



Empire Industries Ltd.

3rd Quarter 2009

Management Discussion & Analysis

For the 3 and 9 month periods ending
September 30, 2009

Consolidated Financial Statements

September 30, 2009
Unaudited



Empire Industries Ltd.

Management's Discussion and Analysis

For the Third quarter and Nine months ended September 30, 2009

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

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

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on November 30, 2009. Disclosure contained in this document is current to this date, unless otherwise stated.

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

1. EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

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

2. FORWARD-LOOKING INFORMATION

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

All of the statements in the MD&A which contain forward-looking information are qualified by these cautionary statements and the other cautionary statements and factors contained herein. Although the Company believes that the expectations reflected in such statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied

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

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

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

3. BUSINESS DESCRIPTION

Empire Industries Ltd. adds value to steel through its leading Western Canadian steel fabrication and installation services providers, engineered products manufacturing and its Fort McMurray-based strategic partnership in the maintenance services sector. The Company owns and 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 Sorge's Welding Ltd. ("Sorge") and its wholly-owned subsidiary, Lemax Machine & Welding Inc. EIW operates two branches located in Winnipeg, Manitoba and Edmonton, Alberta. In addition, EIW has three wholly owned subsidiaries, Hopkins Steel Works Ltd. ("Hopkins"), Ward Industrial Equipment Ltd. ("Ward"), and Parr Metal Fabricators Ltd. ("Parr"). Ward and Hopkins are both based in Welland, Ontario. Parr is based in Winnipeg, Manitoba. GTS and DSL have operations in Vancouver, British Columbia and GTS has a wholly owned subsidiary, KWH Constructors, Inc., based in Seattle, Washington. Petrofield has operations in Calgary and Stettler, Alberta, and a wholly owned subsidiary, 1366377 Texas Inc. (formerly Tornado Technologies, Inc.), in Houston, Texas. 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. On October 5, 2009, Petrofield sold substantially all of the working capital, property, plant, equipment and intangible assets associated with its combustion business, including all of the assets of its wholly-owned subsidiary.

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

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

4. SEASONALITY AND CYCLICALITY

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

5. RESTRUCTURING PLAN

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

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

Restructuring Objective	Outcome
Disposition of redundant or non-core assets.	<ul style="list-style-type: none"> • On July 31, 2009, the Company completed the sale & leaseback of its Kingsway facility for total proceeds of \$9.5 million and a gain on sale of \$1.5 million. Of the total proceeds, \$7.2 million was applied to fully repay the Company's term debt with GE (including interest of \$519,000) and \$2.2 million was applied to reduce the Company's draws on its operating line with HSBC. • On October 5, 2009, following quarter-end, the Company's wholly-owned subsidiary, Petrofield, completed the sale of the assets of its combustion business for \$10.2 million. Of this amount, \$6.8 million was used to fully repay the operating line and term debt owed to BMO. A further \$800,000 was paid to each of RBC and HSBC. The remainder of \$1.7 million is being held for working capital management purposes and future debt repayment. • The settlement of this debt improved the Company's net funded debt to capitalization from 53% at June 30, 2009 to 38% at September 30, 2009 on a <i>pro forma</i> basis as though the sale of the combustion business had closed on September 30, 2009.

Restructuring Objective	Outcome
Cost containment and cost reductions.	<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 annual savings in lease and related operating costs of about \$500,000 per annum. • The lease cost of the Kingsway facility under the recent 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). • The Company has undertaken a number of initiatives to contain and reduce costs throughout its subsidiaries including a combination 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 \$1.6 million in the quarter and \$2.5 million for the nine months ended September 30, 2009 compared to the same periods last year.
Working capital management	<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 from January 1, 2009 to September 30, 2009 averaged about 41 days compared to 43 days for the same period in fiscal 2008 • Days in accounts payable from September 30, 2008 to September 30, 2009 averaged about 40 days and were 39 days at September 30, 2009.
Limit capital spending to sustaining capital expenditures	<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 has declined to \$1.2 million for the nine months ended September 30, 2009 compared to \$3.7 million for the same period last year. • In addition, the Company is actively seeking to dispose of underutilized or redundant assets for fair value which are not considered essential to the Company's continuing operations.
Re-financing of certain long-term assets	<p>As a result of the retirement of the GE debt and BMO term debt, the Company has property, plant and equipment, excluding assets under capital lease, with book value of \$17.2 million, financed by term debt of only \$2.5 million or a loan to value ratio of about 15%. The Company is seeking to re-finance these long-term assets with additional term debt, the proceeds of which would be used to reduce the Company's draws on its operating lines, thereby improving its short-term liquidity without increasing its total debt to capitalization.</p>
Consolidation of bank operating lines and term debt	<p>The Company historically had operating lines with three banks, BMO, HSBC and RBC, as well as term debt with three institutions, BMO, GE and RBC. As noted above, the Company has fully repaid BMO and GE and is now seeking to consolidate its remaining two bank operating lines, term debt and related security with a single lender or group of lenders.</p>
Reducing debt levels and increasing equity	<p>As noted above, all of the proceeds from the disposition of non-core or redundant assets have been applied to reduce term and operating debt or are available to do so.</p>

6. BUSINESS SEGMENT PERFORMANCE

6.1 Steel Fabrication and Installation Services

Steel Fabrication and Installation Services For the periods ended September 30 (in thousands, except per DLH amounts)	Quarter ended			Nine months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	10,575	35,450	(24,875)	47,937	79,574	(31,637)
Cost of goods sold	(8,271)	(31,926)	23,655	(45,181)	(70,282)	25,101
Gross profit	2,304	3,524	(1,220)	2,756	9,292	(6,536)
Earnings (loss) from equity investment	(7)	223	(230)	110	458	(348)
Operating, general & administrative expenses	(1,943)	(2,473)	530	(6,173)	(7,043)	870
EBITDA	354	1,274	(920)	(3,307)	2,707	(6,014)
Amortization	(514)	(589)	75	(1,531)	(1,571)	40
EBIT	(160)	685	(845)	(4,838)	1,136	(5,974)
Operating highlights						
Direct Labour Hours (DLH)	71.5	189.0	(62.17%)	381.0	493.6	(22.81%)
Sales per DLH	\$ 147.89	\$ 187.54	\$ (39.65)	\$ 125.82	\$ 161.21	\$ (35.39)
Gross profit per DLH	\$ 32.22	\$ 18.64	\$ 13.58	\$ 7.23	\$ 18.83	\$ (11.60)

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

Direct labour hours (both fabrication and erection) declined 23% from 494,000 hours for the first nine months of fiscal 2008 to 381,000 hours for the nine months ended September 30, 2009 driven by a decline of 117,000 hours during the most recent quarter. GTS fabrication and erection hours declined by 64,000 direct labour hours in the most recent quarter following the substantial completion of the fabrication of the Coast Meridian Overpass project in the second quarter. The balance of the decline in hours was associated with EIW as larger projects in the first nine months of fiscal 2008 were replaced by fewer and smaller projects in fiscal 2009 following the contraction and deferral of large construction projects, particularly in the Alberta oilsands.

Sales of \$47.9 million for the nine months ended September 30, 2009 declined from \$79.6 million for the nine months ended September 30, 2008 with an \$8.4 million decrease in sales in GTS coupled with a \$21.1 million reduction in EIW, a \$1.2 million reduction in sales in Hopkins and the change in accounting treatment for Sorge's Pro from consolidation to the equity method. The decreased sales activity in GTS for the most recent quarter and nine months reflects the substantial completion of fabrication of the large Coast Meridian Overpass project in the second quarter, offset by the completion of the erection of the bridge in the third quarter. Average sales per direct labour hour ("per DLH"), a measure of fabrication activity, declined during the quarter ended September 30, 2009 compared to the same quarter last year contributing to a 22% decline in sales per DLH from \$161 per hour to \$126 per hour over the nine months ended September 30, 2009. The decline in sales revenue reflects both a decline in underlying direct labour hours as well as reflecting a higher proportion of less labour-intensive commercial versus structural or architectural steel fabrication projects.

Gross profit reflects the cost of direct material and labour as well as indirect production and overhead costs allocated to specific jobs. The Company's gross profit of \$32 per DLH during the quarter ended September 30, 2009, strengthened over each of the prior two quarters and over the \$19 per DLH earned the same quarter last year and contributing to a gross margin per DLH for the nine months ended September 30, 2009 of \$7 (2008 - \$19). The lower gross profit per DLH for the most recent nine-month period was driven in large part by higher erection costs associated with the Coast Meridian Overpass (the first cable-stayed bridge and heaviest steel

structure launched in North America, incorporating the greatest single span ever launched) and, coupled with fabrication cost overruns during the first quarter of fiscal 2009 due to the more complex design of the structure than originally bid, contributed to a project loss of \$175,000 in the first nine months of fiscal 2009. The loss on this project was more than offset by higher project margins initially realized in fiscal 2008 on the percentage of completion basis, before indirect production and overhead costs. Excluding the Coast Meridian Overpass project, average sales and gross profit per DLH were \$225 and \$20, respectively, for the nine months ended September 30, 2009. In addition, indirect production and overhead costs decreased by about \$1.7 million in the quarter, largely due to lower indirect wages and benefits and contributed to a \$1.2 million reduction in indirect production and overhead costs for the nine months ended September 30, 2009 compared to the same period last year. Despite the lower direct labour hour activity, these expense reductions contributed to increased gross profit of about \$2 per DLH in fiscal 2009.

The Company's 49% interest in Sorge's Welding Ltd. is accounted for as an equity investment. Higher operating expenses coupled with lower revenues from Sorge's Welding in the most recent quarter, partially offset by higher profits from the acquisition of Lemax, accounted for the majority of the decline in earnings from equity of \$230,000 and \$348,000 for the quarter and nine months ended September 30, 2009, respectively.

