



3Q15

## **Management's Discussion & Analysis**

For the 3 and 9 month periods ending September 30, 2015

## **Consolidated Financial Statements**

For the 3 and 9 month periods ending September 30, 2015

## 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, 2014. Reference should also be made to the annual MD&A for the year ended December 31, 2014.

The interim consolidated financial statements and accompanying notes of the Group for the period ended September 30, 2015 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 September 30. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on November 20, 2015. 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](http://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.
Manufactured Products	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.
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.



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 September 30 (\$'000 except per share amounts)	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
	\$	\$	\$	\$	\$	\$
Operating Results:						
Revenues	112,587	105,291	7,296	42,081	36,765	5,316
Adjusted Gross Margin	16,818	17,551	(733)	5,983	6,377	(394)
Adjusted Gross Margin %	14.9%	16.7%	(1.8%)	14.2%	17.3%	(3.1%)
Adjusted EBITDA	5,009	6,156	(1,147)	2,012	2,263	(251)
Adjusted EBITDA %	4.4%	5.9%	(1.5%)	4.8%	6.2%	(1.4%)
Adjusted EBIT	3,709	5,039	(1,330)	1,464	1,791	(327)
Adjusted EBIT %	3.3%	4.8%	(1.5%)	3.5%	4.9%	(1.4%)
Net income	995	3,592	(2,597)	990	732	258
Per share data:						
Profit (loss) per share (Basic)	0.004	0.015	(0.011)	0.004	0.003	0.001
Profit (loss) per share (Diluted)	0.004	0.015	(0.011)	0.004	0.003	0.001

## 2015 Nine Month Overview

The nine months ended September 30, 2015 has seen consolidated revenues increase by \$7.3 million over the same nine month period in 2014. The net increase in revenues was attributed to increases of \$21.5 million in the Group's Media-based Attractions respectively offset by \$11.2 million and \$3.0 million declines in revenues from the Group's Manufactured Products segment and Steel Fabrication segments respectively.

The Group's Adjusted Gross Margin decreased to 14.9% in the first nine months of 2015 from 16.7% in the same period of 2014. The reduction in the Group's Adjusted Gross Margin is attributable to lower profit margins resulting from the negative impact of the current economic environment in western Canada which the Group's Steel Fabrication and Manufactured Products segments have historically been heavily focused on. Mitigating to some extent is the Group's Media-based attractions segment which has seen improved margins due in large part to the weakening of the Canadian Dollar as its sales are largely denominated in US dollars.

The Group's Adjusted EBITDA decreased by \$1.1 million in the first nine months of 2015 versus the same period in 2014. Notwithstanding the challenges posed by the economic landscape in western Canada the Group is experiencing continued growth in the Media-based Attractions segment. This continued growth has required additional investments in personnel and infrastructure to address both current opportunities and to be poised to realize on the many future opportunities the Group has secured, as referenced by the numerous contract awards and status updates released by the Group.

Specific initiatives being undertaken by the Group to address both the current requirements and future plans of the Media-Based Attractions segment include:

- Increasing the productive capacity of the segment to address the following:
  - effectively meet the complex technical demands of the Group's Media-Based Attractions segment that currently has 23 active projects underway;
  - Execute all the projects successfully, especially the new media-based attractions ride systems, thereby positioning the Company to increase the sales and margins as the ride systems get built for multiple clients; and
  - Expand the ride system product line to include additional services that focus on the park guests' end user experience. These additional services turn the ride system into an attraction and this expanded capability, in-house, has been added in our new innovation and demonstration center in Orlando, Florida.
- Expanding capacity to provide sufficient occupancy to perform increased design, development, fabrication, integration and testing functions for the Group's current and future operating plans;
- Increasing the project management resources both from a capacity and experience perspective;

Net income decreased by \$2.6 million in the nine month period ended September 30, 2015 versus the same period in 2014. Apart from the EBITDA shortfall discussed above the remaining differences were due in large part to an increase in non-operating charges incurred over the comparative period. Specifically:

- Unrealized Mark-to-Market foreign exchange losses of \$1.3 million through nine-months of 2015 versus mark-to-market losses of \$0.8 million a swing of \$0.5 million.
- Equity losses from an associate investment through nine months of \$0.12 million in 2015 versus income \$0.24 million in the comparative period. The Group's associate investment from which the loss is derived is directly tied

to and reliant on the oil & gas sector in Northern Alberta and thus is combatting the same challenges other companies in this regard.

- Increased amortization expense driven largely by increased volumes of intangible assets recognized compared to the prior period.
- Stock-based compensation expenses of \$0.17 million through nine months in 2015 versus \$nil in the comparative period.

### 3Q15 Overview

The quarter ended September 30, 2015 saw improved revenue volumes of \$5.3 million over the comparative quarter in 2014. In line with the nine-month discussion, the net increase in revenue over the comparative quarter is coming from an increase in revenues of \$15.6 million from the Group's Media-based Attractions segment and revenue decreases of \$4.5 million and \$5.8 million in the Group's Steel Fabrication and Manufactured Products segments respectively.

Consistent with the discussion of the year-to-date results the current economic situation in Western Canada has had a negative impact on both the Group's Steel Fabrication and Manufactured Products segments while the Group's media-based attractions segment continues to increase the number and size of the contracts for the group's proprietary media-based attractions and continue to execute quoted work from the major entertainment companies all over the world.

The Group's Adjusted Gross Margin were lower than the same quarter in 2014 at 14.9%. The impact of the Western Canadian economic environment and individual project performance were the main factors driving changes in Adjusted Gross Margins.

The Group's Adjusted EBITDA is \$0.3 million less than the comparative quarter as the Group's consolidated Adjusted Gross Margin was \$0.4 million less than the comparative quarter and consolidated selling, general and administrative expenses decreased by \$0.2 million from the comparative quarter.

Net income for the quarter increased by \$0.3 million compared to the same quarter in 2014. The increase was due to the net reported amounts for non-operating items during the period offsetting the Adjusted EBITDA variance.

