EMPIRE INDUSTRIES LTD

2Q16

Management's Discussion & Analysis

For the 3 and 6 month periods ending June 30, 2016

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2016

Management's Discussion and Analysis

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

The interim consolidated financial statements and accompanying notes of the Group for the period ended June 30, 2016 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a period relates to the Group's three-month and six-month periods 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 26, 2016. Disclosure contained in this document is current to this date, unless otherwise stated.

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

Business Description

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

Operating Segment	Description
Media-based Attractions	Design and manufacture complex ride systems, telescopes and custom machinery and equipment. Turn key supplier of premium entertainment attractions and provider of parts and service of amusement park attractions. Leased production facilities in Port Coquitlam, BC. Leased sales offices in Arlington, TX and Toronto, ON.
Steel Fabrication Services	Structural steel fabrication and installation. Fabrication of tanks, pressure vessels and other specialty carbon and stainless steel products. One owned production facility west of Edmonton, AB and a leased sales office in Edmonton AB as well as a leased production facility in Winnipeg, MB.
Corporate	Head office located in Winnipeg. Executive management, managerial and financial oversight, business development and compliance requirements for the overall organization.
Manufactured Products (Discontinued Operation)	Manufactures Hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. Leased production facility is in Stettler, AB and a sales office located in Calgary, AB. This segment was disposed of on June 28, 2016.

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 June 30 ($000 except per share amounts)	Six months ended			Quarter ended		
	2016 $	2015 $	Variance $	2016 $	2015 $	Variance $
Operating Results:						
Revenues	58,126	59,195	(1,069)	30,348	30,611	(263)
Adjusted gross margin	10,296	9,447	849	5,055	4,757	298
Adjusted gross margin %	17.7%	16.0%	1.7%	16.7%	15.5%	1.2%
Adjusted EBITDA	2,401	3,005	(604)	873	1,357	(484)
Adjusted EBITDA %	4.1%	5.1%	(1.0%)	2.9%	4.4%	(1.5%)
Adjusted EBIT	1,185	2,342	(1,157)	208	1,014	(806)
Adjusted EBIT %	2.0%	4.0%	(2.0%)	0.7%	3.3%	(2.6%)
Net income	6,848	5	6,843	3,086	890	2,196
Per share data:						
Basic eps – continuing ops	0.067	0.003	0.064	0.004	0.013	(0.009)
Diluted eps – continuing ops	0.066	0.003	0.063	0.004	0.012	(0.008)
Basic eps – discontinued ops	0.039	(0.002)	0.041	0.044	0.001	0.043
Diluted eps – discontinued ops	0.038	(0.002)	0.040	0.043	0.001	0.042

2016 Overview

The six months ended June 30, 2016 yielded a decline in revenues from continuing operations of 1.8% compared to the six-month period ended June 30, 2015 to $58.1 million. The Group's Adjusted Gross Margin increased 1.7% in the period as compared to the same period in 2015.

The Group's Adjusted EBITDA decreased by 20% to $2.4 million in the period as compared to $3.0 million in comparative period. The Group's net income from continuing operations of $4.3 million in the period was driven by a $5.6 million unrealized gain recorded as a result of marking to market foreign currency forward instruments outstanding as of June 30 2016.

The Group's unrealized gain of $5.6 million in the six-month period as compared to an unrealized loss of $1.2 million in the comparative period relating to outstanding forward foreign currency instruments. This unrealized gain resulted from the strengthening of the Canadian dollar during the period as compared to the exchange rates negotiated in the underlying contracts. As at June 30, 2016 the USD/CAD foreign exchange rate was 1.2917. The table below lists the outstanding forward contracts in place as at June 30, 2016:

As at June 30, 2016			
Notional Amount	**Forward Rate**	**Settlement Month**	**Fair Value**
$4,860	1.1150	March, 2017	($855)
$7,500	1.3289	July, 2016	$280
$7,500	1.3289	October 2016	$280
$7,500	1.4035	January, 2017	$838
$7,500	1.3868	February 2017	$713
$5,000	1.3705	April 2017	$395
$2,500	1.3854	April 2017	$234
$42,360			**$1,885**

2Q16 Overview

During the quarter revenues were consistent with revenues from the same period in 2015 declining less than 1% over that period. Consistent with the year-to-date analysis the groups Adjusted Gross Margin improved 1.2% to $5.1 million over the same from 2015.

