EMPIRE INDUSTRIES LTD

1Q16

Management's Discussion & Analysis
For the 3 month period ending March 31, 2016

Consolidated Financial Statements
For the 3 month period ending March 31, 2016

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of Empire Industries Ltd. ("EIL" or the "Group") is supplemental to, and should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2015. Reference should also be made to the annual MD&A for the year ended December 31, 2015.

The interim consolidated financial statements and accompanying notes of the Group for the period ended March 31, 2016 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a period relates to the Group's three-month ended March 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 May 27, 2016. Disclosure contained in this document is current to this date, unless otherwise stated.

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

Business Description

The Group's operations take place primarily through the following wholly owned operating segments:

Operating Segment	Description
Media-based Attractions	Design and manufacture complex ride systems, telescopes and custom machinery and equipment. Turn key supplier of premium entertainment attractions and provider of parts and service of amusement park attractions. Leased production facilities in Port Coquitlam, BC. Leased sales offices in Arlington, TX and Toronto, ON.
Steel Fabrication Services	Structural steel fabrication and installation. Fabrication of tanks, pressure vessels and other specialty carbon and stainless steel products. One owned production facility west of Edmonton, AB and a leased sales office in Edmonton AB as well as a leased production facility in Winnipeg, MB.
Corporate	Head office located in Winnipeg. Executive management, managerial and financial oversight, business development and compliance requirements for the overall organization.
Manufactured Products (Discontinued Operation)	Manufactures Hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. Leased production facility is in Stettler, AB and a sales office located in Calgary, AB.

In addition to these wholly owned operating segments, the Group holds significant equity interests in two major business enterprises both aligned with the Group's Steel Fabrication Services segment:

Enterprise	Business
Athabasca Chipewyan Empire (ACE) Industrial Services Ltd. (49%)	Steel fabrication and installation, machining, multi-trade industrial construction and maintenance services, primarily serving the oil sands market. Facilities are in Fort McMurray, AB. This is a strategic alliance between the ACDEN (formerly the Athabasca Chipewyan First Nation Business Group) and Empire Industries Ltd.
Dongguan Qiguang Dynamic Steel Structures, Ltd. (45%)	Fabrication and installation of complex structural steel projects in China through a Company owned 55% by Guangdong Qiguang Steel Structures Co. Ltd. and 45% by Empire Industries Ltd. The Company operates out of a leased facility in the Guangdong Province.

EIL maintains its head office in Winnipeg, Manitoba. The Group's common shares are listed on the TSX Venture Exchange under the trading symbol EIL.

Consolidated Financial Results

Periods ended March 31	Quarter ended		
	2016 $	2015 $	Variance $
Operating Results:			
Revenues	27,778	28,584	(806)
Adjusted gross margin	5,241	4,690	551
Adjusted gross margin %	18.9%	16.4%	2.5%
Adjusted EBITDA	1,528	1,648	(120)
Adjusted EBITDA %	5.5%	5.8%	(0.3%)
Adjusted EBIT	977	1,328	(351)
Adjusted EBIT %	3.5%	4.6%	(1.1%)
Net income (loss) – continuing operations	**4,125**	**(693)**	**4,818**
Net loss – discontinued operations	**(363)**	**(192)**	**(171)**
Per share data:			
Basic & diluted income (loss) per share from continuing operations	0.016	(0.003)	0.019
Basic and diluted loss per share from discontinued operations	(0.001)	(0.000)	(0.001)

1Q16 Overview

The quarter ended March 31, 2016 yielded a decline in revenues from continuing operations of 2.8% compared to the period ended March 31, 2015. The net decrease in revenues was the result of a 31% increase in revenues from the Group's media-based attractions segment offset by a 70.2% decrease in revenues from its steel fabrication services segments.

The Group's Adjusted Gross Margin increased 2.5% in the period as compared to the same period in 2015. Despite the significant decline in revenues, the Adjusted Gross Margin of the Group's steel fabrication services segment increased significantly due to the nature of the work executed.

The Group's Adjusted EBITDA decreased by 7.3% to $1.5 million in the period as compared to $1.6 million in comparative period. The Group's net income from continuing operations of $4.1 million in the period was driven by a $5.3 million unrealized gain recorded as a result of marking to market foreign currency forward instruments outstanding as of March 31, 2016.

The Group's unrealized gain of $5.3 million in the quarter as compared to an unrealized loss of $1.9 million in the comparative period relating to outstanding forward foreign currency instruments. This unrealized gain resulted from the strengthening of the Canadian dollar incurred during the period as compared to the exchange rates negotiated in the underlying contracts. As at March 31, 2016 the USD/CAD foreign exchange rate was 1.2987. The table below lists the outstanding forward contracts in place as at March 31, 2016:

Mar 31,2016 Notional Amount	Dec 31, 2015 Notional Amount	Forward Rate	Settlement Month	Mar 31, 2016 Fair Value	Dec 31, 2015 Fair Value	Change in Fair Value
8,100	6,480	1.1150	March 2017	(2,137)	(1,184)	953
7,500	-	1.3289	January 2016	(412)	-	412
7,500	7,500	1.3289	April 2016	(409)	227	635
7,500	7,500	1.3289	July 2016	(402)	227	629
7,500	7,500	1.3289	October 2016	(391)	228	619
-	7,500	1.4035	January 2017	-	787	787
-	7,500	1.3868	February 2017	-	662	662
-	5,000	1.3705	April 2017	-	363	363
-	2,500	1.3854	April 2017	-	219	219
38,100	**51,480**			**(3,751)**	**1,529**	**5,279**
			Current Portion	**(3,324)**	**947**	
			Long Term Portion	**(427)**	**582**	

Significant Events

- On February 1, 2016, the Group announced its proposal to spin out its Hydrovac business (the Manufactured Products segment) into a separate publicly traded company on the TSX Venture Exchange. Empire shareholders will own 54.5% and a Chinese partner would own the remaining 45.5%. When all of the transactions associated with the proposal are completed, the spin out company will have approximately $10 million of cash and approximately $6 million of operating assets. Empire also announced that the new spinout company closed a private placement of subscription receipts for gross proceeds of approximately $5 million. On March 1, 2016, the Group announced that the Hydrovac spin out company, which is now named Tornado Global Hydrovacs Inc., closed a second private placement of approximately $2.5 million of subscription receipts as part of the previously announced spin out transaction.

- On February 18, 2016, the Group announced that it has engaged Oak Hill Advisors Inc. to provide investor relations services. The objective of the services is to assist the Group in developing and executing a comprehensive corporate communications strategy, informing market participants regarding Empire's business results, growth strategy, strategic transactions and new contracts as they arise.

Subsequent Significant Events

- On May 13, 2016, the Group renewed its existing credit facilities with CIBC agreeing to a three-year commitment. Commensurate with the renewal the Group obtained an addition $3.0 million of term debt financing.
- On May 18, 2016, the Group announced that, further to its news release of February 1, 2016, Empire has entered into an arrangement agreement (the "Arrangement Agreement") with its wholly-owned subsidiaries, Tornado Global Hydrovacs Ltd. ("Tornado") and Tornado Global Hydrovacs Inc. contemplating the spin-out (the "Arrangement") to Tornado of Empire's Hydrovac business including all of the tangible and intangible assets, employees and operations of Tornado Trucks, a division of Empire (the "Hydrovac Business"). Pursuant to the Arrangement, the Hydrovac Business will be owned by Tornado and the common shares of Empire will be exchanged for one quarter (1/4) of a new Empire common share and one eighth (1/8) of a new Tornado common share for every common shares of Empire currently owned. On May 20, 2016 the information circular was approved for distribution.

Assets held for sale and discontinued operations

As a result of the plan of arrangement announced, the Group is presenting the assets and liabilities and results from operations of the Hydrovac business pursuant to IFRS 5 for the periods presented in these quarterly consolidated financial statements. The tables below outline the nature of assets designated as held for sale, the liabilities of the disposal group and the results of operations for the Hydrovac business recorded as discontinued operations. The Group no longer has a Manufactured Products segments as a result of the proposed transaction and application of IFRS.

	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Accounts receivable	1,052	1,601	324
Inventory	4,617	4,650	6,481
Prepaid expenses	98	87	113
Property, plant and equipment (net)	2,025	2,024	1,898
Intangible assets	312	312	-
Assets held for sale	**8,104**	**8,674**	**8,816**
Accounts payable and accrued liabilities	2,113	1,518	2,710
Current portion of long-term debt	67	67	64
Long-term debt	17	35	92
Liabilities of disposal group	**2,197**	**1,620**	**2,866**

	March 31, 2016 $	March 31, 2015 $
Revenues	3,392	4,625
Expenses	(3,879)	(4,817)
Net loss from discontinued operations before taxes	(497)	(192)
Net loss from discontinued operations (net of tax)	**(363)**	**(192)**

During the period the segment's revenues declined by $1.2 million or 26.6% over the comparative period from 2015. The decline in revenues was the result of lower than expected volumes. The segment has experienced a significant decrease in the demand for its Hydrovac trucks over the past 5 quarters due to the slowdown in the western Canadian economy. As discussed in the annual MD&A, in addition to demand being lower for the product, there is increased price pressure for the available demand which further impacts the segment's operating results.

During the period the group continued to build trucks as management expects demand to improve in the second quarter of 2016. In fact, the group had seen increased demand in the quarter however the deliveries were not scheduled until the second quarter. The result of that decision to continue to build trucks and improved outlook was that the segment has posted a loss in the quarter of $0.4 million net of tax in order to maintain capacity.

Selected Quarterly Financial Information

Quarterly Financial Information For the quarters ended	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2
Sales	27,778	33,665	38,366	30,611	28,584	26,726	27,003	25,596
Adjusted EBITDA	1,528	3001	2,134	1,355	1,648	1,238	1,345	737
Profit (loss) from continuing operations (net of tax)	4,125	931	1,341	991	(693)	355	101	1,102
Profit (loss) from discontinued operations (net of tax)	(363)	(556)	(351)	(101)	(192)	2,117	631	547
Profit (loss)	3,762	375	990	890	(885)	2,472	732	1,649
Profit (loss) per share								
Basic	0.015	0.001	0.004	0.003	(0.003)	0.009	0.005	0.005
Diluted	0.015	0.001	0.004	0.003	(0.003)	0.007	0.005	0.005

Liquidity and Capital Resources

Liquidity

For the period ended March 31, 2016, the Group's operations generated $1.5 million of cash, compared with $0.3 million of cash in the comparative period excluding the impact of changes in non-cash working capital amounts. The Group expects that its operations will generate sufficient cash on a go forward basis to meet the Group's obligations.