### Foreign Exchange Impact

The Group enters into foreign currency forward contracts and options as required to protect its exposure to the US dollar. When the Group enters into those contracts they are at the prevailing rates at that time as its primary goal is to protect its downside risk. Financial reporting standards require the Group to record the impact of changes in the exchange rates on the outstanding contract amounts at each reporting date as unrealized exchange gains and losses. The resulting gains and losses are recorded in the Group's statement of comprehensive income as "Unrealized gains (losses) on derivative financial instruments".

Because the rates have steadily declined over the past 12 months the Group's foreign currency forward contracts that have been put in place have all seen the US dollar continue to strengthen which results in an increase to the mark-to-market liability for the Group relating to these contracts. On a quarterly basis gains and losses are recorded in the statement of comprehensive income to adjust the Group's liability position (if the US dollar was to weaken below the contract rates, the Group would be in an asset position). In addition to the changes in the US dollar exchange rate, the notional amount of forward contracts outstanding has an impact on the position as well. Particularly in 3Q15 the group reported a loss of \$0.2 million relating to its forward currency contract position. This loss was a result of a reduction in the notional amount of foreign exchange contracts outstanding negatively offset by an increase in the CAD/USD exchange rate to 1.3345 at

September 30, 2015 from 1.2666 at June 30, 2015. The unrealized loss of 1.3 million through nine months is reflective of the increase in the CAD/USD exchange from 1.1601 which was the rate at December 31, 2014. The impact of settling the forward contracts is recognized in the Group's statement of comprehensive income through sales revenue at the time of settlement. The resulting impact of settling the outstanding "out-of-the money" hedges while being reflected in the Group's future financial results will be included with additional US dollar denominated revenues at exchange rates that are more reflective of current market rates.

### **Significant Events – First Quarter**

- On March 2, 2015 and March 4, 2015, the Group announced the award of 3 contracts totaling \$66 million USD. Two contracts totaling \$42 million have been awarded for two of the Group's proprietary Media-based Attractions from a major theme park in South Asia. The third award totaling \$24 million USD to supply one of its proprietary robotic track rides to a major theme park in the United Arab Emirates. These contracts will be executed over the next 36 months.

### **Significant Events – Second Quarter**

- On May 20, the Group's Dynamic Attractions business unit announced it has been awarded a contract valued in excess of US\$24 million to supply one of its proprietary attractions to a major theme park in south Asia. This contract award comes from the same client that purchased two other attractions which were announced by Empire on March 4, 2015. These contracts will largely be executed over the next 36 months.
- On June 30, the Minister of Industry for Canada announced that the Group's Dynamic Structures business unit will receive up to \$70 million to build the precision-steel enclosure of the Thirty Meter Telescope (TMT), the world's largest earth-based telescope, which Canada has agreed to provide as an in-kind contribution towards its share of the TMT.

### **Significant Events – Third Quarter**

- On September 23, the Group's shareholders granted authority to proceed with a share consolidation of up to 10 pre-consolidation shares for 1 post-consolidation share, at the discretion of the Board. This resolution was passed with 98.85% of votes cast in favour at the Group's Annual General and Special Meeting of Shareholders. The Board has indicated that they will exercise their best judgement in determining when or whether to proceed with the stock consolidation, and that they will only proceed to implement such a consolidation if the conditions are right.



## Selected Quarterly Financial Information

(\$000 except per share amounts)

Quarterly Financial Information	2015	2015	2015	2014	2014	2014	2014	2013
For the quarters ended	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	42,081	37,297	33,209	36,124	36,765	34,912	33,614	31,495
Adjusted EBITDA	2,012	1,485	1,512	1,847	2,263	1,523	2,370	1,192
Profit (loss)	990	890	(885)	2,472	732	1,649	1,211	726
Profit (loss) per share								
Basic	0.004	0.003	(0.003)	0.008	0.003	0.006	0.006	0.005
Diluted	0.004	0.003	(0.003)	0.007	0.003	0.006	0.006	0.005

## Liquidity and Capital Resources

### Liquidity

For the period ended September 30, 2015, the Group's operations generated \$3.6 million of cash, compared with \$5.0 million of cash in the comparative 2014 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 \$8.95 was drawn as of September 30, 2015. The Group's marginable assets at September 30, 2015 were \$25.2 million, which is \$16.25 million in excess of the Group's total draw on the operating line.

The Group made \$0.6 million of cash principal repayments during the nine-month period. Total long-term debt of \$4.3 million as at September 30, 2015 consisted of \$2.2 million of term debt with CIBC, \$0.3 million under finance leases, \$0.9 million of a limited recourse loan and \$0.9 million of subordinated convertible debentures.

### Shareholders' Equity

Shareholders' equity of \$23.2 million at September 30, 2015 is \$1.2 million higher than the shareholders' equity at December 31, 2014 due to the net income of \$0.9 million for the nine-month period. The balance of the increase relates to proceeds received from stock options exercised and increases in contributed surplus due to stock based compensation expenses. 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 24,010,000 outstanding options at September 30, 2015. The average exercise price of the outstanding options is \$0.10 per share. Of these options, 22,043,333 are currently exercisable at an average exercise price of \$0.10 per share.

### Market Capitalization

The market capitalization of the Group's 259,336,473 issued and outstanding common shares at November 25, 2015 was \$16.9 million or \$0.065 per share, which is less than the Group's book value per share of \$0.086 at September 30, 2015. The issued and outstanding common shares at November 25, 2015, together with securities convertible into common shares are summarized in the table below.

## Fully Diluted Shares

As at November 25, 2015

Issued and outstanding common shares		259,336,473
Securities convertible into common shares		
Convertible Debentures	9,700,000	
Warrants	27,700,000	
Stock Options	24,010,000	
Total Securities convertible into common shares		61,410,000
Fully Diluted Shares		320,746,473

The exercise prices of the outstanding warrants and convertible debentures is \$0.10.