Adjusted EBITDA decreased by $0.5 million in the quarter compare to 2015 due to increases in the Group's selling general and administrative expenses as the Group has expanded its operations in Port Coquitliam BC and Orlando Florida.

Significant Events

- On February 1, 2016, the Group announced its proposal to spin out its Hydrovac business (the Manufactured Products segment) into a separate publicly traded company on the TSX Venture Exchange. Empire shareholders will own 54.5% and a Chinese partner would own the remaining 45.5%. When all of the transactions associated with the proposal are completed, the spin out company will have approximately $10 million of cash and approximately $6 million of operating assets. Empire also announced that the new spinout company closed a private placement of subscription receipts for gross proceeds of approximately $5 million. On March 1, 2016, the Group announced that the Hydrovac spin out company, which is now named Tornado Global Hydrovacs Inc., closed a second private placement of approximately $2.5 million of subscription receipts as part of the previously announced spin out transaction.
- On February 18, 2016, the Group announced that it has engaged Oak Hill Advisors Inc. to provide investor relations services. The objective of the services is to assist the Group in developing and executing a comprehensive corporate communications strategy, informing market participants regarding Empire's business results, growth strategy, strategic transactions and new contracts as they arise.
- On May 13, 2016, the Group renewed its existing credit facilities with CIBC agreeing to a three-year commitment. Commensurate with the renewal the Group obtained an additional $3.1 million of term debt financing.
- On May 18, 2016, the Group announced that, further to its news release of February 1, 2016, Empire has entered into an arrangement agreement (the "Arrangement Agreement") with its wholly-owned subsidiaries, Tornado Global Hydrovacs Ltd. ("Tornado") and Tornado Global Hydrovacs Inc. contemplating the spin-out (the "Arrangement") to Tornado of Empire's Hydrovac business including all of the tangible and intangible assets, employees and operations of Tornado Trucks, a division of Empire (the "Hydrovac Business On May 20, 2016 the information circular was approved for distribution.
- On June, 27, 2016, the Group announced the completion of the above mentioned arrangement agreement and the completion of a 4 for 1 stock consolidation reducing the number of common shares outstanding to 64,834,119

Subsequent Significant Events

- On August 9, 2016 the Group announced that its Dynamic Structures division has been awarded a contract from Canadian Commercial Corporation for the final design and production readiness phases of the Thirty Meter Telescope enclosure. The contract is valued at approximately $10 million, and is expected to be completed over by Q1 2018. Subsequent phases of the Canadian enclosure project, including fabrication, shipping the enclosure to the project site, supervision of the enclosure's installation, and commissioning of the structure, have not yet been awarded.

Assets held for sale and discontinued operations

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

	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Accounts receivable	-	1,601	310
Inventory	-	4,650	4,461
Prepaid expenses	-	87	119
Property, plant and equipment (net)	-	2,024	1,853
Intangible assets	-	312	-
Assets held for sale	**-**	**8,674**	**6,743**
Accounts payable and accrued liabilities	-	1,518	1,469
Current portion of long-term debt	-	67	64
Long-term debt	-	35	76
Liabilities of disposal group	**-**	**1,620**	**1,609**

During the six-month period the segment's revenues declined by $2.2 million or 19.1% from the comparative period from 2015. The decline in revenues was the result of lower than expected volumes. The segment has experienced a significant decrease in the demand for its Hydrovac trucks over the past 6 quarters due to the slowdown in the western Canadian economy. As discussed in the annual MD&A, in addition to demand being lower for the product, there is increased price pressure for the available demand which further impacts the segment's operating results.

During the three-month period ended, the segment's revenues declined by $0.9 million or 13.8% from the same three-month period in 2015. The decline in revenues compared to 2015 was less than the decline experienced in 1Q16 but is still down as compared to 2015. The product demand and industry competition issues continue be the drivers of the segment's performance.