Operating, general & administrative ("OG&A") expenses of \$1.9 million for the quarter and \$6.2 million for the nine months ended September 30, 2009 decreased \$530,000 and \$870,000 over the same periods last year, respectively, reflecting staff reductions undertaken in late fiscal 2008 and further reductions in mid-2009, partially offset by increased non-payroll costs associated with additional leased office space and a change in categorization during fiscal 2008 to include project manager salaries in OG&A rather than cost of sales. Staff reductions undertaken in late fiscal 2008 as well as further staff and salary reductions which commenced in the third quarter are expected to contribute to lower OG&A and cost of sales throughout the balance of fiscal 2009.

The positive effects of cost reductions and containment, albeit on lower sales activity, resulted in positive EBITDA in the third quarter of \$354,000, a significant improvement over the \$3 million EBITDA loss in the first six months of fiscal 2009. The loss before interest, taxes, depreciation and amortization for the nine months ended September 30, 2009 of \$3.3 million deteriorated by \$6 million compared to the same period last year. Amortization decreased marginally to \$1.5 million for the nine months ended September 30, 2009 as a result of lower capital spending during the course of fiscal 2009. Accordingly, the loss before interest and taxes of \$4.8 million also declined by \$6 million from EBIT of \$1.1 million for the nine months ended September 30, 2008.

6.2 Specialized Engineered Products

Specialized Engineered Products For the periods ended September 30 (in thousands, except percentages)	Quarter ended			Nine months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	9,746	21,921	(12,175)	42,851	60,206	(17,355)
Cost of goods sold	(8,777)	(17,382)	8,605	(36,964)	(48,074)	11,110
Gross profit	969	4,539	(3,570)	5,887	12,132	(6,245)
Operating, general & administrative expenses	(1,952)	(3,034)	1,082	(6,350)	(7,937)	1,587
EBITDA	(983)	1,505	(2,488)	(463)	4,195	(4,658)
Amortization	(327)	(389)	62	(1,042)	(1,141)	99
EBIT	(1,310)	1,116	(2,426)	(1,505)	3,054	(4,559)
Operating highlights						
Margin (% of Sales)	9.94%	20.71%	(10.77%)	13.74%	20.15%	(6.41%)

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, Petrofield closed the sale of its combustion business assets, effective September 30, 2009, for \$10.2 million. Accordingly, the timing of this divestiture may affect the comparability of the results relative to the prior year going forward.

Sales of \$9.8 million for the quarter ended September 30, 2009, decreased by \$12.2 million over the same quarter last year and accounted for a substantial portion of the \$17.4 million decline in sales to \$42.9 million for the most recent nine month period compared to the nine months ended September 30, 2008. The quarter over quarter decline was comprised of a \$9.8 million decrease in Petrofield sales due to reduced sales of combustion and processing units as a result of lower overall activity in the oil and gas sector from the lingering effects of weak commodity prices. This was coupled with a \$2.6 million reduction in DSL sales, a \$326,000 reduction in Parr offset by a \$634,000 increase in sales in Ward due to a large contract to manufacture a bulk material handling system for an overseas client. The decline in DSL sales reflects the timing of commencement of fabrication of a large ride system late in the third quarter in fiscal 2009 compared to ongoing projects in same quarter last year.

Gross profit of \$5.9 million for the nine months ended September 30, 2009 declined by \$6.2 million over the same period last year. Sales margin of 10% during the third quarter and 13.7% during the nine-months ended September 30, 2009 declined 10.8% and 6.4% over the same quarter and nine month period last year, respectively. DSL margins decreased 21% for the quarter ended September 30, 2009 over the same quarter last year due to higher indirect and overhead expenses on a lower sales base, offset by improved margins in the quarter from both Parr and Ward, due to a large manufacturing job in Ward coupled with lower indirect and overhead expenses. Margin reductions continued in Petrofield in the most recent quarter, attributed to margin compression on some contracts, the disposition of slow moving inventory without margin during the first quarter and higher warranty claims incurred related to the manufacture of combustion products.

OG&A expenses for the nine months ended September 30, 2009 decreased \$1.6 million over the same period last year as a result of a further reduction of \$1.1 million in the most recent quarter. OG&A expenses in Petrofield for the most recent quarter declined by \$726,000 (due to lower selling expenses and restructuring savings) compared to the same quarter last year, coupled with a \$135,000 reduction in DSL (despite an increase in lease costs associated with the sale and leaseback of the Kingsway plant on July 31, 2009) and modest decreases in Ward and Parr.

Therefore, the segment realized an EBITDA loss of \$463,000 for the nine months ended September 30, 2009 compared to EBITDA of \$4.2 million in the prior year. Amortization of \$1 million for the most recent nine months declined by \$100,000 over the prior year resulting in EBIT decreasing by \$4.6 million to a loss of \$1.5 million for the nine months ended September 30, 2009.

6.3 Corporate Expenses

Corporate expenses For the periods ended September 30 (in thousands)	Quarter ended			Nine months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Miscellaneous income	16	20	(4)	60	20	40
Operating, general & administrative expenses	(443)	(386)	(57)	(1,391)	(1,431)	40
EBITDA	(427)	(366)	(61)	(1,331)	(1,411)	80
Amortization	(2)	(1)	(1)	(4)	(2)	(2)
EBIT	(429)	(367)	(62)	(1,335)	(1,413)	78

OG&A expenses decreased by \$40,000 to \$1.4 million for the nine months ended September 30, 2009, comprised largely of a \$274,000 decrease in non-cash stock-based compensation expenses coupled with advertising and promotional costs; offset by a higher wage and benefit costs and a \$204,000 increase in professional fees associated with the introduction of quarterly reviews, tax compliance reviews, sale transactions, financial restructuring and services associated with documenting internal controls over financial reporting.

7. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information For the periods ended September 30 (in thousands, per share amounts)	Quarter ended			Nine months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Sales	20,337	57,391	(37,054)	90,848	139,800	(48,952)
Cost of goods sold	(17,048)	(49,308)	32,260	(82,145)	(118,356)	36,211
Gross profit	3,289	8,083	(4,794)	8,703	21,444	(12,741)
Earnings (loss) from equity investment	(7)	223	(230)	110	458	(348)
Operating, general & administrative expenses	(4,338)	(5,893)	1,555	(13,914)	(16,411)	2,497
EBITDA	(1,056)	2,413	(3,469)	(5,101)	5,491	(10,592)
Amortization	(843)	(979)	136	(2,577)	(2,714)	137
EBIT	(1,899)	1,434	(3,333)	(7,678)	2,777	(10,455)
Gain (loss) on disposal of assets	(2,427)	16	(2,443)	(2,424)	29	(2,453)
Impairment loss on goodwill	(1,800)	-	(1,800)	(1,800)	-	(1,800)
Amortization of deferred gain on sale and leaseback	98	72	26	242	216	26
Interest expense	(1,117)	(813)	(304)	(2,400)	(2,297)	(103)
Unrealized gain (loss) on foreign exchange hedges	1,268	(339)	1,607	2,585	(831)	3,416
	(5,877)	370	(6,247)	(11,475)	(106)	(11,369)
Provision for income tax recovery (expense)						
Current	640	(37)	677	736	(325)	1,061
Future	698	(44)	742	2,417	422	1,995
	1,338	(81)	1,419	3,153	97	3,056
Net earnings	(4,539)	289	(4,828)	(8,322)	(9)	(8,313)
Weighted average common shares issued and outstanding	91,240	91,240	-	91,240	91,202	38
Earnings per share						
Basic & fully diluted	\$ (0.05)	\$ -	\$ (0.05)	\$ (0.09)	\$ -	\$ (0.09)

7.1 Gross Profit, EBITDA and EBIT

The Company's gross profit for the nine months ended September 30, 2009 decreased by \$12.7 million over the nine months ended September 30, 2008 with a \$6.5 million decrease in steel fabrication and installation services coupled with a \$6.2 million decrease in specialized engineered products. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

OG&A expenses decreased \$2.5 million or 15%, reflecting an \$870,000 decrease in steel fabrication and installation combined with a \$1.6 million decrease in specialized engineered products and a reduction in corporate expenses of \$40,000. Combined with a \$348,000 reduction in the Company's equity investment earnings in Sorge's, EBITDA decreased by \$10.6 million to a loss of \$5.1 million for the nine months ended September 30, 2009 and by \$3.5 million to a loss of \$1.1 million for the quarter ended September 30, 2009.

Amortization expenses decreased modestly to \$843,000 for the quarter and \$2.6 million for the nine months ended September 30, 2009 compared to the same periods last year. As a result, EBIT decreased \$10.5 million to a loss of \$7.7 million for the most recent nine month period compared to the nine months ended September 30, 2008. The EBITDA loss in the third quarter of \$1.1 million is tracking at a lower rate than the \$4 million EBITDA loss in the first six months of fiscal 2009, despite one-time severance costs, restructuring costs and inventory write-downs that occurred in the third quarter.

7.2 Gain (Loss) on Disposal of Assets and Impairment Loss on Goodwill

The modest gain on disposal of assets in the same quarter and nine months last year arose entirely from the sale of property, plant and equipment in the ordinary course of business. The net loss on disposal of assets for the

quarter and nine months ended September 30, 2009 of \$4.2 million is comprised of a gain on disposal of property, plant, equipment and other assets of \$2.3 million, a loss on disposal of goodwill of \$4.7 million and a loss on disposal of intangible assets of \$28,000 associated with the sale of Petrofield's combustion business for gross proceeds of \$10.2 million.

The Company also recorded a loss on impairment of goodwill of \$1.8 million associated with Petrofield's residual business assets which, combined with the goodwill write-down noted above, resulted in a combined write-down of goodwill of \$6.5 million.

In addition, the Company realized a gain on disposal of property, plant and equipment of \$1.5 million from the sale & leaseback of the Kingsway plant for \$9.5 million. The gain has been deferred and is being amortized into income over the ten year term of the lease.