## Financial Ratios

The following information is based on the data disclosed in Note 11 (Capital Disclosures and Management) from the 2015 Financial Statements:

For the periods ended (\$000)	September 30, 2015	December 31, 2014	September 30, 2014
	\$	\$	\$
Current portion of long-term debt	855	893	887
Long-term debt	1,612	2,223	2,216
Long-term funded debt	2,467	3,116	3,103
Shareholders' equity	23,259	21,996	19,080
Convertible debentures	922	953	957
Limited recourse loan and subordinate note payable	925	825	756
Less: deferred tax assets	(5,023)	(5,023)	(1,415)
Less: intangible assets	(2,842)	(1,983)	(835)
Tangible net worth	17,241	16,768	18,543
Capitalization	19,708	19,884	21,646
Long-term funded debt : Capitalization	12.5%	15.7%	14.3%



The Group's leverage ratio decreased to 12.5% from 15.7% at December 31, 2014 and 14.3% at September 30, 2014.

The Group's current ratio (when deducting the fair value of financial instruments) of 1.14 is reduced from the December 31, 2014 ratio of 1.19 and the September 30, 2014 ratio of 1.25 due to higher working capital volumes.

## Segment Performance

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

### Media-based Attractions

Periods ended September 30 (\$000)	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
	\$	\$	\$	\$	\$	\$
Operating Results:						
Revenues	73,664	51,987	21,677	30,551	14,765	15,786
Adjusted Gross Margin	12,360	8,298	4,062	4,399	3,023	1,376
Adjusted Gross Margin %	16.8%	16.0%	0.8%	14.4%	20.5%	(6.1%)
Adjusted EBITDA	7,128	3,768	3,360	2,421	1,203	1,218
Adjusted EBITDA %	9.7%	7.3%	2.4%	7.9%	8.1%	(0.2%)
Adjusted EBIT	6,245	3,124	3,121	2,106	930	1,176
Adjusted EBIT %	8.5%	6.0%	2.5%	6.9%	6.3%	0.6%

### 2015 Overview

The Group has continued to invest heavily in creating and designing its own line of proprietary media-based attractions to complement its historical business of providing complex engineering, design, manufacturing and installation solutions to some of the world's largest amusement park customers and telescope projects. The Group has demonstrated the success of its development of its own proprietary product line through numerous contract awards during this time. In 2015, the segment continued to execute numerous contracts for its own proprietary products as well as traditional work for the world's largest amusement park companies. In addition to this, the segment has also announced additional contract awards totaling \$90 million USD in 2015.

Revenues for the operating segment increased by 41.7% to \$73.6 million for the nine months ending September 30, 2015. This increase in revenue was driven in part by continuing to maintain a strong backlog of projects to execute and in part by the strengthening US dollar from which substantially all of the segments revenues are derived from.

The segment's Adjusted Gross Margin increased by 0.8% to 16.8% in 2015 as the segment's margins were positively impacted by the strengthening US Dollar for which substantially all of its revenues are negotiated in.

Selling and administrative expenses increased by \$0.7 million over the same period of 2014. The segment is continuing to grow as evidenced by its continued strong and improving financial results as well as the new opportunities that the segment

has announced. The segment is addressing the current operations and the opportunities for the future by investing in the appropriate personnel levels and infrastructure as outlined in the 2015 consolidated overview.

Adjusted EBITDA increased by \$3.4 million and Adjusted EBIT increased by \$3.1 million as a result of the factors discussed above.

### 3Q15 Overview

The results for 3Q15 reflect the factors discussed above relating to the nine-months ended September 30, 2015. However, the main factor behind the variances in the current quarter of 2015 versus the comparative quarter from 2014 are related to the comparative quarter being a particularly slower quarter. Specifically:

- Revenues are up \$15.8 million (107%)
- Adjusted Gross Margin increased to \$4.4 million however, Adjusted Gross Margin as a percentage of sales decreased to 14.4% of revenue.
- Adjusted EBITDA increased \$1.2 million

The segment experienced a slower quarter in the prior period as it was introducing some of the first articles of Media-based attractions into full scale production. Longer design periods resulted in a lower revenue volumes during that particular quarter.

### Outlook

The segment continues to maintain a large backlog of projects to execute. As at September 30, 2015 the segment had approximately \$149 million in backlog for current active and awarded contracts. In addition to that, the segment is attempting to finalize negotiations to manufacture and ship the enclosure for TMT current valued at \$70 million. Management is excited about the opportunities and challenges that lie ahead.

### Manufactured Products

Periods ended September 30 (\$000)	Nine months ended			Quarter ended		
	2015 \$	2014 \$	Variance \$	2015 \$	2014 \$	Variance \$
Operating Results:						
Revenues	15,026	26,276	(11,250)	3,715	9,519	(5,804)
Adjusted Gross Margin	1,761	4,740	(2,979)	373	1,531	(1,158)
Adjusted Gross Margin %	11.7%	18.0%	(6.3%)	10.0%	16.1%	(6.1%)
Adjusted EBITDA	(130)	2,798	(2,928)	(122)	918	(1,040)
Adjusted EBITDA %	(0.1%)	10.6%	(10.7%)	(3.3%)	9.6%	(12.9%)
Adjusted EBIT	(264)	2,609	(2,873)	(167)	818	(985)
Adjusted EBIT %	(1.8%)	9.9%	(11.7%)	(4.5%)	8.6%	(13.1%)

## **2015 Overview**

Revenues for the segment have decreased by 42.8% through nine months as compared to the same period in 2014. The impact of the significant drop in oil prices has directly impacted the demand for the segment's Hydrovac trucks which is the primary product for the segment.

Adjusted Gross Margin percentage declined 6.3% compared to the same period in 2014. In addition to a significant decrease in demand, selling prices have been decreased as a result of increased competition for the demand available which has directly reduced the Adjusted Gross Margin of the segment.

Selling and administrative expenses are consistent with the prior period as the segment has tried to keep its core capabilities intact.

Adjusted EBITDA and Adjusted EBIT decreased by \$2.9 million as a result of factors discussed above.

## **3Q15 Overview**

The quarter ended September 30, 2015 resulted in a decrease in revenues of 61% to \$3.7 million over the quarter ended September 30, 2014 as demand continues to be reduced for the segment's Hydrovac truck.

