EMPIRE INDUSTRIES LTD

2Q14

Management's Discussion & Analysis

For the 3 and 6 month periods ending June 30, 2014

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2014

Unaudited

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, 2013. Reference should also be made to the annual MD&A for the year ended December 31, 2013.

The interim consolidated financial statements and accompanying notes of the Group for the periods ended June 30, 2014 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 June 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 August 21, 2014. 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 Victoria, BC, Arlington, TX and Toronto, ON.
Manufactured Products	Manufacture 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.

In addition to these wholly owned operating segments, the Group holds significant equity interests in two 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 June 30	**Quarter ended**			**Six months ended**		
($000's, except for percentages)	**2014 $**	**2013 $**	**Variance $**	**2014 $**	**2013 $**	**Variance $**
Operating Results:						
Revenues	34,912	28,400	6,512	68,510	52,180	16,330
Adjusted gross margin	14.9%	15.6%	(0.7%)	16.3%	16.8%	(0.5%)
Adjusted EBITDA	1,523	1,506	17	3,893	3,036	857
Adjusted EBITDA %	4.4%	5.3%	(0.9%)	5.7%	5.8%	(0.1%)
Adjusted EBIT	1,195	1,272	(77)	3,248	2,599	649
Adjusted EBIT %	3.4%	4.5%	(1.1%)	4.7%	5.0%	(0.3%)
Profit (loss) from continuing operations (net of tax)	1,649	1,016	633	2,860	2,090	770
Profit (loss) from discontinued operations (net of tax)	-	(26)	26	-	(22)	22
Net income (loss)	1,649	990	659	2,860	2,068	792
Per share data:						
Profit (loss) per share (Basic)	0.005	0.005	-	0.010	0.010	-
Profit (loss) per share (Diluted)	0.005	0.005	-	0.010	0.010	-

Significant Events

During the quarter:

- The Group successfully negotiated an increase in its revolving credit facilities to $15 million from $10 million.

Subsequent to the quarter

- On July 10, 2014, the exercise price of 27.7 million unexercised warrants increased to $0.10 from $0.05, in accordance with their terms, bringing the exercise price of all unexercised warrants to $0.10.
- On July 31, 2014, the Group obtained a further increase in its performance security guarantee facility with Export Development Canada to $10 million from $7 million.

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:

For the three month periods ended June 30:

2014	**Media-based Attractions** $	**Manufactured Products** $	**Steel Fabrication Services** $	**Corporate** $	**Total** $
Sales	16,613	8,316	9,951	32	**34,912**
Cost of goods sold excluding depreciation and amortization	(15,032)	(6,825)	(7,850)	-	**(29,707)**
Adjusted gross profit (1)	1,581	1,491	2,101	32	**5,205**
Selling, general and administrative expenses	(1,286)	(705)	(1,047)	(644)	**(3,682)**
Adjusted EBITDA (2)	295	786	1,054	(612)	**1,523**
Depreciation and amortization expense	(193)	(44)	(96)	5	**(328)**
Adjusted EBIT (3)	102	742	958	(607)	**1,195**

2013	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	17,545	6,538	4,293	24	**28,400**
Cost of goods sold excluding depreciation and amortization	(14,776)	(5,228)	(3,961)	-	**(23,965)**
Adjusted gross profit (1)	2,769	1,310	332	24	**4,435**
Selling, general and administrative expenses	(1,054)	(479)	(724)	(672)	**(2,929)**
Adjusted EBITDA (2)	1,715	831	(392)	(648)	**1,506**
Depreciation expense	(72)	(84)	(78)	-	**(234)**
Adjusted EBIT (3)	1,643	747	(470)	(648)	**1,272**

Second Quarter Analysis

Media-based Attractions

In the three-month period ended June 30, 2014, the segment's operations had reduced revenues of $0.9 million or 5% over the comparative three-month period ended June 30, 2013. The reduction of revenues is largely attributed to a levelling out in production volume due to the significant growth experienced by the segment over the past 12-15 months. The segment is continuing to research and develop new proprietary products as it builds a comprehensive product line of media-based attractions and as a result, profit margins are lower in the current quarter compared to the same period in 2013 as a result of that increased investment.

The segment's selling, general and administrative expenses were $0.2 million higher than the same three-month period in 2013. This segment continues to invest in the key personnel and processes necessary to effectively address the increased growth realized by the segment and to strengthen the segment's management personnel, project management and execution capabilities. Management expects this investment to provide more efficient execution of its current projects and provide the capability for increased capacity and enhanced execution moving forward.

Adjusted EBITDA for the three-months ended June 30, 2014 declined by $1.4 million to $0.3 million over the same period of 2013 and Adjusted EBIT declined by $1.5 to $0.1 million over 2013.