The Group has a $15.0 million revolving credit facility with CIBC, of which $9.5 was drawn as of March 31, 2016. The Group's marginable assets at March 31, 2016 were $17.1 million, which is $7.6 million in excess of the Group's total draw on the operating line.

The Group made $0.7 million of cash principal repayments during the period including $0.5 million paid upon maturity of the first tranche of convertible debentures in the quarter. Total long-term debt of $3.6 million as at March 31, 2016 consisted of $1.9 million of term debt with CIBC, $0.4 million under finance leases, $0.9 million of a limited recourse loan and $0.4 million of subordinated convertible debentures.

Shareholders' Equity

Shareholders' equity of $27.5 million at March 31, 2016 is $3.8 million higher than the shareholders' equity at December 31, 2015 due to the net income in the period. No dividends were declared or paid in the period. The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. The Group had 22,720,000 outstanding options at March 31, 2016. The average exercise price of the outstanding options is $0.098 per share. Of these options, 20,786,666 are currently exercisable at an average exercise price of $0.096 per share.

Market Capitalization

The market capitalization of the Group's 259,336,473 issued and outstanding common shares at May 27, 2016 was $27.2 million or $0.105 per share, compared to the Group's book value per share of $0.106 at March 31, 2016. The issued and outstanding common shares at May 27, 2016, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares **As at May 27, 2015**		
Issued and outstanding common shares		259,336,473
Securities convertible into common shares		
Convertible Debentures	4,500,000	
Warrants	27,700,000	
Stock Options	22,720,000	
Total Securities convertible into common shares		54,920,000
Fully Diluted Shares		314,256,473

Financial Ratios

The following information is based on the data disclosed in Note 11 (Capital Disclosures and Management) from the 2015 interim consolidated financial statements:

For the periods ended	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Current portion of long-term debt including finance leases	895	903	818
Long-term debt including finance leases	1,315	1,526	1,942
Long-term funded debt	2,210	2,429	2,760
Shareholders' equity	27,450	23,660	21,146
Convertible debentures	431	951	953
Limited recourse loan and subordinate note payable	923	984	825
Less: deferred tax assets	(4,370)	(5,829)	(5,298)
Less: intangible assets (net)	(4,152)	(4,132)	(2,092)
Tangible net worth	20,282	15,634	15,534
Capitalization	22,492	18,063	18,294
Long-term funded debt : Capitalization	9.8%	13.4%	15.1%

The Group's leverage ratio decreased to 9.8% from 13.4% at December 31, 2015 and 15.1% at March 31, 2015. The Group's adjusted working capital ratio of 1.00 is increased from the December 31, 2015 ratio of 0.91 and consistent with rate at March 31, 2015.

Segment Performance

The Group's operations consist of three separately identifiable segments, Media-based Attraction, Steel Fabrication Services and Corporate. The performance of the groups operating segments are listed below:

Media-based Attractions

Periods ended March 31	Quarter ended		
	2016 $	2015 $	Variance $
Operating Results:			
Revenues	24,859	18,985	5,874
Adjusted gross margin	4,525	3,708	817
Adjusted gross margin %	18.2%	19.5%	(1.3%)
Adjusted EBITDA	2,295	2,140	155
Adjusted EBITDA %	9.2%	11.3%	(2.1%)
Adjusted EBIT	1,836	1,916	(80)
Adjusted EBIT %	7.4%	10.1%	(2.7%)

1Q16 Overview

Revenues for the operating segment increased by 31% to $24.9 million in the period ended March 31, 2016 compared to the same period 2015. The increase in revenues is resulting from the segment having 22 active projects during the quarter.

The segment's Adjusted Gross Margin decreased by 1.3% to 18.2% in the period as the segment's Adjusted Gross Margin was impact by the softening of the USD during the quarter. The USD declined from 1.3840 at December 31, 2015 to 1.2987 as at March 31, 2016.

Selling, general and administrative expenses increased $0.7 million as compared to the same period in 2015. The increase is a direct result of the expansion of the segments operations particularly the opening of a new office in Orlando, Florida which was not present in the segment's selling, general and administrative expenses in 2015. Also, the segment's selling general and administrative expenses have increased as result from expanding its existing capacity in Port Coquitlam, BC. While a formal contract has not officially been awarded, the segment is positioning itself to execute the Thirty Meter Telescope, the result of which, required the segment to open another office location to accommodate the long-term project.

Adjusted EBITDA increased $0.2 million as a result of the factors discussed above. Adjusted EBIT decreased $0.1 million the comparative period as a result of increased amortization expense resulting from the recognition of intangible assets by the segment.

