



2011  
Annual Shareholders' Meeting

July 14, 2011

# Massive headwinds required Transformation

- Canadian dollar strengthening has negatively impacted all Canadian manufacturers
- Construction spending has been in a recession and this has resulted in demand being less than capacity putting huge pressure on pricing and margins
- Steel fabrication excess capacity has been exacerbated by imports from the US (cheaper dollar, bigger plants), Asia (cheaper labor, bigger plants) and significant shipments to western Canada from eastern Canada (over 40% of fabrication capacity is in eastern Canada and their US export market has dried up because of rise of dollar)
- Steel fabrication and erection is a commodity with few areas to differentiate
- Empire had too much debt (\$47 million) at the end of 2008 or the start of the recession

# Focused on adding “more” value to steel

Empire has transformed its business to focus on two markets:

- **Proprietary** engineered products targeting growth markets internationally and domestically
- Our remaining steel fabrication capacity (cut capacity in half) has been focused on the massive oil sands maintenance market and competing for this market through leveraging our:
  - **Unique** structural and mechanical engineering expertise
  - **Unique** First Nation partnership (49%)
  - **Unique** Chinese steel fabrication partnership (45%)

# Adding value to steel



# Operational Initiatives completed in past two years

- Decreased debt by \$31.4 million to \$16.7 million at 12/31/2010
- Refinanced bank debt with a new \$17.5 million facility in first half of 2010
- Discontinued two money losing operations and sold a third non-core division
- Reduced overhead by \$8.4 million (48% reduction); \$3 million from continuing operations and \$5.4 million from discontinued operations
- Reduced Canadian plant capacity from 400,000 sf to 200,000 sf
- Offset domestic capacity reduction with 45% interest in joint venture in China
- Committed additional resources to position the Company's Aboriginal partnership to be a leader in the oil sands maintenance market
- Committed significant resources to position the Company to be a leader in the global amusement ride business
- Developed our own product line of media based attractions for the global entertainment business

# Financial Review Fiscal 2010

- The Company generated positive EBITDA \$1.3 million in 2010 from continuing operations vs. negative EBITDA of \$1.1 million in 2009
- Cash flow used from continuing operations of \$0.6 million in 2010 (\$0.01 per share) versus \$4.2 million used in 2009 (\$0.05 per share) which represented an improvement of \$3.6 million
- \$17.8 million Net Loss (\$.20 per share) in 2010 breaks down:
  - A loss from continuing operations of \$3.8 million or \$0.04 per share (includes \$0.02 per share non-cash loss on foreign exchange hedges)
  - A loss from discontinued operations of \$14.0 million or \$0.16 per share (includes \$0.09 per share for goodwill impairment)

# Financial Review First Quarter 2011

- Revenue increased to \$19.2 million from \$17.3 million in the first quarter of 2010;
- Net loss of \$2.0 million (\$0.02 loss per share) versus a net loss of \$1.7 million (\$0.02 loss per share) in the first quarter of 2010;
- Cash flow used in operations was \$1.6 million (loss of \$0.01 per share) compared with cash flow provided by operations of \$0.4 million (gain of \$0.01 per share) in the first quarter of 2010.
- Equity infusion strengthened balance sheet
  - private placement of \$2.0 million in Q1 2011 and convertible debenture private placement of \$0.7 million in Q1 2011 (\$2 million from Insiders)
  - Subsequent to the quarter-end, the Company completed a further equity private placement of \$2.0 completed
  - Undertaking from Chinese strategic partner to invest \$1.0 million in Q2 2011
- If the warrants from the 2011 private placements are executed, an additional \$6.2 million of equity would be raised.

# Financial Position (\$000)

Financial Ratios	March 31, 2011	December 31, 2010
Bank indebtedness (cash), net	799	704
Bank operating lines	7,793	7,352
Current portion of long-term debt and notes payable	1,740	7,422
Long-term debt and notes payable	6,441	954
<b>Net funded debt</b>	<b>16,773</b>	<b>16,702</b>
Convertible debentures	609	60
Subordinated notes (Note 16)	4,094	4,004
Shareholders' equity	10,283	10,192
Less: goodwill and intangibles	(169)	(224)
<b>Tangible net worth</b>	<b>14,817</b>	<b>14,032</b>
<b>Capitalization</b>	<b>31,590</b>	<b>30,734</b>
<b>Net funded debt : Capitalization</b>	<b>53.1%</b>	<b>54.3%</b>

# Outlook – balance of 2011 and afterwards

The Company expects improved results for three reasons:

- 1) significantly lower cost structure to break-even
- 2) mix of business is moving towards unique and proprietary away from commodity;
  - amusement rides and media based attractions manufacturing
  - hydrovac truck manufacturing operation which has a backlog of orders to operate at near capacity levels,
  - First Nation joint venture in the oil sands maintenance business,
  - Chinese JV is targeting massive, but underserved complex fabrication market with Empire's technical support
- 3) the recovery of industrial and infrastructure spending for steel fabrication and construction in western Canada.

The Company continues to critically assess the long term strategic importance of all those operations that face challenges with their long term competitiveness

## Outlook – Backlog

- Backlog at December 31, 2010 was \$19.5 million
- Backlog at March 31, 2011 was \$25.6 million
- Expect backlog to grow significantly by year end because of contract awards from proprietary media based attractions to add to its base amusement ride contract of \$9 million announced earlier this year.



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**adding value to steel**