7.3 Interest Expenses

Interest costs of \$598,000 for the quarter and \$1.9 million for the nine months ended September 30, 2009 (excluding \$519,000 in interest penalties associated with the pre-payment of the GE term debt) declined slightly from \$813,000 for the same quarter and \$2.3 million for the same nine months last year, respectively, as a result of a decline in interest-bearing funded debt to \$30.9 million arising from \$14 million in scheduled debt repayments and bank operating line repayments for the nine months ended September 30, 2009 as well as lower interest rates compared to the same periods last year.

7.4 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark-to-market basis using closing market quotations. Open foreign exchange forward contracts marked to market in this way remain unrealized and the \$2.6 million gain for the nine months ended September 30, 2009 therefore represents non-cash pre-tax earnings (September 30, 2008 - \$831,000 non-cash pre-tax losses) in the period.

7.5 Income Taxes

The Company's income tax recovery of \$1.3 million, or an effective tax recovery rate of 22.8% (September 30, 2008 - 21.8% tax rate) for the quarter ended September 30, 2009, contributed to an income tax recovery of \$3.2 million, or an effective tax recovery rate of 27.5% (September 30, 2008 - 91.6% tax recovery rate), for the nine months ended September 30, 2009.

7.6 Loss for the Period

The net loss of \$4.5 million (\$0.05 basic and diluted loss per share) for the quarter ended September 30, 2009 was \$4.8 million worse than the restated net earnings of \$290,000 (\$nil basic and diluted earnings per share) for the same quarter in 2008 (originally reported as net earnings of \$525,000 or \$0.01 basic and diluted earnings per share). The net loss of \$8.3 million (\$0.09 basic and diluted loss per share) for the nine months ended September 30, 2009 was \$8.3 million worse than the restated net loss of \$9,000 (\$nil basic and diluted loss per share) reported for the same period in fiscal 2008 (originally reported as net earnings of \$485,000 or \$0.01 basic and diluted earnings per share).

The write-down of goodwill of \$6.5 million associated with Petrofield noted above under "7.2 Gain (Loss) on Disposal of Assets and Impairment Loss on Goodwill", contributed a \$0.07 basic and diluted loss per share for the quarter and year-to-date ended September 30, 2009.

7.7 Selected Quarterly Financial Information

Selected Quarterly Financial Information								
For the quarters ended								
<i>(in thousands, except per share amounts)</i>								
<i>(Unaudited)</i>	2009 Q3	2009 Q2	2009 Q1	2008 Q4	(Restated) 2008 Q3	(Restated) 2008 Q2	(Restated) 2008 Q1	(Restated) 2007 Q4
Sales and revenue from services	\$ 20,337	\$ 28,559	\$ 41,952	\$ 40,214	\$ 57,391	\$ 43,715	\$ 38,693	\$ 35,969
Net income (loss)	(4,539)	(2,170)	(1,613)	(1,750)	290	(314)	15	519
Earnings (loss) per share:								
Basic	(0.05)	(0.02)	(0.02)	(0.02)	-	-	-	-
Diluted	(0.05)	(0.02)	(0.02)	(0.02)	-	-	-	-

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

The quarterly results for fiscal 2008 were restated to reflect the value of stock options cancelled or forfeited of \$20,554. These cancellations and forfeitures were originally recorded as a direct increase in retained earnings and, although there is no resulting impact on retained earnings and shareholders' equity, should have first been reflected as a non-cash reduction in operating, general and administrative expenses and a corresponding increase in net earnings.

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

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

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

The quarterly results for the third quarter of fiscal 2009 include a write-down of goodwill related to Petrofield of \$6.5 million which contributed a \$0.07 loss per share to the quarter offset by a gain on sale of property, plant, equipment and other assets related to Petrofield's combustion business of \$2.2 million.

8. OTHER MATTERS

8.1 Related Party Transactions

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

Rent was paid to companies controlled by officers, directors and members of their families in the ordinary course of operations and measured at the value of consideration established and agreed to by the parties in the amount of \$466,449 for the nine months ended September 30, 2009 (September 30, 2008 - \$432,482).

8.2 Accounting Policy Changes

8.2.1 Goodwill and Intangibles

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

8.3 Future Changes in Accounting Policies

8.3.1 International Financial Reporting Standards (“IFRS”)

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

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

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

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

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

9. LIQUIDITY AND CAPITAL RESOURCES

9.1 Sources and Uses

9.1.1 Cash Flow Provided by Operations

Cash Flow Provided by (Used in) Operations For the periods ended September 30 (in thousands, per share amounts)	Quarter ended			Nine months ended		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
EBITDA	(1,056)	2,413	(3,469)	(5,101)	5,491	(10,592)
Add (deduct):						
Non-cash compensation expense (recovery)	(19)	71	(90)	46	299	(253)
Loss (earnings) from equity investments	8	(223)	231	(110)	(458)	348
Investment tax credits received	-	-	-	-	402	(402)
Adjusted EBITDA	(1,067)	2,261	(3,328)	(5,165)	5,734	(10,899)
Interest expense	(1,117)	(813)	(304)	(2,400)	(2,297)	(103)
Capitalized interest	109	117	(8)	317	274	43
Pre-tax cash flow provided by operations	(2,075)	1,565	(3,640)	(7,248)	3,711	(10,959)
Current income tax recovery (expense)	640	(37)	677	736	(325)	1,061
Cash flow provided by (used in) operations	(1,435)	1,528	(2,963)	(6,512)	3,386	(9,898)
Cash flow provided by (used in) operations per share	\$ (0.02)	\$ 0.02	\$ (0.04)	\$ (0.07)	\$ 0.04	\$ (0.11)

The Company's EBITDA for the nine months ended September 30, 2009 decreased by \$10.6 million over the nine months ended September 30, 2008 with a \$6 million decrease in steel fabrication and installation services coupled with a \$4.6 million decrease in specialized engineered products. The factors underlying these changes are discussed in greater detail above under "Business Segment Performance".

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

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

9.1.2 Non-Cash Working Capital

Non-cash Working Capital As at September 30 (in thousands)	2009	2008	Sources (Uses)
Accounts receivable	17,623	51,806	34,183
Inventory	8,991	18,775	9,784
Other current assets	11,975	1,614	(10,361)
Intercompany receivable (liability)	1,096	17	(1,079)
Accounts payable and accrued expenses	(10,101)	(32,026)	(21,925)
	29,584	40,186	10,602

Overall inventory levels at September 30, 2009 decreased \$9.8 million from the same period last year, largely due to a \$5.9 million 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 effective September 30, 2009.

Accounts receivable at September 30, 2009 decreased \$34.2 million from the prior year principally attributed to an \$18.9 million reduction in receivables in steel fabrication and installation services in GTS, EIW and Hopkins, a \$7 million reduction in receivables in specialized engineered products, coupled with a \$2.6 million disposition of receivables associated with the sale of Petrofield's combustion business effective September 30, 2009. All subsidiaries have demonstrated consistent maintenance or improvement in accounts receivable collections over the past 12 months.

The \$10.4 million increase in other current assets primarily includes \$10.2 million in sale proceeds from the disposition of Petrofield's combustion business effective September 30, 2009 which closed October 5, 2009 and modest increases in income tax recoverable and prepaid expenses.

The intercompany receivable from Sorge of \$1.1 million at September 30, 2009 largely reflects increased steel fabrication work being undertaken by EIW and GTS for contracts secured by Sorge.

Accounts payable and accrued expenses of \$10.1 million at September 30, 2009 decreased \$21.9 million from September 30, 2008 as sales activity levels have slowed in the first nine months of fiscal 2009 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. All subsidiaries continue to maintain consistent trade payment terms despite the lower aggregate level of trade credit.

9.1.3 Net Capital Expenditures and Investments

Capital expenditures of \$1.2 million for the nine months ended September 30, 2009 decreased \$2.5 million over the same period last year as the Company actively reduced its capital spending program in response to reduced industrial and commercial capital spending projects. At the same time, DSL disposed of its Kingsway plant under a sale & leaseback for \$9.5 million, representing the majority of total proceeds from capital disposals for the most recent nine month period. Although the Company's Petrofield subsidiary disposed of its combustion business effective September 30, 2009, the proceeds of sale were not received until October 5, 2009. The Company expects to use cash flow provided by operating activities or proceeds of dispositions to fund planned capital expenditures for the balance of fiscal 2009.

9.2 Debt

9.2.1 Short-term Debt

The Company's cash flow provided by operating activities during the nine months ended September 30, 2009 of \$8.8 million increased \$4.3 million compared to cash flow provided by operating activities of \$4.5 million during the same nine month period last year. Non-cash working capital decreased \$11.8 million year-over-year for the reasons noted under "Sources and Uses – Non-Cash Working Capital", offset by a \$9.9 million reduction in cash flow provided by operations and resulting in a \$5.1 million increase in cash flow provided by operating activities for the 12 months ended September 30, 2009. Other working capital adjustments includes \$5 million in proceeds receivable at September 30, 2009 from the sale of property, plant and equipment of Petrofield's combustion business assets collected October 5, 2009.

Bank operating loans at September 30, 2009 were \$323,000 lower than a year earlier as a result of \$11.1 million of free cash flow over the 12 months ended September 30, 2009, offset by scheduled debt repayments of \$1.1 million, \$6.7 million of non-scheduled debt repayments associated with the sale and leaseback of the Kingsway plant and increased cash and cash equivalents of \$3 million. The Company generated positive free cash flow for the 12 months ended September 30, 2009 due to net capital proceeds of \$5.5 million, cash flow provided by operating activities of \$5.2 million and investment proceeds of \$420,000.

