



09

2009 ANNUAL REPORT



Corporate Profile

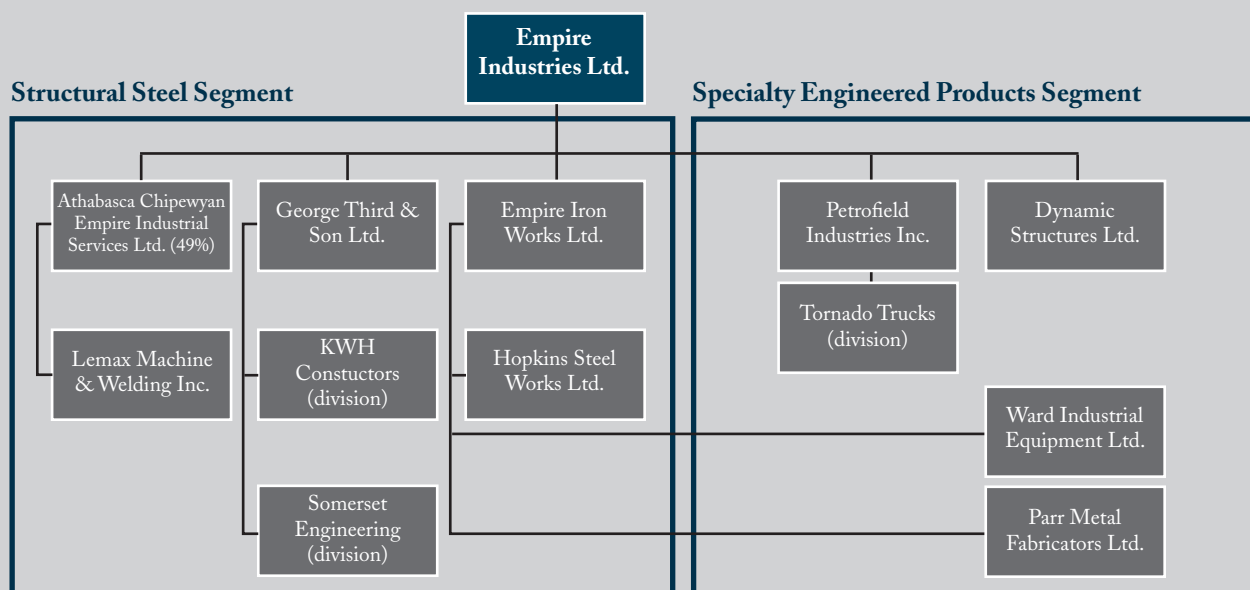
Empire Industries Ltd. (“Empire”) is a public company that was formed in July 2006. Empire’s mission is to increase shareholder value by adding value to steel. Empire operates in two distinct market segments: Steel Fabrication & Erection and Specialty Engineered Products.

The Steel Fabrication & Erection segment provides fabrication and erection services to construction and infrastructure markets, primarily in western Canada. It also participates in the lucrative market for oil sands maintenance services through its 49% interest in Athabasca Chipewyan Empire Industrial Services Ltd. (“ACE”) ACE is an aboriginally controlled business whose majority owner is the Athabasca Chipewyan First Nation.

The Specialty Engineered Products segment designs, manufactures, and sells proprietary engineered products throughout the world. Key customer sectors include:

- Entertainment industry (sophisticated amusement park rides)
- Natural resource, manufacturing, and processing industries (tanks and pressure vessels, material handling equipment, air cleaning equipment)
- Excavation industry (hydrovac trucks)
- Government (astronomical observatory telescopes)

Empire’s common shares are listed on the TSX Venture Exchange under the trading symbol EIL.



Letter to Shareholders

As I mentioned in the 2008 Letter to Shareholders, the unprecedented recessionary conditions had contributed to the Company having a market capitalization far below the book value and the intrinsic value of shareholder's equity. A year ago, the Company committed to leaving "no stone unturned in its drive to maximize shareholder value." Debt refinancing, asset sales, cost containment and reduction and equity partnerships were all mentioned as options being considered to address the dire situation.

The following 2009 Letter to Shareholders will highlight how we did, what we did and what we plan to do going forward.

Operating Results for 2009

There is detailed disclosure on our financial results in 2009 versus 2008 in the MD&A. I would like to highlight the main operating financial statistics to show the magnitude of what the company had to contend with as our top line revenue decreased precipitously as contracts were cancelled and business capital expenditures were put on hold or cancelled.

(\$millions except per share amounts)	2009	2008
Revenue	109.3	180.0
EBITDA	(6.5)	5.3
Cash Flow Provided by (Used in) Operations	(9.6)	1.9
Net Loss	(15.5)	(1.8)
Cash Flow Provided by (Used in) Operations (per share)	(0.10)	0.02
Earnings per Share	(0.17)	(0.02)

The revenue reduction in 2009 of \$70.7 million came from four broad categories:

- reduction in capital spending in the oil sands;
- reduction in capital spending throughout the industrial and commercial markets;
- reduction in capital spending in the conventional oil and gas drilling in western Canada; and
- the sale of the Combustion Division at the start of the fourth quarter of 2009.

The EBITDA reduction in 2009 of \$11.8 million came from:

- reduced revenue of \$70.7 million;
- indirect production costs that are semi-fixed in nature and not easily eliminated (i.e. facility costs);
- overhead, general and administration costs which are also semi-fixed in nature and not easily eliminated; and
- low margin bid and realized on the Coast Meridian Overpass project and a low margin amusement park ride project, primarily affecting the first six months of 2009.

The Company consolidated its operations into a smaller footprint (285,000 square feet vs. over 400,000 square feet in 2008), which should enhance efficiencies when our business picks up. These efficiencies include reductions in annualized lease costs of \$0.6 million coupled with cash flow savings of \$0.8 million arising from the sale and lease back of our Port Coquitlam steel fabrication facility.

The Company undertook a number of initiatives throughout 2009 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. The Company reduced operating expenses by \$4.4 million to \$17.7 million in 2009.

Letter to Shareholders *continued...*

Interest costs and penalty costs associated with early payouts and premiums paid for covenant violations were very expensive in 2009. With the successful reduction of debt in half and refinancing early in 2010 with Canadian Western Bank, this expense category should be much lower in 2010.

The Company had non-cash write-downs of goodwill totaling \$9.2 million which brings the value of certain business units in line with current valuation assumptions.

Financial Cashflow Results for 2009

Notwithstanding the poor operating results in 2009 which resulted in cash flow used in operations of \$9.6 million, the company decreased non-cash working capital by \$23.5 million and it generated \$12.9 million through investing activities, primarily through non-core asset divestitures. Proceeds were used to reduce our short term and repay long term debt.

This was accomplished in large part through a number of strategic initiatives that included:

- Sale and leaseback of our steel fabrication facility in Port Coquitlam, BC for \$9.5 million in July 2009 with the use of proceeds largely used to pay off one of our four senior lenders;
- Sale of Tornado Combustion division for \$10.1 million in October 2009 with the use of proceeds largely used to pay off another senior lender;
- Reduction of capital expenditures by \$5.2 million to \$1.4 million in 2009; and
- Reduction of senior debt by \$23.0 million to \$18.6 million in 2009.

Subsequent to year end, on March 4, 2010 we were able to consolidate our banking with Canadian Western Bank through a \$17.5 million facility. Proceeds were used to repay the operating lines and term debt owed to the Company's two remaining senior lenders, thereby curing our covenant breaches. This transaction has the proforma effect of improving the Company's working capital ratio from 1.1 to about 1.4, greatly enhancing our liquidity.

Also, subsequent to year-end, we were able to put a domestic letter of credit facility in place with Export Development Canada and Canadian Western Bank to support our bonding commitments on certain jobs requiring it.

Outlook

We expect our engineered products group to have a reasonably strong year in 2010. Our bidding activity has improved significantly from a year ago and we will be finishing two iconic projects mid 2010 for two of the leading entertainment companies in the world and we expect that our performance on those projects will pave the way for much more growth in the years ahead.

We expect the performance of our steel fabrication group to be weak in the first half of the year but gaining momentum as the year progresses. Capacity still exceeds demand and that is keeping pressure on prices and margins. The resurgence of oil sands capital spending will provide the compelling baseload for construction activity in western Canada. Moreover, the Company's overhead structure is expected to be lower in 2010 than it was in 2009 and we expect to benefit from this as our backlog builds and plant throughput efficiencies are realized. Our backlog in steel fabrication at March 31, 2010 stands at \$31.1 million versus \$28.3 million at the end of December 2009.

Letter to Shareholders *continued...*

On a combined basis, we expect 2010 to return to a cashflow positive outlook.

The main initiatives for the Company in 2010 will be to:

- continue to strengthen the Company's liquidity by managing working capital and selling under performing or non-core assets.
- strengthen the competitiveness of our steel fabrication operations through a number of initiatives, including:
 - Continue to assess the competitiveness of our main steel fabrication shops and determine how much capacity can be profitably utilized in Canada and identify how to bring and keep our cost structure in line with what the market will bear;
 - Identify and implement marketing plan for oil sands market that generates more awareness and improved market share. Continue to leverage aboriginal partnerships such as our 49% interest in ACE Industrial Services, to improve awareness of Empire's capabilities and generate more contracts;
 - Complete a succession plan and organizational changes for Empire and its subsidiaries; and
 - Strengthen ACE Industrial Services' operational management, especially the field forces, and continue to identify and generate incremental steel fabrication work through this marketing channel.
- Continue to penetrate the growing export market with our unique and proprietary engineered products, particularly amusement rides, telescopes and hydrovac trucks.

I would especially like to thank all our employees for their contributions and dedication to the Company, which helped us ride out this recession. We will be a stronger Company as a consequence.

I would also like to thank our shareholders for their continued support. It has been a very challenging year from a shareholders' perspective. The Board and senior management are as committed as ever to significantly improving our shareholder value in absolute terms and in comparison to other small cap investment choices.

Sincerely,



Guy Nelson
Chairman and Chief Executive Officer

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 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 audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2009.

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 April 30, 2010. Disclosure contained in this document is current to this date, unless otherwise stated.

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

1. 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 December 31, 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".

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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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"), Dynamic Structures Ltd. ("DSL"), and Petrofield Industries Inc. ("Petrofield", formerly Tornado Technologies Inc.). The Company also owns a 49% interest in Athabasca Chipewyan Empire Industrial Services Ltd. (operating as "ACE Industrial Services" or "ACE", formerly Sorge's Welding Ltd.) 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 and sells 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 ACE), 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

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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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 and sells oil and gas production 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 cyclicity to the extent business cycles are localized or regionalized. Underlying cycles in capital spending activity in the oil and gas sector impact the Company's activity levels and earnings to the extent that specialized engineered products support the development of new oil and gas production. 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, throughout 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.

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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Restructuring Objective	Outcome
Disposition of redundant or non-core assets. (continued)	<ul style="list-style-type: none"> • On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield, completed the sale of the assets of its combustion business for \$10.1 million. Of this amount, \$6.8 million was used to fully repay the operating line and term debt owed to BMO. A further \$1.8 million was paid to RBC and HSBC. The remainder of \$1.5 million was used for working capital and general corporate purposes. • The settlement of these debts improved the Company's net funded debt to capitalization from 55% at December 31, 2008 to 39% at December 31, 2009.
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). • In April 2010, the Company agreed to transfer responsibility for the remaining term of its primary office and plant lease in Calgary, Alberta to a new tenant with expected annual savings in lease and related operating costs of about \$340,000 per annum. • In April 2010, the Company agreed to sublet about 50% of its facility lease at its secondary operating plant in Calgary, Alberta for the remaining term with expected annual savings in lease and related operating costs of about \$140,000 per annum. • 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 \$4.3 million for the twelve months ended December 31, 2009 compared to the same periods last year related to these initiatives and the disposition of non-core assets noted above.
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 during the fiscal year ended December 31, 2009 averaged about 40 days compared to 43 days for the same period in fiscal 2008

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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Restructuring Objective	Outcome
Working capital management (continued)	<ul style="list-style-type: none"> • Days in accounts payable during the fiscal year ended December 31, 2009 averaged about 42 days compared to 35 days for the same period in fiscal 2008.
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 \$1.3 million for the twelve months ended December 31, 2009 compared to \$6.6 million for the same period last year. • The Company disposed of a large piece of underutilized mobile equipment and the proceeds were used to reduce its capital lease obligation by \$227,000. • In addition, the Company is actively seeking to dispose of further underutilized or redundant assets 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 \$2.3 million or a loan to value ratio of about 14%. On March 4, 2010, the Company successfully completed the issue of \$7.5 million in term debt from Canadian Western Bank, the proceeds of which were used to fully repay the term debt of \$2.3 million owed to Royal Bank of Canada and the remainder used to repay short-term debt and improve liquidity and working capital.</p> <p>The issuance of additional long-term debt used to repay, in part, short-term debt, and the subordination of other debt improved the Company's net funded debt to capitalization and working capital ratio from 45.4% to 37.5% and working capital ratio from 1.09 times to about 1.40 times at December 31, 2009 on a pro forma basis as though the refinancing had closed on December 31, 2009.</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 on March 4, 2010, successfully completed a refinancing of its short-term operating line whereby the operating lines previously held with HSBC and Royal Bank were fully repaid and consolidated under a single operating line with Canadian Western Bank.</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.</p>

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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6. CONSOLIDATED FINANCIAL RESULTS

Selected Consolidated Financial Information			
For the years ended December 31			
<i>(in thousands, per share amounts)</i>	2009	2008	Better (Worse)
Sales	109,320	180,032	(70,712)
Cost of goods sold	(98,152)	(153,358)	55,206
Gross profit	11,168	26,674	(15,506)
Earnings from equity investment	40	684	(644)
Operating, general & administrative expenses	(17,724)	(22,081)	4,357
EBITDA	(6,516)	5,277	(11,793)
Amortization	(3,395)	(3,508)	113
EBIT	(9,911)	1,769	(11,680)
Gain (loss) on disposal of assets	(2,769)	23	(2,792)
Impairment loss on goodwill	(4,550)	-	(4,550)
Amortization of deferred gain on sales and leasebacks	352	288	64
Interest expense	(2,980)	(3,251)	271
Unrealized gain (loss) on foreign exchange hedges	2,834	(1,440)	4,274
	(17,024)	(2,611)	(14,413)
Provision for income tax recovery (expense)			
Current	(64)	(598)	534
Future	1,627	1,450	177
	1,563	852	711
Net loss	(15,461)	(1,759)	(13,702)
Weighted average common shares issued and outstanding	91,240	91,211	29
Loss per share			
Basic & fully diluted	\$(0.17)	\$(0.02)	\$(0.15)

6.1 Loss for the Period

The net loss of \$15.5 million (\$0.17 basic and diluted loss per share) for the year ended December 31, 2009 was \$13.7 million worse than the loss of \$1.8 million (\$0.02 basic and diluted earnings per share) reported in 2008.