Depreciation expense increased $0.1 million from the same three-month period of 2013 driven largely by the amortization of intangible assets recognized.

Manufactured Products

In the three month period ended June 30, 2014 the segment's operations had increased revenues of $1.8 million or 27% over the comparative three-month period ended June 30, 2013. The segment's revenue growth is attributed to higher production volumes offset by slightly lower margins in the current period. The profit margin of the segment reduced by 2.1% to 17.9% for the three month period ended June 30, 2014. Declines in margin are attributed to increased outsourcing of key components of the manufacturing process in efforts to increase volume output.

The segment's selling, general and administrative expenses were $0.2 million higher than the same three-month period in 2013. This increase is a result of the segment investing in the necessary resources to effectively handle the increased production output in addition to continuing to develop opportunities for further capacity expansion.

Adjusted EBITDA for the three-months ended June 30, 2014 declined by $0.045 million to $0.77 million over the same period of 2013 and Adjusted EBIT was consistent with the comparative period.

Steel Fabrication

In the three-month period ended June 30, 2014 the segment's operations had increased revenues of $5.7 million or 132% over the comparative three-month period ended June 30, 2013 as a result of a significant increase in volumes secured and executed by the segment. In addition to the increased business volumes, during the quarter, the Group recovered $0.4 million of contract changes and variations previously allowed for in the prior year.

The segment's selling, general and administrative expenses were $0.3 million higher than the same three-month period of 2013. In addition to the increase in volume and secured backlog, the segment is under-going a planned undertaking to improve its production and execution capabilities and certain investments have been made over the past twelve months to complete this transition and effectively address the increased workload.

Adjusted EBITDA for the three-months ended June 30, 2014 increased by $1.5 million to $1.1 million over the same period of 2013 and Adjusted EBIT increased by $1.4 million to $1.0 million over 2013 as well.

For the six month periods ended June 30:

2014	**Media-based Attractions**	**Manufactured Products**	**Steel Fabrication Services**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Sales	37,206	16,757	14,483	64	**68,510**
Cost of goods sold excluding depreciation and amortization	(31,931)	(13,548)	(11,857)	-	**(57,336)**
Adjusted gross profit (1)	5,275	3,209	2,626	64	**11,174**
Selling, general and administrative expenses	(2,710)	(1,329)	(2,004)	(1,238)	**(7,281)**
Adjusted EBITDA (2)	2,565	1,880	622	(1,174)	**3,893**
Depreciation and amortization expense	(371)	(89)	(185)	-	**(645)**
Adjusted EBIT (3)	2,194	1,791	437	(1,174)	**3,248**

2013	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	26,462	12,677	12,977	64	**52,180**
Cost of goods sold excluding depreciation and amortization	(22,005)	(10,339)	(11,091)	-	**(43,435)**
Adjusted gross profit (1)	4,457	2,338	1,886	64	**8,745**
Selling, general and administrative expenses	(2,175)	(797)	(1,485)	(1,252)	**(5,709)**
Adjusted EBITDA (2)	2,282	1,541	401	(1,188)	**3,036**
Depreciation and amortization expense	(142)	(139)	(156)	-	**(437)**
Adjusted EBIT (3)	2,140	1,402	245	(1,188)	**2,599**

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

Year-to-Date Analysis

Media-based Attractions

In the six-month period ended June 30, 2014, the segment's operations had increased revenues of $10.7 million or 40.6% over the comparative six-month period ended June 30, 2013. The increase of revenues was due to growth the segment has been realizing as the segment continues to execute its backlog of media-based attractions around the world including certain proprietary products that the group has successfully developed and sold to major theme parks. The segment is continuing to research and develop new proprietary products to continue to build a comprehensive product line and as a result, profit margin percentages have declined by 2.6% to 14.2% compared to the six months ended June 30, 2013.

The segment's selling, general and administrative expenses were $0.5 million higher than the same six-month period in 2013. Consistent with the explanation on the quarter, the segment continues to invest in the key personnel and processes necessary to effectively address the increased growth realized by the segment and to strengthen the segment's management personnel, project management and execution capabilities. Management expects this investment to provide more efficient execution of its current projects and provide for improved capability and increased execution capacity moving forward.

Adjusted EBITDA for the three-months ended June 30, 2014 increased by $0.3 million to $2.6 million over the same period of 2013 and Adjusted EBIT is consistent with 2013 at $2.2 million.

Depreciation expense increased $0.2 million from the same three-month period of 2013 driven largely by the amortization of intangible assets recognized in the current period.