Short-term Debt As at September 30 <i>(in thousands)</i>	2009	2008	Better (Worse)	<i>Trailing Twelve Months ended</i> 2009
Cash flow provided by (used in) operations	(6,512)	3,386	(9,898)	(8,003)
Decrease (increase) in non-cash working capital	11,706	(152)	11,858	10,602
Less: Working capital acquired (disposed of)	-	(741)	741	-
Less: Other balance sheet adjustments	3,584	1,981	1,603	2,545
Cash flow from operating activities	8,778	4,474	4,304	5,144
Net capital proceeds (expenditures)	8,353	(2,633)	10,986	5,499
Other investments	15	155	(140)	420
Free cash flow	17,146	1,996	15,150	11,063
Business divestitures	-	850	(850)	-
Debt disposed of	-	7	(7)	-
Financing activities				-
Scheduled debt repayments, net of advances	(2,212)	(6,569)	4,357	(1,118)
Non-scheduled debt repayments	(6,648)	-	(6,648)	(6,648)
Proceeds of issue of common shares	-	24	(24)	-
Decrease (increase) in cash and cash equivalents	(3,163)	217	(3,380)	(2,974)
Sources (uses) of cash	5,123	(3,475)	8,598	323
Bank operating loans, beginning of periods	(27,016)	(18,741)	(8,275)	(22,216)
Bank operating loans, end of periods	(21,893)	(22,216)	323	(21,893)
Revolving Credit facilities:				
Revolving facilities	31,500	31,500	-	
Available uncommitted revolving facilities	1,164	7,048	(5,884)	

The Company's aggregate revolving facilities with HSBC, RBC and BMO remained unchanged year over year, although actual availability of these facilities was limited by the Company's underlying marginable assets available to secure them. The Company's available uncommitted short-term revolving facilities at September 30, 2009 decreased by \$5.9 million as reductions in marginable assets exceeded sources of cash of \$323,000.

EIW, Ward and Hopkins share a line of credit with the Royal Bank of Canada of \$6 million, payable on demand, secured by a general assignment of inventories and accounts receivable, a fixed charge on all property, a floating charge on all assets and a postponement of claim given by certain shareholders. Although the Company was not in compliance with the bank's maximum debt to tangible net worth covenant at December 31, 2008, it has remained in compliance since March 31, 2009. In an amendment to the bank agreement, the funded debt to EBITDA covenant which the Company was not in compliance with at December 31, 2008 was replaced by a debt service charge covenant. The Company was not in compliance with the new debt service charge covenant effective for the quarters ended June 30, 2009 and September 30, 2009. As a result of the continuing covenant violations, the Company has provided a letter to RBC agreeing to make every reasonable effort to repay in full the amounts due under the senior secured credit agreement with RBC by January 31, 2010. In return for the receipt of the letter, RBC has agreed not to enforce its rights under the credit agreement for a period up to January 31, 2010, provided there is no material adverse change in the bank's risk during the period and the Company complies with the conditions outlined in the commitment letter. Subsequent to September 30, 2009, the Company applied \$800,000 of the proceeds received from the sale of Petrofield's combustion business assets to reduce the draws under the RBC operating line.

GTS and DSL share a line of credit with HSBC of \$15 million, payable on demand, secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrowers and a floating charge over all of the borrowers' present and after acquired real property except for certain priorities granted to other lenders. The Company has not been in compliance with the bank's maximum debt to tangible net worth and minimum current ratio covenants since March 31, 2009. On August 10, 2009, the Company announced that it had successfully negotiated a forbearance agreement with HSBC. Under the terms of the agreement, HSBC has agreed not to enforce its rights under the senior secured credit agreement for a period up to January 31, 2010, provided there is no event of default

under the forbearance agreement. During the quarter, the Company applied \$2.2 million of the proceeds received from the sale of the Kingsway facility on July 31, 2009 to reduce operating line draws with HSBC. Subsequent to September 30, 2009, the Company applied \$800,000 of the proceeds received from the sale of Petrofield's combustion business assets to further reduce the draws under the HSBC operating line.

Petrofield had a maximum credit facility with the Bank of Montreal ("BMO") in the amount of \$10.5 million, payable on demand, secured by a registered general security agreement and an assignment of insurance in favour of the bank as a first loss payable on equipment and inventory. The bank's financial covenants for maximum senior debt to EBITDA, minimum current ratio and minimum tangible net worth were all met as at September 30, 2009. On October 5, 2009, the Company repaid all of the operating and term debt owed to BMO from the proceeds of the sale of Petrofield's combustion business assets.

The Company is pursuing a number of initiatives to continue to improve its covenant compliance including, but not limited to, a reduction in funded debt through settlement of receivables from related companies, working capital management, increased revenue generating activity, cost containment, cost reductions, disposition of redundant or non-core assets, refinancing of certain long-term assets and increasing the company's equity (See "5.0 Restructuring Plans").

9.2.2 Long-term Debt

The Company made \$2.1 million of scheduled principal repayments during the first nine months of the year combined with non-scheduled debt repayments of \$6.6 million associated with the full repayment of the Company's GE term debt from proceeds of the sale and leaseback of the Kingsway plant in Vancouver, BC. The Company also repaid \$191,000 in notes payable.

Total long-term debt of \$11.6 million as at September 30, 2009 consisted of \$5.9 million of scheduled long-term debt including capital lease obligations, \$5.2 million of notes payable and \$485,000 in shareholder loans. Of these amounts: \$1.8 million is scheduled for repayment within the next 12 months; \$434,000 was reclassified to current portion of long-term debt related to the sale of Petrofield's combustion business assets effective September 30, 2009; \$1.5 million in notes to AMEC are scheduled to mature April 30, 2010 based on draft amended payment terms; and an additional \$3.5 million in long-term debt otherwise due beyond one year but reclassified to current portion in accordance with generally accepted accounting principles as a result of the covenant breaches on the HSBC and RBC operating lines noted above.

Subsequent to quarter-end, the proceeds from of the sale of Petrofield's combustion business assets as noted above were used to retire \$602,000 of term debt and \$6.2 million of draws on the BMO bank operating lines.

9.2.3 Convertible Debentures

The acquisition of Petrofield on November 30, 2007 included assuming convertible debentures ("the Debentures") bearing interest at 8%, maturing June 1, 2011 and convertible into common shares at the rate of 100 common shares of EIL for each \$67 of principal value. As at September 30, 2009, \$60,000 of Debentures remained issued and outstanding, comprised of \$53,514 ascribed to long-term debt and \$12,975 ascribed to contributed surplus, offset by \$6,489 in non-cash interest charged to retained earnings. During the nine months ended September 30, 2009, none of the Debentures had been converted into common shares.

9.3 Share Capital and Retained Earnings

The deficit of \$5.2 million at September 30, 2009 was \$8.3 million lower than retained earnings December 31, 2008 due to the net loss for the nine months ended September 30, 2009, including a \$2.6 million unrealized non-cash foreign exchange hedge gain offset by a \$6.5 million non-cash loss on write-down of goodwill. No dividends were declared or paid in the year.

Certain foreign exchange hedges at September 30, 2008 previously designated as cash flow hedges were re-designated as fair value hedges and a foreign operation previously reported as a self-sustaining foreign operation

was re-designated as a an integrated foreign operation. As a result of these and other changes, retained earnings and contributed surplus at September 30, 2008 were restated resulting in an increase in retained earnings of \$291,000 over the \$4.5 million level originally reported at September 30, 2008 and an increase in contributed surplus of \$3,000 to \$1.4 million at September 30, 2008, offset by the restatement of accumulated other comprehensive income ("AOCI") of \$62,000 originally reported at September 30, 2008 to nil. As a result, shareholders' equity for the nine months ended September 30, 2008 increased by \$232,000.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 6,074,440 outstanding options at September 30, 2009. The average exercise price of the outstanding options is \$0.50 per share and the average exercise price of the 4,510,440 exercisable options is \$0.49 per share.

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

9.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at November 20, 2009 was \$6.8 million or \$0.075 per share compared with the Company's book value of \$0.34 per share at September 30, 2009. The issued and outstanding common shares at November 20, 2009, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares	
As at November 20, 2009 (Unaudited)	
Issued and outstanding common shares	91,239,608
Securities convertible into common shares	
\$60,000 - 8% convertible debentures, maturing June 1, 2011 convertible at 1492.537 shares per \$1,000 principal amount	89,552
Stock options	6,074,440
Warrants	300,000
	97,703,600

9.5 Financial Ratios

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

The Company's net funded debt of \$30.8 million at September 30, 2009 decreased \$10.6 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 47.6% at September 30, 2009, an improvement compared to 49.3% at the same date last year and the 54.5% reported at December 31, 2008. On a *pro forma* basis, had the sale of Petrofield's combustion business assets closed on September 30, 2009, it would have reduced net funded debt by \$10.2 million to \$20.7 million and reduced capitalization to \$54.6 million thus improving the Net Funded Debt:Capitalization ratio to 38%.

The Company's current ratio of 1.04 times at September 30, 2009 decreased from 1.13 times at September 30, 2008, due in part to the reclassification of the long-term scheduled portion of the RBC term debt and HSBC capital leases of \$3.5 million to current liabilities as noted above. Excluding this reclassification of long-term debt, the current ratio would have increased to 1.13 times at September 30, 2009, consistent with the prior year.

10. RISKS & UNCERTAINTIES

10.1 Operating Results

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

10.2 Liquidity Requirements

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

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

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

10.3 Credit Risk

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

10.4 Interest Rate Risk

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

10.5 Foreign Exchange Risk

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

10.6 Bonding Capacity

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

10.7 Cost of Raw Material

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

10.8 Project Performance

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

10.9 Percentage of Completion Accounting Method

The Company recognizes revenue from its fabrication and erection contracts using the percentage of completion accounting method, based on costs incurred as compared to projected costs. Estimated losses on contracts are immediately recognized. Revenue estimates are based on management assumptions supported by historical experience. There can be no assurance that these estimates made during the contract execution phase will not vary from the actual results measured at the completion of the contract.