Steel Fabrication

Periods ended March 31	Quarter ended		
	2016 $	2015 $	Variance $
Operating Results:			
Revenues	2,857	9,584	(6,727)
Adjusted gross margin	654	968	(314)
Adjusted gross margin %	22.9%	10.1%	(12.8%)
Adjusted EBITDA	(170)	79	(249)
Adjusted EBITDA %	(6.0%)	0.8%	(6.8%)
Adjusted EBIT	(257)	(12)	(245)
Adjusted EBIT %	(9.0%)	(0.1%)	(8.9%)

1Q16 Overview

Revenues decreased by 70.2% to $2.9 million in the period as compared to the same period in 2015. The segment continues to be impacted by the slow economy in Western Canada into 2016. Bid activity was fairly normal but due to the uncertainty that exists in the current economic environment, the number of projects that were approved we much lower then expected.

Adjusted Gross Margins increased by 12.8% to 22.9% in the segment due to the nature of the work that was executed as well as the segment being in position to effectively reduce discretionary costs accordingly. In the previous year, the Group had significant backlog to execute but the contribution margins on the backlog were much lower.

Selling and administrative expenses were consistent with the comparative period. The segment braced for a slow first quarter based on the booked backlog. Cost reduction measures that were instituted in the period were not realized in the quarter but will be realized in the balance of the year.

Adjusted EBITDA declined to a loss $0.2 million in the current period compared to the same period of 2015.

Corporate (non-operating)

Periods ended March 31	Quarter ended		
	2016 $	2015 $	Variance $
Operating Results:			
Revenues	62	15	47
Adjusted gross margin	62	15	47
Adjusted EBITDA	(597)	(571)	(26)
Adjusted EBIT	(602)	(576)	(26)

1Q16 Overview

Revenues for the corporate non-operating segment are not material and represent management fees and interest income earned from the Group's associate investments as well as foreign exchange gains and losses on USD denominated assets and liabilities.

Selling and administrative expenses were $0.1 million higher than the same period in 2015

Adjusted EBITDA and Adjusted EBIT were consistent with the comparative period of 2015.

Forward Looking Information

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

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Outlook

In addition to other sections of the Group's report, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. For more information, see the section titled "Forward-Looking Information" in this MD&A.

The Company expects to continue to improve its operating performance through 2016 as a result of the following:

- The media based attractions segment will continue to execute its backlog of high value added products and services. This segment continues to build multiple new products. The segment has recently launched a new revenue stream known as Unlimited Attractions™ which offers our customers a much broader range of the products and services (show elements) that transform a ride into a true media based attraction. These services include story concept, lighting, scenery, media, and special effects. It is anticipated that there will still be some challenges from an earned revenue and profit perspective because of the sheer number of new complex ride systems and service offerings being introduced concurrently. Our profit performance is expected to improve as second generation products get produced that take advantage of the learning curve associated with the first generation products.

- The weaker Canadian dollar will continue to positively impact profit margins because the media based attractions are all sold predominantly in US dollars. There are costs that are incurred in US dollars as well, but there continues to be a net advantage of manufacturing in Canada and exporting in US dollars.

Dynamic Structures has experienced a delay in finalizing the contract to complete our design and build the Thirty Meter Telescope (TMT) enclosure because a new construction permit in Hawaii was required by the local authorities. The TMT Corporation has initiated an alternative site selection process, in the event that the Hawaiian site does not obtain the required approvals in a timely manner. We remain confident that the TMT enclosure will be built by Dynamic Structures, even if the site location is changed.

As expected, the significant reduction in oil and gas prices has had a profound negative effect on capital expenditures in Western Canada. In spite of our quick reaction to the economic realities, we expect the Company's steel fabrication segment's operating performance in 2016 to continue to be challenged given the difficult competitive environment in Western Canada. We continue to pursue global steel supply chain opportunities, and cost saving initiatives to scale the segment's capacity to match the available market. In spite of the current difficult conditions in this segment, we see long term value here. Therefore, we also continue to evaluate strategic options that can unlock hidden value.

The Group's backlog remains healthy at $105 million. The Company has a healthy pipeline of sales prospects it is working on to turn into backlog, and has never felt more bullish about its sales pipeline.

The Group plans to spinout the Tornado Hydrovac Truck division into its own public company named Tornado Global Hydrovacs Inc. at the end of June 2016 concurrent with a Chinese investor injecting $10 million of cash into the spinout Company. This spinout is subject to an Empire shareholder vote on June 21st . This initiative will pave the way for an exciting and invigorated strategy that will start immediately and open up growth and profit opportunities in new geographic markets. This spinout gives the Hydrovac business the access to capital and management focus required to execute its strategy. It also gives Empire the ability to devote its capital and management attention on its core business. Empire's shareholders will have the opportunity to benefit from their ownership stake in both of these publicly traded companies.

Overall, the company has successfully repositioned itself into a higher margin and higher growth, media-based attractions provider. The company also has strategic investments in telescope design and manufacturing and steel fabrication. The Group will continue to shelter its profits from income tax through the utilization of loss carry forwards and investment tax credits. It expects its balance sheet to strengthen throughout the year as its equity increases through earnings. The company expects to benefit from its strategic focus on a market niche that is going to grow rapidly for many years to come.