Manufactured Products

In the six month period ended June 30, 2014 the segment's operations had increased revenues of $4.1 million or 32.2% over the comparative six-month period ended June 30, 2013 as the segment continues to increase its production output and capacity through the use of lean manufacturing techniques. The profit margins have increased 0.7% to 19.1% compared to the six month period ended in 2013.

The segment's selling, general and administrative expenses were $0.5 million higher than the same six-month period in 2013. This increase is a result of the segment investing in the necessary resources to effectively handle the increased production output in addition to continuing to develop opportunities for further capacity expansion.

Adjusted EBITDA for the six-months ended June 30, 2014 increased by $0.3 million to $1.9 million over the same period of 2013 and Adjusted EBIT increased to $1.8 million over comparative six-month period.

Steel Fabrication

In the six-month period ended June 30, 2014 the segment's operations had increased revenues of $1.5 million or 11.6% over the comparative six-month period ended June 30, 2013 as the segment has increased volume over the comparative period. In addition to the increased business volumes, during the period, the Group recovered $0.4 million of contract changes and variations previously allowed for in the prior year.

The segment's selling, general and administrative expenses were $0.5 million higher than the same six-month period of 2013. In addition to the increase in volume and secured backlog, the segment is under-going a planned undertaking to improve its production and execution capabilities and certain investments have been made over the past twelve months to complete this undertaking and effectively address the increased workload.

Adjusted EBITDA for the three-months ended June 30, 2014 increased by $0.2 million to $0.6 million over the same period of 2013 and Adjusted EBIT increased by $0.2 million to $0.4 million over 2013 as well.

Selected Quarterly Financial Information

Selected Quarterly Financial Information **For the quarters ended** **($000's, except for per share amounts) unaudited**	**2014** **Q2**	**2014** **Q1**	**2013** **Q4**	**2013** **Q3**	**2013** **Q2**	**2013** **Q1**	**2012** **Q4**	**2012** **Q3**
Sales	34,912	33,598	31,495	34,120	28,400	23,780	24,594	20,155
Adjusted EBITDA	1,523	2,370	1,192	2,090	1,506	1,530	(45)	559
Profit (loss) from continuing operations (net of tax)	1,649	1,211	681	1,648	1,016	1,074	(1,505)	396
Profit (loss) from discontinued operations (net of tax)	-	-	45	(23)	(26)	4	(869)	(393)
Profit (loss)	1,649	1,211	726	1,625	990	1,078	(2,374)	3
Profit (loss) per share								
Basic	0.005	0.005	0.005	0.005	0.005	0.005	(0.01)	-
Diluted	0.005	0.005	0.005	0.005	0.005	0.005	(0.01)	-

Liquidity and Capital Resources

Liquidity

For the six months ended June 30, 2014, the Group's continuing operations generated $3.4 million of cash, compared with $2.7 million of cash generated in continuing operations in 2013 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 $11.7 was drawn as of June 30, 2014. The Group's marginable assets at June 30, 2014 were $19 million, which is $7.3 million in excess of the Group's total draw on the operating line.

The Group made $0.4 million of cash principal repayments during the six months. Total long-term debt of $5.0 million as at June 30, 2014 consisted of $3.0 million of term debt with CIBC, $0.3 million under finance leases including $0.8 million of a limited recourse loan and $0.9 million of subordinated convertible debentures.

Shareholders' Equity

Retained earnings of $7.3 million at June 30, 2014 is $2.8 million higher than the retained earnings at December 31, 2013 due to the net income in the six month period. No dividends were declared or paid in the quarter. The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. The Group had 20,923,000 outstanding options at June 30, 2014. The average exercise price of the outstanding options is $0.11 per share. Of these options, 20,923,500 are currently exercisable at an average exercise price of $0.11 per share.

Market Capitalization

The market capitalization of the Group's 255,839,608 issued and outstanding common shares at August 22, 2014 was $40.9 million or $0.16 per share, which is in excess of the Group's book value per share of $0.07 at June 30, 2014. The issued and outstanding common shares at August 22, 2014, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares **As at August 22, 2014**		
Issued and outstanding common shares		255,839,608
Securities convertible into common shares		
Convertible Debentures	10,600,000	
Warrants	32,700,000	
Stock Options	20,623,000	
Total Securities convertible into common shares		63,923,000
Fully Diluted Shares		319,762,608

5,000,000 warrants will expire on December 29, 2014 if not exercised.