The \$9.2 million write-down of goodwill associated with Petrofield noted below under "7.2 Gain (Loss) on Disposal of Assets and Impairment Loss on Goodwill", contributed a \$0.10 basic and diluted loss per share for the fiscal year ended December 31, 2009.

The aggregate loss per share also included an accrued valuation allowance of \$2 million associated with the future tax value of its loss carry-forwards and investment tax credits which represented a \$0.02 basic and diluted loss per share.

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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6.2 Gross Profit, EBITDA and EBIT

The Company's gross profit for the year ended December 31, 2009 decreased by \$15.5 million over 2008 based on a decrease of \$5.9 from steel fabrication and installation services coupled with a \$9.6 million decrease from specialized engineered products. The factors underlying these changes are discussed in greater detail below under "Business Segment Performance". Earnings from the Company's equity accounted for investment in ACE also decreased \$644,000.

The Company reduced steel fabrication and installation operating, general and administrative expenses ("OG&A") for the year ended December 31, 2009 by \$714,000 coupled with a \$3.3 million reduction in specialized engineered products OG&A expenses, due in part to the disposition of Petrofield's combustion business on October 5, 2009 and a \$389,000 decrease in corporate OG&A expenses. Consequently, EBITDA decreased by \$11.8 million to an EBITDA loss of \$6.5 million for the year ended December 31, 2009.

Amortization expenses declined \$113,000 to \$3.4 million associated with the disposition of various assets and offset by modest sustaining capital reinvestment. As a result, EBIT decreased \$11.7 million to an EBIT loss of \$9.9 million for fiscal 2009 compared to 2008.

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

The modest gain on disposal of assets 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 year ended December 31, 2009 of \$2.8 million is comprised of a gain on disposal of property, plant, equipment and other assets of \$2.2 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 \$10.1 million.

The Company also recorded a loss on impairment of goodwill of \$4.6 million associated with Petrofield's residual business assets which, combined with the goodwill write-down noted above, resulting in a combined write-down of goodwill of \$9.2 million.

In addition, the Company realized a gain on disposal of property, plant and equipment of \$1.5 million from the sale and 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.

6.4 Interest Expenses

Interest costs decreased \$271,000 to \$3 million for the year ended December 31, 2009 as a result of a \$22.8 million decrease in interest-bearing funded debt (a \$13.3 million decrease in the short-term revolving bank facility and principal payments on long-term debt of \$9.5 million), offset by the effect of higher interest rate premiums. The decrease in the short-term revolving bank facility was entirely related to lower non-cash working capital levels and the proceeds from the disposition of the DSL's Kingsway plant and Petrofield's combustion business assets.

6.5 Unrealized Gain (Loss) on Foreign Exchange Hedges

The Company enters into various contracts in U.S. dollars in the normal course of business. Derivative instruments such as foreign exchange forward contracts are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course, the Company does not hold or issue derivative financial instruments for derivative trading purposes. 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

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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in this way remain unrealized and the \$2.8 million gain for the year ended December 31, 2009 therefore represents a non-cash pre-tax gain (2008 - \$1.4 million non-cash pre-tax loss) in the period.

As foreign exchange forward contracts are settled, realized gains and losses are reported in Sales and Gross Profit.

6.6 Income Taxes

The Company's effective tax recovery rate for the year ended December 31, 2009 was 9.1% (2008 - 32.6% tax recovery rate). The Company's statutory tax recovery rate of about 30% was reduced by \$1.7 million (10.3%) for a valuation allowance associated with the future value of loss carry-forwards, by \$2.8 million (16.2%) associated with the non-deductibility of goodwill and offset by \$1.1 million (6.3%) for the non-taxable portion of capital gains realized in the year.

7. BUSINESS SEGMENT PERFORMANCE

7.1 Steel Fabrication and Installation Services

Key performance drivers in the steel fabrication and installation services segment include direct labour hours and materials costs. Since OG&A expenses are largely fixed, any variation in hours and materials will have a direct impact on the results of the segment. Factors that may influence results include:

- **Volatility in commodity prices** – the principal component of materials costs 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 endeavours to include an escalation clause for material costs in jobs being tendered. 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.
- **Type of fabrication** – the fabrication of steel for commercial purposes (retail stores, schools, etc.) will involve fewer hours of fabrication per tonne than steel fabricated for industrial purposes (public works, extraction industries, power generation, etc.) with the highest hours per tonne typically associated with architectural steel fabrication. Accordingly, while the margin per direct labour hour may remain relatively constant, the materials component may impact sales values and gross profit as a percentage of sales
- **Indirect overhead burden** – the company has indirect and production costs associated with fabrication, which include utilities costs associated with the operation of the fabrication plant, other plant operation and supervisory costs, detailing expenses, shop supplies, safety costs, insurance, maintenance, property and business taxes and rents. While the Company endeavours to manage these costs relative to the underlying activity, short-term or sudden reductions or increases in direct production hours may dramatically reduce or increase profitability of steel fabrication due to the altered overhead burden.
- **Design changes** – it is not atypical for the design of projects to be altered after the contract has been awarded. While the Company endeavours to mitigate the impact of design changes on the cost of materials and the efficiency of production, these changes can increase the cost of a particular job. The Company will submit requests for modification of the contracted amount where the changes are beyond the Company's control and where such amendments are permitted under the contract. Final settlement of these amounts is resolved in accordance with the specific terms of each project contract.
- **Competition** – the steel fabrication industry is highly competitive, particularly in the fabrication of steel for commercial structures. Accordingly, the profitability per direct labour hour is also impacted by current economic conditions and the number of jobs available to be bid as well as the number of competitors with excess production capacity bidding on any particular job.

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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Steel Fabrication and Installation Services			
For the years ended December 31			
<i>(in thousands, except per DLH amounts)</i>			
	2009	2008	Better (Worse)
Sales	55,528	96,661	(41,133)
Cost of goods sold	(51,745)	(86,937)	35,192
Gross profit	3,783	9,724	(5,941)
Earnings from equity investment	40	684	(644)
Operating, general & administrative expenses	(8,255)	(8,969)	714
EBITDA	(4,432)	1,439	(5,871)
Amortization	(2,036)	(2,015)	(21)
EBIT	(6,468)	(576)	(5,892)
Operating highlights			
Direct Labour Hours (DLH)	444.4	651.0	(31.74%)
Sales per DLH	\$ 124.96	\$ 148.48	\$ (23.52)
Gross profit per DLH	\$ 8.51	\$ 14.94	\$ (6.43)

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 and Welding ("Lemax") which operates a full service machine shop, welding, plate and steel fabrication facility in Fort McMurray, Alberta. On January 1, 2009, the Company amalgamated the operations of Sorge's Pro Welding Ltd. with ACE. Accordingly, the timing of this acquisition and divestiture will affect the comparability of the results relative to the prior year.

Direct labour hours ("DLH") (both fabrication and erection) declined 207,000 hours (or 32%) from 651,000 hours in fiscal 2008 to 444,000 hours for the year ended December 31, 2009. GTS fabrication and erection hours declined by 72,000 hours following the substantial completion of the Coast Meridian Overpass project in the second quarter. EIW accounted for the balance of the decline in DLHs as a result of a general contraction and deferral of larger construction projects, particularly in Alberta oilsands, coupled with increased competition for fewer remaining industrial and infrastructure projects.

Sales activity in fiscal 2009 was heavily influenced by the Coast Meridian Overpass ("CMO") project, the first cable-stayed bridge and heaviest steel structure launched in North America and incorporating the greatest single span ever launched. This single project represented about 35% of total fabrication and erection hours for the year.

Sales decreased significantly by \$41.1 million to \$55.5 million for the year ended December 31, 2009, largely the result of a reduced DLH in general and less labour intensive fabrication and erection projects. Sales per direct labour hour, a measure of fabrication activity, decreased 16% from \$148 per hour to \$125 per hour for the year ended December 31, 2009, although consistent with the activity levels reported for the first three quarters of fiscal 2009. Excluding the CMO project, sales averaged about \$139 per DLH, generally consistent with the prior year.

Gross profit per DLH declined \$6 per hour reflecting a number of jobs with lower contracted margins compared to the prior year. Although the Company managed to reduce relatively fixed indirect, production and overhead costs by about \$3.1 million in fiscal 2009, these costs still negatively impacted gross profit by about \$2 per DLH as a result of the lower level of DLH activity in the current year compared to fiscal 2008. The CMO project negatively impacted gross profit due to higher fabrication costs associated with the more complex design of the structure than originally

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bid coupled with higher erection costs due to the size and complexity of the project. Excluding the impact of CMO project, the Company generated a gross profit of about \$14 per DLH in fiscal 2009, modestly lower than the average of \$14.94 per DLH in fiscal 2008 and despite the higher indirect and production expenses per DLH.

The Company holds a 49% interest in the Fort McMurray based ACE Industrial Services Ltd., which is accounted for as an equity investment. The \$644,000 decrease in equity earnings for the year ended December 31, 2009 reflects similar reductions in activity in the Fort McMurray and oilsands area which impacted on EIW's steel fabrication and installation services.

The Company reduced its OG&A expenses of \$8.3 million for the year ended December 31, 2009 by \$714,000 compared to the same period last year reflecting staff reductions undertaken in late fiscal 2008 and further reduction in mid-2009 as well as reductions in non-payroll costs as the Company obtained replacement tenants for excess leased space.

As a result, the EBITDA loss for the year ended December 31, 2009 of \$4.4 million deteriorated \$5.9 million from EBITDA of \$1.4 million in the same period last year. Amortization of \$2 million for the year ended December 31, 2009 remained largely unchanged from the prior year. Accordingly, the EBIT loss of \$6.5 million declined by \$5.9 million from an EBIT loss of \$576,000 for the year ended December 31, 2008.

7.2 Specialized Engineered Products

Key performance drivers for the specialized engineered products segment include sales volumes of each of the major product lines and the underlying cost to manufacture each product line. Demand for products such as oil & gas processing units is tied to both oil exploration and production activity. Demand for products such as hydrovac trucks is largely tied to construction and infrastructure initiatives. Demand for ride systems are linked to amusement park owners' capital spending activities on new entertainment systems while telescope systems are essentially tied to financial support from government and academic stakeholders. Factors that may influence results include:

- **Indirect overhead burden** – the company has indirect and production costs associated with manufacturing which include utilities costs, other manufacturing and supervisory costs, plant supplies, safety costs, insurance, maintenance, property and business taxes and rents. While the Company endeavours to manage these costs relative to the underlying activity, short-term or sudden reductions or increases in direct production hours may dramatically reduce or increase profitability of manufactured products due to the altered overhead burden.

Specialized Engineered Products			
For the years ended December 31			
<i>(in thousands, except percentages)</i>			
	2009	2008	Better (Worse)
Sales	53,698	83,340	(29,642)
Cost of goods sold	(46,407)	(66,421)	20,014
Gross profit	7,291	16,919	(9,628)
Operating, general & administrative expenses	(7,811)	(11,065)	3,254
EBITDA	(520)	5,854	(6,374)
Amortization	(1,354)	(1,490)	136
EBIT	(1,874)	4,364	(6,238)
Operating highlights			
Gross margin (% of Sales)	13.58%	20.30%	(6.72%)

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On October 5, 2009, the Company's wholly owned subsidiary, Petrofield, sold the assets of its combustion business, including the operating assets of its U.S. subsidiary, 1366377 Texas Inc. Accordingly, the timing of this divestiture will affect the comparability of the results relative to the prior year.

Sales of \$53.7 million for the year ended December 31, 2009, decreased by \$29.6 million over the prior year, including a \$23.7 million decrease in Petrofield sales largely associated with the disposition of Petrofield's combustion business in the last quarter of fiscal 2009 coupled with continued weakness in the sale of combustion and process units as well as hydrovac trucks as a result of reduced overall activity in the oil and gas sector. In addition to this decline, DSL's sales for the latest fiscal year decreased \$3.5 million reflecting the timing of manufacture and assembly of a large ride system relative to similar projects in the prior year and a \$2.9 million aggregate reduction in sales in Parr and Ward as a result of general economic conditions.

Gross profit of \$7.3 million for the latest fiscal year declined \$9.6 million over the prior year ended December 31, 2008. The gross margin of 13.6% for the fiscal year ended December 31, 2009 was consistent with the margin for the first nine months of the year but was lower than the 20.3% margin realized in the same 12 month period last year. During fiscal 2009, Petrofield continued to suffer from margin compression on lower sales, the disposition of slow moving inventory during the year and higher warranty claims during the third quarter, coupled with weaker margins in DSL due to stable production and indirect costs relative to lower sales and somewhat mitigated by stronger margins in Ward due to a large overseas contract.

OG&A expenses for the year ended December 31, 2009 decreased by \$3.3 million over the same period last year largely due to the disposition of Petrofield's combustion business in the fourth quarter coupled with management's efforts to reduce costs in DSL by about \$569,000 as well as aggregate rationalization savings of \$481,000 in Ward and Parr OG&A expenses.

Therefore, the loss before interest, taxes, depreciation and amortization of \$520,000 for the year ended December 31, 2009 was \$6.4 million worse than the EBITDA of \$5.9 million in the prior year. Amortization of \$1.4 million declined from \$1.5 million in the prior year, largely attributable to limiting capital expenditures at sustaining levels for the year ended December 31, 2009.

7.3 Corporate Expenses

Corporate expenses			
For the years ended December 31			
<i>(in thousands)</i>	2009	2008	Better (Worse)
Miscellaneous income	94	31	63
Operating, general & administrative expenses	(1,658)	(2,047)	389
EBITDA	(1,564)	(2,016)	452
Amortization	(5)	(3)	(2)
EBIT	(1,569)	(2,019)	450

OG&A expenses decreased by \$389,000 to \$1.7 million for the year ended December 31, 2009, comprised largely of: a \$120,000 decrease in wages and benefits, including reversal of costs accrued in the prior year; a \$323,000 decrease in non-cash stock-based compensation expenses due to expiry of options during the current year; the absence of \$73,000 in consulting costs incurred in fiscal 2008; a \$40,000 decrease in fees and memberships; a \$36,000 decrease

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in advertising and promotion; offset by a \$271,000 increase in professional fees associated with the introduction of quarterly reviews, the transition of auditors and services associated with documenting internal controls over financial reporting; and \$29,000 of increased governance costs associated with investor relations services and more frequent meetings during fiscal 2009.