10.10 Competitive Market

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

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

10.11 Global Economic Environment

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

10.12 Non-residential Construction Activity in Western Canada

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

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

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

10.13 Reliance on Key Personnel

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

10.14 Labour Relations

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

10.15 Acquisitions

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

10.16 Technological Change

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

10.17 Environment/Regulatory

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

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

11. OUTLOOK

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

The Company's steel fabrication backlog at September 30, 2009 of \$25 million declined from \$33 million at June 30, 2009 and \$46 million at March 31, 2009. In contrast to the previous quarter, the Company expects its steel fabrication group to start to be positively impacted by the federal and provincial infrastructure spending programs and the strengthening of oil prices affecting oilsands new projects and ongoing maintenance expenditures that are the central driver of the western Canadian economy. The contracting industry always lags behind activity in the engineering industry that have all seen significant increases in their current business levels.

Despite the Company's lower backlog at September 30, 2009, it has substantial value in bids on pending work that are dependent on both a decision of the client to proceed and notification that the Company is the successful bidder. The Company expects that margins will remain very competitive until the contracted work starts to absorb unused capacity in the industry. Mitigating these lower margins is the fact that the Company has significantly reduced its overhead structure and facility obligations so productivity gains as business builds is expected to have a very positive impact on profitability. This expectation is confirmed by the performance of the steel fabrication group in the third quarter where sales were down significantly but the steel fabrication group generated positive EBITDA in the third quarter.

The Company's outlook for its engineered products group for the balance of fiscal 2009 is mixed. The oil and gas process equipment division is tied to conventional drilling activity and gas prices. Continued uncertainty around royalty tax regimes in Alberta presents a challenging outlook for the coming months. However, the amusement ride division will be finishing an iconic ride for a client in North America that has carried a low project margin throughout and is commencing the fabrication of a new ride at more normalized margins. The Company's unique and growing reputation in the industry is expected to bode well over the coming year. Higher and more normal margins are being and expected to continue to be realized on new contract awards. The bidding activity in the amusement ride industry is picking up pace and the company is uniquely positioned to capitalize on a rapidly growing export market in Asia. The outlook for this division is positive.

As with the steel fabrication group, Petrofield has provided significant quotes on future work that are dependent on the decision of the customer to proceed and notification that the Company's quote has been accepted. The Company's aboriginal strategic venture remains well positioned to capitalize on the demand for maintenance services in the Alberta oilsands region.

As disclosed previously, the Company and the board of directors are continuing to evaluate alternatives to optimize the intrinsic value and financial performance of the Company including improved working capital management, the disposition of non-core or redundant assets, cost containment and cost reduction, refinancing of certain long-term assets and increases in shareholder equity.

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 September 30 <i>(in thousands, except percentages and ratios)</i>	<i>Quarter ended</i>			<i>Nine months ended</i>		
	2009	2008	Better (Worse)	2009	2008	Better (Worse)
Gross profit	3,289	8,083	(4,794)	8,703	21,444	(12,741)
Earnings (loss) from equity investment	(7)	223	(230)	110	458	(348)
Operating, general and administrative expenses	(4,338)	(5,893)	1,555	(13,914)	(16,411)	2,497
EBITDA	(1,056)	2,413	(3,469)	(5,101)	5,491	(10,592)
Amortization	(843)	(979)	136	(2,577)	(2,714)	137
EBIT	(1,899)	1,434	(3,333)	(7,678)	2,777	(10,455)
Cash flow provided by operations	(1,435)	1,528	(2,963)	(6,512)	3,386	(9,898)
Decrease (increase) in working capital	3,790	(2,478)	6,268	15,290	1,088	14,202
Property, plant and equipment expenditures	(156)	(1,528)	1,372	(1,151)	(3,670)	2,519
Proceeds from disposal of property, plant and equipment	9,500	586	8,914	9,504	1,037	8,467
Decrease (increase) in other long-term assets	-	100	(100)	15	155	(140)
Free cash flow	11,699	(1,792)	13,491	17,146	1,996	15,150
Bank operating loans				21,893	22,216	(323)
Current portion of long-term debt and notes payable				3,743	4,600	(857)
Long-term debt reclassified to current portion				3,452	-	3,452
Long-term debt and notes payable				3,910	13,838	(9,928)
Bank indebtedness (cash)				(2,142)	831	(2,973)
Net funded debt				30,856	41,485	(10,629)
Convertible debentures				53	50	3
Subordinated shareholder loans				485	485	-
Deferred gain on sale and leaseback				2,441	1,209	1,232
Shareholders' equity				30,952	40,947	(9,995)
Capitalization				64,787	84,176	(19,389)
Net funded debt : Capitalization				47.6%	49.3%	1.7%
Current assets				43,911	72,223	(28,312)
Current liabilities				(42,150)	(63,640)	21,490
Working capital				1,761	8,583	(6,822)
Current ratio (Current assets : Current liabilities)				1.04	1.13	(0.09)

EMPIRE INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(unaudited)

EMPIRE INDUSTRIES LTD.

Consolidated Balance Sheets

	September 30, 2009 (unaudited)	September 30, 2008 (unaudited) (Restated – Note 4)	December 31, 2008 (audited)
Assets			
Current assets:			
Cash (Note 8)	\$ 2,142,093	\$ -	\$ -
Accounts receivable (Note 7)	17,623,467	51,805,807	44,696,357
Sale proceeds receivable (Note 14(b))	10,168,797	-	-
Current portion of notes receivable	-	11,682	6,275
Income taxes recoverable	672,412	533,640	204,147
Receivable from related parties	1,095,889	17,030	647,188
Inventories	8,991,234	18,775,350	18,365,879
Prepaid expenses and deposits	1,134,248	1,079,687	1,504,030
Foreign exchange hedge contracts	1,983,051	-	-
Future income taxes	99,504	-	135,232
	43,910,695	72,223,196	65,559,108
Notes receivable	16,966	18,186	18,126
Foreign exchange hedge contracts	-	34,875	-
Investments	1,371,314	1,700,251	1,207,950
Property, plant and equipment	20,440,159	29,325,038	31,321,076
Patents	6,886	43,870	43,323
Goodwill (Note 10)	10,923,416	17,395,067	17,395,067
Future income taxes	4,488,147	-	2,259,743
	\$ 81,157,583	\$ 120,740,483	\$ 117,804,393
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness (Note 8)	\$ -	\$ 830,865	\$ 1,020,409
Bank operating lines (Note 8)	21,892,820	22,215,849	27,015,994
Accounts payable and accrued liabilities	9,960,350	31,500,339	23,095,833
Income taxes payable	141,339	525,514	1,031,140
Long-term debt due within one year - Long-term debt (Note 9)	5,710,924	3,199,925	5,403,404
Notes payable	1,483,770	1,400,000	1,591,475
Payable to shareholders	485,000	485,000	485,000
Foreign exchange hedge contracts	-	27,982	577,567
Deferred gain on sale and leaseback (Note 14(a))	442,451	287,900	287,900
Future income taxes	2,032,948	3,167,109	1,505,570
	42,149,602	63,640,483	62,014,292
Long-term debt (Note 9)	185,692	10,252,507	9,162,312
Notes payable	3,724,534	3,585,139	3,494,532
Convertible debentures	53,514	49,806	50,733
Foreign exchange hedge contracts	-	-	24,570
Deferred gain on sale and leaseback (Note 14(a))	1,998,106	920,804	848,829
Future income taxes	2,094,113	1,344,580	2,981,260
	50,205,561	79,793,319	78,576,528
Basis of Presentation (Note 2)			
Shareholders' equity:			
Capital stock	34,720,418	34,720,418	34,720,418
Contributed surplus	1,496,660	1,419,624	1,450,461
Retained earnings (deficit)	(5,265,056)	4,807,122	3,056,986
	30,952,022	40,947,164	39,227,865
	\$ 81,157,583	\$ 120,740,483	\$ 117,804,393

See accompanying notes to the unaudited consolidated financial statements

Approved by the Board: "Guy Nelson"
Director

"Norm Harrison"
Director

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Operations
For the periods ended September 30
(unaudited)

	Three months		Nine months	
	2009	2008 (Restated – Note 4)	2009	2008 (Restated – Note 4)
Sales	\$ 20,336,955	\$ 57,390,933	\$ 90,848,150	\$ 139,799,753
Cost of goods sold	(17,047,954)	(49,307,356)	(82,144,775)	(118,355,490)
Gross profit	3,289,001	8,083,577	8,703,375	21,444,263
Operating, general and administrative expenses	(4,337,875)	(5,893,504)	(13,914,008)	(16,411,411)
Income (loss) from equity accounted for investments and other investments	(7,626)	223,153	109,965	458,295
	(4,345,501)	(5,670,351)	(13,804,043)	(15,953,116)
Earnings (loss) before the undernoted	(1,056,500)	2,413,226	(5,100,668)	5,491,147
Amortization	(842,884)	(979,050)	(2,576,860)	(2,713,706)
Operating income (loss)	(1,899,384)	1,434,176	(7,677,528)	2,777,441
Other income (expenses):				
Amortization of deferred gain on sale and leaseback	97,733	71,975	241,683	215,925
Gain (loss) on disposal of property, plant, equipment, intangibles and other assets (Note 14(b))	(2,427,426)	16,243	(2,424,444)	29,377
Impairment loss on goodwill (Note 10)	(1,800,000)	-	(1,800,000)	-
Interest on long term debt and notes payable	(769,022)	(337,932)	(1,380,774)	(962,811)
Other interest	(346,391)	(474,523)	(1,019,232)	(1,334,726)
Unrealized gain (loss) on foreign exchange hedge contracts	1,267,631	(339,321)	2,585,188	(830,811)
	(3,977,475)	(1,063,558)	(3,797,579)	(2,883,046)
Net income (loss) before income taxes	(5,876,859)	370,618	(11,475,107)	(105,605)
Income taxes recovery (expense):				
Current	639,665	(37,090)	735,642	(325,000)
Future	698,523	(44,020)	2,417,423	421,706
	1,338,188	(81,110)	3,153,065	96,706
Net income (loss) for the period	\$ (4,538,671)	\$ 289,508	\$ (8,322,042)	\$ (8,899)
Loss per share:				
Basic and diluted (Note 5)	\$ (0.05)	\$ Nil	\$ (0.09)	\$ Nil

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity

As at September 30

(unaudited)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Shareholders Equity
As at September 30, 2008 (as previously reported)	\$ 34,720,418	\$ 1,416,843	\$ 62,200	\$ 4,515,682	\$ 40,715,143
Restatement (Note 4)	-	2,781	(62,200)	291,440	232,021
As at September 30, 2008 (as restated)	34,720,418	1,419,624	-	4,807,122	40,947,164
Stock-based compensation	-	30,837	-	-	30,837
Loss for the period	-	-	-	(1,750,136)	(1,750,136)
As at December 31, 2008	34,720,418	1,450,461	-	3,056,986	39,227,865
Stock-based compensation	-	46,199	-	-	46,199
Loss for the period	-	-	-	(8,322,042)	(8,322,042)
As at September 30, 2009 (unaudited)	\$ 34,720,418	\$ 1,496,660	\$ -	\$ (5,265,056)	\$ 30,952,022

See accompanying notes to the unaudited consolidated financial statements

EMPIRE INDUSTRIES LTD.