Non-IFRS Methods

In this MD&A, the Group uses four financial management metrics that are not in accordance with IFRS "Adjusted earnings (loss) before interest, tax, depreciation and amortization (Adjusted EBITDA)", "Adjusted earnings (loss) before interest and tax", "Adjusted working capital" and "Adjusted Gross Margin". Because these terms are not defined by IFRS they cannot be formally presented in the consolidated financial statements. The definition of Adjusted EBITDA does not take into account the Group's share of profit of an associate investment, gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts and non-cash components of stock based compensation. Adjusted EBIT is the result of the Group's Adjusted EBITDA less depreciation and amortization expenses. Adjusted working capital does not take into account current portions of convertible debentures and foreign currency forward instruments. The Adjusted Gross Margin metric is the result of revenues less cost of sales, excluding depreciation of property, plant and equipment. It should be noted that the Group's definition of Adjusted EBITDA, Adjusted EBIT, Adjusted Working Capital and Adjusted Gross Margin may differ from those definitions used by other companies.

While not IFRS measures, Adjusted EBITDA, Adjusted EBIT and Adjusted Gross Margin are used by management, creditors, analysts, investors and other financial stakeholders to assess the Group's performance and management from a financial and operational perspective.

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended March 31	**Quarter ended**		
	2016	**2015**	**Variance**
($000's, except for per share amounts)	**$**	**$**	**$**
Profit (loss) – continuing operations before taxes	5,880	(968)	6,848
Add: Depreciation and amortization	551	320	231
Add: Finance costs	234	252	(18)
Add/Deduct Share of profit of associate	107	123	(16)
Add/Deduct Fair value changes of foreign currency option contracts	(5,279)	1,886	(7,165)
Add: non cash stock-based compensation	35	35	-
Adjusted EBITDA – continuing operations	1,528	1,648	(120)

Calculation of Adjusted EBIT

Periods ended December 31	Quarter ended		
	2016	2015	Variance
($000's, except for percentages)	$	$	$
Adjusted EBITDA	1,528	1,648	(120)
Less: Depreciation and amortization	(551)	(320)	(231)
Adjusted EBIT	977	1,328	(351)
% of revenue	3.5%	4.6%	(1.1%)

Calculation of Adjusted Gross Margin

Periods ended March 31	Quarter ended		
	2016	2015	Variance
($000's, except for percentages)	$	$	$
Revenues	27,778	28,584	(806)
Cost of sales excluding depreciation and amortization	(22,537)	(23,894)	1,357
Adjusted gross margin	5,241	4,690	551
% of revenue	18.9%	16.4%	2.5%

1st Quarter

Consolidated Financial Statements

For the 3 month period ending March 31, 2016

Unaudited

NOTICE TO READER

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

1Q16

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31	Notes	2016	2015
(In $000's CAD, except per-share amounts)		$	$
Revenues *(1)*		**27,778**	28,584
Cost of sales, excluding depreciation and amortization *(2)*	**5**	**(22,537)**	(23,894)
Gross Profit, excluding depreciation and amortization		**5,241**	4,690
Selling and administrative expenses	**6**	**(3,713)**	(3,042)
Result before depreciation, amortization and other items of income (loss)		**1,528**	1,648
Depreciation of property, plant and equipment		**(293)**	(185)
Amortization of intangible assets		**(258)**	(135)
Result before other items of income (loss)		**977**	1,328
Share of loss from associates		**(107)**	(123)
Stock-based compensation		**(35)**	(35)
Finance costs	**7**	**(234)**	(252)
Unrealized gains (losses) on derivative financial instruments	**8**	**5,279**	(1,886)
		4,903	(2,296)
Net income (loss) from operations before tax		**5,880**	(968)
Income tax (expense) recovery			
Current		**(29)**	—
Deferred		**(1,726)**	275
		(1,755)	275
Net income (loss) from continuing operations		**4,125**	(693)
Net loss from discontinued operations *(net of tax)*	**12**	**(363)**	(192)
Net income (loss)		**3,762**	(885)
Other comprehensive loss		**(7)**	—
Comprehensive income (loss)		**3,755**	**(885)**
Income (loss) per share - basic and diluted	**9**	**0.015**	**(0.003)**
Income (loss) per share from continuing operations			
Income (loss) per share - basic and diluted	**9**	**0.016**	**(0.003)**

(1) Included in revenue are foreign exchange losses of $888 for the period ended March 31, 2016 (2015 gains - $927)
(2) Cost of sales including depreciation and amortization was ($23,000) for the year ended March 31, 2016 (2015 - $23,929)