7.4 Highlights of Fourth Quarter Performance

Highlights of Fourth Quarter Performance			
For the fourth quarters ended December 31			
<i>(in thousands, per share amounts)</i>	2009	2008	Better (Worse)
Sales	18,472	40,214	(21,742)
Gross profit	2,465	5,211	(2,746)
Earnings (loss) from equity investment	(70)	244	(314)
Operating, general & administrative expenses	(3,810)	(5,772)	1,962
EBITDA	(1,415)	(317)	(1,098)
Amortization	(818)	(692)	(126)
EBIT	(2,233)	(1,009)	(1,224)
Gain (loss) on disposal of assets	(345)	72	(417)
Impairment loss on goodwill	(2,750)	-	(2,750)
Amortization of deferred gain on sales and leasebacks	110	(6)	116
Interest expense	(580)	(956)	376
Unrealized gain (loss) on foreign exchange hedges	249	(609)	858
	(5,549)	(2,508)	(3,041)
Provision for income tax recovery (expense)			
Current	(800)	106	(906)
Future	(790)	818	(1,608)
	(1,590)	924	(2,514)
Net loss	(7,139)	(1,584)	(5,555)
Steel fabrication and installation			
Sales	7,591	17,608	(10,017)
Gross profit (loss)	1,027	(628)	1,655
Operating, general and administrative expenses	(2,082)	(2,029)	(53)
Direct labour hours (DLH)	63.4	157.4	(94.1)
Sales \$ per DLH	\$ 119.81	\$ 111.85	\$ 7.96
Gross profit per DLH	\$ 16.21	\$ (3.99)	\$ 20.20
Specialized engineered products			
Sales	10,847	22,612	(11,765)
Gross profit	1,404	5,847	(4,443)
Operating, general and administrative expenses	(1,463)	(3,128)	1,665
Gross margin %	12.9%	25.9%	-12.9%
Corporate			
Miscellaneous income	34	11	23
Operating, general and administrative expenses	(266)	(616)	350
	(232)	(605)	373

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The fourth quarter EBITDA loss for fiscal 2009 of \$1.4 million represented a \$1.1 million decline over the same quarter last year contributing to a net loss for the quarter of \$7.1 million (or \$0.08 basic and diluted loss per share) compared to a net loss for the quarter ended December 31, 2008 of \$1.6 million (\$0.02 basic and diluted earnings per share).

- Steel fabrication and installation sales declined \$10 million in the quarter ended December 31, 2009 compared to the same quarter last year reflecting lower current activity levels substituting for the CMO project in the same quarter last year. At the same time, gross profit and gross profit per DLH improved for the most recent quarter compared to the same quarter ended December 31, 2008. In the prior year, the Company took a number of provisions for projects cancelled in late 2008 or early 2009 coupled with the lower margin realized on the CMO project.
- Specialized engineered product sales declined \$11.8 million to \$10.8 million for the quarter ended December 31, 2009. Petrofield sales declined \$13.8 million reflecting the disposition of its combustion business at the end of the third quarter coupled with generally lower sales activity in processing and hydrovac trucks associated primarily with lower activity in the oil and gas sector. DSL sales increased about \$1.5 million reflecting the higher level of activity associated with the ride system project under manufacture in the fourth quarter of fiscal 2009. Inventory writedowns accounted for about 5% of the decline in gross margin to 12% from 26% in the same quarter last year. Relatively fixed indirect production and overhead costs exceeded Petrofield's margins on lower processing equipment and hydrovac truck sales, further suppressing specialized equipment product gross margin. OG&A expenses declined by 59% over the same quarter last year as a result of Petrofield's disposition of its combustion business combined with general cost containment efforts.
- Corporate expenses for the fourth quarter of fiscal 2009 of \$266,000 were \$350,000 lower than the same quarter last year due to lower payroll and benefit costs, lower stock-based compensation expense and offset by higher professional fees.
- The Company took a final writedown on goodwill associated with Petrofield of \$2.8 million in the quarter.

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8. SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Selected Annual Financial Information			
For the years ended December 31			
<i>(in thousands, per share amounts)</i>			
	2009	2008	(Restated) 2007
Sales and revenue from services	\$ 109,320	\$ 180,032	\$ 117,748
Net income (loss) from continuing operations	\$ (15,461)	\$ (1,759)	\$ 3,954
Earnings (loss) from continuing operations per share:			
Basic	\$ (0.17)	\$ (0.02)	\$ 0.06
Diluted	\$ (0.17)	\$ (0.02)	\$ 0.06
Net income (loss)	\$ (15,461)	\$ (1,759)	\$ 3,954
Earnings (loss) per share:			
Basic	\$ (0.17)	\$ (0.02)	\$ 0.06
Diluted	\$ (0.17)	\$ (0.02)	\$ 0.06
Total assets	\$ 63,126	\$ 120,477	\$ 113,038
Total long-term financial liabilities	\$ 7,132	\$ 12,733	\$ 14,128
Cash dividends declared per common share	Nil	Nil	Nil

Selected Quarterly Financial Information								
For the years ending December 31								
<i>(in thousands, per share amounts)</i>								
	2009Q4	2009Q3	2009 Q2	2009 Q1	2008 Q4	(Restated) 2008 Q3	(Restated) 2008 Q2	(Restated) 2008 Q1
Sales and revenue from services	\$ 18,472	\$ 20,337	\$ 28,559	\$ 41,952	\$ 40,214	\$ 57,391	\$ 43,715	\$ 38,693
Net income (loss)	\$ (7,139)	\$ (4,539)	\$ (2,170)	\$ (1,613)	\$ (1,750)	\$ 290	\$ (314)	\$ 15
Earnings (loss) per share:								
Basic	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ -	\$ -	\$ -
Diluted	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ -	\$ -	\$ -

The quarterly results for fiscal 2008 were restated to reflect the re-designation of certain foreign currency hedges as fair value hedges, with the change in fair value in foreign exchange hedge contracts previously designated as cash flow hedges and included in other comprehensive income, now included in net earnings. The 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:

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- 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. The fourth quarter of fiscal 2009 includes a further writedown of goodwill of \$2.8 million related to Petrofield which contributed a \$0.03 loss per share to that quarter.

9. OTHER MATTERS

9.1 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 \$571,089 (2008 - \$579,722) for the twelve months ended December 31, 2009.

9.2 Accounting Policy Changes

9.2.1 Goodwill and Intangibles

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 – Goodwill and Intangibles. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. There were no significant impacts on the Company's consolidated financial position, opening retained earnings or on the results of its operations from adopting the new standard.

9.3 Future Changes in Accounting Policies

9.3.1 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.

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

Phase	Progress to Date
Assess and scope the differences in Canadian GAAP and IFRS accounting policies relevant to the Company and options available to first time adopters and the impact on the Company's financial reporting.	This process was ongoing during fiscal 2009.
Identify, evaluate and select accounting policies necessary for the Company to change over to IFRS. As well, this phase will address other business activities that may be influenced by GAAP measures such as: <ul style="list-style-type: none"> • information technology, • disclosure controls and procedures, • internal controls over financial reporting, and • other activities, such as debt covenants. 	The Company plans to complete its selections under its various options during the course of fiscal 2010.
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.

9.4 Critical Accounting Estimates

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

9.4.1 Revenue Recognition – Cost to Complete

Sales and accounts receivable include the uncertainty inherent in estimating the costs of completing construction projects, amounts ultimately realizable on unpriced change orders and therefore estimated margins to completion of the construction contract. Revenues and income from construction contracts are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs and those indirect costs relating to contract performance such as indirect labour, supplies, tools and maintenance. Provision is made for anticipated contract losses as soon as they are evident. Contract revenues and costs are adjusted to reflect change orders that have been approved as to both price and scope. For change orders that have not been approved as to price or are unpriced, contract revenues and projected costs to

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complete are estimated by management. In circumstances where significant advance purchases under a contract, such as materials, would result in a materially higher percentage of completion estimate for sales, margin and accounts receivable than indicated by other measures such as labour hours, management adjusts the percentage of completion to the lower level indicated by the alternative measure.

9.4.2 Valuation of Long-lived Assets and Asset Impairment

Goodwill is not amortized and is assessed for impairment at the subsidiary level at least annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Potential goodwill impairment is identified by comparing the fair value of a subsidiary, estimated using discounted cash flows, to its carrying value. Should the carrying value exceed the assessed fair value of the business unit, the goodwill impairment would result in a reduction in the carrying value of goodwill on the balance sheet and the recognition of a non-cash impairment charge in the Consolidated Statement of Earnings. While the Company believes that all of its estimates are reasonable, there exist inherent uncertainties that management may not be able to control. As a result, the Company is unable to reasonably quantify the changes in its overall financial performance if it had used different assumptions and it cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values reported.

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

9.4.3 Future Income Taxes

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

As at December 31, 2009, the Company had loss carry-forwards of about \$13.6 million (2008 - \$7.5 million), expiring between 2027 and 2029 and available to reduce income taxes otherwise payable in future years. Losses subject to expiry represent the non-capital losses of the Company including discretionary deductions such as capital cost allowance.

A future income tax asset of \$3.5 million has been recorded as at December 31, 2009 in respect of the Company's unutilized losses. Management regularly assesses the Company's ability to realize on loss carry-forwards based on all relevant information available including, among other things, historical and projected future earnings, and has concluded that a valuation allowance is required in accordance with generally accepted accounting principles. Accordingly, the Company has recorded a valuation allowance related to these loss carry-forwards of \$2 million. If the Company's projected future earnings materialize to the extent required to permit the full realization of these loss

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carry-forwards, the Company would record an appropriate recovery of valuation allowance in the period when such a determination is made. This would result in an increase to reported earnings and an decrease to the Company's effective tax expense rate in that period.

10. LIQUIDITY AND CAPITAL RESOURCES

10.1 Sources and Uses

10.1.1 Cash Flow Provided by Operations

Cash Flow Provided by (Used in) Operations For the years ended December 31 <i>(in thousands, per share amounts)</i>	2009	2008	Better (Worse)
EBITDA	(6,516)	5,277	(11,793)
Add (deduct):			
Non-cash compensation expense	8	330	(322)
Distributions (earnings) from equity investments	(40)	(661)	621
Investment tax credits received	(394)	402	(796)
Adjusted EBITDA	(6,942)	5,348	(12,290)
Interest expense	(2,980)	(3,251)	271
Capitalized interest	432	396	36
Pre-tax cash flow provided by (used in) operations	(9,490)	2,493	(11,983)
Current income taxes	(64)	(598)	534
Cash flow provided by operations	(9,554)	1,895	(11,449)
Cash flow provided by operations per share	\$ (0.10)	\$ 0.02	\$ (0.12)

Non-cash compensation expense relates to stock based compensation expenses attributed to stock options issued and outstanding. 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 taxes are significantly less than the prevailing tax rate on pre-tax cash flows due to the tax shield provided by the utilization of loss-carryforwards and capital cost allowance in those subsidiaries with taxable earnings.

10.1.2 Non-cash Working Capital

Non-cash Working Capital As at December 31 <i>(in thousands)</i>	2009	2008	Sources (Uses)
Accounts receivable	16,406	47,369	30,963
Inventory	8,071	18,366	10,295
Other current assets	1,038	1,708	670
Intercompany receivable (liability)	644	269	(375)
Accounts payable and accrued expenses	(10,000)	(26,799)	(16,799)
	16,159	40,913	24,754

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Overall inventory levels at December 31, 2009 decreased \$10.3 million from the prior year, largely comprised of a \$10.2 million decrease in Petrofield's inventories as a result of the sale of \$5.1 million of combustion inventory as part of Petrofield's disposition of its combustion business on October 5, 2009 coupled with a \$4.4 million decrease in work-in-progress inventories associated with improved inventory management processes.

Accounts receivable at December 31, 2009 decreased \$31 million over the prior year, comprised of: a \$2.6 million is attributed to the sale of Petrofield's combustion receivables; an \$8 million reduction in other Petrofield receivables associated with lower sales activity relative to last year; a \$22.8 million reduction in receivables from steel fabrication and installation services of GTS, EIW and Hopkins associated with reduced sales activity and improved collections; offset by a \$3.4 million increase in DSL receivables attributable to increased manufacturing activity compared to the same date last year.

Other current assets decreased \$670,000, largely comprised of a \$525,000 decrease in prepaid expenses to \$979,000.

The intercompany receivable from Sorge of \$644,000 increased \$375,000 from the \$269,000 intercompany liability at December 31, 2008 as a result of higher levels of subcontracted fabrication work to EIW at the end of the fiscal year.

Accounts payable at December 31, 2009 decreased \$16.8 million from the prior year, comprised of an \$8.8 million decline in Petrofield associated with lower activity levels and the disposition of the subsidiary's combustion business, a \$7.7 million reduction in payables associated with steel fabrication and installation services arising from lower sales activity levels, offset by a \$761,000 increase in DSL payables associated with higher manufacturing activity at the end of fiscal 2009.

10.1.3 Net Capital Expenditures and Investments

Capital expenditures of \$1.4 million for the year ended December 31, 2009 decreased by \$5.2 million over the same period last year as the Company actively limited its capital spending program to sustaining capital expenditures in response to lower available industrial and commercial fabrication projects and lower manufacturing activity.

On July 31, 2009, DSL disposed of its Kingsway plant under a sale & leaseback for net proceeds of \$9.5 million. The Company's Petrofield subsidiary disposed of its combustion business effective October 5, 2009 for about \$10.2 million, including net proceeds related to property, plant and equipment of \$4.9 million.

On July 31, 2008, the Company sold 51% of its wholly-owned subsidiary, Sorge's Pro, to ACFN for \$1.2 million plus working capital, representing a loss on disposal of \$94,000.