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

	Three months		Nine months	
	2009	2008 (Restated – Note 4)	2009	2008 (Restated – Note 4)
Cash provided by (used in):				
Operating:				
Net income (loss) for the period	\$ (4,538,671)	\$ 289,508	\$ (8,322,042)	\$ (8,899)
Amortization	842,884	979,050	2,576,860	2,713,706
Deferred gain on sale and leaseback	(97,733)	(71,975)	(241,683)	(215,925)
Loss (gain) on disposal of property, plant, equipment, intangibles and other assets (Note 14(b))	2,427,426	(16,243)	2,424,444	(29,377)
Impairment loss on goodwill (Note 10)	1,800,000	-	1,800,000	-
Loss (income) from equity accounted for investments	7,626	(223,153)	(109,965)	(458,295)
Non-cash interest expense	109,559	116,695	316,565	274,799
Stock based compensation expense (recovery)	(19,840)	70,599	46,199	299,214
Unrealized foreign exchange hedge contract loss (gain)	(1,267,631)	339,321	(2,585,188)	830,811
Future income tax expense (recovery)	(698,523)	44,020	(2,417,423)	(421,706)
Investment tax credits received	-	-	-	401,872
Cash flow provided by (used in) operations	(1,434,903)	1,527,822	(6,512,233)	3,386,200
Change in non-cash working capital	3,789,723	(2,478,874)	15,289,895	1,087,862
Cash flow provided by (used in) operating activities	2,354,820	(951,052)	8,777,662	4,474,062
Investing activities:				
Business divestitures	-	850,000	-	850,000
Proceeds on disposal of property, plant and equipment	9,500,000	585,773	9,503,620	1,037,165
Purchase of property, plant & equipment	(155,649)	(1,527,499)	(1,150,455)	(3,669,684)
Purchase of investment	-	-	-	(3,000)
Proceeds on disposal of intangible assets	1	-	8,001	-
Repayment of notes receivable	-	85,392	7,435	142,811
Proceeds from disposition of other assets	-	15,000	-	15,000
	9,344,352	8,666	8,368,601	(1,627,708)
Financing activities:				
Increase (decrease) in bank operating lines	(2,219,539)	2,262,607	(5,123,174)	3,480,767
Issue of long-term debt	-	-	-	39,155
Repayment of long-term debt	(7,206,457)	(690,975)	(8,669,100)	(1,892,666)
Issue of shareholders loans	-	-	-	3,883
Repayment of shareholders loans	-	(6,090)	-	(48,090)
Repayment of notes payable	-	247,137	(191,487)	(1,448,656)
Repayment of convertible debentures	-	-	-	(3,221,900)
Proceeds of issue of common shares	-	-	-	24,473
	(9,425,996)	1,812,679	(13,983,761)	(3,063,034)
Change in bank indebtedness	2,273,176	870,293	3,162,502	(216,680)
Bank indebtedness beginning of the period	(131,083)	(1,701,158)	(1,020,409)	(614,185)
Cash (bank indebtedness) end of the period	\$ 2,142,093	\$ (830,865)	\$ 2,142,093	\$ (830,865)
Supplementary cash flow information:				
Interest paid	\$ (1,011,172)	\$ (464,441)	\$ (2,310,793)	\$ (1,750,630)
Income taxes (paid) recovered	\$ 191,526	\$ (398,260)	\$ (622,424)	\$ (196,559)

See accompanying notes to the unaudited consolidated financial statements

1. Nature of the business

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

The financial statements of Empire Iron Works Ltd. contained herein include the accounts of its wholly owned subsidiaries, Hopkins Steel Works Ltd., Ward Industrial Equipment Ltd., and Parr Metal Fabricators Ltd. The financial statements of George Third & Son Ltd. contained herein include the accounts of its wholly owned U.S. subsidiary, KWH Constructors Inc. The financial statements of 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 U.S. 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.

Certain of the Company's debt obligations, including those disclosed in Notes 8, 9 and 12, are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. As at September 30, 2009, the Company was not in compliance with certain of its financial covenants on debt obligations. In addition, the Company's ability to maintain compliance with its other financial covenants in the future is dependent upon various factors, some of which are outside the control of the Company.

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

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

3. Accounting principles

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

EMPIRE INDUSTRIES LTD.

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

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

	Three months ended September 30, 2008 (As previously reported)	Three months ended September 30, 2008 (As restated)	Ref.
Property, plant & equipment	\$ 29,454,860	\$ 29,325,038	(i)
Future income tax liabilities, net	4,873,532	4,511,689	(i)
Retained earnings	4,515,682	4,807,122	(i) (ii)(iii)(iv)
Contributed surplus	1,416,843	1,419,624	(i)(iv)
Accumulated other comprehensive income	62,200	-	(i) (ii) (iii)
Shareholders' equity	40,715,143	40,947,164	(i)
Sales	57,409,168	57,390,933	(iii)
Gross profit	8,101,812	8,083,577	(iii)
Operating, general and administrative expenses	(5,874,891)	(5,893,504)	(v)
Interest expense	(811,528)	(812,455)	(iv)
Unrealized foreign exchange hedge contract loss	-	(339,321)	(ii)
Net income before income taxes	713,064	370,618	(ii)(iii)(iv)(v)
Future income tax expense	(150,906)	(44,020)	(ii)
Net income	525,068	289,508	(ii)(iii)(iv)(v)
Other comprehensive loss	(250,670)	-	(ii) (iii)
Comprehensive income	274,398	289,508	(iv)(v)
Earnings per share – basic and diluted	\$ 0.01	\$ Nil	

- (i) The cumulative impact of the restated results for the year ended December 31, 2007 and the six months ended June 30, 2008 included a reduction in Property, Plant and Equipment of \$129,822, a reduction in net future income tax liabilities of \$361,843, a \$543,037 increase in retained earnings, a \$312,870 reduction in accumulated other comprehensive income and an increase in contributed surplus of \$1,854, resulting in a net increase in shareholders' equity of \$232,021.
- (ii) Commencing April 17, 2007, the Company had been recording unrealized gains or losses on foreign exchange derivatives, determined to be cash flow hedges for reporting purposes, in other comprehensive income ("OCI"). It has been determined that at the date of inception of the hedges, the Company did not have sufficient evidence to support the treatment of these foreign exchange hedge contracts as being effective (as defined by GAAP) and accordingly, the transactions should have been reported as fair value hedges for financial reporting purposes. As a result, the 2008 figures for the third quarter ended September 30, 2008 have been re-stated such that the unrealized loss of \$232,435 (net of future income tax provision of \$106,886) previously included in OCI has now been included in net earnings.
- (iii) Commencing with the acquisition of Tornado Technologies Inc. ("Tornado Canada") on November 30, 2007, the Company had been treating Tornado Canada's wholly owned U.S. subsidiary, Tornado Technologies, Inc. ("Tornado USA") as a self-sustaining foreign operation with changes in values on currency translation being reported in OCI. On the basis that management and financing of Tornado USA are handled principally by Tornado Canada, it has been determined that Tornado USA is in fact an integrated foreign operation for financial reporting purposes. As a result, the 2008 figures for the third quarter ended September 30, 2008 have been re-stated such that the foreign currency translation loss of \$18,235 previously included in OCI has now been included in net earnings.
- (iv) The Company had been charging the accretion in the convertible debenture to contributed surplus. It has been determined that the non-cash accretion should be charged to interest expense. As a result, the 2008 figures for the third quarter ended September 30, 2008 have been restated such that the accretion of \$927 is charged to interest expense with no resulting change in shareholders' equity.
- (v) The Company had been accreting retained earnings for the recovery of stock options forfeited. It has been determined that the non-cash accretion should be applied to reduce operating, general and administrative ("OG&A") expenses. As a result, the figures for the third quarter ended September 30, 2008 have been adjusted to reduce OG&A expenses by \$16,037 with no resulting change in retained earnings or shareholders' equity.