Selected Quarterly Financial Information

Quarterly Financial Information	2016	2016	2015	2015	2015	2015	2014	2014
For the quarters ended	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	30,348	27,778	33,665	38,366	30,611	28,584	26,726	27,003
Adjusted EBITDA	873	1,528	3001	2,134	1,355	1,648	1,238	1,345
Profit (loss) from continuing operations (net of tax)	218	4,125	931	1,341	991	(693)	355	101
Profit (loss) from discontinued operations (net of tax)	2,868	(363)	(556)	(351)	(101)	(192)	2,117	631
Profit (loss)	3,086	3,762	375	990	890	(885)	2,472	732
Profit (loss) per share								
Basic – continuing ops	0.004	0.063	0.010	0.022	0.013	(0.010)	0.005	0.003
Diluted – continuing ops	0.004	0.062	0.010	0.022	0.012	(0.009)	0.004	0.003
Basic – discontinued ops	0.044	(0.005)	(0.006)	(0.006)	0.001	(0.003)	0.031	0.017
Diluted – discontinued ops	0.043	(0.005)	(0.006)	(0.006)	0.001	(0.003)	0.024	0.017

Liquidity and Capital Resources

Liquidity

For the period ended June 30, 2016, the Group’s continuing operations generated $2.0 million of cash, compared with $1.5 million of cash in the comparative period excluding the impact of changes in non-cash working capital amounts. The Group expects that its operations will generate sufficient cash on a go forward basis to meet the Group’s obligations.

The Group has a $17.0 million revolving credit facility with CIBC, of which $13.9 was drawn as of June 30, 2016. The Group’s marginable assets at June 30 2016 were $18.3 million, which is $4.4 million in excess of the Group’s total draw on the operating line.

The Group made $1.0 million of cash principal repayments during the period including $0.5 million paid upon maturity of the first tranche of convertible debentures in the quarter. Total long-term debt of $6.4 million as at June 30, 2016 consisted of $4.8 million of term debt with CIBC, $0.3 million under finance leases, $0.9 million of a limited recourse loan and $0.4 million of subordinated convertible debentures.

Shareholders’ Equity

Shareholders’ equity of $22.2 million at June 30, 2016 is $1.5 million less than the shareholders’ equity at December 31, 2015 due to comprehensive income of $6.8 million during the period offset by distribution of $8.3 million of the shares of TGHL. 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 5,680,000 outstanding options at June 30, 2016. The average exercise price of the outstanding options is $0.39 per share. Of these options, 5,390,416 are currently exercisable at an average exercise price of $0.39 per share.

Market Capitalization

The market capitalization of the Group's 64,834,118 issued and outstanding common shares at August 26, 2016 was $24.3 million or $0.37 per share, compared to the Group's book value per share of $0.35 at June 30, 2016. The issued and outstanding common shares at August 26, 2016, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares		
As at August 26, 2015		
Issued and outstanding common shares		64,834,118
Securities convertible into common shares		
Convertible Debentures[1]	1,654,412	
Warrants	6,925,000	
Stock Options	5,680,000	
Total Securities convertible into common shares		14,259,412
Fully Diluted Shares		79,093,530

[1]The number of shares arising from the convertible debentures is based on the adjusted conversion price arising from the distribution to Empire shareholders that arose from the Tornado spin-out transaction. The adjusted conversion price will be reduced from $0.40 to $0.272, resulting in the $450,000 convertible debenture being convertible into 1,654,412 shares. This adjustment to the conversion price is subject to TSX Venture Exchange approval.

Financial Ratios

The following information is based on the data disclosed in Note 12 (Capital Disclosures and Management) from the 2016 interim consolidated financial statements:

For the periods ended	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Current portion of long-term debt including finance leases	1,009	903	807
Long-term debt including finance leases	4,013	1,526	1,740
Long-term funded debt	5,022	2,429	2,547
Shareholders' equity	22,191	23,660	22,231
Convertible debentures	431	951	907
Limited recourse loan and subordinate note payable	918	984	825
Less: deferred tax assets	(4,184)	(5,829)	(5,023)
Less: intangible assets (net)	(4,531)	(4,123)	(2,340)
Tangible net worth	14,825	15,643	16,600
Capitalization	19,847	18,072	19,147
Long-term funded debt : Capitalization	25.3%	13.4%	13.3%

The Group's leverage ratio increased to 25.3% from 13.4% at December 31, 2015 and 13.3% at June 30, 2015. The Group's adjusted working capital ratio of .97 is increased from the December 31, 2015 ratio of 0.91 and slightly less than the rate at June 30, 2015 of 1.03.