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10.2 Debt

10.2.1 Short-term Debt

Short-term Debt As at December 31 <i>(in thousands)</i>	2009	2008	Better (Worse)
Cash flow provided by operations	(9,554)	1,895	(11,449)
Decrease (increase) in non-cash working capital	24,754	(1,257)	26,011
Less: Working capital acquired (disposed of)	-	(741)	741
Less: Other balance sheet adjustments	(1,301)	942	(2,243)
Cash flow from operating activities	13,899	839	13,060
Net capital expenditures and investments	12,963	(5,487)	18,450
Other investments	(35)	560	(595)
Free cash flow	26,827	(4,088)	30,915
Business divestitures (acquisitions)	-	850	(850)
Debt disposed of (acquired)	-	7	(7)
Financing activities			
Scheduled debt repayments, net of advances	(2,619)	(5,474)	2,855
Non-scheduled debt repayments	(7,237)	-	(7,237)
Proceeds of issue of common shares	-	24	(24)
Decrease (increase) in cash on deposit	(3,694)	406	(4,100)
Sources (uses) of cash	13,277	(8,275)	21,552
Bank operating loans, beginning of period	(27,016)	(18,741)	(8,275)
Bank operating loans, end of period	(13,739)	(27,016)	13,277
Revolving Credit facilities:			
Revolving facilities	16,000	32,500	(16,500)
Available uncommitted revolving facilities	3,237	3,465	(228)

Despite cash flow used in operations in fiscal 2009 of \$9.6 million compared to cash flow provided by operations of \$1.9 million in fiscal 2008, cash flow from operating activities actually improved by \$13 million due to improved utilization of non-cash working capital. Non-cash working capital decreased \$24.7 million year-over-year (2008 – increased \$1.1 million) for the reasons noted under “Sources and Uses – Non-Cash Working Capital”.

Bank operating loans at December 31, 2009 were \$13.3 million lower than a year earlier as positive cash flow provided by operations and positive net proceeds from capital expenditures and investing activities exceeded scheduled and non-scheduled debt repayments of \$9.9 million and an increase in cash on deposit of \$3.7 million.

Net proceeds from capital expenditures and other investments activities increased \$18.5 million for the year ended December 31, 2009 compared to the same period last year for the reasons noted above under “Net Capital Expenditures and Investments”. Net debt repayments of \$9.9 million reflected scheduled long-term debt repayments of \$2.6 million coupled with non-scheduled debt repayments of \$7.2 million.

The Company decreased its revolving facilities with HSBC, Royal Bank by \$6 million during the course of the year coupled with a cancellation of the BMO revolving credit facility of \$10 million concurrent with the disposition of Petrofield's combustion business. Actual availability of these facilities is limited by the Company's underlying

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For the Fourth Quarter and Twelve Months ended December 31, 2009

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marginable assets available to secure them. The Company's available uncommitted short-term revolving facilities at December 31, 2009 only declined by \$228,000 to \$3.2 million as sources of cash of \$13.3 million more than offset both decreases in the revolving facilities and decreased access to those lines of credit based on lower underlying marginable assets compared to December 31, 2008.

The line of credit with Bank of Montreal held by Petrofield was fully repaid from the proceeds of sale of the Company's combustion business assets on October 5, 2009 and the line of credit was cancelled.

EIW, Ward and Hopkins shared 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. These subsidiaries were in compliance with the debt to tangible net worth covenant ratio contained in the senior secured credit agreement with RBC ("RBC Credit Agreement") through fiscal 2009 but were not in compliance with the debt service coverage ratio at June 30, 2009, September 30, 2009 and December 31, 2009. As a result of continuing covenant violations, RBC agreed not to enforce its rights under the RBC Credit Agreement for a period up to March 4, 2010 provided that there was no material adverse change to the bank's risk during the period and the Company successfully concluded its refinancing efforts, enabling it to repay in full the amounts owed under the RBC Credit Agreement.

GTS and DSL shared a line of credit with HSBC of \$10 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 AMEC and certain noteholders. These subsidiaries were not in compliance with both covenants contained in the senior secured credit agreement with HSBC (the "HSBC Credit Agreement"). Under the terms of a forbearance agreement originally announced August 10, 2009, HSBC agreed not to enforce its rights under the HSBC Credit Agreement and to continue to provide advances thereunder for a period up to March 31, 2010, provided there was no event of default under the forbearance agreement.

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

10.2.2 Long-term Debt

The Company made \$2.5 million of scheduled principal repayments during the course of the year. The Company made further non-scheduled repayments of term debt of \$6.6 million to GE Capital and \$589,000 to Bank of Montreal to fully settle these obligations pursuant to the sale & leaseback of the Kingsway plant and Petrofield's combustion business, respectively. The Company also repaid \$191,000 in notes payable.

Total long-term debt of \$20.1 million as at December 31, 2009 consisted of \$4.8 million of scheduled long-Term Debt including capital lease obligations and \$5.8 million of Notes Payable. Of this amount, \$3.6 million is scheduled for repayment within the next 12 months.

10.2.3 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 for each \$67 of principal value. Under the terms of the convertible debenture, EIL was required to offer to repurchase

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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the Debentures from debenture holders at 101% of face value. The Company issued that offer on December 21, 2007 and the offer expired on February 28, 2008. On February 28, 2008, the Company paid out \$3,221,900 plus accrued interest of \$41,836 to debenture holders. As at December 31, 2009, \$60,000 of Debentures remained issued and outstanding, comprised of \$54,441 ascribed to long-term debt and \$5,559 ascribed to contributed surplus. None of the Debentures had been converted into common shares during the fiscal year ended December 31, 2009.

10.3 Share Capital and Retained Deficit

The Company's retained deficit of \$12.4 million at December 31, 2009 were \$15.4 million worse than December 31, 2008 due to the net loss for the year ended December 31, 2009 of \$15.5 million, including a \$2.8 million unrealized non-cash foreign exchange hedge gain. No dividends were declared or paid in the year.

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company's outstanding options at December 31, 2009 decreased 1,660,480 to 5,420,350 as a result of options expired or forfeited. No options were exercised and no additional options were granted during the year. The average exercise price of the outstanding options is \$0.52 per share and the average exercise price of the 3,948,850 exercisable options is \$0.50 per share.

Warrants issued on November 30, 2007 and outstanding at December 31, 2008, expired November 30, 2009 and no warrants were exercised during the year ended December 31, 2009.

10.4 Market Capitalization

The market capitalization of the Company's 91,239,608 issued and outstanding common shares at April 12, 2009 was \$11.9 million or \$0.13 per share compared with the Company's book value of \$0.31 per share at December 31, 2009. The issued and outstanding common shares at April 12, 2009, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares

As at April 12, 2010

(Unaudited)

Issued and outstanding common shares	91,239,608
Securities convertible into common shares	
\$60,000 - 8% convertible debentures, maturing June 1, 2011	89,552
convertible at 1492.537 shares per \$1,000 principal amount	5,420,350
Stock options	
	96,749,510

10.5 Financial Ratios

The Company's net funded debt of \$21.8 million at December 31, 2009 decreased \$26.4 million compared to the same date last year due to higher cash flow provided by operations combined with lower sustaining capital expenditures and proceeds from the sale and leaseback of DSL's Kingsway plant and the disposal of Petrofield's combustion business assets noted above.

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 improved by 10% to 45.4% at December 31, 2009 compared to 54.4% at the same date last year. In conjunction with the re-financing, the vendor noteholders agreed to subordinate and/or postpone their

Management's Discussion and Analysis

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obligations of \$3.8 million in favour of the Canadian Western Bank ("CWBank"). Accordingly, had these notes been subordinated at December 31, 2009 and excluded from Net Funded Debt the Company's Net Funded Debt to Capitalization ratio would have further improved to 37.5%.

The Company's current ratio of 1.09 times at December 31, 2009 improved from 1.05 times at December 31, 2008, due largely to the reclassification of all Royal Bank term debt to current at December 31, 2008. Excluding this reclassification of long-term debt, the current ratio at December 31, 2008 would have been 1.10 times. In conjunction with the refinancing, the Company issued additional term debt which was used to reduce amounts owed under the Company's short-term operating line. Accordingly, had this additional term debt been issued at December 31, 2009, the Company's current ratio would have improved to about 1.40 times at that date.

11. RISKS & UNCERTAINTIES

11.1 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.

11.2 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.

11.3 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.

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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11.4 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.

11.5 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.

11.6 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.

11.7 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.

11.8 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.

11.9 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.

11.10 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

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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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.

11.11 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.

11.12 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.

11.13 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.

Management's Discussion and Analysis

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11.14 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.

11.15 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.

11.16 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.

11.17 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.

12. 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 current economic downturn that started to impact the Company in the fourth quarter of fiscal 2008 continued throughout all four quarters of fiscal 2009. There were significant reductions in capital spending by the Company's customer base coupled with delays, deferrals and cancellations of industrial and infrastructure projects in the markets in which EIL operates.

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Notwithstanding the economic downturn throughout 2009, bidding activity for industrial, commercial and infrastructure construction is significantly higher than a year ago. Private sector capital projects in the oil sands, oil and gas and mining sectors have all started to recover with strengthening commodity prices and the improving outlook for economic growth in the North American economy and globally as well. The numerous investment projects which were put on hold have started to be put back into production, especially in western Canada and particularly in the Alberta oil sands area.

This major retrenchment in private sector projects throughout 2009 contrasted to increased infrastructure and institutional capital spending. The federal and provincial government's stimulus capital spending of \$21 billion for a variety of construction projects has begun to work its way into the actual production cycle and this is expected to continue over the near term. These projects include a variety of infrastructure projects such as roads, bridges, water and waste water facilities. This is expected to be supplemented by significantly higher capital investments in the oil sands industry and the power generation industry.

The value of steel fabrication and installation project backlog at the Company's primary shops at December 31, 2009 was \$28.3 million, rising to \$31.1 million at March 31, 2010. The steel fabrication and installation market, where Empire's businesses largely compete, tends to lag the engineering and general contracting market place. The Company also expects that the increased lag times from initial bid to award of a project experienced over the past year will continue for the near-term. Management is also of the view that 2010 will continue to be challenging for the steel fabrication and installation segment since industrial fabrication and installation capacity continues to exceed market demand. However, the Company expects that as government funded stimulus spending continues into production, this heightened demand will increasingly consume the available steel fabrication and installation segment capacity which benefits the industry as a whole. In addition, the Company's aboriginal partnership is focused on providing maintenance services to Alberta's oil sands producers and the outlook for this business, based on sustaining existing oil production capacity alone, continues to be positive because production is expected to continue to grow over the next decade.

The engineered products segment outlook is project dependent and is largely impacted by contract awards. The engineered products segment will substantially complete two world class projects for the two leading entertainment companies in the U.S. in 2010. Bidding activity is very active in Asia where the growing middle class is resulting in new amusement parks being built throughout Asia. The Company will continue to focus on its competitive strengths and experience in engineering and quality management and as well as on achieving further efficiencies to mitigate the negative impact of the strengthening of the Canadian dollar against the U.S. and other world currencies.

The global financial market downturn has resulted in significant erosion of stock market values and restrictions on credit availability and tightened liquidity for many companies, regardless of sector. Against this backdrop the Company has recently re-financed its operating and term debt and strengthened its financial position in 2010 with a new lending relationship with the Canadian Western Bank.

Notwithstanding the successful outcomes relative to the Company's restructuring plans disclosed above, the Company is continuing to evaluate alternatives to optimize the intrinsic value and financial performance of the Company including ongoing cost containment and further cost reduction, the disposition of non-core, redundant or under-performing assets and increases in long-term capital.

Management's Discussion and Analysis

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13. 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 21 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.

Management's Discussion and Analysis

For the Fourth Quarter and Twelve Months ended December 31, 2009

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Non-GAAP Terms, Reconciliations and Calculations			
For the years ended December 31			
<i>(in thousands, except percentages and ratios)</i>	2009	2008	Better (Worse)
Gross profit	11,168	26,674	(15,506)
Earnings from equity investment	40	684	(644)
Operating, general and administrative expenses	(17,724)	(22,081)	4,357
EBITDA	(6,516)	5,277	(11,793)
Amortization	(3,395)	(3,508)	113
EBIT	(9,911)	1,769	(11,680)
Cash flow provided by operations	(9,554)	1,895	(11,449)
Decrease (increase) in working capital	23,453	(1,056)	24,509
Property, plant and equipment expenditures	(1,412)	(6,587)	5,175
Proceeds from disposal of property, plant and equipment	14,374	1,100	13,274
Decrease (increase) in other long-term assets	(35)	560	(595)
Free cash flow	26,826	(4,088)	30,914
Bank operating loans	13,739	27,016	(13,277)
Current portion of long-term debt	3,631	7,480	(3,849)
Long-term debt	7,079	12,657	(5,578)
Bank indebtedness	(2,674)	1,020	(3,694)
Net funded debt	21,775	48,173	(26,398)
Convertible debentures	54	51	3
Subordinated shareholder loans	-	-	-
Deferred gain on sale and leaseback	2,330	1,137	1,193
Shareholders' equity	23,774	39,228	(15,454)
Capitalization	47,933	88,589	(40,656)
Net funded debt : Capitalization	45.4%	54.4%	9.0%
Property, plant and equipment expenditures, net of proceeds	(12,962)	5,487	18,449
Scheduled long-term debt repayments	2,619	7,237	4,618
Interest expenses	2,980	3,252	272
less: non-cash interest expenses	(432)	(396)	36
Current income taxes	64	597	533
Fixed charges	(7,731)	16,177	23,908
EBITDA : Fixed Charges	NA	0.33	NA
Current assets	31,287	67,854	(36,567)
Current liabilities	(28,607)	(64,869)	36,262
Working capital	2,680	2,985	(305)
Current ratio (Current assets : Current liabilities)	1.09	1.05	0.04

Management's Report

To the Shareholders of Empire Industries Ltd.

The accompanying consolidated financial statements of Empire Industries Ltd. contained in this report, including the notes thereto, have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. In addition, the financial information contained elsewhere in this annual report is consistent with the financial statements.

The Board of Directors is responsible for the financial statements included in this annual report. The Audit Committee reviewed the contents of the consolidated financial statements with management and the external auditor prior to their approval by the Board of Directors. The external auditors discussed their audit work with the Committee.

Management has overall responsibility for internal controls and maintains accounting control systems designed to provide reasonable assurance that transactions are properly authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information.



Guy Nelson, MBA, B. Comm.
Chairman, CEO & President



David Carefoot, CA, CBV
Chief Financial Officer

April 30, 2010

Auditors' Report

April 30, 2010

Auditors' Report

To the Shareholders of
Empire Industries Ltd.