	Nine months ended September 30, 2008 (As previously reported)	Nine months ended September 30, 2008 (As restated)	Ref.
Property, plant & equipment	\$ 29,454,860	\$ 29,325,038	(vi)
Future income tax liabilities, net	4,873,532	4,511,689	(vi)
Retained earnings	4,515,682	4,807,122	(vi)(vii)(viii)(ix)
Contributed surplus	1,416,843	1,419,624	(ix)
Accumulated other comprehensive income	62,200	-	(vi) (vii) (viii)
Shareholders' equity	40,715,143	40,947,164	(vi)
Sales	139,742,554	139,799,753	(viii)
Gross profit	21,387,064	21,444,263	(viii)
Operating, general and administrative expenses ("OG&A")	(16,329,008)	(16,411,411)	(x)
Interest expense	(2,294,756)	(2,297,537)	(ix)
Unrealized foreign exchange hedge contract loss	-	(830,811)	(vii)
Net income (loss) before income taxes	650,234	(105,605)	(vii)(viii)(ix)(x)
Future income tax recovery	160,000	421,706	(vii)
Net income (loss)	485,234	(8,899)	(vii)(viii)(ix)(x)
Other comprehensive income (loss)	(511,906)	-	(vii) (viii)
Comprehensive loss	(26,672)	(8,899)	(ix)(x)
Earnings per share – basic and diluted	\$ 0.01	\$ Nil	

- (vi) The cumulative impact of the restated results for the year ended December 31, 2007 included a reduction in Property, Plant and Equipment of \$129,822, a reduction in net future income tax liabilities of \$361,843, an \$806,127 increase in retained earnings and a \$574,106 reduction in accumulated other comprehensive income, resulting in a net increase in shareholders' equity of \$232,021.
- (vii) Commencing April 17, 2007, the Company had been recording unrealized gains or losses on foreign exchange derivatives, determined to be cash flow hedges for reporting purposes, in other comprehensive income ("OCI"). It has been determined that at the date of inception of the hedges, the Company did not have sufficient evidence to support the treatment of these foreign exchange hedge contracts as being effective (as defined by GAAP) and accordingly, the transactions should have been reported as fair value hedges for financial reporting purposes. As a result, the 2008 figures for the nine months ended September 30, 2008 have been re-stated such that the unrealized losses of \$569,105 (net of future income tax recovery of \$261,706) previously included in OCI have now been included in net earnings.
- (viii) Commencing with the acquisition of Tornado Technologies Inc. ("Tornado Canada") on November 30, 2007, the Company had been treating Tornado Canada's wholly owned U.S. subsidiary, Tornado Technologies, Inc. ("Tornado USA") as a self-sustaining foreign operation with changes in values on currency translation being reported in OCI. On the basis that management and financing of Tornado USA are handled principally by Tornado Canada, it has been determined that Tornado USA is in fact an integrated foreign operation for financial reporting purposes. As a result, the 2008 figures for the nine months ended September 30, 2008 have been re-stated such that the foreign currency translation gain of \$57,199 previously included in OCI has now been included in net earnings.
- (ix) The Company had been charging the accretion in the convertible debenture to contributed surplus. It has been determined that the non-cash accretion should be charged to interest expense. As a result, the 2008 figures for the nine months ended September 30, 2008 have been restated such that the accretion of \$2,781 is charged to interest expense with no resulting change in shareholders' equity.
- (x) The Company had been accreting retained earnings for the recovery of stock options forfeited. It has been determined that the non-cash accretion should be applied to reduce OG&A expenses. As a result, the 2008 figures for the nine months ended September 30, 2008 have been adjusted to reduce OG&A expenses by \$20,554 with no resulting change in retained earnings or shareholders' equity.

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(b) Definition of cash and cash equivalents

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

	Three months ended September 30, 2008 (As previously reported)		Three months ended September 30, 2008 (As restated)	
Cash flow provided by (used in):				
Operating activities				
Cash flow provided by operations	\$	2,991,463	\$	1,527,822
Changes in non-cash working capital		(4,893,216)		(2,478,874)
Investing activities		(40,939)		8,666
Financing activities – excluding bank operating lines		556,576		(443,730)
		(1,386,116)		(1,386,116)
Financing activities – bank operating lines divested		-		(6,198)
Financing activities – bank operating lines		-		2,262,607
Change in cash	\$	(1,386,116)	\$	870,293

	Nine months ended September 30, 2008 (As previously reported)		Nine months ended September 30, 2008 (As restated)	
Cash flow provided by (used in):				
Operating activities				
Cash flow provided by operations	\$	4,399,285	\$	3,386,200
Changes in non-cash working capital		262,304		1,087,862
Investing activities		(1,745,620)		(1,627,708)
Financing activities – excluding bank operating lines		(6,607,218)		(6,537,603)
		(3,691,249)		(3,691,249)
Financing activities – bank operating lines divested		-		(6,198)
Financing activities – bank operating lines		-		3,480,767
Change in bank indebtedness	\$	(3,691,249)	\$	(216,680)

5. Earnings (loss) per share

For the three months ended September 30

	2009			2008 (Restated – Note 4)		
	Net loss for the period	Shares	Per Share	Net earnings for the period	Shares	Per Share
Basic and diluted earnings (loss) per share	\$ (4,538,671)	91,239,608	\$ (0.05)	\$ 289,508	91,239,608	\$ Nil

For the nine months ended September 30

	2009			2008 (Restated – Note 4)		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (8,322,042)	91,239,608	\$ (0.09)	\$ (8,899)	91,201,590	\$ Nil

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

6. Seasonal and cyclical nature of the business

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

7. Accounts receivable:

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

	September 30, 2009	December 31, 2008
Holdbacks	\$ 6,424,554	\$ 6,362,317
Current	4,773,969	17,542,920
31 – 60 days	4,259,130	9,436,507
61 – 90 days	1,126,730	4,262,623
Greater than 90 days	1,878,444	4,788,834
Billed receivables	18,462,827	42,393,201
Unbilled receivables	2,783,563	9,467,553
Advance billings	(3,202,720)	(6,595,653)
Allowance for doubtful accounts	(420,203)	(568,744)
Total accounts receivable, net	\$ 17,623,467	\$ 44,696,357

8. Bank indebtedness and bank operating lines

The Company's cash of \$2,142,093 (December 31, 2008 – bank indebtedness \$1,020,409) represents funds on deposit in excess of cheques issued and outstanding.

At September 30, 2009, the Company had total draws on its bank operating lines of credit of \$21,892,820 (December 31, 2008 - \$27,015,994) consisting of:

- (a) A line of credit with the Royal Bank of Canada in the amount of \$6,000,000 (December 31, 2008 - \$7,000,000) of which \$4,980,000 (December 31, 2008 - \$6,230,000) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 4.5% (December 31, 2008 – 1.3%). The Royal Bank line of credit and the term facilities are secured by a general assignment of inventories and accounts receivable, a \$6,000,000 debenture secured by a floating charge on all assets and a fixed charge on all property, and a postponement of claim given by certain shareholders (Note 12).
- (b) A line of credit with HSBC in the amount of \$15,000,000 (December 31, 2008 - \$15,000,000) of which \$11,410,185 (December 31, 2008 - \$12,914,086) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 4.0% (December 31, 2008 – prime plus 1.0%). The HSBC line of credit is secured by a general security agreement creating a first fixed charge and security interest over all present and after acquired personal property of the borrower and a floating charge over all of the borrower's present and after acquired real property. In addition, the Company has provided an indemnity agreement with respect to a master lease agreement (Note 12).
- (c) A line of credit with the Bank of Montreal in the amount of \$10,500,000 (December 31, 2008 - \$10,500,000) of which \$5,502,635 (December 31, 2008 - \$7,871,908) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 3.5% per annum, depending on the Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA") ratio. The Bank of Montreal line of credit is secured by a general security agreement (Note 14 (b)).

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9. Long-term debt

	September 30, 2009	December 31, 2008
GE Mortgage, monthly payments of \$59,142 including interest at 6.27% per annum, due May 1, 2019.	\$ -	\$ 5,438,717
GE Equipment Loan, monthly payments of \$72,248 including interest at 6.61% per annum, due April 16, 2011.	-	1,869,897
Bank of Montreal non-revolving term loan, monthly payments of \$14,012 plus interest at prime plus 4.0% per annum for 60 months effective May 1, 2008.	602,508	728,625
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.	114,875	129,050
HSBC Capital Lease, monthly payments of \$5,798 including interest at 6.38% per annum with a purchase option of \$31,750 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.	296,546	336,356
HSBC Capital Lease, monthly payments of \$27,040 including interest at 6.13% per annum with a purchase option of \$100 on October 29, 2011. The lease expires on October 28, 2011.	608,765	818,512
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.	1,062,410	1,193,293
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.	276,841	343,294
Capital Equipment Loans, bearing interest up to 13% per annum, monthly payments from \$110 to \$2,742 including interest, due from January 2010 to October 2013.	363,171	510,972
Royal Bank of Canada non-revolving term facility, payable \$69,500 monthly plus interest at prime plus 1.65%, due May 31, 2010.	2,571,500	3,197,000
	5,896,616	14,565,716
Current portion of long-term debt	(1,824,597)	(3,040,404)
Long-term debt reclassified to current portion pending settlement (1)	(434,352)	-
Long-term debt reclassified to current portion (2)	(3,451,975)	(2,363,000)
	(5,710,924)	(5,403,404)
	\$ 185,692	\$ 9,162,312

(1) The balance of the Bank of Montreal non-revolving term loan was retired on October 6, 2009 from the proceeds of Petrofield's disposition of its combustion business assets (Note 14(b)).

(2) Due to non-compliance with certain underlying covenants, the scheduled debt otherwise due beyond one year under the Royal Bank of Canada non-revolving term facility and the HSBC capital leases was reclassified to current portion (Note 12).

10. Goodwill

During the three months ended September 30, 2009, the Company recorded impairment charges of \$1,800,000 for goodwill in its Specialty Engineered Products segment. The Company is required to test goodwill at least annually and more frequently if events or circumstances occur that would more likely than not reduce its fair value below carrying value. The disposition of Petrofield's combustion business assets (See Note 14(b)) effective September 30, 2009 triggered such a review. The Company has not completed the second phase of the goodwill impairment testing related to Petrofield's remaining business operations which requires the Company to notionally fair value all the assets and liabilities associated with the reporting unit. The goodwill impairment of \$1,800,000 is a preliminary

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impairment assessment that will be finalized as the required information becomes available. The preliminary goodwill impairment could change and the change could be material.