See accompanying notes

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	31-Mar-16	31-Dec-15	31-Mar-15
(In $000's CAD)			$	$
ASSETS				
Current assets				
Cash and cash equivalents		**62**	81	—
Accounts receivable	**3**	**35,605**	44,596	45,115
Inventory		**2,695**	1,629	1,289
Prepaid expenses and other assets		**1,922**	1,188	879
Derivative Financial Instruments		**947**	—	—
Total current assets		**41,231**	47,494	47,283
Assets held for sale	**12**	**8,104**	8,674	8,816
Non-current assets				
Property, plant and equipment and investment property, net		**11,326**	11,029	8,329
Intangible assets, net		**4,152**	4,132	2,092
Other non-current assets		**392**	107	98
Investment in associate		**1,883**	1,990	1,841
Advances to associate		**876**	885	694
Derivative Financial Instruments		**582**	—	—
Deferred tax assets		**4,370**	5,829	5,298
Total non-current assets		**23,581**	23,972	18,352
Total assets		**72,916**	80,140	74,451
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**9,491**	6,391	11,877
Accounts payable and accrued liabilities		**14,615**	20,626	19,336
Deferred revenue from construction contracts	**4**	**15,599**	19,590	11,176
Current income taxes payable		—	138	—
Current portion of long-term debt		**895**	903	818
Current portion of convertible debentures		**431**	951	491
Derivative financial instruments		—	3,324	3,512
Total current liabilities		**41,031**	51,923	47,210
Liabilities of disposal group	**12**	**2,197**	1,620	2,866
Non-current liabilities				
Long-term debt		**1,315**	1,526	1,942
Limited recourse loan and subordinate notes payable		**923**	984	825
Convertible debentures		—	—	462
Derivative financial instruments		—	427	—
Total non-current liabilities		**2,238**	2,937	3,229
Total liabilities		**45,466**	**56,480**	**53,305**
SHAREHOLDERS' EQUITY				
Share capital		**7,955**	7,955	7,798
Equity component of convertible debentures		**69**	144	151
Contributed surplus		**3,831**	3,721	3,599
Retained earnings		**15,615**	11,853	9,598
Accumulated other comprehensive loss		**(20)**	(13)	—
Total shareholders' equity		**27,450**	23,660	21,146
Total liabilities and shareholders' equity		**72,916**	80,140	74,451

Guarantees and contingencies *[note 13]*
See accompanying notes

On behalf of the Board of Directors:

"Ian Macdonald" — Director

"Guy Nelson" — Director

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at March 31, 2016

(In $000's CAD)	Share capital $	Equity component of convertible debentures $	Contributed surplus $	Retained earnings (deficit) $	Accumulated other comprehensive income $	Total equity $
As at December 31, 2015	7,955	144	3,721	11,853	(13)	23,660
Net income for the period	-	-	-	3,762	(7)	3,755
Re-classed after convertible debentures matured	-	(75)	75	-	-	-
Stock-based compensation	-	-	35	-	-	35
As at March 31, 2016	7,955	69	3,831	15,615	(20)	27,450

As at March 31, 2015

(In $000's CAD)	Share capital $	Equity component of convertible debentures $	Contributed surplus $	Retained deficit $	Accumulated other comprehensive income $	Total equity $
As at December 31, 2014	7,798	151	3,564	10,483	-	21,996
Net loss for the period	-	-	-	(885)	-	(885)
Stock-based compensation	-	-	35	-	-	35
As at March 31, 2015	7,798	151	3,599	9,598	-	21,146

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In $000's CAD, except per-share amounts)	Three months ended March 31 2016	2015
	$	$
OPERATING ACTIVITIES		
Comprehensive income (loss) from continuing operations	**4,118**	**(693)**
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**293**	185
Amortization of intangible assets	**258**	135
Amortization of deferred financing charges	**4**	6
Gain on foreign exchange revaluation of limited recourse loan	**(61)**	—
Foreign currency adjusted (net of tax)	**7**	—
Share of loss from associate investments	**107**	123
Finance costs paid on short-term and long-term borrowings	**(195)**	(134)
Unrealized foreign currency translation losses (gains)	**888**	(927)
Stock-based compensation expense	**35**	35
Fair value changes on derivative financial instruments	**(5,279)**	1,886
Income taxes paid	**(138)**	(15)
Investment tax credits	**(133)**	—
Deferred income tax expense (recovery)	**1,592**	(275)
Cash flow from continuing operations	**1,496**	**326**
Cash flow from (used in) discontinued operations	**799**	(158)
Net change in non-cash working capital balances	**(4,667)**	(1,509)
Cash flow used in operating activities	**(2,372)**	**(1,341)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment *(note 9)*	**(586)**	(498)
Repayment in advances from associate	**—**	240
Recognition of intangible assets *(note 8)*	**(278)**	(244)
Cash flow used in investing activities of continuing operations	**(864)**	**(502)**
Cash flow used in investing activities of discontinued operations	**(1)**	(169)
Cash flow used in investing activities	**(865)**	**(671)**
FINANCING ACTIVITIES		
Repayment of convertible debt	**(520)**	—
Repayment of long term debt	**(215)**	(213)
Cash flow used in financing activities of continuing operations	(735)	(213)
Cash flow from (used in) financing activities of discontinued operations	**(18)**	13
Cash flow used in financing activities	**(753)**	**(200)**
Effect of translation of foreign currency cash and equivalents	**871**	89
Net decrease in cash and equivalents during the period	(3,119)	(2,123)
Cash and cash equivalents, beginning of period	**(6,310)**	(9,754)
Cash and cash equivalents, end of period	**(9,429)**	(11,877)
Cash and cash equivalents is comprised of:		
Cash	**62**	—
Bank indebtedness	(9,491)	(11,877)
	(9,429)	**(11,877)**

1. Corporate information

Empire Industries Ltd. ("Empire") designs, fabricates, manufactures, erects and sells proprietary engineered products throughout the world. Key customer sectors include the entertainment industry, natural resource infrastructure, manufacturing and the government sector. Empire also provides steel fabrication and installation services to industrial and infrastructure markets, primarily in western Canada as well as participating in the market for oil sands maintenance services through its 49% ownership of its aboriginal partnership.