We have audited the consolidated balance sheet of Empire Industries Ltd. as at December 31, 2009 and 2008 and the consolidated statements of operations and shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

Empire Industries Ltd.
Consolidated Balance Sheets
As at December 31

	2009	2008
Assets		
Current assets:		
Cash (Note 13)	\$ 2,674,061	\$ -
Accounts receivable (Note 6)	16,406,407	47,368,864
Receivable from related party (Note 7)	643,533	269,250
Income taxes recoverable	59,162	204,147
Inventories (Note 8)	8,070,662	18,365,879
Prepaid expenses and deposits	979,238	1,504,030
Current portion of other long-term assets	27,381	6,275
Foreign exchange hedge contracts (Note 9)	2,233,298	-
Future income taxes (Note 18)	192,864	135,232
	31,286,606	67,853,677
Other long-term assets	39,585	18,126
Advances to related party (Note 10)	291,117	377,938
Investments (Note 10)	1,300,859	1,207,950
Property, plant and equipment (Note 11)	19,137,689	30,800,359
Intangible assets (Note 12)	454,561	564,040
Goodwill (Note 12)	8,173,029	17,395,067
Future income taxes (Note 18)	2,442,948	2,259,743
	\$ 63,126,394	\$ 120,476,900
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness (Note 13)	\$ -	\$ 1,020,409
Bank operating lines (Note 13)	13,739,226	27,015,994
Accounts payable and accrued liabilities	9,804,998	25,768,340
Income taxes payable	195,024	1,031,140
Long-term debt due within one year -		
Long-term debt (Note 14)	1,634,387	5,403,404
Notes payable (Note 15)	1,997,000	2,076,475
Deferred gain on sale and leaseback (Note 17)	442,451	287,900
Foreign exchange hedge contracts (Note 9)	-	577,567
Future income taxes (Note 18)	794,146	1,505,570
	28,607,232	64,686,799
Long-term debt (Note 14)	3,267,164	9,162,312
Notes payable (Note 15)	3,811,186	3,494,532
Convertible debentures (Note 16)	54,441	50,733
Deferred gain on sale and leaseback (Note 17)	1,887,493	848,829
Foreign exchange hedge contracts (Note 9)	-	24,570
Future income taxes (Note 18)	1,724,890	2,981,260
	39,352,406	81,249,035
Shareholders' equity:		
Capital stock (Note 19)	34,720,418	34,720,418
Contributed surplus (Note 20)	1,458,003	1,450,461
Retained earnings (deficit)	(12,404,433)	3,056,986
	23,773,988	\$ 39,227,865
	\$ 63,126,394	\$ 120,476,900

See accompanying notes to the consolidated financial statements

Approved by the Board:


Guy Nelson
Director


Joe Robertson
Director

Empire Industries Ltd.
Consolidated Statements of Operations
For the years ended December 31

	2009	2008
Sales	\$ 109,320,819	\$ 180,032,122
Cost of goods sold	(98,151,770)	(153,358,113)
Gross profit	11,169,049	26,674,009
Operating, general and administrative expenses	(17,724,435)	(22,080,823)
Income from equity accounted for investments and other investments (Note 10)	39,510	683,863
Earnings before the undernoted	(6,515,876)	5,277,049
Amortization	(3,396,196)	(3,508,495)
Operating income	(9,912,072)	1,768,554
Other income (expenses):		
Amortization of deferred gain on sale and leaseback	352,296	287,900
Gain (loss) on disposal of property, plant and equipment, intangibles and other assets (Note 28)	(2,768,880)	23,273
Impairment loss on goodwill (Note 12)	(4,550,387)	-
Interest on long term debt and notes payable	(1,512,934)	(1,289,032)
Other interest	(1,466,795)	(1,962,069)
Unrealized gain (loss) on foreign exchange hedge contracts (Note 9)	2,835,435	(1,439,838)
Net loss before income taxes	(17,023,337)	(2,611,212)
Income taxes recovery (expense): (Note 18)		
Current	(64,165)	(597,480)
Future	1,626,083	1,449,657
	1,561,918	852,177
Net loss for the year	\$ (15,461,419)	\$ (1,759,035)
Loss per share:		
Basic and diluted (Note 5)	\$ (0.17)	\$ (0.02)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Shareholders' Equity
For the years ended December 31

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders Equity
As at December 31, 2008	\$ 34,720,418	\$ 1,450,461	\$ 3,056,986	\$ 39,227,865
Stock-based compensation	-	7,542	-	7,542
Net loss for the period	-	-	(15,461,419)	(15,461,419)
As at December 31, 2009	\$ 34,720,418	\$ 1,458,003	\$ (12,404,433)	\$ 23,773,988

See accompanying notes to the consolidated financial statements

Empire Industries Ltd.
Consolidated Statements of Cash Flow
For the years ended December 31

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (15,461,419)	\$ (1,759,035)
Amortization	3,396,196	3,508,495
Deferred gain on sale or leaseback	(352,296)	(287,900)
Loss (gain) on disposal of property, plant and equipment, intangibles and other assets	2,768,880	(23,273)
Impairment loss on goodwill (Note 12)	4,550,387	-
Income from equity accounted for investments (Note 10)	(39,510)	(661,363)
Non-cash interest expense	432,374	396,273
Stock-based compensation	7,542	330,051
Unrealized foreign exchange hedge contract loss (gain) (Note 9)	(2,835,435)	1,439,838
Future income taxes	(1,626,083)	(1,449,657)
Investment tax credits received (accrued)	(393,865)	401,872
Cash flow provided by (used in) operations	(9,553,229)	1,895,301
Decrease (increase) in non-cash working capital	23,452,714	(1,055,636)
Cash flow provided by operating activities	13,899,485	839,665
Investing activities:		
Business divestitures (Note 28)	-	850,000
Proceeds on disposal of property, plant and equipment	14,374,432	1,100,275
Purchase of property, plant & equipment	(1,412,463)	(6,587,158)
Proceeds on disposal of intangible assets	8,001	-
Decrease (increase) in other long-term assets	(42,565)	148,278
Decrease in investments	-	397,000
Proceeds on disposal of other assets	-	15,000
	12,927,405	(4,076,605)
Financing activities:		
Increase (decrease) in bank operating lines	(13,276,768)	8,280,912
Issue of long-term debt	78,750	1,807,034
Repayment of long-term debt	(9,742,915)	(2,547,261)
Repayment of shareholders loans	-	(44,207)
Repayment of notes payable	(191,487)	(1,468,335)
Repayment of convertible debentures	-	(3,221,900)
Proceeds of issue of common shares	-	24,473
	(23,132,420)	2,830,716
Change in cash and cash equivalents	3,694,470	(406,224)
Cash and cash equivalents, beginning of the year	(1,020,409)	(614,185)
Cash and cash equivalents, end of the year	\$ 2,674,061	\$ (1,020,409)
Supplementary cash flow information:		
Interest paid	\$ 2,701,897	\$ 2,895,096
Income taxes paid	\$ 789,405	\$ 416,962

See accompanying notes to the consolidated financial statements

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

1. Nature of the business

The consolidated financial statements include the accounts of Empire Industries Ltd. (the “Company” or “Empire”) and its wholly-owned subsidiaries, Empire Iron Works Ltd., George Third & Son Ltd., Dynamic Structures Ltd., Petrofield Industries Inc. (formerly Tornado Technologies Inc.), and its 49% investment in 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 Limited, Ward Industrial Equipment Ltd., and Parr Metal Fabricators Ltd. The financial statements of George Third & Son Ltd. contained herein include the accounts of its wholly owned U.S. subsidiary, KWH Constructors Inc. The financial statements of Dynamic Structures Ltd. contained herein include the investment in two 50% joint ventures with AMEC International (Canada) Ltd. which are accounted for under the proportionate consolidation method. The financial statements of Petrofield Industries Inc. contained herein include the accounts of its wholly owned subsidiary, 1366377 Texas Inc. (formerly Tornado Technologies, Inc.).

2. Basis of presentation

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

The Company’s debt obligations are described in Notes 13, 14, 15 and 16 and certain of these debt obligations are subject to financial covenants that are based on recognized assets and liabilities, operating results and the amount of the debt obligations outstanding. Although the Company was not in compliance with certain of its financial covenants at December 31, 2009, the Company was in compliance with its new covenants following the refinancing of its operating and term debt on March 4, 2010 (Note 24).

Based on uncertainties associated with the Company’s current operating projections including, but not limited to, continued negative cash flow from 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 be unable to maintain compliance with its new financial covenants in the future. Failure to maintain financial covenants under its credit facilities would result in default permitting the lender to demand payment of amounts outstanding under the lending agreement. These circumstances add risk to the ability of the Company to meet its obligations as they come due and accordingly, the use of accounting principles to a going concern.

To meet these potential demands, the Company has generated additional cash flows through the refinancing of its operating and term debt (Note 24) and through the disposal of certain non-core assets (Note 28). The Company is proactively looking at all available alternatives in implementing the Company’s plans. The Company continues to aggressively pursue strategies to improve operating results, cash flows and capital structure in order to ensure the availability of funds to continue to meet its obligations, however, there can be no assurance as to their outcome or success.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

3. Significant accounting policies

These consolidated financial statements include the following significant accounting policies:

- (a) Use of significant accounting estimates
The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods covered by the financial statements. Actual results could differ materially from those estimates. The principal financial statement components subject to measurement uncertainty include sales and accounts receivable due to the uncertainty inherent in estimating the costs of completing construction projects and estimating amounts ultimately realizable on unpriced change orders (Note 6), the carrying value of property, plant and equipment (Note 11), the carrying value of future tax assets and liabilities (Note 18) and the carrying value of goodwill (Note 12).
- (b) Comprehensive income
Comprehensive income comprises net income and other comprehensive income and includes all changes in equity (net assets) of the Company during the year except those resulting from investment by and distribution to owners.
- (c) Fair values
Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable parties. Fair value is based on available public market information or when such information is not available is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at a specific point in time and in the respective geographic locations and may not be reflective of future fair values. Changes in interest rates, foreign exchange rates and investment risk are the primary causes of changes in the fair value of the Company's financial instruments.
- (d) Foreign currency
Monetary assets and liabilities are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated to Canadian dollars at exchange rates in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated to Canadian dollars at the average rate of exchange during the year, which approximates the actual exchange rate on the transaction date. Exchange gains and losses on translation of foreign currencies are recorded on the statement of operations in sales.
- (e) Cash and cash equivalents
Cash and cash equivalents consist of cash and short-term investments with maturities of less than 90 days, net of bank indebtedness.
- (f) Inventories
Raw material inventory is stated at the lower of cost, on a specific unit basis, and replacement cost. Inventory of finished goods and work in progress are stated at the lower of the average cost and net realizable value. Costs include the purchase costs net of supplier allowances and the allocation of handling costs including transportation and labour to bring the inventories to their present location. Storage costs and administrative overheads and selling expenses related to inventories are expensed in the period costs are incurred.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
 December 31, 2009 and 2008

Structural steel inventory includes handling costs associated with bringing the inventory to its present location. As soon as inventory of structural steel is commissioned for a job it is transferred to unbilled receivables where direct labour and overheads are accumulated until they are billed. Inventory relating to specialty engineered products is transferred to work-in-progress upon being commissioned where direct labour and overheads are accumulated until they are transferred to finished goods.

Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price. Materials held for further use in the production of finished inventory are written down to the extent the material cost and estimated cost to complete exceeds net realizable value. When circumstances that previously required inventories to be written down below cost no longer exist, the amount of the write-down is reversed.

(g) Property, plant and equipment

Property, plant and equipment other than product development costs are recorded at cost and amortized over their estimated useful lives. Product development costs represent the cost of material, direct labour and overhead attributable to the development of a prototype product template used in the manufacture of goods for sale and is amortized over its estimated useful life. This requires the estimation of the useful life of the asset and its salvage and residual value.

Property, plant and equipment are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment.

Amortization is calculated on a declining balance basis for all but leasehold improvements which are amortized on a straight line basis at the following annual rates:

Asset	Rate
Declining balance:	
Buildings, stationary cranes and rail spurs	2.5%
Portable buildings, stationary machinery & equipment and parking lots	10.0%
Product development	15.0%
Office furniture & equipment and moveable cranes	20% to 45%
Moveable machinery and equipment and vehicles	30.0%
Straight line:	
Leasehold improvements	remaining term of the lease

(h) Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

(i) Intangible assets

Goodwill is the excess of the cost of an acquired enterprise over the fair value of the identifiable net assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but is subject to a fair value impairment test performed at least annually or more frequently if events or circumstances indicate that goodwill could be impaired. Testing for impairment is accomplished by determining whether a reporting unit's fair value exceeds its net carrying amount as of the assessment date. A reporting unit is a component of a segment in which discrete financial information is available and the segment management regularly reviews the operating results of the component. A discounted cash flow model is used to estimate the fair value of a reporting unit. This model requires the use of long-term projections and assumptions regarding industry specific economic conditions that are outside the Company's control. If the fair value is greater than the carrying amount, no impairment is necessary. Should the carrying amount exceed fair value, an impairment loss would be recognized at that time.

Patents are amortized on a declining balance of 5%. Computer software development costs are amortized on a declining balance of 15%. Other intangible assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the assets exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment.

(j) Income taxes

The Company uses the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. Under the asset and liability method, the effect of future tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date or date of substantive enactment.

(k) Revenue recognition

The Company recognizes revenue on two different methods depending on the nature of the contracts performed.

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

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

Revenues from the design, fabrication and installation of equipment are recorded when the products are completed and accepted by the customer or the services are rendered and collection is reasonably assured. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues from the sale of used equipment are recognized when title passes from the Company to its customers and collection is reasonably assured. Revenues from leasing of equipment that qualify as equipment sales are generally recognized at the time of delivery and acceptance of the related equipment. Revenues from operating leases are recognized over the lease term including estimated renewal periods.

(l) Stock-based compensation and payments

The Company follows the fair value method of accounting for stock-based compensation and payments. This method requires the Company to expense the fair value of each new option or warrant granted in the statement of operations.

The fair value of the options granted is estimated on the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized over the vesting period with a corresponding credit to contributed surplus. Any consideration paid by the option holder on exercise of the option is credited to share capital.

The fair value of warrants granted is estimated on the date of grant using the Black-Scholes option-pricing model. The cost is recognized in the current period with a corresponding credit to contributed surplus. Any consideration paid by the warrant holder on exercise of the warrant is credited to share capital.

(m) Earnings (loss) per share

Earnings (loss) per share amounts are calculated using the weighted average number of shares outstanding during the period. The dilutive effect on per share amounts resulting from outstanding options and warrants is calculated using the treasury stock method. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of the outstanding options and warrants are used to purchase shares of the Company at the average market price for the period.