Financial Ratios

The following information is based on the data disclosed in Note 11 (Capital Disclosures and Management) from the 2014 unaudited Financial Statements for the period ended June 30, 2014:

For the periods ended	June 30, 2014 $	Dec 31, 2013 $	June 30, 2013 $
Current portion of long-term debt	826	826	224
Long-term debt	2,467	2,881	1,326
Long-term funded debt	3,293	3,707	1,550
Shareholders' equity	18,321	15,335	9,296
Convertible debentures	957	957	929
Limited recourse loan and subordinate note payable	756	756	1,408
Less: intangible assets	(935)	(735)	-
Tangible net worth	19,099	16,313	11,633
Capitalization	22,392	20,020	13,183
Long-term funded debt : Capitalization	14.7%	18.5%	11.8%

The Group's leverage ratio increased to 14.7% from 11.8% at June 30, 2013.

The Group's current ratio of 1.226 is improved from the December 31, 2013 ratio of 1.19 and from June 30, 2013 of 1.042 due to improved operating results, higher working capital volumes and increased liquidity providing by the new credit facilities.

Risks and Uncertainties

The reader should take into account the risks and uncertainties, including economic and industry factors, described in the December 31, 2013 Annual MD&A. They could impact the Group's ability to fulfill its strategic visions and growth objectives.

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 Group expects to continue its improved operating for the balance of 2014 as a result of the following:

- the Group is executing its increased volume of high value added media based attraction products;
- the Group's hydrovac truck manufacturing operation continues to improve its throughput and profitability;
- the Group's Chinese joint venture in Guangdong Province is increasing the amount of work it is performing for Empire, positively impacting Empire's margins;
- the Group's steel fabrication operations returned to profitable operations in the second quarter of 2014 and have a strong backlog expected to be performed in the second half of 2014
- the Group's backlog remains strong at $104 million.
- the Group will continue to shelter profits from tax through the availability of $16.3 million of loss carry forwards.

The Company continues to invest heavily in Dynamic Attractions' proprietary, media based attraction product line. The global market for its products continues to be very strong and we expect to increasingly be adding to our backlog. The sales process for large capital purchases like this takes time to consummate and the second quarter was very active in advancing many projects in our sales pipeline towards a successful conclusion. In the second quarter, our media based attractions segment was active building several of its new products concurrently, and this presented challenges from an "earned revenue" perspective. This was reflected in the reduced profitability for the segment in the second quarter. We expect that the balance of the year will improve for this segment as compared to the second quarter.

Dynamic Structures continues to be awarded and deliver world-class and large-scale "design/build" and "build to print" contracts in the theme park attraction business. The continued awards are reflective of our ability to deliver industry leading, high quality work for our clients. Dynamic Structures continues to invest heavily in technological innovation related to the telescope market niche that it is a global leader in.

The Group's Hydrovac Truck division continues to operate at full capacity and to increase its throughput because of the effectiveness of the lean manufacturing programs it has embraced.

The Group's investment in steel fabrication operations includes; its wholly owned Empire Iron Works division in Edmonton, its unique aboriginal partnership with the Athabasca Chipewyan First Nation in Fort McMurray called ACE Industrial Services, and its steel fabrication joint venture in China called QDS. Our program to have Empire Iron add cost competitive, fabricated steel from our Chinese partnership is a huge undertaking and will take some time to accomplish.

The Company has successfully repositioned the Group into higher margin, engineered products and competitively priced fabricated steel. Each of the Company's three segments continue to participate in growing markets.

Over and above growing each of the three business segments through increasing our sales, capacity, and profit, the Group continues to assess strategic growth initiatives in the hydrovac operation, telescope product development, and its fabricated steel supply chain with the view to accelerating its growth and profitability.

Reconciliation of Non-IFRS Methods

Non-IFRS Methods

In this MD&A, the Group uses three 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 EBIT) 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 June 30	Quarter ended			Six months ended		
($000's, except for per share amounts)	2014 $	2013 $	Variance $	2014 $	2013 $	Variance $
Profit (loss) – continuing operations before taxes	1,649	1,070	579	2,860	2,085	775
Add: Depreciation and amortization	328	234	94	645	437	208
Add/Deduct: (Gain) loss on disposal of assets and other (income) loss	-	(6)	6	-	(15)	15
Add: Finance costs	354	158	196	574	331	243
Add/Deduct Share of profit of associate	-	(86)	86	(6)	45	(51)
Add/Deduct Fair value changes of foreign currency option contracts	(811)	125	(936)	(191)	125	(316)
Add: non cash stock-based compensation	3	11	(8)	11	28	(17)
Adjusted EBITDA – continuing operations	1,523	1,506	17	3,893	3,036	857

Calculation of Adjusted EBIT

Periods ended June 30	Quarter ended			Six months ended		
	2014	2013	Variance	2014	2013	Variance
($000's, except for percentages)	$	$	$	$	$	$
Adjusted EBITDA	1,523	1,506	17	3,893	3,036	857
Less: Depreciation and amortization	(328)	(234)	(94)	(645)	(437)	(208)
Adjusted EBIT	1,195	1,272	(77)	3,248	2,599	649
% of revenue	3.4%	4.5%	(1.1%)	4.7%	5.0%	(0.3%)