Empire Industries Ltd. is listed on the Toronto Stock Exchange's venture exchange trading under "EIL" and is incorporated under the Business Corporations Act of Alberta, Canada. The head office is located at 717 Jarvis Avenue, Winnipeg Manitoba, R2W 3B4.

The consolidated financial statements were recommended for approval by the Audit Committee on May 25, 2015 and were approved and authorized for issue by the Board of Directors on May 27, 2015.

2. Summary of significant accounting policies

The interim consolidated financial statements are condensed and have been prepared in accordance with International Account Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as disclosed in the Company's consolidated financial statements for the year ended December 31, 2015. The Group's 2015 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the period ended March 31, 2016 and include the results for the comparative period ended March 31, 2015. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts for Empire and all of its subsidiaries (the "Group"). These consolidated financial statements have been prepared in Canadian dollars which is the functional currency of the Group.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Use of estimates

Accounting measurements at interim dates inherently involve a greater reliance on estimates than at year-end. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly, the consolidated financial position of the Group as at March 31, 2016.

Amounts reported in thousands (000's) except per share amounts

3. Accounts receivable

	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Trade	11,417	14,902	16,866
Unbilled construction contract receivables (note 4)	23,949	28,569	26,987
Associates and other related parties	-	-	100
Other receivables	239	1,125	1,169
Allowance for doubtful accounts	-	-	(7)
	35,605	**44,596**	**45,115**

Holdbacks included in trade receivables are $2,813 as at March 31, 2016 (December 31, 2015 - $4,334 – March 31, 2015 - $4,337).

4. Construction contracts

	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Construction costs incurred, and estimated profits less recognized losses to date	206,045	192,283	165,094
Less: Progress billings	(197,695)	(183,304)	(149,283)
	8,350	**8,979**	**15,811**
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	23,949	28,569	26,987
Deferred revenue from construction contracts	(15,599)	(19,590)	(11,176)
	8,350	**8,979**	**15,811**

5. Cost of sales

	March 31, 2016 $	March 31, 2015 $
Direct construction costs	(19,013)	(20,589)
Indirect salaries and benefits	(2,144)	(1,724)
Indirect production costs	(1,380)	(1,581)
	(22,537)	**(23,894)**

6. Selling and administrative expenses

	March 31, 2016 $	March 31, 2014 $
Salaries and benefits	(2,114)	(2,009)
General, selling and administrative expenses	(1,599)	(1,002)
Research expenditures	-	(31)
	(3,713)	**(3,042)**

Amounts reported in thousands (000's) except per share amounts

7. Finance costs

	March 31, 2016 $	March 31, 2015 $
Interest on long-term borrowings	(75)	(80)
Interest on short-term borrowing and other	(155)	(166)
Deferred financing charges	(4)	(6)
	(234)	**(252)**

8. Derivative financial instruments

During the quarter, the Group recorded unrealized mark-to market gains on foreign currency forward contracts of $5,279 (2015 – losses of $1,886). As at March 31, 2016 the Group recorded an asset associated with fair value changes on foreign currency forward contracts of $1,529 with $947 classified as current and $582 classified as long-term based the current end dates of the underlying instruments (2015 – **December -** a liability of $3,725 with $3,324 classified as current and $427 classified as long-term **March** – a liability of $3,512 all classified as current).

9. Income per share

Income per share for the three months ended March 31:

	March 31, 2016 $	March 31, 2015 $
Net income from continuing operations	4,125	(693)
Net loss from discontinued operations	(363)	(192)
Basic weighted average number of shares	259,336,473	258,236,473
Effect of dilutive securities:		
Net incremental dilutive shares	-	-
Diluted weighted average number of shares	259,336,473	258,236,473
Basic and diluted earnings per share from continuing operations	**0.016**	**(0.003)**
Basic and diluted earnings per share from discontinued operations	**(0.001)**	**(0.000)**

Basic earnings per share is derived by dividing the earnings for the year by the weighted average number of common shares outstanding for the period. Dilutive earnings per share is derived by dividing the adjusted earnings by the weighted average number of common shares outstanding assuming all dilutive securities are exercised at the beginning of the year. In the dilutive earnings per share calculation, earnings is adjusted to reflect finance costs that would not have been incurred as a result of the assumed conversion of subordinate convertible debentures. The effect of potentially dilutive securities ("in-the-money" warrants, options and convertible debentures) are excluded if they are anti-dilutive.