(n) Financial instruments

All financial assets must be designated as either held for trading, available for sale, loans and receivables or held to maturity. All financial liabilities must be designated as either held for trading or other liabilities. Initial measurement of financial instruments is at fair value.

Financial derivative instruments are used by the Company to reduce its exposure to fluctuations in foreign currency exchange rates. In the normal course of operations, the Company does not hold or issue derivative instruments for derivative trading purposes. Any change in the value of the derivatives is reported in earnings in unrealized foreign exchange contracts gains and losses, unless the derivative qualifies as a cash flow hedge and hedge accounting is applied. Any change in the value of those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively are included in the statement of operations. For derivatives classified as cash flow hedges, the effective portion of the change in fair value would be recognized in other comprehensive income ("OCI") and any ineffective portion is recognized in the statement of operations. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
 December 31, 2009 and 2008

The Company classifies its financial instruments as follows:

Financial Instrument	Classification
Cash	Held for trading
Accounts receivable	Loans and receivables
Receivable from related party	Loans and receivables
Income taxes recoverable	Loans and receivables
Investments	Available-for-sale
Notes receivable	Available-for-sale
Bank indebtedness	Other liabilities
Bank operating lines	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Foreign exchange hedge contracts	Held for trading
Income taxes payable	Other liabilities
Long-term debt	Other liabilities
Notes payable	Other liabilities
Convertible debentures	Other liabilities
Payable to related party	Other liabilities

Financial assets and liabilities designated as held for trading are subsequently measured at fair value with periodic changes in fair value recognized in net earnings in the period in which it arises. Investments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Financial assets designated as loans and receivable or held to maturity and financial liabilities designated as other liabilities are subsequently measured at amortized cost and income or expense is recognized in net earnings using the effective interest method.

Financial assets classified as available-for-sale are carried at fair value with changes in fair value recorded in accumulated OCI until the financial asset is derecognized through disposal or becomes impaired at which time they flow through net earnings.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

(o) Currency hedge

In the normal course of business the Company utilizes US dollar denominated financial instruments to manage its exposure to fluctuations in US dollar sales. The Company's policy is not to utilize derivative financial instruments for trading or other speculative purposes.

The Company has designated these instruments as fair value hedges. The Company does not apply hedge accounting to these instruments. As a result, these derivative instruments are recorded at fair value in the consolidated balance sheet with changes in the fair value recognized in net earnings during the period.

4. Accounting policy changes

- (a) On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 – Goodwill and Intangibles, Section 3855 – Financial Instruments – Recognition and Measurement, and Section 3862 – Financial Instruments – Disclosure.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

- i) Section 3064 – Goodwill and Intangibles establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. The Company reclassified \$447,761 (2008 – \$524,717) of computer development costs from property, plant and equipment to intangible assets as a result of adopting the new standard.
- ii) The Accounting Standards Board (“AcSB”) amended Section 3855 – Financial Instruments – Recognition and Measurement, as follows:
- Allows debt securities that are not quoted in an active market to be classified as loans and receivables;
 - On adoption, permits eligible debt securities currently classified as available for sale (“AFS”) to be transferred to HTM or loans and receivables;
 - Changes the impairment rules for HTM debt securities, whether quoted or not, from the fair value model to the incurred credit losses model;
 - Requires the reversal of an impairment loss for AFS debt securities when recovery of fair value occurs subsequently and is based on objective evidence of an event occurring after the loss; and
 - Provides additional guidance concerning the reassessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category.
- iii) The AcSB amended CICA Handbook Section 3862 – Financial Instruments – Disclosure, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity’s fair value measurements, and have been incorporated into the Company’s note disclosure for fair value of financial instruments (Note 27).
- iv) On January 20, 2009, the AcSB issued Emerging Issues Committee Abstract 173: Credit and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 supplements CICA Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. EIC-173 affirms that an entity’s own credit risk (in the case of financial liabilities) and a counter party’s credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

There were no significant impacts on the Company’s consolidated financial position, opening retained earnings or on the results of its operations from adopting the new standards.

Future changes to accounting policies

- (b) In February 2008, the AcSB confirmed that Canadian public entities will have to adopt International Financial Reporting Standards (“IFRS”) effective for fiscal years beginning on or after January 1, 2011 (the “changeover date”). The Company will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of the Company may be significant and, as

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
 December 31, 2009 and 2008

such, the Company has begun to develop its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. The Company continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be on going as new standards and recommendations are issued by the International Accounting Standards Board and AcSB. It is not the Company's intention to early adopt IFRS prior to January 1, 2011.

- (c) In January 2009, the CICA issued Handbook Section 1582 - Business Combinations, which replaces Section 1581 and Section 1601 - Consolidated Financial Statements, and Section 1602 - Non-Controlling Interests, which together replace Section 1600 effective January 1, 2011. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of acquisition. Furthermore, virtually all acquisition costs will be expensed which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings for each period until settled. Currently, only the contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill will be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination.

The future changes to accounting policies outlined in sections (b) and (c) above come into effect for financial periods beginning January 1, 2011 with prospective application. The impact of the adoption of this standard cannot be reasonably estimated at this time.

5. Loss per share

For the year ended December 31

	2009			2008		
	Net loss for the period	Shares	Per Share	Net loss for the period	Shares	Per Share
Basic and diluted loss per share	\$ (15,461,419)	91,239,608	\$ (0.17)	\$ (1,759,035)	91,211,147	\$ (0.02)

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

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

6. Accounts receivable

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

	December 31, 2009	December 31, 2008
Holdbacks	\$ 3,838,740	\$ 6,733,172
Current	5,950,283	15,105,375
31 – 60 days	3,034,928	9,436,507
61 – 90 days	826,932	4,262,623
Greater than 90 days	871,478	4,585,546
Billed receivables	14,522,361	40,123,223
Unbilled contract receivables	2,767,150	10,009,212
Deferred revenue	(1,290,004)	(3,999,805)
Other receivables	856,666	1,804,078
Less: Allowance for doubtful accounts	(449,766)	(568,744)
Total accounts receivable, net	\$ 16,406,407	\$ 47,368,864

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

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

	December 31, 2009	December 31, 2008
Allowance for doubtful accounts - opening	\$ 568,744	\$ 206,225
Add: Net bad debt provisions (recoveries)	(74,450)	439,677
Less: accounts written off	(44,528)	(77,158)
Allowance for doubtful accounts - closing	\$ 449,766	\$ 568,744

7. Receivable from related party

	December 31, 2009	December 31, 2008
Current	83,358	269,250
31 – 60 days	453,489	-
61 – 90 days	106,686	-
Greater than 90 days	-	-
Receivable from related party	\$ 643,533	\$ 269,250

At December 31, 2009, the Company had receivables from Sorge's Welding Ltd. in the amount of \$643,533 (2008 - \$269,250). The Company had sales to Sorge's Welding Ltd. for the year ended December 31, 2009 of \$3,329,144 (2008 - \$1,268,953). In addition, the Company recorded expenses of \$3,543 (2008 - \$282,687) to Sorge's Welding Ltd. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Empire Industries Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008

8. Inventories

Inventories are comprised of the following:

	December 31, 2009	December 31, 2008
Finished goods	\$ 1,168,192	\$ 2,504,622
Work-in-progress	1,428,626	5,661,958
Raw materials – specialty engineered products	3,863,338	7,680,145
Raw materials – structural steel	1,610,506	2,519,154
	\$ 8,070,662	\$ 18,365,879

During the year, the Company recorded inventory write-downs amounting to \$855,021 (2008 - \$42,192). There were no reversals of prior period inventory write-downs. The amount of inventories recognized as an expense within cost of goods sold is \$32,464,709 (2008 - \$70,360,740).

9. Foreign exchange hedge contracts

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

	December 31, 2009	December 31, 2008
Fair value of foreign currency hedge contracts, beginning balance	\$ (602,137)	\$ 837,701
Change in forward currency contracts' fair value		
Existing forward currency contracts	2,340,381	(1,311,473)
Purchased forward currency contracts	-	(237,017)
Add: Realized gains on forward currency contracts	495,054	108,652
Unrealized gain (loss) on foreign exchange hedge contracts	2,835,435	(1,439,838)
Fair value of foreign currency hedge contracts, ending balance	2,233,298	(602,137)
Current portion	2,233,298	(577,567)
Long-term portion	\$ -	\$ (24,570)

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10. Investments

Investments consist of:

	December 31, 2009	December 31, 2008
Investments where the Company does not exercise significant influence:		
River City Detailers Ltd. (15% ownership)	\$ 30,000	\$ 30,000
Sky Trolley Inc. (20% ownership)	21,650	21,650
Black Sea Oil & Gas Ltd. (<1% ownership)	53,399	-
	105,049	51,650
Equity accounted for investments:		
Sorge's Welding Ltd. (49% ownership):		
Beginning balance	223,778	613,832
Sorge's Pro Welding Ltd. on amalgamation	932,522	-
Redemption of preferred shares	-	(400,000)
Equity earnings	39,510	617,506
Management fees	-	(607,560)
	1,195,810	223,778
Sorge's Pro Welding Ltd. (49% ownership):		
Cost of retained interest (Note 28)	-	906,142
Equity earnings	-	43,857
Management fees	-	(17,477)
	-	932,522
Total equity accounted for investments	1,195,810	1,156,300
Total investments	\$ 1,300,859	\$ 1,207,950

Sorge's Pro Welding Ltd. was amalgamated with Sorge's Welding Ltd. January 1, 2009. The Company had outstanding long-term advances to Sorge's Welding Ltd. of \$291,117 (2008 - \$377,938).

During the year, the Company received \$34,044 (2008 - \$18,437) in interest income from Sorge's Welding Ltd. and \$30,000 (2008 - \$22,500) in dividend income from River City Detailers Ltd.

11. Property, plant and equipment

	December 31, 2009		December 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 391,133	\$ -	\$ 4,339,049	\$ -
Buildings	2,355,879	695,424	9,218,999	2,536,370
Machinery and equipment	22,799,875	10,789,670	22,457,467	9,398,479
Vehicles	665,738	474,157	958,879	574,533
Office furniture and equipment	4,791,737	3,490,673	5,052,369	3,188,248
Cranes	3,325,304	1,506,094	3,228,506	1,185,187
Rail spurs	50,390	22,900	50,390	22,195
Parking lot	88,617	45,437	88,617	40,815
Product development	951,977	272,480	1,297,826	248,949
Leasehold improvements	2,068,401	\$ 1,054,527	2,446,303	1,143,270
	\$ 37,489,051	18,351,362	\$ 49,138,405	\$ 18,338,046
Net book value	\$ 19,137,689		\$ 30,800,359	

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As at December 31, 2009, capital leases in the amount of \$3,924,566 (2008 - \$3,926,242) are included in the cost of property, plant and equipment with corresponding accumulated amortization of \$1,679,727 (2008 - \$1,167,276).

12. Intangible assets

Goodwill is the result of the difference between the purchase price and the values assigned to the underlying net assets acquired in the purchase of the shares of George Third & Son Ltd., Sorge's Pro Welding Ltd., KWH Constructors Corp., and Petrofield Industries Inc. Goodwill decreased by \$4,671,651 as a result of the sale of the combustion division of Petrofield Industries Inc. (Note 28). In addition the Company has concluded the second phase of the goodwill impairment testing related to Petrofield's remaining business operations and has recorded a total impairment charge of \$4,550,387 for goodwill in its Specialty Engineered Products segment as a result of this sale.

Business Segment	December 31, 2008	Disposals (Note 28)	Impairment Charge	December 31, 2009
Steel fabrication and erection	\$ 8,173,029	\$ -	\$ -	\$ 8,173,029
Specialty engineered products	9,222,038	(4,671,651)	(4,550,387)	-
Total Goodwill	\$ 17,395,067	\$ (4,671,651)	\$ (4,550,387)	\$ 8,173,029

Other intangible assets consist of:

	December 31, 2009		December 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Patents	\$ 7,548	\$ 748	\$ 45,740	\$ 2,417
Computer software development	676,217	228,456	676,217	155,500
Net book value		\$ 454,561		\$ 564,040

13. Bank indebtedness and bank operating lines

The Company's cash balance of \$2,674,061 (2008 - \$1,020,409 bank indebtedness) represents funds on deposit in excess of cheques drawn.

At December 31, 2009, the Company had total draws on its bank operating lines of credit of \$13,739,226 (2008 - \$27,015,994) consisting of:

- (i) A line of credit with the Royal Bank of Canada in the amount of \$6,000,000 (2008 - \$7,000,000) of which \$4,916,282 (2008 - \$6,230,000) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 4.5% (2008 - prime plus 1.2%). 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. On March 4, 2010, the line of credit was fully repaid from the proceeds of a re-financing with Canadian Western Bank (Note 29) and the line was cancelled (Note 24).
- (ii) A line of credit with HSBC in the amount of \$10,000,000 (2008 - \$15,000,000) of which \$8,822,944 (2008 - \$12,914,086) has been drawn down. Advances on the line are payable on demand and bear interest at prime plus 4% (2008 - prime plus 1%). 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

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a master lease agreement. On March 4, 2010, the line of credit was fully repaid from the proceeds of a re-financing with Canadian Western Bank (Note 29) and the line was cancelled (Note 24).

A line of credit with the Bank of Montreal was fully repaid from the proceeds of sale of the Company's combustion business assets on October 5, 2009 (Note 28) and the line of credit was cancelled.

14. Long-term debt

	December 31, 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.	-	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.	109,998	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.	283,679	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.	536,686	818,512
HBSC 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.	1,017,480	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.	254,018	343,294
Capital Equipment Leases, bearing interest up to 13% per annum, monthly payments from \$110 to \$2,742 including interest, due from March 2010 to April 2013.	336,690	510,972
Royal Bank of Canada non-revolving term facility, payable \$69,500 monthly plus interest at prime plus 5%, due May 31, 2010. (Note 24)	2,363,000	3,197,000
	4,901,551	14,565,716
Current portion of long-term debt	(1,634,387)	(3,040,404)
Long-term debt reclassified to current portion	-	(2,363,000)
	\$ 3,267,164	\$ 9,162,312

The Royal Bank non-revolving term facility is secured by a general assignment of inventories and accounts receivable, a \$6,000,000 debenture secured by a floating charge over all of the borrower's present and after acquired real property. The HSBC and other capital leases are secured by the equipment that is being leased.