Calculation of Adjusted Gross Margin

Periods ended June 30	Quarter ended			Six months ended		
	2014	2013	Variance	2014	2013	Variance
($000's, except for percentages)	$	$	$	$	$	$
Revenues	34,912	28,400	6,512	68,510	52,180	16,330
Cost of sales excluding depreciation and amortization	(29,707)	(23,965)	(5,742)	(57,336)	(43,435)	(13,901)
Adjusted gross margin	5,205	4,435	770	11,174	8,745	2,429
% of revenue	14.9%	15.6%	(0.7%)	16.3%	16.8%	(0.5%)

2nd Quarter

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2014

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.

2Q14

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

		Three Months		Six Months	
For the six months ended June 30	Notes	2014	2013	2014	2013
(In $000's CAD, except per-share amounts)		$	$	$	$
Revenues *(1)*		**34,912**	28,400	**68,510**	52,180
Cost of sales, excluding depreciation and amortization *(2)*	5	**(29,707)**	(23,965)	**(57,336)**	(43,435)
Gross Profit, excluding depreciation and amortization		**5,205**	4,435	**11,174**	8,745
Selling and administrative expenses	6	**(3,682)**	(2,929)	**(7,281)**	(5,709)
Result before depreciation, amortization and other items of income (loss)		**1,523**	1,506	**3,893**	3,036
Depreciation of property, plant and equipment		**(268)**	(234)	**(507)**	(437)
Amortization of intangible assets		**(60)**	—	**(138)**	—
Result before other items of income (loss)		**1,195**	1,272	**3,248**	**2,599**
Share of profit (loss) from associates		**—**	86	**6**	(45)
Stock-based compensation		**(3)**	(11)	**(11)**	(28)
Finance costs	7	**(354)**	(158)	**(574)**	(331)
Gain (loss) on foreign currency forward contracts	8	**811**	(125)	**191**	(125)
Other non-operating income		**—**	6	**—**	15
		454	(202)	**(388)**	**(514)**
Net income from continuing operations before tax		**1,649**	1,070	**2,860**	**2,085**
Income tax (expense) recovery					
Current		**—**	(54)	**—**	5
Deferred		**—**	—	**—**	—
		—	(54)	**—**	5
Net income from continuing operations		**1,649**	1,016	**2,860**	**2,090**
Net loss from discontinued operations *(net of tax)*		**—**	(26)	**—**	**(22)**
Net income (loss) and comprehensive income (loss)		**1,649**	990	**2,860**	**2,068**
Income per share - basic and diluted	9	**0.005**	0.005	**0.010**	**0.010**
Income per share from continuing operations					
Income per share - basic and diluted	9	**0.005**	0.005	**0.010**	**0.010**

(1) Included in revenues are foreign exchange losses for the three months ended June 30, 2014 of $73 and foreign exchange gains of $143 for the three months ended June 30, 2013. Foreign exchange gains of $554 are included in revenues for the six months ended June 30, 2014 and gains of $108 for the six months ended June 30, 2013

(2) Cost of sales including depreciation of $248 was ($29,955) for the three months ended June 30, 2014 and $172 was ($24,137) for the three months ended June 30, 2013.
Cost of sales including depreciation of $493 was ($57,829) for the six months ended June 30, 2014 and $314 was ($43,749) for the six months ended June 30, 2013.

See accompanying notes

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	30-Jun-14	31-Dec-13	30-Jun-13
(In $000's CAD)			$	$
ASSETS				
Current assets				
Cash and cash equivalents		**13**	311	33
Accounts receivable	**3**	**38,027**	31,740	18,761
Inventory		**6,048**	5,537	4,298
Prepaid expenses and other assets		**1,445**	857	1,109
Total current assets		**45,533**	38,445	24,201
Non-current assets				
Property, plant and equipment and investment property, net		**8,544**	8,818	8,480
Intangible assets, net		**935**	735	—
Other non-current assets		**448**	180	229
Investment in associate		**1,860**	1,853	1,655
Advances to associate		**904**	875	391
Long-term investments classified as available for sale		**—**	—	—
Deferred tax assets		**1,415**	1,415	—
Total non-current assets		**14,106**	13,876	10,755
Total assets		**59,639**	52,321	34,956
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**11,737**	7,454	—
Accounts payable and accrued liabilities		**18,113**	17,489	9,471
Deferred revenue from construction contracts	**4**	**6,240**	6,210	12,177
Current income taxes payable		**—**	—	—
Current portion of long-term debt		**826**	826	224
Long-term debt classified as current		**—**	—	1,231
Foreign currency forward intruments		**222**	413	125
Total current liabilities		**37,138**	32,392	23,228
Non-current liabilities				
Long-term debt		**2,467**	2,881	95
Limited recourse loan and subordinate notes payable		**756**	756	1,408
Convertible debentures		**957**	957	929
Total non-current liabilities		**4,180**	4,594	2,432
Total liabilities		**41,318**	36,986	25,660
SHAREHOLDERS' EQUITY				
Share capital		**7,458**	7,343	39,613
Equity component of convertible debentures		**157**	157	157
Contributed surplus		**3,427**	3,416	2,111
Retained earnings (deficit)		**7,279**	4,419	(32,585)
Total shareholders' equity		**18,321**	15,335	9,296
Total liabilities and shareholders' equity		**59,639**	52,321	34,956