Amounts reported in thousands (000's) except per share amounts

10. Operating segments

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three months ended March 31, 2016 and 2015 respectively:

2016	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	24,859	2,857	62	**27,778**
Cost of goods sold excluding depreciation and amortization	(20,334)	(2,203)	-	**22,537**
Adjusted gross profit (1)	4,525	654	62	**5,241**
Selling, general and administrative expenses	(2,230)	(824)	(659)	**(3,713)**
Adjusted EBITDA (2)	2,295	(170)	(597)	**1,528**
Depreciation and amortization expense	(459)	(87)	(5)	**(551)**
Adjusted EBIT (3)	1,836	(257)	(602)	**977**

2015	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	18,985	9,584	15	**28,584**
Cost of goods sold excluding depreciation and amortization	(15,277)	(8,617)	-	**(23,894)**
Adjusted gross profit (1)	3,708	967	15	**4,690**
Selling, general and administrative expenses	(1,568)	(888)	(586)	**(3,042)**
Adjusted EBITDA (2)	2,140	79	(571)	**1,648**
Depreciation expense	(224)	(91)	(5)	**(320)**
Adjusted EBIT (3)	1,916	(12)	(576)	**1,328**

(1) Adjusted gross profit excludes depreciation and amortization from cost of sales
(2) Adjusted Earnings before finance costs, depreciation and amortization, other items and income taxes expenses
(3) Adjusted Earnings before finance costs, other items and income taxes

The Group previously reported another operating segment, Manufactured Products which is being reported as a discontinued operation as a result of the Group's proposed plan to spin the segment out in June 2016 (note 12).

Amounts reported in thousands (000's) except per share amounts

11. Capital disclosure and management

The Group's objective when managing its long-term capital structure is to strive for a long-term manageable level of long-term funded debt to total capitalization. The Group sets the amount of capital in proportion to risk. The Group 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 Group may issue new shares, sell redundant or non-core assets or borrow through the issue of long-term debt.

Funded debt is defined as long term debt including finance leases. Tangible net worth includes shareholder's equity, subordinate debt such as subordinate convertible debentures and limited recourse loans less intangible assets and deferred tax assets. The Group'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 that are impacted by covenants. Management actively monitors these limits to ensure compliance.

As at the periods ended	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Current portion of long-term debt including finance leases	895	903	818
Long-term debt including finance leases	1,315	1,526	1,942
Long-term funded debt	2,210	2,429	2,760
Shareholders' equity	27,450	23,660	21,146
Convertible debentures	431	951	953
Limited recourse loan and subordinate note payable	923	984	825
Less: deferred tax assets	(4,370)	(5,829)	(5,298)
Less: intangible assets (net)	(4,152)	(4,132)	(2,092)
Tangible net worth	20,282	15,634	15,534
Capitalization	22,492	18,063	18,294
Long-term funded debt : Capitalization	9.8%	13.4%	15.1%

12. Assets held for sale and discontinued operations

During the quarter, the Group announced its proposal to complete transactions whereby the Group will spin-out (the "Spin-Out Transaction") to a new corporation ("SpinCo"), its wholly-owned Hydrovac business which represented the Group's Manufactured Product's operating segment. The Group also announced that SpinCo has closed a private placement of subscription receipts for aggregate proceeds of $7,500. If the Spin-Out Transaction is completed, the aggregate gross proceeds of the subscription receipt private placements will be used as working capital of SpinCo and a wholly-owned subsidiary of SpinCo to be organized in China to carry on the Hydrovac Business of SpinCo in China.

Based on the events of the quarter the Group elected to classify the assets of its wholly-owned Hydrovac business (its Manufactured Products operating segment) as held for sale and its operating results as discontinued operations. The tables below identify the assets held for sale and the liabilities of the disposal group for each of the statements of financial position presented as well as the operating results which have been recorded in discontinued operations for each of the periods presented.

Amounts reported in thousands (000's) except per share amounts

	March 31, 2016 $	December 31, 2015 $	March 31, 2015 $
Accounts receivable	1,052	1,601	324
Inventory	4,617	4,650	6,481
Prepaid expenses	98	87	113
Property, plant and equipment (net)	2,025	2,024	1,898
Intangible assets	312	312	-
Assets held for sale	**8,104**	**8,674**	**8,816**
Accounts payable and accrued liabilities	2,113	1,518	2,710
Current portion of long-term debt	67	67	64
Long-term debt	17	35	92
Liabilities of disposal group	**2,197**	**1,620**	**2,866**

	March 31, 2016 $	March 31, 2015 $
Revenues	3,392	4,625
Expenses	(3,879)	(4,817)
Net loss from discontinued operations before taxes	(497)	(192)
Net loss from discontinued operations (net of tax)	**(363)**	**(192)**

13. Guarantees and contingencies

Loan guarantees

The Group is contingently liable under one guarantee given to a third-party lender who has provided certain financing facilities to associated investments. As at March 31, 2016, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is $nil ($481 as at December 31, 2015 and $356 as at March 31, 2015).

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of up to $6,066 USD as at March 31, 2016 ($6,066 as at December 31, 2015 and $5,424 as at March 31, 2015). The Group has a guarantee facility with Export Development Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Group on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility. As at March 31, 2016, the limit on the facility was $10,000 USD and is secured by a general security agreement providing second security interests in all of the Group's present and after-acquired property.

Director and officer indemnification

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

Other indemnification provisions

From time to time, the Group 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 Group from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Group has not made any significant payments in connection with these indemnification provisions.

Other contingencies

The Group 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 determined by management to be without merit, or of such kinds or amounts as would not have a material adverse effect on the financial results of the Group.