The Adjusted Gross Margin percentage declined 6.1% to 10.0% in 3Q15 as compared to the same period in the prior year. Consistent with the year-to-date discussion, the reduced demand has resulted in lower selling prices which had a negative impact on Adjusted Gross Margin.

Selling and administrative expenses were \$0.1 million less than the same period in 2014.

Adjusted EBITDA and Adjusted EBIT decreased by \$1.0 million as a result of the factors discussed above.

## **Outlook**

The segment remains challenged to maintain a consistent backlog in the current economic landscape. The reduction in demand is industry wide and not unique to the segment. The segment is actively working to penetrate new geographical markets, primarily the US, in order re-build its backlog. The weaker Canadian Dollar makes exports of our hydrovac truck into the United States, much more competitive. Thus far, the segment has been able to secure sufficient production volumes to service its fixed cost structure. The segment will continue to monitor production levels to ensure its fixed cost structure remains appropriate.

## Steel Fabrication

Periods ended September 30 (\$000)	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
	\$	\$	\$	\$	\$	\$
Operating Results:						
Revenues	23,899	26,914	(3,015)	7,883	12,431	(4,548)
Adjusted Gross Margin	2,699	4,399	(1,700)	1,279	1,773	(494)
Adjusted Gross Margin %	11.3%	16.3%	(5.0%)	16.2%	14.3%	1.9%
Adjusted EBITDA	103	1,352	(1,249)	494	730	(236)
Adjusted EBITDA %	0%	5.0%	(5.0%)	6.3%	5.9%	0.4%
Adjusted EBIT	(180)	1,068	(1,248)	396	631	(235)
Adjusted EBIT %	(0.8%)	4.0%	(4.8%)	5.0%	5.1%	(0.1%)

### 2015 Overview

Revenues through nine months of 2015 decreased by 11.2% to \$23.9 million compared to the same period in 2014. The decrease in revenue was due to less field activity compared to the first nine months in 2014. The segment is also affected by the current economic landscape in Western Canada and has experienced reduced bid activity and increased competition through the nine month period.

Adjusted Gross Margins declined \$1.7 million to 11.3% in current period when compared to the same period in 2014. The reduction in Adjusted Gross Margins were driven by the following:

- In 2014, the results included a recovery of \$0.4 million from a contract settlement.
- Lower volume of revenues compared to the previous ninth month period would account specifically for a \$0.5 million reduction in Adjusted Gross Margin before considering declines in Adjusted Gross Margin percentages
- The performance of the segment on certain projects was less than projected. This has negatively impacted the segment's Adjusted Gross Margin during the current period. The segment is pursuing adequate compensation for specific items which have had a negative impact on the segment's Adjusted Gross Margin. Should incremental amounts be recovered in later periods, those incremental amounts will be recorded in the segment's operating results. These matters are commonplace in the industry and are considered a general part of the business.

Selling and administrative expenses decreased by \$0.5 million in the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 which was expected. 2014 contained certain items that would not recur in 2015 in addition to lower production volumes.

Adjusted EBITDA decreased by \$1.2 million and Adjusted EBIT decreased by \$1.2 million from the Adjusted EBITDA and Adjusted EBIT from the same period in 2014.

### 3Q15 Overview

Revenues decreased by 36.6% to \$7.9 million in 3Q15 as compared to the same period in 2014. The segment experienced a much slower quarter in 2015 compared to that of 2014. The reduction in revenues was due specifically to less field work

compared to the same quarter in 2014 as well as the current economic climate in Western Canada.

Adjusted Gross Margins decreased \$0.5 million a result of the reduction in revenue compared to the prior period as the Adjusted Gross Margins percentage was consistent with the prior period.

Selling and administrative expenses decreased by \$0.25 million in 3Q15 compared to the same period of the 2014 which is consistent with lower overall business volumes.

Adjusted EBITDA and Adjusted EBIT decreased \$0.2 million in 3Q15 compared to that same period in 2014 as a result of the factors outlined above with depreciation expense remaining consistent with the prior period.

## Outlook

Management continues to work towards improving the segment's execution capability in an effort to realize improved Adjusted Gross Margins in the future. In spite of the economic landscape in Western Canada, the segment has been able to secure sufficient backlog in the short-term, mostly in the commercial construction market segment. In addition to that, the segment is pursuing some larger contracts to help secure its medium to longer term production requirements.

## Corporate (non-operating)

Periods ended September 30 (\$000)	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
	\$	\$	\$	\$	\$	\$
Operating Results:						
Revenues	(2)	114	(116)	(68)	50	(118)
Adjusted Gross Margin	(2)	114	(116)	(68)	50	(118)
Adjusted EBITDA	(2,092)	(1,762)	(330)	(781)	(588)	(193)
Adjusted EBIT	(2,092)	(1,762)	(330)	(781)	(588)	(193)

## 2015 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. The negative revenues are resulting from realized foreign exchange losses arising from the Group's limited recourse loan for which the principal is denominated in USD.

Selling and administrative expenses increased by \$0.2 million in 2015 over the prior year. Selling and administrative expenses are impacted largely by the strategic direction of the Group which is influenced by a number of strategic initiatives and growth opportunities it is pursuing in a given period.

Adjusted EBITDA and Adjusted EBIT decreased by \$0.4 million which was attributable to the increase in selling and administrative expenses over the same period of 2014 as well as the foreign exchange loss associated with the limited recourse loan.

### 3Q15 Overview

The results for 3Q15 mirror those of the nine month period ended September 30, 2015 when compared to the same three month and nine month periods from 2014 with main variances in 3Q15 being equivalent to the variances on the nine-month comparative basis.

### 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.

### 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 in 2015 as a result of the following:

- The Media Based Attractions Segment will continue to execute its record backlog of high value added products. As the segment continues to build multiple new products concurrently, it is anticipated that there will still be some challenges from an earned revenue and profit perspective in the near term which is also expected to improve as second generation products get produced that take advantage of the learning curve associated with the first generation products;
- A strong US dollar will positively impact profit margins because the Media Based Attractions segment’s contracts are sold predominantly in US dollars. To the best of its ability and capacity, the Segment hedges its net US dollar exposure so as to manage to planned results;
- Dynamic Structures must first finalize the contract to build the thirty meter telescope enclosure and after the contract is awarded, move aggressively into the design and procurement planning phase of manufacturing during 2016 to 2018;
- The Group’s backlog remains strong at \$155 million. This excludes any amount for the thirty meter telescope because the contract has not been finalized or awarded yet;



- The Group's Chinese associate investment in Guangdong Province is increasing the amount of work it is performing for Empire, positively impacting Empire's margins.