Guarantees and contingencies *[note 12]*
See accompanying notes

On behalf of the Board of Directors:

"Ian Macdonald" — Director

"Guy Nelson" — Director

As at June 30, 2014

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total equity
(In $000's CAD)	$	$	$	$	$
As at December 31, 2013	7,343	157	3,416	4,419	**15,335**
Proceeds received from exercise of warrants	115	—	—	—	**115**
Net income for the year	—	—	—	2,860	**2,860**
Stock-based compensation	—	—	11	—	**11**
As at June 30, 2014	**7,458**	**157**	**3,427**	**7,279**	**18,321**

As at June 30, 2013

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained deficit	Total equity
(In $000's CAD)	$	$	$	$	$
As at December 31, 2012	39,613	157	2,083	(34,653)	**7,200**
Net income for the period	—	—	—	2,068	**2,068**
Stock-based compensation	—	—	28	—	**28**
As at June 30, 2013	**39,613**	**157**	**2,111**	**(32,585)**	**9,296**

See accompanying notes

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In $000's CAD, except per-share amounts)	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
	$	$	$	$
OPERATING ACTIVITIES				
Net income from continuing operations	**1,649**	1,016	**2,860**	2,090
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	**268**	234	**507**	437
Amortization of intangible assets	**60**	—	**138**	—
Amortization of deferred financing charges	**25**	6	**49**	12
Loss (gain) on sale of property, plant and equipment	—	(6)	—	(15)
Share of (profit) loss from associate investments	—	(86)	**(6)**	45
Non-cash interest income earned	—	(9)	**(17)**	(28)
Stock-based compensation	**3**	11	**11**	28
Fair value changes on foreign currency forward contracts on options	**(811)**	125	**(191)**	125
Cash flow from continuing operations	**1,194**	1,291	**3,351**	2,694
Cash flow from (used) in discontinued operations	—	(26)	—	(22)
Net change in non-cash working capital balances	**(7,937)**	4,602	**(6,792)**	689
Cash flow (used in) from operating activities	**(6,743)**	5,867	**(3,441)**	3,361
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment *(note 9)*	**(118)**	(261)	**(232)**	(313)
Acquisition of other long term assets	**(269)**	(112)	**(269)**	(112)
Proceeds from sale of items of property, plant and equipment	—	6	—	15
Recognition of intangible assets *(note 8)*	**(133)**	—	**(338)**	—
Cash flow used in investing activities	**(520)**	(367)	**(839)**	(410)
FINANCING ACTIVITIES				
Proceeds from shares issued from warrants exercised	**50**	—	**115**	—
Proceeds received from long-term debt and finance leases	—	55	—	55
Repayment of long term debt	**(209)**	(60)	**(416)**	(115)
Cash flow from (used in) financing activities	**(159)**	(5)	**(301)**	(60)
Net (decrease) increase in cash and equivalents during the period	(7,422)	5,495	(4,581)	2,891
Cash and cash equivalents, beginning of period	**(4,302)**	(5,462)	**(7,143)**	(2,858)
Cash and cash equivalents, end of period	**(11,724)**	33	**(11,724)**	33
Supplementary cash flow information				
Interest Paid	**349**	109	**145**	230
Cash taxes (paid) recovered	—	54	—	(5)
Cash and cash equivalents is comprised of:				
Cash	**13**	33	**13**	33
Bank indebtedness	(11,737)	—	(11,737)	-
	(11,724)	33	**(11,724)**	33

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 August 20, 2014 and were approved and authorized for issue by the Board of Directors on August 21, 2014.

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, 2013. In addition, effective January 1, 2014, the Group adopted amendments to and additions of new standards IFRS 32 – Offsetting financial assets and financial liabilities and IFRIC 21 – Levies. While adopted by the group in the current period, there was no material impact to the Group's financial statements as a result of the adoption of the changes. The Group's 2013 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 June 30, 2014 and include the results for the comparative period ended June 30, 2013. 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 June 30, 2014.