Amounts due under the GE Mortgage and GE Equipment Loan were fully repaid from the proceeds of a sale and leaseback of the Company's Kingsway facility on July 31, 2009 (Note 28). Amounts due under the Bank of Montreal non-revolving term loan were fully repaid from the proceeds of the sale of the Company's combustion business assets on October 5, 2009 (Note 28).

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Due to non-compliance with certain underlying covenants at December 31, 2008, \$2,363,000 of scheduled debt otherwise due beyond one year under the Royal Bank credit agreement, was reclassified to current portion. On March 4, 2010, the amount outstanding under the Royal Bank non-revolving credit agreement was fully repaid from the proceeds of the re-financing with the Canadian Western Bank (Note 24).

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

2010	\$	1,634,387
2011		1,562,129
2012		1,115,560
2013		335,392
2014		254,083
		4,901,551
Interest on capital leases		288,942
		\$ 5,190,493

15. Notes payable

	December 31, 2009	December 31, 2008
Notes payable to related parties – George Third & Son Ltd. vendors - includes accrued interest of \$ 339,091 (2008 - \$ 163,878)	\$ 2,057,841	\$ 1,882,628
Notes payable to related parties – KWH Constructions Corp. vendors - includes accrued interest of \$ 249,863 (2008 - \$ 108,422)	1,753,345	1,611,904
Note payable to AMEC - Dynamic Structures Ltd. vendor - includes accrued interest of \$ 112,000 (2007 - \$ 191,475)	1,512,000	1,591,475
Other notes payable	485,000	485,000
	5,808,186	5,571,007
Current portion of notes payable	(1,997,000)	(2,076,475)
	\$ 3,811,186	\$ 3,494,532

The related parties as noted above are officers and/or directors of Empire Industries Ltd. and/or its wholly owned subsidiaries. During the year, interest of \$nil (2008 - \$32,760) was paid to these related parties. Total interest expense to the two related parties amounted to \$316,654 (2008 - \$280,257).

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

The notes payable to the KWH Constructors Corp. vendors were issued on April 30, 2007 as part of the consideration for the purchase of the shares of KWH Constructors Corp. The principal plus accrued interest on these unsecured notes is due on April 30, 2011. Interest is compounded quarterly at a rate of 8.5% until April 30, 2010 at which time

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the rate increases to 10%. The Company has the option to pay off any portion of the notes plus accrued interest at any time prior to the due date without penalty.

The note payable to AMEC was issued on April 16, 2007 as part of the consideration for the purchase of the shares of AMEC Dynamic Structures Ltd., subsequently known as Dynamic Structures Ltd. The unsecured note required one lump sum payment of principal plus accrued interest at 8% per annum on October 31, 2008. This note remains unpaid and the Company has an informal agreement in principle with the note holder to extend payment terms to April 30, 2010 under the same terms and conditions.

Other notes payable bear interest at a rate of 7% are secured by a general security agreement and are payable on demand. During the year ended December 31, 2009, interest was paid to these noteholders in the amount of \$33,950 (2008 - \$34,019).

16. Convertible debentures

Convertible debentures formed part of the November 30, 2007 acquisition of Petrofield Industries Inc. These convertible debentures are unsecured and are convertible into Empire common shares at a conversion price of 100 common shares for each \$67 of principal amount outstanding. The convertible debentures are set to mature on June 1, 2011 and attract interest at 8% annually. Under the terms of the acquisition, Empire was required to offer to repurchase the debentures from debenture holders at 101% of the face value. Empire issued that offer on December 21, 2007, and the offer expired on February 28, 2008. All but \$60,000 of the face value of \$3,250,000 of convertible debentures were paid out on February 28, 2008.

	December 31, 2009		December 31, 2008	
Fair value of debentures maturing June 1, 2011	\$	54,441	\$	50,733
Long-term portion	\$	54,441	\$	50,733

17. Deferred gain on sale and leaseback

During 2004, Empire Iron Works Ltd. entered into two separate agreements to sell and leaseback certain of its land and buildings, with the full gain on disposition being deferred for future recognition, on a straight-line basis, over the 8 year term of the leases. Of the original \$891,829 deferred gain, \$557,500 has been recognized in operations to date with \$111,500 (2008 - \$111,500) recognized in earnings for the year ended December 31, 2009.

During 2007, Tornado Technologies Inc. entered into an agreement to sell and leaseback certain of its land and buildings, with the full gain on disposition being deferred for future recognition, on a straight-line basis, over the 5 year term of the lease. Of the original \$882,000 deferred gain, \$367,500 has been recognized in operations to date with \$176,400 (2008 - \$176,400) recognized in earnings for the year ended December 31, 2009.

On July 28, 2009, Dynamic Structures entered into an agreement to sell and leaseback of its fabrication facility at 1515 Kingsway in Port Coquitlam, BC, with the full gain on disposition being deferred for future recognition, on a straight-line basis, over the 10 year term of the lease. Of the original \$1,545,511 deferred gain, \$64,396 has been recognized in earnings for the year ended December 31, 2009.

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18. Income taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the accounts:

	December 31, 2009		December 31, 2008			
Net loss before income taxes	\$	(17,023,337)	\$	(2,611,212)		
Statutory federal and provincial tax rate		(5,101,894)	29.97%	(808,431)	30.96 %	
Impact of changes in future and current tax rates		209,599	(1.23%)	(364,242)	13.95 %	
Valuation allowance		1,747,517	(10.27%)	(30,433)	1.17%	
Non-taxable portion of capital gains		(1,072,535)	6.30%	9,235	(0.35%)	
Non-deductible goodwill		2,749,570	(16.15%)	-	-	
Non-deductible expenses		19,247	(0.11%)	139,283	(5.33%)	
Others		(113,422)	0.67%	202,411	(7.75%)	
Income tax recovery	\$	(1,561,918)	9.18%	\$	(852,177)	32.64%

Income taxes allocated to future years are comprised of the following:

	December 31, 2009		December 31, 2008	
Future income tax assets:				
Patents	\$	26,069	\$	21,422
Deferred gain on sale & leaseback		182,400		315,140
Capital leases		319,040		384,956
Other assets		18,833		3,019
Investment tax credits		1,805,029		1,506,657
SR&ED tax pool		192,395		-
Share issue and debenture costs		85,945		126,088
Capital losses		12,477		66,959
Non-capital losses carried forward		3,521,238		2,068,457
		6,163,426		4,492,698
Future income tax liabilities:				
Accounts receivable		(1,064,016)		(1,914,016)
Investments		(22,854)		(19,577)
Property, plant and equipment		(2,907,252)		(4,161,548)
Valuation allowance		(2,045,355)		(469,589)
Other		(7,173)		(19,823)
		(6,046,650)		(6,584,553)
Net future income tax liability	\$	116,776	\$	(2,091,855)
Classified in the consolidated balance sheets as:				
Current future income tax assets	\$	192,864	\$	135,232
Current future income tax liabilities		(794,146)		(1,505,570)
Long-term future income tax assets		2,442,948		2,259,743
Long-term future income tax liabilities		(1,724,890)		(2,981,260)
	\$	116,776	\$	(2,091,855)

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There are \$13,569,684 (2008 - \$7,535,634) of non-capital loss carry forwards. The following table reflects the amounts and related expiration period:

Year of expiry	Gross tax loss carry forwards	Tax benefit
2027	\$ 79,210	
2028	3,553,363	
2029	9,937,111	
	\$ 13,569,684	3,521,238

The Company has a net future tax asset in respect of Federal and Provincial Investment Tax Credits of \$1,805,029 (2008 - \$1,506,657), expiring between 2016 and 2029. A valuation allowance of \$512,000 has been applied against this asset.

The Company has capital loss carry forwards of \$99,382 (2008 - \$499,332). No future tax benefit has been recorded on these capital loss carry forwards as the timing for the potential realization of these future benefits is uncertain.

19. Capital stock

Authorized and issued capital stock

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

	December 31, 2009	December 31, 2008
Issued- 91,239,608 common shares (2008 - 91,239,608)	\$ 34,720,418	\$ 34,720,418

Stock option plan

The Company maintains a stock option plan for the benefit of officers, directors, key employees, and consultants of the Company. At December 31, 2009, the Company was permitted to issue up to a maximum of 9,123,961 stock options, being 10% of the outstanding common shares.

A summary of the Company's options as at December 31, 2009 and December 31, 2008 and changes during the periods then ended follows:

	December 31, 2009	Weighted Average Exercise Price	December 31, 2008	Weighted Average Exercise Price
Balance, beginning of the year	7,080,830	\$ 0.50	7,606,888	\$ 0.50
Options granted	-	-	370,000	0.41
Options exercised	-	-	(101,968)	0.24
Options expired	(459,800)	0.36		
Options forfeited	(1,200,680)	0.45	(794,090)	0.56
Balance, end of the year	5,420,350	\$ 0.52	7,080,830	\$ 0.50
Exercisable	3,948,850	\$ 0.50	4,238,580	\$ 0.45
Weighted remaining average life (years)	3.52		3.99	

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The fair value associated with the options issued was calculated using the Black-Scholes model for options valuation, assuming volatility ranging between 13% and 86% on the underlying units, and a risk free interest rate ranging from 3.7% to 4.6% depending on the date the options were granted. Options forfeited are accounted for as incurred. Share prices for the calculation were the closing price on the TSX Venture Exchange on the date of issue of the options, with the exception of the July 1, 2006, August 31, 2006, and November 30, 2007 issues. A share price of \$0.55 was used for those calculations, reflecting the significant private placements of shares that were issued on those dates at that price.

The following options were issued, outstanding and exercisable at December 31, 2009:

Exercise Price(\$)	Options Outstanding			Weighted Average Exercise Price (\$)	Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)			Number Exercisable	Weighted Average Exercise Price (\$)
0.62	1,323,000	4.50		0.62	661,500	0.62
0.57	20,900	1.64		0.57	20,900	0.57
0.55	3,030,000	3.58		0.55	2,365,000	0.55
0.39	261,250	1.86		0.39	261,250	0.39
0.30	200,000	5.86		0.30	50,000	0.30
0.24	585,200	1.02		0.24	585,200	0.24
Total	5,420,350	3.52		0.52	3,943,850	0.50

Warrants

On November 30, 2007, warrants were issued to two parties as compensation for their assistance in relation to the acquisition of Petrofield Industries Inc. and expired November 30, 2009. A summary of the Company's warrants as at December 31, 2009 and December 31, 2008 and changes during the periods then ended follows:

	December 31, 2009	Weighted Average Exercise Price	December 31, 2008	Weighted Average Exercise Price
Balance, beginning of the year	300,000	\$ 0.77	300,000	\$ 0.71
Warrants expired	(300,000)	0.77	-	-
Balance, end of the year	-	\$ -	300,000	\$ 0.77
Exercisable	-	\$ -	300,000	\$ 0.77
Weighted remaining average life (years)	-		0.92	

20. Contributed surplus

Changes in contributed surplus consisted of the following:

	December 31, 2009	December 31, 2008
Balance, beginning of the year	\$ 1,450,461	\$ 1,120,410
Amortization of the fair value of options granted	169,461	401,740
Less recovery for forfeited options	(161,919)	(71,689)
Balance, end of the year	\$ 1,458,003	\$ 1,450,461

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21. Segmented information

The Company operates in the following industry segments:

Steel fabrication and erection

Steel fabrication and erection involves the supply and or installation of structural steel for the commercial, industrial, and institutional sectors. Projects include, but are not limited to, construction of buildings, bridges, plants, mine shafts, and heavy industrial equipment. Steel fabrication and erection is carried out by Empire Iron Works Ltd., Hopkins Steel Works Limited, 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, hydrovac and vacuum trucks, pressure vessels, air cleaning equipment, and amusement park rides. These products are supplied by Petrofield Industries Inc., Ward Industrial Equipment Ltd., Dynamic Structures Ltd., and Parr Metal Fabricators Ltd.

For the Year Ended December 31, 2009

	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 55,528,353	\$ 53,698,422	\$ 94,044	\$ 109,320,819
Cost of goods sold	(51,744,594)	(46,407,176)	-	(98,151,770)
Gross profit	3,783,759	7,291,246	94,044	11,169,049
Income from equity and other investments	39,510	-	-	39,510
Operating, general and administrative expenses	(8,254,546)	(7,812,049)	(1,657,840)	(17,724,435)
EBITDA	(4,431,277)	(520,803)	(1,563,796)	(6,515,876)
Amortization	(2,036,621)	(1,354,644)	(4,931)	(3,396,196)
EBIT	(6,467,898)	(1,875,447)	(1,568,727)	(9,912,072)
Interest expense	(1,269,501)	(524,338)	(1,185,890)	(2,979,729)
Other income	(115,380)	(2,301,204)	-	(2,416,584)
Goodwill impairment loss	-	(4,550,387)	-	(4,550,387)
Unrealized gain on foreign exchange hedge contracts	-	2,835,435	-	2,835,435
Segmented loss before income tax	\$ (7,852,779)	\$ (6,415,941)	\$ (2,754,617)	\$ (17,023,337)
Total Assets	\$ 30,470,347	\$ 30,554,654	\$ 2,101,393	\$ 63,126,394
Goodwill	8,173,029	-	-	8,173,029
Equity and other investment assets	1,247,460	53,399	-	1,300,859
Capital expenditures	836,853	572,240	3,370	1,412,463
Goodwill impairment	-	4,550,387	-	4,550,387

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	Steel Fabrication and Erection	Specialty Engineered Products	Corporate	Total
Sales	\$ 96,660,449	\$ 83,340,465	\$ 31,208	\$ 180,032,122
Cost of goods sold	(86,937,408)	(66,420,705)	-	(153,358,113)
Gross profit	9,723,041	16,919,760	31,208	26,674,009
Income from equity and other investments	683,863	-	-	683,863
Operating, general and administrative expenses	(8,968,994)	(11,064,830)	(2,046,999)	(22,080,823)
EBITDA	1,437,910	5,854,930	(2,015,791)	5,277,049
Amortization	(2,015,495)	(1,489,949)	(3,051)	(3,508,495)
EBIT	(577,585)	4,364,981	(2,018,842)	1,768,554
Interest expense	(1,188,862)	(1,179,802)	(882,437)	(3,251,101)
Other income	49,887	261,286	-	311,173
Unrealized loss on foreign exchange hedge contracts	-	(1,439,838)	-	(1,439,838)
Segmented earnings (loss) before income tax	\$ (1,716,560)	\$ 2,006,627	\$ (2,901,279)	\$ (2,611,212)
Total Assets	\$ 57,436,834	\$ 62,206,009	\$ 834,057	\$ 120,476,900
Goodwill	8,173,029	9,222,038	-	17,395,067
Equity and other investment assets	1,207,950	-	-	1,207,950
Capital expenditures	3,591,299	2,981,735	14,124	6,587,158

The Company operates in the following geographic segments:

For the Year Ended December 31, 2009

	Canada	United States	Total
Sales	\$ 91,238,097	\$ 18,082,722	\$ 109,320,819
Property, plant and equipment	19,137,689	-	19,137,689
Goodwill	8,173,029	-	8,173,029

For the Year Ended December 31, 2008

	Canada	United States	Total
Sales	\$ 150,409,606	\$ 29,622,516	\$ 180,032,122
Property, plant and equipment	30,464,736	335,623	30,800,359
Goodwill	17,395,067	-	17,395,067

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22. Joint ventures

The Company entered into two 50% joint venture agreements with AMEC International (Canada) Ltd. for the completion of two projects. The Company uses the proportionate consolidation method to record the joint ventures. The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net earnings and cash flows of these joint ventures. Income taxes are not included as they are the responsibility of the joint venture partners.