The Company's Steel Fabrication and Manufactured Products Segments have been challenged to respond quickly to the negative affect that the significant reduction in oil and gas prices has had on reducing capital expenditures in Western Canada, especially in the oil sands market. Therefore, the Company's operating performance in 2015 is expected to be impacted negatively in 2015 compared to 2014 as a result of the following:

- The Group's Hydrovac truck manufacturing operation has seen its backlog reduced dramatically, its forecasted monthly throughput reduced significantly, sales price per truck reduced and margins reduced correspondingly. The segment is expanding its sales region and focus including expanding in the United States to take advantage of the strong US dollar, to offset the decline in demand experienced in Western Canada due to the decline in oil prices.
- The Group's steel fabrication operations will see increased competition in the industrial, commercial and institutional market of Alberta. The segment is pursuing opportunities that deploy some of our fabricated steel from our Chinese associate investment into Empire's steel supply chain in Canada.

#### **Overall**

The Company has successfully repositioned itself into higher margin and higher growth, media based attractions. The Group will continue to shelter its profits from tax through the use of its \$5.0 million of Deferred Tax Asset. It expects its balance sheet to strengthen throughout the year as its equity increases and its debt decreases.

The Group continues to assess strategic initiatives in the hydrovac operation and its fabricated steel supply chain with the view to generating a much better return on its assets deployed in these two businesses.

On balance, the 2015 improvement in the Media Based Attractions segment and TMT enclosure project is expected to offset the negative outlook for our Manufactured Products and Steel Fabrication segments in 2015 and beyond.

#### **Non-IFRS Methods**

In this MD&A, the Group uses two financial management metrics that are not in accordance with IFRS "Adjusted earnings (loss) before interest, tax, depreciation and amortization (Adjusted EBITDA)" 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. 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 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 September 30	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
(\$000's, except for per share amounts)	\$	\$	\$	\$	\$	\$
Profit (loss) – continuing operations before taxes	995	3,592	(2,597)	990	732	258
Add: Depreciation and amortization	1,300	1,117	183	548	472	76
Add/Deduct: (Gain) loss on disposal of assets and other (income) loss	52	-	52	53	-	53
Add: Finance costs	1,028	858	170	256	284	(28)
Add/Deduct Share of profit of associate	120	(242)	362	(91)	(236)	145
Add/Deduct Fair value changes of foreign currency option contracts	1,346	820	526	218	1,011	(793)
Add: non cash stock-based compensation	168	11	157	38	-	38
Adjusted EBITDA – continuing operations	5,009	6,156	(1,147)	2,012	2,263	(251)

## Calculation of Adjusted EBIT

Periods ended September 30	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
(\$000's, except for percentages)	\$	\$	\$	\$	\$	\$
Adjusted EBITDA	5,009	6,156	(1,147)	2,012	2,263	(251)
Less: Depreciation and amortization	(1,300)	(1,117)	(183)	(548)	(472)	(76)
Adjusted EBIT	3,709	5,039	(1,330)	1,464	1,791	(327)
% of revenue	3.3%	4.8%	(1.5 %)	3.5%	4.9%	(1.4 %)

## Calculation of Adjusted Gross Margin

Periods ended September 30	Nine months ended			Quarter ended		
	2015	2014	Variance	2015	2014	Variance
(\$000's, except for percentages)	\$	\$	\$	\$	\$	\$
Revenues	112,587	105,291	7,296	42,081	36,765	5,316
Cost of sales excluding depreciation & amortization	(95,769)	(87,740)	(8,029)	(36,098)	(30,388)	(5,710)
Adjusted gross margin	16,818	17,551	(733)	5,938	6,377	(394)
% of revenue	14.9%	16.7%	(1.8%)	14.2%	17.3%	(3.1%)



**3<sup>rd</sup> Quarter**

# **Consolidated Financial Statements**

For the 3 and 9 month periods ending September 30, 2015

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.

**3Q15**

For the three month and nine month periods ended September 30 (In \$000's CAD, except per-share amounts)	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Revenues (1)</b>		<b>42,081</b>	36,765	<b>112,587</b>	105,291
Cost of sales, excluding depreciation and amortization (2) (3)	5	<b>(36,098)</b>	(30,388)	<b>(95,769)</b>	(87,740)
Gross Profit, excluding depreciation and amortization		<b>5,983</b>	6,377	<b>16,818</b>	17,551
Selling and administrative expenses	6	<b>(3,971)</b>	(4,114)	<b>(11,809)</b>	(11,395)
Result before depreciation, amortization and other items of income (loss)		<b>2,012</b>	2,263	<b>5,009</b>	6,156
Depreciation of property, plant and equipment		<b>(306)</b>	(346)	<b>(766)</b>	(853)
Amortization of intangible assets		<b>(242)</b>	(126)	<b>(534)</b>	(264)
Result before other items of income (loss)		<b>1,464</b>	1,791	<b>3,709</b>	5,039
Share of profit (loss) from associates		<b>91</b>	236	<b>(120)</b>	242
Stock-based compensation		<b>(38)</b>	—	<b>(168)</b>	(11)
Finance costs	7	<b>(256)</b>	(284)	<b>(1,028)</b>	(858)
Unrealized loss on derivative financial instruments	8	<b>(218)</b>	(1,011)	<b>(1,346)</b>	(820)
Other non-operating income		<b>(53)</b>	—	<b>(52)</b>	—
		<b>(474)</b>	(1,059)	<b>(2,714)</b>	(1,447)
<b>Net income from operations before tax</b>		<b>990</b>	732	<b>995</b>	3,592
Income tax (expense) recovery					
Current		—	—	—	—
Deferred		—	—	—	—
		—	—	—	—
<b>Net income and comprehensive income</b>		<b>990</b>	732	<b>995</b>	3,592
<b>Income per share - basic and diluted</b>	9	<b>0.004</b>	0.003	<b>0.004</b>	0.015