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

3. Accounts receivable

	June 30, 2014 $	December 31, 2013 $	June 30, 2013 $
Trade	17,410	15,409	13,153
Unbilled construction contract receivables (note 4)	20,309	16,038	5,490
Associates and other related parties	100	100	-
Other receivables	303	289	254
Allowance for doubtful accounts	(95)	(96)	(136)
	38,027	**31,740**	**18,761**

Holdbacks included in trade receivables are $2,659 as at June 30, 2014 (December 31, 2013 - $2,517 – June 30, 2013 - $2,157).

4. Construction contracts

	June 30, 2014 $	December 31, 2013 $	June 30, 2013 $
Construction costs incurred, and estimated profits less recognized losses to date	152,491	111,241	83,606
Less: Progress billings	(138,422)	(101,413)	(90,293)
	14,069	**9,828**	**(6,687)**
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	20,309	16,038	5,490
Deferred revenue from construction contracts	(6,240)	(6,210)	(12,177)
	14,069	**9,828**	**(6,687)**

5. Cost of sales

	June 30, 2014 $	June 30, 2013 $	June 30, 2014 $	June 30, 2013 $
Direct construction costs	(25,909)	(21,148)	(49,912)	(37,879)
Indirect salaries and benefits	(1,860)	(1,947)	(3,376)	(2.939)
Indirect production costs	(1,938)	(870)	(4,048)	(2,617)
	(29,707)	**(23,965)**	**(57,336)**	**(43,435)**

6. Selling and administrative expenses

	June 30, 2014 $	June 30, 2013 $	June 30, 2014 $	June 30, 2013 $
Salaries and benefits	(1,938)	(1,845)	(4,035)	(3,761)
General, selling and administrative expenses	(1,744)	(1,084)	(3,246)	(1,948)
	(3,682)	**(2,929)**	**(7,281)**	**(5,709)**

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

7. Finance costs

	June 30, 2014 $	June 30, 2013 $	June 30, 2014 $	June 30, 2013 $
Interest on long-term borrowings	(89)	(49)	(174)	(95)
Interest on short-term borrowing and other	(240)	(103)	(351)	(224)
Deferred financing charges	(25)	(6)	(49)	(12)
	(354)	**(158)**	**(574)**	**(331)**

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 six months, the Group recorded unrealized mark-to market gains on foreign currency forward contracts and options of $191 with gains of $811 record in the three month period ended (2013 – losses of $125 recorded for the three month and six month periods ended June 30, 2013). As at June 30, 2014 the Group recorded a liability associated with the unrealized mark-to market net loss on foreign currency forward contracts and options of $222 (2013 – December $413, June - $125).

9. Income per share

Income per share for the three months ended June 30

	2014			2013		
	Net income for the period	Shares	Per Share	Net income for the period	Shares	Per Share
Basic income per share from continuing operations	$ 1,649	254,869,278	$ 0.005	$ 1,016	193,239,608	$ 0.005
Basic income per share from discontinued operations	$ -	254,869,278	$ -	$ (26)	193,239,608	$ 0.000
Basic income per share	$ 1,649	254,869,278	$ 0.005	$ 990	193,239,608	$ 0.005

	2014			2013		
	Net income for the period	Shares	Per Share	Net income for the period	Shares	Per Share
Diluted income per share from continuing operations	$ 1,649	283,123,935	$ 0.005	$ 1,016	193,239,608	$ 0.005
Diluted income per share from discontinued operations	$ -	283,123,935	$ -	$ (26)	193,239,608	$ 0.000
Diluted income per share	$ 1,649	283,123,935	$ 0.005	$ 990	193,239,608	$ 0.005

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

Income per share for the six months ended June 30

	2014						2013					
	Net income for the period		Shares	Per Share			Net income for the period		Shares	Per Share		
Basic income per share from continuing operations	$	2,860	254,382,149	$	0.010		$	2,090	193,239,608	$	0.010	
Basic income per share from discontinued operations	$	-	254,382,149	$	-		$	(22)	193,239,608	$	0.000	
Basic income per share	$	2,860	254,382,149	$	0.010		$	2,068	193,239,608	$	0.010	

	2014					2013				
	Net income for the period		Shares	Per Share		Net income for the period		Shares	Per Share	
Diluted income per share from continuing operations	$	2,860	279,338,670	$	0.010	$	2,090	193,239,608	$	0.010
Diluted income per share from discontinued operations	$	-	279,338,670	$	-	$	(22)	193,239,608	$	0.000
Diluted income per share	$	2,860	279,338,670	$	0.010	$	2,068	193,239,608	$	0.010