Business Segment	June 30, 2009	Disposals (Note 14(b))	Impairment Charge	September 30, 2009
Steel fabrication and erection	\$ 8,173,029	\$ -	\$ -	\$ 8,173,029
Specialty engineered products	9,222,038	(4,671,651)	(1,800,000)	2,750,387
Total Goodwill	\$ 17,395,067	\$ (4,671,651)	\$ (1,800,000)	\$ 10,923,416

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 Steelworks Limited, Sorge's Welding Ltd., George Third & Son Ltd. and KWH Constructors Inc.

Specialty engineered products

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

For the three months ended September 30, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 10,574,621	\$ 9,746,222	\$ 16,112	\$ 20,336,955
Cost of goods sold	(8,270,332)	(8,777,622)	-	(17,047,954)
Gross profit	2,304,289	968,600	16,112	3,289,001
Loss from equity and other investments	(7,626)	-	-	(7,626)
Operating, general and administrative expenses	(1,942,589)	(1,951,488)	(443,798)	(4,337,875)
EBITDA	354,074	(982,888)	(427,686)	(1,056,500)
Amortization	(514,162)	(327,490)	(1,232)	(842,884)
EBIT	(160,088)	(1,310,378)	(428,918)	(1,899,384)
Other income	27,875	(2,357,568)	-	(2,329,693)
Interest expense	(339,338)	(106,727)	(669,348)	(1,115,413)
Impairment loss on goodwill	-	(1,800,000)	-	(1,800,000)
Unrealized gain on foreign exchange hedge contracts	-	1,267,631	-	1,267,631
Segmented loss before income tax	\$ (471,551)	\$ (4,307,042)	\$ (1,098,266)	\$ (5,876,859)

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

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 35,450,185	\$ 21,920,815	\$ 19,933	\$ 57,390,933
Cost of goods sold	(31,925,261)	(17,382,095)	-	(49,307,356)
Gross profit	3,524,924	4,538,720	19,933	8,083,577
Income from equity and other investments	223,153	-	-	223,153
Operating, general and administrative expenses	(2,473,191)	(3,033,504)	(386,809)	(5,893,504)
EBITDA	1,274,886	1,505,216	(366,876)	2,413,226
Amortization	(589,139)	(388,942)	(969)	(979,050)
EBIT	685,747	1,116,274	(367,845)	1,434,176
Other income	(47,709)	135,927	-	88,218
Interest expense	(294,224)	(272,961)	(245,270)	(812,455)
Unrealized gain on foreign exchange hedge contracts	-	(339,321)	-	(339,321)
Segmented earnings (loss) before income tax	\$ 343,814	\$ 639,919	\$ (613,115)	\$ 370,618

For the nine months ended September 30, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 47,936,898	\$ 42,851,055	\$ 60,197	\$ 90,848,150
Cost of goods sold	(45,180,489)	(36,964,286)	-	(82,144,775)
Gross profit	2,756,409	5,886,769	60,197	8,703,375
Income from equity and other investments	109,965	-	-	109,965
Operating, general and administrative expenses	(6,173,214)	(6,349,142)	(1,391,652)	(13,914,008)
EBITDA	(3,306,840)	(462,373)	(1,331,455)	(5,100,668)
Amortization	(1,530,705)	(1,042,457)	(3,698)	(2,576,860)
EBIT	(4,837,545)	(1,504,830)	(1,335,153)	(7,677,528)
Other income	82,599	(2,265,360)	-	(2,182,761)
Interest expense	(869,202)	(430,335)	(1,100,469)	(2,400,006)
Impairment loss on goodwill	-	(1,800,000)	-	(1,800,000)
Unrealized gain on foreign exchange hedge contracts	-	2,585,188	-	2,585,188
Segmented loss before income tax	\$ (5,624,148)	\$ (3,415,337)	\$ (2,435,622)	\$ (11,475,107)

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For the nine months ended September 30, 2008 (Restated - Note 4)

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 79,573,815	\$ 60,206,005	\$ 19,933	\$ 139,799,753
Cost of goods sold	(70,281,678)	(48,073,812)	-	(118,355,490)
Gross profit	9,292,137	12,132,193	19,933	21,444,263
Income from equity and other investments	458,295	-	-	458,295
Operating, general and administrative expenses	(7,043,375)	(7,936,850)	(1,431,186)	(16,411,411)
EBITDA	2,707,057	4,195,343	(1,411,253)	5,491,147
Amortization	(1,570,836)	(1,140,943)	(1,927)	(2,713,706)
EBIT	1,136,221	3,054,400	(1,413,180)	2,777,441
Other income	24,392	220,910	-	245,302
Interest expense	(780,172)	(885,292)	(632,073)	(2,297,537)
Unrealized loss on foreign exchange hedge contracts	-	(830,811)	-	(830,811)
Segmented earnings (loss) before income tax	\$ 380,441	\$ 1,559,207	\$ (2,045,253)	\$ (105,605)

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

The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. There are external restrictions to capital as lending limits are based on asset availability and financing agreements are impacted by covenants.

For the periods ended	September 30, 2009	December 31, 2008	Increase (Decrease)
Bank indebtedness (cash)	\$ (2,142,093)	\$ 1,020,409	\$ (3,162,502)
Bank operating loans	21,892,820	27,015,994	(5,123,174)
Current portion of long-term debt and notes payable	3,742,719	4,631,879	(889,160)
Long-term debt reclassified to current portion	3,451,975	2,363,000	1,088,975
Long-term debt and notes payable	3,910,226	12,656,844	(8,746,618)
Net funded debt	30,855,647	47,688,126	(16,832,479)
Convertible debentures	53,514	50,733	2,781
Subordinated shareholders loans	485,000	485,000	-
Deferred gain on sale and leaseback	2,440,557	1,136,729	1,303,828
Shareholders' equity	30,952,022	39,227,865	(8,275,843)
Capitalization	\$ 64,786,740	\$ 88,588,453	\$ (23,801,713)
Net funded debt : Capitalization	47.6%	53.8%	(6.2%)

As at September 30, 2009, the Company's subsidiary, Empire Iron Works Ltd., was in compliance with its total liabilities to tangible net worth covenant ratio but was not in compliance with its new debt service coverage ratio contained in the senior secured credit agreement with RBC (the "RBC Credit Agreement") and accordingly, the long-term portion of the term loan with RBC of \$1,737,500 (December 31, 2008 - \$2,363,000) has been reclassified as a current liability. As a result of continuing covenant violations, the Company has provided a letter to RBC agreeing to make every reasonable effort to repay in full the amounts due under the RBC Credit Agreement. In return for the receipt of the letter, RBC has agreed not to enforce its rights under the RBC Credit Agreement for a period up to January 31, 2010 provided that there is no material adverse change to the bank's risk during the period and the Company continues to make progress on conditions outlined in the commitment letter.

As at September 30, 2009, the Company's subsidiaries, George Third & Son Ltd. and Empire Dynamic Structures Ltd. (the "BC Group"), were not in compliance with two covenants contained in the senior secured credit agreement with HSBC (the "HSBC Credit Agreement") and accordingly, the long-term portion of the BC Group's capital lease facility with HSBC of \$1,714,475 has been reclassified as a current liability. The Company announced on August 10, 2009 that it had successfully negotiated a forbearance agreement with HSBC. Under the terms of the agreement, HSBC has agreed not to enforce its rights under the HSBC Credit Agreement and to continue to provide advances thereunder for a period up to January 31, 2010, subject to finalization of the legal terms of the agreement, provided that there was no event of default under the forbearance agreement.

In addition to pursuing options for refinancing Empire Iron and the Company's other assets, the Company continues its efforts to reduce funded debt through revenue enhancement, cost containment, working capital management and the disposition of redundant or non-core assets.

On July 31, 2009, the Company concluded the sale and leaseback of its Kingsway facility for net proceeds of \$9,500,000 which were applied to reduce the Company's long-term debt in B.C. and its operating loans with HSBC. This contributed to the improved Net Funded Debt: Capitalization ratio of 47.6% at September 30, 2009.

On October 5, 2009, the Company's subsidiary, Petrofield Industries Inc. sold assets relating to the combustion portion of the business for net proceeds of \$10,168,797 effective September 30, 2009. Accordingly, the long term portion of the BMO term loan in the amount of \$434,352 has been reclassified as a current liability. On October 5, 2009, \$6,776,650 of the proceeds were applied against the Bank of Montreal ("BMO") line of credit and term debt.

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

Director and officer indemnification

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

Other indemnification provisions

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

Other contingencies

As at September 30, 2009, there are no material claims against the Company and therefore no provision in the financial statements is considered to be necessary.

14. Disposal of Assets

- a) On July 31, 2009, the Company concluded a sale and leaseback of its Kingsway facility for net sale proceeds of \$9,500,000. The transaction resulted in a deferred gain on sale and leaseback of \$1,545,511. The deferred gain on sale and leaseback is being amortized over the ten year term of the lease and reported in the Specialty Engineered Products segment. The proceeds were applied to reduce the Company's long-term debt by \$7,166,024 (including interest of \$518,514) and its operating line with HSBC by \$2,163,111.
- b) On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield, concluded the sale of its combustion business assets for \$10,168,797, effective date of September 30, 2009. The transaction resulted in a net loss of \$2,427,426 in the Company's Specialty Engineered Products segment comprised of a gain on disposal of property, plant, equipment and other assets of \$2,236,741, a loss on disposal of goodwill of \$4,671,651 (Note 10) and a loss on disposal of intangible assets of \$27,541. Subsequent to the closing date, the Company applied the proceeds of the sale to retire both short and long-term debt of Bank of Montreal and to reduce short-term debt of other lenders.

15. Comparative figures

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