(1) Included in revenue are foreign exchange losses of \$1,336 for the three month period ended Sept 30, 2015 (2014 - foreign exchange gains of \$149)

Included in revenue are foreign exchange losses of \$1,481 for the nine month period ended Sept 30, 2015 (2014 - foreign exchange gains \$27)

(2) Cost of sales including depreciation and amortization was (\$36,674) for the three months ended Sept 30, 2015 (2014 - \$31,028)

Cost of sales including depreciation and amortization was (\$96,959) for the nine months ended Sept 30, 2015 (2014 - \$88,873)

(3) Included in costs of sales excluding depreciation and amortization are foreign exchange losses of \$141 (2014 - \$243) for the three months ended Sept 30, 2015.

Included in costs of sales excluding depreciation and amortization are foreign exchange losses of \$450 (2014 - \$259) for the nine months ended Sept 30, 2015.

See accompanying notes

As at	Notes	30-Sep-15	31-Dec-14	30-Sep-14
(In \$'000's CAD)		\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		—	31	—
Accounts receivable	3	53,178	40,641	40,574
Inventory		7,516	6,908	6,094
Prepaid expenses and other assets		1,659	924	1,568
<b>Total current assets</b>		<b>62,353</b>	<b>48,504</b>	<b>48,236</b>
<b>Non-current assets</b>				
Property, plant and equipment and investment property, net		10,919	9,790	8,718
Intangible assets, net		2,842	1,983	835
Other non-current assets		133	98	460
Investment in associate		1,844	1,964	2,095
Advances to associate		879	934	934
Deferred tax assets		5,023	5,023	1,415
<b>Total non-current assets</b>		<b>21,640</b>	<b>19,792</b>	<b>14,457</b>
<b>Total assets</b>		<b>83,993</b>	<b>68,296</b>	<b>62,693</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Bank indebtedness		8,950	9,785	8,034
Accounts payable and accrued liabilities		13,632	20,628	21,239
Deferred revenue from construction contracts	4	30,867	9,353	8,291
Current income taxes payable		—	15	—
Current portion of long-term debt		855	893	887
Current portion of convertible debentures		498	—	—
Foreign currency forward instruments		2,971	1,625	1,233
<b>Total current liabilities</b>		<b>57,773</b>	<b>42,299</b>	<b>39,684</b>
<b>Non-current liabilities</b>				
Long-term debt		1,612	2,223	2,216
Limited recourse loan and subordinate notes payable		925	825	756
Convertible debentures		424	953	957
<b>Total non-current liabilities</b>		<b>2,961</b>	<b>4,001</b>	<b>3,929</b>
<b>Total liabilities</b>		<b>60,734</b>	<b>46,300</b>	<b>43,613</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		7,898	7,798	7,485
Equity component of convertible debentures		151	151	157
Contributed surplus		3,732	3,564	3,427
Retained earnings (deficit)		11,478	10,483	8,011
<b>Total shareholders' equity</b>		<b>23,259</b>	<b>21,996</b>	<b>19,080</b>
<b>Total liabilities and shareholders' equity</b>		<b>83,993</b>	<b>68,296</b>	<b>62,693</b>

Guarantees and contingencies [note 13]

See accompanying notes

On behalf of the Board of Directors:

"Ian Macdonald"

Director

"Guy Nelson"

Director

As at September 30, 2015

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total equity
(In \$000's CAD)	\$	\$	\$	\$	\$
<b>As at December 31, 2014</b>	<b>7,798</b>	<b>151</b>	<b>3,564</b>	<b>10,483</b>	<b>21,996</b>
Net income for the year	—	—	—	995	995
Proceeds from the exercise of stock options	54	—	—	—	54
Conversion of convertible debentures	46	—	—	—	46
Stock-based compensation	—	—	168	—	168
<b>As at September 30, 2015</b>	<b>7,898</b>	<b>151</b>	<b>3,732</b>	<b>11,478</b>	<b>23,259</b>

As at September 30, 2014

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained deficit	Total equity
(In \$000's CAD)	\$	\$	\$	\$	\$
<b>As at December 31, 2013</b>	<b>7,343</b>	<b>157</b>	<b>3,416</b>	<b>4,419</b>	<b>15,335</b>
Net income for the period	—	—	—	3,592	3,592
Proceeds received from exercise of warrants	142	—	—	—	142
Stock-based compensation	—	—	11	—	11
<b>As at September 30, 2014</b>	<b>7,485</b>	<b>157</b>	<b>3,427</b>	<b>8,011</b>	<b>19,080</b>