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

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 June 30, 2014 and 2013 respectively:

3 Months ended June 30, 2014	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	16,613	8,316	9,951	32	**34,912**
Cost of goods sold excluding depreciation and amortization	(15,032)	(6,825)	(7,850)	-	**(29,707)**
Adjusted gross profit (1)	1,581	1,491	2,101	32	**5,205**
Selling, general and administrative expenses	(1,286)	(705)	(1,047)	(644)	**(3,682)**
Adjusted EBITDA (2)	295	786	1,054	(612)	**1,523**
Depreciation and amortization expense	(193)	(44)	(96)	5	**(328)**
Adjusted EBIT (3)	102	742	958	(607)	**1,195**

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

3 Months ended June 30, 2013	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	17,545	6,538	4,293	24	**28,400**
Cost of goods sold excluding depreciation and amortization	(14,776)	(5,228)	(3,961)	-	**(23,965)**
Adjusted gross profit (1)	2,769	1,310	332	24	**4,435**
Selling, general and administrative expenses	(1,054)	(479)	(724)	(672)	**(2,929)**
Adjusted EBITDA (2)	1,715	831	(392)	(648)	**1,506**
Depreciation expense	(72)	(84)	(78)	-	**(234)**
Adjusted EBIT (3)	1,643	747	(470)	(648)	**1,272**

6 Months ended June 30, 2014	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	37,206	16,757	14,483	64	**68,510**
Cost of goods sold excluding depreciation and amortization	(31,931)	(13,548)	(11,857)	-	**(57,336)**
Adjusted gross profit (1)	5,275	3,209	2,626	64	**11,174**
Selling, general and administrative expenses	(2,710)	(1,329)	(2,004)	(1,238)	**(7,281)**
Adjusted EBITDA (2)	2,565	1,880	622	(1,174)	**3,893**
Depreciation and amortization expense	(371)	(89)	(185)	-	**(645)**
Adjusted EBIT (3)	2,194	1,791	437	(1,174)	**3,248**

6 Months ended June 30, 2013	Media-based Attractions $	Manufactured Products $	Steel Fabrication Services $	Corporate $	Total $
Sales	26,462	12,677	12,977	64	**52,180**
Cost of goods sold excluding depreciation and amortization	(22,005)	(10,339)	(11,091)	-	**(43,435)**
Adjusted gross profit (1)	4,457	2,338	1,886	64	**8,745**
Selling, general and administrative expenses	(2,175)	(797)	(1,485)	(1,252)	**(5,709)**
Adjusted EBITDA (2)	2,282	1,541	401	(1,188)	**3,036**
Depreciation expense	(142)	(139)	(156)	-	**(437)**
Adjusted EBIT (3)	2,140	1,402	245	(1,188)	**2,599**

(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

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.

Long-term funded debt is defined as long term debt including finance leases. Tangible net worth includes shareholder's equity, subordinated debt such as subordinate convertible debentures, limited recourse loans and subordinate notes payable less intangible assets. The Group's strategy during the period, which is unchanged from prior periods, is 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	June 30, 2014 $	December 31, 2013 $	June 30, 2013 $
Current portion of long-term debt including finance leases	826	826	224
Long-term debt including finance leases	2,467	2,881	1,326
Long-term funded debt	3,293	3,707	1,550
Shareholders' equity	18,321	15,335	9,296
Convertible debentures	957	957	929
Limited recourse loan and subordinate note payable	756	756	1,408
Less: intangible assets (net)	(935)	(735)	-
Tangible net worth	19,099	16,313	11,633
Capitalization	22,392	20,020	13,183
Long-term funded debt : Capitalization	14.7%	18.5%	11.8%

The Group's long-term funded debt to capitalization ratio has increased compared to June 30, 2013 due to the Group re-financing with CIBC. However the Group's ratio has reduced compared to December 31, 2013 as a result of increased shareholder's equity through net income and a reduction in long-term debt resulting from scheduled principle payments of long-term debt subsequent to re-financing with CIBC.

12. 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 June 30, 2014, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is $1,564 ($2,353 as at December 31, 2013 and $1,428 as at June 30, 2013).

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of up to $4,639 USD as at June 30, 2014 ($3,850 as at December 31, 2013 and $4,000 as at June 30, 2013). The Group has a secured guarantee facility with Export Development Canada used to guarantee letters of credit for performance security and advance payment guarantees issued by the Group on international construction contracts. Subsequent to the period, this facility was increased from $7,000 USD to $10,000 USD. The total value of letters of credit disclosed above are guaranteed by this facility. The facility is secured by a general securing 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.