	December 31, 2009		December 31, 2008	
Current assets	\$	2,866,937	\$	3,411,547
Other assets		-		185,525
	\$	2,866,937	\$	3,597,072
Current liabilities	\$	1,222,104	\$	1,754,566
Venturers' equity		1,644,833		1,842,506
	\$	2,866,937	\$	3,597,072
Revenue	\$	4,116,645		\$14,291,577
Expenses		4,478,585		12,965,168
Net earnings (loss)	\$	(361,940)		1,326,409
Cash provided by (used in):				
Operating activities	\$	(349,792)	\$	1,951,984

23. Other related party transactions

Rent was paid to companies controlled by officers, directors, and members of their families in the amount of \$571,089 (2008 - \$579,722) for the year ended December 31, 2009. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

24. 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 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.

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For the years ending December 31

	2009	2008	Increase (Decrease)
Bank indebtedness (cash)	\$ (2,674,061)	\$ 1,020,409	\$ (3,694,470)
Bank operating loans	13,739,226	27,015,994	(13,276,768)
Current portion of long-term debt and notes payable	3,631,387	5,116,879	(1,485,492)
Long-term debt reclassified to current portion	-	2,363,000	(2,363,000)
Long-term debt and notes payable	7,078,350	12,656,844	(5,578,494)
Net funded debt	21,774,902	48,173,126	(26,398,224)
Convertible debentures	54,441	50,733	3,708
Deferred gain on sale and leaseback	2,329,944	1,136,729	1,193,215
Shareholders' equity	23,773,988	39,227,865	(15,453,877)
Total Capital	\$ 47,933,275	\$ 88,588,453	\$ (40,655,178)
Net funded debt : Total Capital	45.4%	54.4%	(9.0%)

As at December 31, 2009, one of the Company's subsidiaries, Empire Iron Works Ltd., was in compliance with its total liabilities to tangible net worth covenant ratio but was not in compliance with its debt service coverage ratio contained in the senior secured credit agreement with RBC ("RBC Credit Agreement"). As a result of continuing covenant violations, RBC agreed not to enforce its rights under the RBC Credit Agreement for a period up to March 4, 2010 provided that there was no material adverse change to the bank's risk during the period and the Company successfully concluded its refinancing efforts, enabling it to repay in full the amounts owed under the RBC credit agreement.

As at December 31, 2009, two of the Company's subsidiaries, George Third & Son Ltd. and Dynamic Structures Ltd., were not in compliance with both covenants contained in the senior secured credit agreement with HSBC (the "HSBC Credit Agreement"). Under the terms of a forbearance agreement originally announced August 10, 2009, HSBC agreed not to enforce its rights under the HSBC Credit Agreement and to continue to provide advances thereunder for a period up to March 31, 2010, provided there was no event of default under the forbearance agreement.

On March 4, 2010, the Company completed the re-financing of its operating and term debt with the Canadian Western Bank (Note 29). The proceeds from the re-financing were used to fully repay the amounts owed under the RBC Credit Agreement and a revolving operating facility under the HSBC Credit Agreement. The Company was in compliance with its new covenants with Canadian Western Bank on closing and accordingly, the bank operating lines, term debt and capital lease facilities with RBC and HSBC at December 31, 2009 were classified in the consolidated financial statements based on their original terms.

25. 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 December 31, 2009, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$650,000 (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.

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Other indemnification provisions

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

Other contingencies

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

26. Risk management

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. The Company manages its risks and risk exposures through a combination of financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The primary types of financial risk which arise are liquidity, credit, and market risk. These risks and the actions taken to manage them are as follows:

(a) Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. A range of alternatives is available to the Company including cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Company's foreseeable financial obligations associated with financial liabilities.

The following table summarizes the Company's financial liabilities with corresponding maturity dates as at December 31, 2009:

	Total	2010	2011	2012	2013	2014 +
Accounts payable and accrued liabilities	\$ 9,804,998	\$ 9,804,998	\$ -	\$ -	\$ -	\$ -
Income taxes payable	195,024	195,024	-	-	-	-
Bank operating lines	13,739,226	13,739,226	-	-	-	-
Long-term debt	4,901,551	1,634,387	1,562,129	1,115,560	335,392	254,083
Notes payable	5,808,186	1,997,000	3,811,186	-	-	-
Convertible debentures	54,441	-	54,441	-	-	-
Long-term funded debt interest	547,395	277,988	168,149	72,318	25,658	3,282
Operating leases	14,442,225	3,479,832	3,092,239	2,085,650	1,034,387	4,750,117
Total	\$ 49,493,046	\$ 31,128,455	\$ 8,688,144	\$ 3,273,528	\$ 1,395,437	\$ 5,007,482

The Company expects to have adequate resources to discharge these financial liabilities. The bank operating lines are renewable on an annual basis and, to the extent that these are renewed, there is no requirement for the balance to be paid down other than in the ordinary course of operations. At December 31, 2009, the Company had \$2,674,061 in cash and \$16,406,407 of accounts receivable that once collected will allow the Company to discharge the remainder of the financial liabilities. On March 4, 2010, the Company completed a refinancing of its operating and term debt (Note 29) which provided a new operating line of \$8,300,000 and new term debt of \$7,500,000 which was applied to repay the RBC non-revolving term debt facility and reduce operating debt.

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(b) Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. The Company may require letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

At December 31, 2009, the Company had one individual customer accounting for about 15% of total accounts receivable. The Company's maximum credit risk exposure is disclosed in Note 6.

(c) Market risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: currency risk, interest rate risk and commodity price risk.

(i) Currency risk

The Company sells its products, as well as, purchases goods in both Canadian and U.S. currencies. Accordingly, the Company is exposed to currency risk as it relates to customer accounts receivable balances and trade accounts payable denominated in U.S. currency. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company may enter into forward exchange contracts or use other hedging activities to manage part of the foreign risk exposures relating to customer accounts receivable balances and trade accounts payable denominated in U.S. currency.

As at December 31, 2009, the Company had United States dollar forward currency contracts for \$15,475,000 (2008 - \$22,800,000) with exchange rates ranging from \$1.056190 to \$1.214000 per U.S. dollar and maturity dates ranging from January 2010 to June 2010. The accounts noted below include amounts denominated in United States currency that have been converted to the Canadian dollar equivalent on the balance sheet date at a rate of \$1.051 per U.S. dollar (2008 - \$1.218):

	December 31, 2009	December 31, 2008
Cash (bank balance less outstanding cheques)	\$ 1,631,565	\$ 2,300,963
Accounts receivable	6,485,784	6,152,049
Note receivable	-	-
Accounts payable & accrued liabilities	(748,167)	(4,474,874)
Long-term debt	-	(32,923)
Foreign exchange hedges related to above accounts - US\$6,900,000 (2008 - US\$2,700,000)	(7,251,900)	(3,288,600)
Net foreign currency exposure	117,282	656,615

For the year ended December 31, 2009, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, net income for the period would have been \$1,000 higher (2008 - \$54,000 higher). Conversely, if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, net income would have been \$1,000 lower (2008 - \$54,000 lower).

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Foreign exchange hedges available for future net receivables are as follows:

(Denominated in US dollars)	December 31, 2009	December 31, 2008
Total foreign exchange hedges	15,475,000	22,800,000
Foreign exchange hedges related to working capital accounts	(6,900,000)	(2,700,000)
Foreign exchange hedges available for future net receivables	8,575,000	20,100,000

Included in sales are realized gains on translation of foreign currencies monetary assets and liabilities and realized gains on foreign exchange hedges of \$1,021,361 (2008 - \$642,334).

(ii) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable rates on bank operating lines and long term borrowings. The Company manages exposure to interest rate risk by using a combination of fixed and floating rate debt instruments.

For the year ended December 31, 2009, if interest rates had been 50 basis points lower with all other variables held constant, after-tax net income for the period would have been \$56,000 (December 31, 2008 - \$111,800) higher, arising mainly as a result of lower interest expenses on variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, after-tax net income would have been \$56,000 (December 31, 2008 - \$111,800) lower, arising mainly as a result of higher interest expenses on variable borrowings.

(iii) *Commodity price risk*

Manufacturing costs for the Company's products are affected by fluctuations in the price of raw materials, primarily steel. In order to manage its risk, the Company implements selling price adjustments in order to match raw material cost changes, albeit with a slight time lag. This matching is not always possible as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets. For long term contracts, the Company may negotiate the inclusion of a flow through price adjustment clause into contracts whereby the customer agrees to price changes based on the underlying market value of steel. In order to limit the risk associated with steel price increases, the Company locks in order prices to the extent possible as soon as contracts are awarded.

The sensitivity analyses in the currency risk and interest rate risk sections above do not take into consideration that the Company's liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs or be mitigated by management's actions to reduce exposure to risks. Other limitations in the above sensitivity analyses includes the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

27. Fair values

The following table presents the carrying amount and the fair value of the Company's financial assets and liabilities. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

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As of December 31, 2009	Assets/ (Liabilities) Carried at Cost / Amortized Cost		Financial Instruments Category
	Carrying value	Fair value	
Cash	\$ 2,674,061	\$ 2,674,061	Held for trading
Accounts receivable	16,406,407	16,406,407	Loans & receivables
Receivable from related party	643,533	643,533	Loans & receivables
Income taxes recoverable	59,162	59,162	Loans & receivables
Notes receivable	16,966	16,966	Available for sale
Foreign exchange hedge contracts	2,233,298	2,233,298	Held for trading
Bank operating lines	(13,739,226)	(13,739,226)	Other liabilities
Accounts payable and accrued liabilities	(9,804,998)	(9,804,998)	Other liabilities
Convertible debentures	(54,441)	(54,441)	Other liabilities
Income taxes payable	(195,024)	(195,024)	Other liabilities
Long-term debt	(4,901,551)	(4,929,059)	Other liabilities
Notes payable	(5,808,186)	(5,808,186)	Other liabilities

The fair values of the Company's financial assets and liabilities, included in net working capital (accounts receivable, receivable from a related party, income taxes recoverable, bank operating lines, income taxes payable, and accounts payable and accrued liabilities), approximate their recorded values as at December 31, 2009 due to their short-term nature.

The debt component of convertible debentures is convertible into equity at a fixed exchange rate, therefore the fair value has been determined to approximate its recorded value. The carrying value of the notes payable approximates fair value as the notes can be paid at the Company's option before their maturity date and they are unsecured private debt with no readily available market. The payable to shareholders is payable on demand therefore its carrying value approximates fair value.

The Company's long-term debt bears interest at fixed and variable rates. The fair value of long-term debt with fixed interest rates has been estimated based on the current market rates for mortgages with similar terms and conditions. The carrying value of long-term debt with variable interest rates approximates fair value.

Payments on the note receivable are tied to future utilization of the equipment sold and therefore fair values are not readily available.

Beginning January 1, 2009, assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The assets recorded at fair value include cash (level 1) and foreign exchange hedge contracts (level 2). There were no assets transferred between levels during the year.

28. Business divestiture and disposal of assets

During 2009:

- (a) On July 31, 2009, the Company concluded a sale and leaseback of its Kingsway facility for net 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.

Empire Industries Ltd.
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- (b) On October 5, 2009, the Company's wholly-owned subsidiary, Petrofield Industries Inc., concluded the sale of its combustion business assets for \$10,168,797, effective September 30, 2009. The transaction resulted in a net loss of \$2,584,997 in the Company's Specialty Engineered Products segment comprised of a gain on disposal of property, plant, equipment and other assets of \$2,114,195, a loss on disposal of goodwill of \$4,671,651 (Note 12) 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.

During 2008, the Company made a divestiture of 51% of Sorge's Pro Welding Ltd. as outlined in the following table:

	Sorge's Pro Welding Ltd.	
Divestiture date		July 31, 2008
Non-cash current assets	\$	884,125
Non-cash current liabilities		(142,902)
Property, plant and equipment		231,087
Other long-term assets		(15,000)
Goodwill		906,803
Bank operating lines		(6,198)
Long-term debt		(1,190)
Future income tax liabilities		(6,801)
		1,849,924
Equity interest retained		(906,142)
Loss on disposal		(93,782)
Cash proceeds	\$	850,000

After the sale, the Company retained a 49% interest in Sorge's Pro Welding Ltd. and changed its accounting for this investment from consolidation to equity.

29. Subsequent event

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

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

In conjunction with the re-financing, the vendor noteholders agreed to subordinate and postpone their obligations of \$3,811,186 in favour of the CWBank.

30. Comparative figures

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



Corporate Information

Head Office and Investor Information

717 Jarvis Avenue
Winnipeg, MB R2W 3B4
T: 204.589.9300
F: 204.582.8057

Transfer Agent

CIBC Mellon Trust Company
333-7th Avenue SW, Suite 600
Calgary, AB T20 2Z1

Auditors

PricewaterhouseCoopers LLP
One Lombard Place
Winnipeg, MB R3B 0X6

Listing

Stock Exchange: Toronto Venture Exchange
Symbol: EIL

Annual Meeting of Shareholders

Wednesday, June 16, 2010 at 10:00 a.m.
Radisson Winnipeg Downtown Hotel
280 Portage Avenue
Winnipeg, MB, R3C 0B8



Head Office
717 Jarvis Avenue
Winnipeg, MB Canada
R2W 3B4
Phone: 204.589.9300
Fax: 204.582.8057