See accompanying notes

(In \$000's CAD, except per-share amounts)	Three months ended		Nine months ended	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income from continuing operations	990	732	995	3,592
<i>Add (deduct) items not affecting cash</i>				
Depreciation of property, plant and equipment	306	346	766	853
Amortization of intangible assets	242	126	534	264
Amortization of deferred financing charges	32	22	43	71
Loss (gain) on sale of property, plant and equipment	(1)	—	(2)	—
Share of (profit) loss from associate investments	(91)	(236)	120	(242)
Non-cash interest income earned	—	(36)	—	(53)
Unrealized foreign currency translation (losses) gains	423	(316)	(224)	(353)
Stock-based compensation	38	—	168	11
Unrealized (gains) losses on derivative financial instruments	218	1,011	1,346	820
<b>Cash flow from continuing operations</b>	<b>2,157</b>	<b>1,649</b>	<b>3,746</b>	<b>4,963</b>
Net change in non-cash working capital balances	(4,044)	2,546	162	(4,218)
<b>Cash flow (used in) from operating activities</b>	<b>(1,887)</b>	<b>4,195</b>	<b>3,908</b>	<b>745</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment	(721)	(520)	(1,895)	(752)
Acquisition of other long term assets	—	(23)	—	(292)
Proceeds from sale of property, plant and equipment	1	—	2	—
Repayment in advances from associate	—	—	240	—
Recognition of intangible assets	(744)	(26)	(1,393)	(364)
<b>Cash flow used in investing activities</b>	<b>(1,464)</b>	<b>(569)</b>	<b>(3,046)</b>	<b>(1,408)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from shares issued from warrants exercised	—	27	54	142
Proceeds received from long-term debt and finance leases	—	29	—	29
Repayment of long term debt	(220)	(218)	(649)	(634)
<b>Cash flow from (used in) financing activities</b>	<b>(220)</b>	<b>(162)</b>	<b>(595)</b>	<b>(463)</b>
Effect of translation of foreign currency cash and equivalents	(8)	226	537	235
<b>Net (decrease) increase in cash and equivalents during the period</b>	<b>(3,579)</b>	<b>3,690</b>	<b>804</b>	<b>(891)</b>
Cash and cash equivalents, beginning of period	(5,371)	(11,724)	(9,754)	(7,143)
<b>Cash and cash equivalents, end of period</b>	<b>(8,950)</b>	<b>(8,034)</b>	<b>(8,950)</b>	<b>(8,034)</b>
Supplementary cash flow information				
Interest Paid	215	145	649	349
Cash taxes (paid) recovered	—	—	(15)	—
<i>Cash and cash equivalents is comprised of:</i>				
Cash	—	—	—	—
Bank indebtedness	(8,950)	(8,034)	(8,950)	(8,034)
	<b>(8,950)</b>	<b>(8,034)</b>	<b>(8,950)</b>	<b>(8,034)</b>



## 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 processing industries, excavation industry, 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 November 16, 2015 and were approved and authorized for issue by the Board of Directors on November 20, 2015.

## 2. Summary of significant accounting policies

The interim consolidated financial statements are condensed and have been prepared in accordance with International Accounting 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, 2014. 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 periods ended September 30, 2015 and include the results for the comparative periods ended September 30, 2014. 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 September 30, 2015.

### 3. Accounts receivable

	September 30, 2015	December 31, 2014	September 30, 2014
	\$	\$	\$
Trade	19,013	15,645	21,954
Unbilled construction contract receivables (note 4)	31,984	24,065	18,339
Associates and other related parties	-	100	100
Other receivables	2,181	838	181
Allowance for doubtful accounts	-	(7)	-
	<b>53,178</b>	<b>40,641</b>	<b>40,574</b>

Holdbacks included in trade receivables are \$4,411 as at September 30, 2015 (December 31, 2014 - \$2,929 – September 30, 2014 - \$2,775).

### 4. Construction contracts

	September 30, 2015	December 31, 2014	September 30, 2014
	\$	\$	\$
Construction costs incurred, and estimated profits less recognized losses to date	201,819	140,873	175,975
Less: Progress billings	(200,702)	(126,161)	(165,927)
	<b>1,117</b>	<b>14,712</b>	<b>10,048</b>
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	31,984	24,065	18,339
Deferred revenue from construction contracts	(30,867)	(9,353)	(8,291)
	<b>1,117</b>	<b>14,712</b>	<b>10,048</b>

### 5. Cost of sales

	3 months ended		9 months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	\$	\$	\$	\$
Direct construction costs	(32,128)	(26,778)	(83,644)	(76,706)
Indirect salaries and benefits	(2,151)	(1,442)	(6,301)	(4,818)
Indirect production costs	(1,819)	(2,168)	(5,824)	(6,216)
	<b>(36,098)</b>	<b>(30,388)</b>	<b>(95,769)</b>	<b>(87,740)</b>

## 6. Selling and administrative expenses

	3 months ended		9 months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	\$	\$	\$	\$
Salaries and benefits	(2,275)	(2,530)	(6,958)	(6,287)
General, selling and administrative expenses	(1,673)	(1,479)	(4,747)	(4,725)
Research expenditures	(23)	(105)	(104)	(383)
	<b>(3,971)</b>	<b>(4,114)</b>	<b>(11,809)</b>	<b>(11,395)</b>

## 7. Finance costs

	3 months ended		9 months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	\$	\$	\$	\$
Interest on long-term borrowings	(88)	(91)	(253)	(265)
Interest on short-term borrowing and other	(136)	(80)	(732)	(431)
Deferred financing charges	(32)	(113)	(43)	(162)
	<b>(256)</b>	<b>(284)</b>	<b>(1,028)</b>	<b>(858)</b>

## 8. Foreign currency forward contracts and options

The Group utilizes forward currency contracts and options to provide protection against foreign exchange rate movements on long-term sales contracts. The Group's policy is to not utilize derivative financial instruments for trading or speculative purposes. During the nine months ended September 30, 2015, the Group recorded unrealized mark-to-market losses on foreign currency forward contracts and options of \$1,346 with losses of \$218 recorded in the three-month period ended September 30, 2015 (2014 – mark to market losses of \$820 for the nine month period ended with losses of \$1,011 recorded in the comparative three month period). As at September 30, 2015 the Group recorded a liability associated with the unrealized mark-to-market loss on foreign currency forward contracts and options of \$2,971 (2014 – December \$1,625, September - \$1,233).

## 9. Income per share

Income per share for the three months ended September 30:

	September 30, 2015 \$	September 30, 2014 \$
Net income attributable to shareholders	990	732
<b>Effect of diluted securities on net income</b>		
Net income from assumed debenture conversion	-	34
Diluted net income attributable to shareholders	990	766
Basic weighted average number of shares	259,336,473	255,640,695
<b>Effect of dilutive securities</b>		
Net incremental dilutive shares	-	35,690,741
Diluted weighted average number of shares	259,336,473	291,331,436
Net earnings per share		
Basic	<b>0.004</b>	<b>0.003</b>
Diluted	<b>0.004</b>	<b>0.003</b>

Income per share for the nine months ended September 30:

	September 30, 2015 \$	September 30, 2014 \$
Net income attributable to shareholders	995	3,592
<b>Effect of diluted securities on net income</b>		
Net income from assumed debenture conversion	98	98
Diluted net income attributable to shareholders	1,093	3,690
Basic weighted average number of shares	258,786,473	254,806,275
<b>Effect of dilutive securities</b>		
Net incremental dilutive shares	15,539,978	34,063,675
Diluted weighted average number of shares	274,326,451	288,869,950
Net earnings per share		
Basic	<b>0.004</b>	<b>0.015</b>
Diluted	<b>0.004</b>	<b>0.015</b>

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.

