and accounts receivable, a \$6,000 debenture secured by a floating charge on all assets and a fixed charge on all property. On March 4, 2010 the line of credit was fully repaid with the proceeds of a re-financing with Canadian Western Bank and the line was cancelled.
- (iii) A line of credit with HSBC in the amount of \$10,000 of which \$8,823 had been drawn down. Advances on the line were payable on demand and bore interest at prime plus 4%. The HSBC line of credit was secured by a general security agreement creating a first fixed charge over any present and after acquired personal property of the borrower and a floating charge over all of the borrower's present and after acquired real property. In addition, the Company provided an indemnity agreement with respect to a master lease agreement. On March 4, 2010 the line was fully repaid with the proceeds of a re-financing with Canadian Western Bank and the line was cancelled.

9. Notes Payable

	June 30, 2011	December 31, 2010	January 1, 2010
Vendor notes payable – Third Bros. Industries	\$ 1,445	2,162	2,058
Vendor notes payable – KWH Const. Corp.	1,935	1,842	1,753
Note payable to AMEC – DSL vendor	-	-	1,512
Other notes payable	200	270	485
	3,580	4,274	5,808
Current portion of notes payable	(200)	(1,070)	(1,997)
	3,380	3,204	3,811

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 was 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 10%.

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 was due on April 30, 2011. Interest is compounded quarterly 10%.

In conjunction with the re-financing, the vendor notes of \$3,380 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 note was repaid during 2010.

Other notes payable bear interest at a rate of 7% are secured by a general security agreement and are payable on demand as such classified as current.

During quarter, \$800 of notes payable to Third Bros. Industries was settled in exchange for assets previously held for sale by The Company.

10. Convertible debentures

Convertible debentures relating to acquisition of Petrofield Industries Inc. on November 30, 2007 were settled as planned on June 1, 2011.

In February 2011 the Company issued convertible debentures with a face value of \$660. These convertible debentures are unsecured and subordinated and are convertible into Empire Industries Ltd. common shares at a conversion price of \$0.10. These convertible debentures are set to mature on February 14, 2016 and pay 10% interest annually. On May 31 2011, \$100 of the debentures were retired by the company to debenture holders who preferred rather to participate in the May 31, 2011 private placement (Note 11)

The fair value of the subordinated convertible debentures at June 30, 2011 was \$465. The balance of \$95 is recorded in equity.

	June 30, 2011	December 31, 2010	January 1, 2010
Fair value of debentures maturing June 1, 2011	\$ -	\$ 60	\$ 60
Fair value of debentures maturing on February 14, 2016	\$ 465	\$ -	\$ -
Long-term portion	\$ 465	\$ -	\$ 60

11. Share capital

Common shares

Authorized

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

	March 31, 2011	December 31, 2010	January 1, 2010
Common shares (issues and outstanding)	173,239,608	91,239,608	91,239,608
Share capital – opening balance	34,720	34,720	34,720
Issuance of common shares	3,939	-	-
	38,659	34,720	34,720

During the first quarter the company closed the private placement of 40,000,000 common shares at a price of \$0.05 per share for gross proceeds of \$2,000. Each common share purchased included one half of a common share purchase warrant. Each full warrant entitles the holder to buy one common share an exercise price of \$0.10 per share.

During the second quarter the company closed the private placement of 42,000,000 common shares at a price of \$0.05 per share for gross proceeds of \$2,100 with \$161K of share issue costs for net proceeds of \$1,939. Each common share purchased included one common share purchase warrant. Each warrant entitles the holder to buy one common share an exercise price of \$0.10 per share.

Warrants

During the year, warrants were issued in connection with the private placements of shares disclosed above. 40,000,000 of the issued shares came with half a warrant attached and the remaining 42,000,000 issued shares came with a full purchase warrant attached. Each full warrant allows the holder to purchase a common share of Empire for \$0.10, during a period of 24 months following closing.

A summary of the Company's warrants as at March 31, 2011 and December 31, 2010 and changes during the periods then ended follows:

	June 30 2011	Weighted Average Exercise Price	December 31 2010	Weighted Average Exercise Price
Balance, beginning of the period	-	\$ -	-	-
Warrants issued	62,000,000	0.10	-	-
Warrants expired	-	-	-	-
Balance, end of the period	62,000,000	\$ 0.10	-	-
Exercisable	62,000,000	\$ 0.10	-	\$ -
Weighted remaining average life (years)	2		-	

12. Capital disclosure and management

The Company's objective when managing capital is to strive for a long-term manageable level of net funded 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.

Net funded debt includes bank indebtedness (net of cash), bank operating lines and non-subordinated 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	March 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness (cash), net	\$ 862	\$ 704	\$ (2,674)
Bank operating lines	7,189	7,352	13,739
Current portion of long-term debt and notes payable	7,100	7,692	8,971
Long-term debt and notes payable	708	954	1,738
Net funded debt	15,859	16,702	21,774
Convertible debentures	465	60	54
Subordinated notes (Note 9)	3,380	4,004	-
Shareholders' equity	10,812	10,192	20,325
Less: goodwill and intangibles	(116)	(224)	(455)
Tangible net worth	14,541	14,032	19,924
Capitalization	\$ 30,400	\$ 30,734	\$ 41,698
Net funded debt : Capitalization	52.2%	54.3%	52.2%

The Group was not in compliance with one of its financial covenants during the periods presented in these interim unaudited consolidated financial statements. As a result, the long-term portion of term debt of \$5,405 (December 31, 2010 - \$5,873, January 1, 2010 - \$1,529) subject to the financial covenants has been reclassified as a current liability.

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 March 31, 2011, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$360 (2010 - \$460). 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

The Company is subject to various product liability or general claims and legal proceedings covering matters that arise in the ordinary course of business. All such matters are adequately covered by insurance or by accruals, or are without merit, or of such kinds or amounts as would not have a material adverse effect on the financial results of the Company.