## 10. Operating segments

The tables below show the segmented performance for the Group from its three operating segments, Media-based Attractions, Manufactured Products, Steel Fabrication Services and its Corporate non-operating segment for three months ended September 30, 2015 and 2014 respectively:

2015	Media-based Attractions \$	Manufactured Products \$	Steel Fabrication Services \$	Corporate \$	Total \$
Sales	30,551	3,715	7,883	(68)	<b>42,081</b>
Cost of goods sold excluding depreciation and amortization	(26,152)	(3,342)	(6,604)	-	<b>(36,098)</b>
Adjusted gross margin (1)	4,399	373	1,279	(68)	<b>5,983</b>
Selling, general and administrative expenses	(1,978)	(495)	(785)	(713)	<b>(3,971)</b>
Adjusted EBITDA (2)	2,421	(122)	494	(781)	<b>2,012</b>
Depreciation and amortization expense	(405)	(45)	(98)	-	<b>(548)</b>
Adjusted EBIT (3)	2,016	(167)	396	(781)	<b>1,464</b>

2014	Media-based Attractions \$	Manufactured Products \$	Steel Fabrication Services \$	Corporate \$	Total \$
Sales	14,765	9,519	12,431	50	<b>36,765</b>
Cost of goods sold excluding depreciation and amortization	(11,742)	(7,988)	(10,658)	-	<b>(30,388)</b>
Adjusted gross margin (1)	3,023	1,531	1,773	50	<b>6,377</b>
Selling, general and administrative expenses	(1,820)	(613)	(1,043)	(638)	<b>(4,114)</b>
Adjusted EBITDA (2)	1,203	918	730	(588)	<b>2,263</b>
Depreciation expense	(273)	(100)	(99)	-	<b>(472)</b>
Adjusted EBIT (3)	930	818	631	(588)	<b>1,791</b>

The tables below show the segmented results for the nine month periods end September 30, 2015 and 2014 respectively:

2015	Media-based Attractions \$	Manufactured Products \$	Steel Fabrication Services \$	Corporate \$	Total \$
Sales	73,664	15,026	23,899	(2)	<b>112,587</b>
Cost of goods sold excluding depreciation and amortization	(61,304)	(13,265)	(21,200)	-	<b>(95,769)</b>
Adjusted gross margin (1)	12,360	1,761	2,699	(2)	<b>16,818</b>
Selling, general and administrative expenses	(5,232)	(1,891)	(2,596)	(2,090)	<b>(11,809)</b>
Adjusted EBITDA (2)	7,128	(130)	103	(2,092)	<b>5,009</b>
Depreciation and amortization expense	(883)	(134)	(283)	-	<b>(1,300)</b>
Adjusted EBIT (3)	6,245	(264)	(180)	(2,092)	<b>3,709</b>

2014	Media-based Attractions \$	Manufactured Products \$	Steel Fabrication Services \$	Corporate \$	Total \$
Sales	51,987	26,276	26,914	114	<b>105,291</b>
Cost of goods sold excluding depreciation and amortization	(43,689)	(21,536)	(22,515)	-	<b>(87,740)</b>
Adjusted gross margin (1)	8,298	4,740	4,399	114	<b>17,551</b>
Selling, general and administrative expenses	(4,530)	(1,942)	(3,047)	(1,876)	<b>(11,395)</b>
Adjusted EBITDA (2)	3,768	2,798	1,352	(1,762)	<b>6,156</b>
Depreciation expense	(644)	(189)	(284)	-	<b>(1,117)</b>
Adjusted EBIT (3)	3,124	2,609	1,068	(1,762)	<b>5,039</b>

(1) Adjusted gross margin 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

## 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	September 30, 2015 \$	December 31, 2014 \$	September 30, 2014 \$
Current portion of long-term debt including finance leases	855	893	887
Long-term debt including finance leases	1,612	2,223	2,216
Long-term funded debt	2,467	3,116	3,103
Shareholders' equity	23,259	21,996	19,080
Convertible debentures	922	953	957
Limited recourse loan and subordinate note payable	925	825	756
Less: deferred tax assets	(5,023)	(5,023)	(1,415)
Less: intangible assets (net)	(2,842)	(1,983)	(835)
Tangible net worth	17,241	16,768	18,543
Capitalization	19,708	19,884	21,646
Long-term funded debt : Capitalization	12.5%	15.7%	14.3%

## 12. Comparative figures

In the current period, the Group has made changes in the presentation of certain items reported in its consolidated statement of comprehensive income and consolidated statement of cash flows. The purpose of these reclassifications is to provide more transparent disclosures to the users of the Group's financial statements.

In the Group's consolidated statement of comprehensive income (loss), the Group has reclassified \$243 originally netted against sales to cost of sales excluding depreciation and amortization representing foreign exchange losses on cost of sales amounts (this includes losses of \$259 relating to the three month period ended June 30, 2014). This allows the Group to separately show the foreign exchange impact of cost of sale items and revenue items in the consolidated statement of comprehensive income (loss).

In the Group's consolidated statement of cash flows, the Group has reclassified translations gains of both its cash balances and non-cash working capital balances separately in the cash flow statement at a combined total of \$353 with \$235 relating the cash and equivalents and \$118 relating non-cash working capital accounts through the nine months ended. This allows the Group to separately disclose the impact that changes in foreign exchange rates have on the group's working capital accounts.

## 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 September 30, 2015, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is \$344 (\$822 as at December 31, 2014 and \$1,408 as at September 30, 2014).

### 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 September 30, 2015 (\$2,989 as at December 31, 2014 and \$4,639 as at September 30, 2014). 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 September 30, 2015, 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.