Segment Performance

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

Media-based Attractions

Periods ended June 30 ($000)	**Six months ended** 2016 $	2015 $	Variance $	**Quarter ended** 2016 $	2015 $	Variance $
Operating Results:						
Revenues	50,782	43,113	7,669	25,923	24,471	1,452
Adjusted gross margin	8,669	7,961	708	4,144	4,253	(109)
Adjusted gross margin %	17.1%	18.5%	(1.4%)	16.0%	17.4%	(1.4%)
Adjusted EBITDA	3,831	4,707	(876)	1,536	2,567	(1,031)
Adjusted EBITDA %	7.5%	10.9%	(3.4%)	5.9%	10.5%	(4.6%)
Adjusted EBIT	2,797	4,229	(1,432)	961	2,313	(1,352)
Adjusted EBIT %	5.5%	9.8%	(4.3%)	3.7%	9.4%	(5.7%)

2Q16 Overview

Revenues for the operating segment increased by 6% to $25.9 million in the period ended June 30, 2016 compared to the same period 2015.

The segment's Adjusted Gross Margin decreased by 1.4% to 16.0% in the period as the segment's Adjusted Gross Margin was impact by the softening of the USD during the quarter. The USD declined from 1.3840 at December 31, 2015 to 1.2917 as at June 30, 2016.

Selling, general and administrative expenses increased $0.9 million as compared to the same period in 2015. The increase is a direct result of the expansion of the segments operations particularly the opening of a new office in Orlando, Florida which was not fully present in the segment's selling, general and administrative expenses in 2015. Also, the segment's selling general and administrative expenses have increased as result from expanding its existing capacity in Port Coquitlam, BC.

Adjusted EBITDA decreased $1.0 million as a result of the factors discussed above. Adjusted EBIT decreased $1.4 million the comparative period as a result of increased amortization expense resulting from the recognition of intangible assets by the segment and increased investment in property, plant and equipment relating to the segment's expansion.

2016 Overview

Revenues for the operating segment increased by 17.7% to $50.8 million in the period ended June 30, 2016 compared to the same period 2015.

The segment's Adjusted Gross Margin decreased by 1.4% to 17.1% in the period as the segment's Adjusted Gross Margin was impact by the softening of the USD during the quarter. The USD declined from 1.3840 at December 31, 2015 to 1.2917 as at June 30, 2016.

Selling, general and administrative expenses increased $1.6 million as compared to the same period in 2015. The increase is a direct result of the expansion of the segments operations particularly the opening of a new office in Orlando, Florida which was not fully present in the segment's selling, general and administrative expenses in 2015. Also, the segment's selling general and administrative expenses have increased as result from expanding its existing capacity in Port Coquitlam, BC.

Adjusted EBITDA decreased $0.9 million as a result of the factors discussed above. Adjusted EBIT decreased $1.4 million the comparative period as a result of increased amortization expense resulting from the recognition of intangible assets by the segment and increased investment in property, plant and equipment relating to the segment's expansion.

Steel Fabrication

Periods ended June 30	Six months ended			Quarter ended		
($000)	2016 $	2015 $	Variance $	2016 $	2015 $	Variance $
Operating Results:						
Revenues	7,178	16,016	(8,838)	4,321	6,089	(1,768)
Adjusted gross margin	1,461	1,420	41	807	453	354
Adjusted gross margin %	20.4%	8.9%	11.5%	18.7%	7.4%	11.3%
Adjusted EBITDA	(80)	(391)	310	90	(469)	559
Adjusted EBITDA %	(1.1%)	(2.4%)	1.3%	2.1%	(7.7%)	9.8%
Adjusted EBIT	(252)	(576)	324	5	(558)	563
Adjusted EBIT %	(3.5%)	(3.6%)	0.1%	0.1%	(9.2%)	9.3%

2Q16 Overview

Revenues decreased by 29% to $4.3 million in the period as compared to the same period in 2015. The segment continues to be impacted by the slow economy in Western Canada into 2016.

Adjusted Gross Margins increased by 11.3% to 18.7% in the segment due to the nature of the work that was executed as well as the segment being in position to effectively reduce discretionary costs accordingly. In the previous year, the Group had significant backlog to execute but the contribution margins on the backlog were much lower.

Selling and administrative expenses were $0.2 million lower in the quarter compared to the same period in 2015. The segment braced for a slow first quarter based on the booked backlog. Cost reduction measures that were instituted in the period were not realized in the quarter but will be realized in the balance of the year.

Adjusted EBITDA increased by $0.6 million to $0.1 million in the current period compared to the same period of 2015.

EMPIRE INDUSTRIES LTD

2016 Overview

Revenues decreased by 55% to $7.2 million in the period as compared to the same period in 2015. The segment continues to be impacted by the slow economy in Western Canada into 2016. Bid activity was fairly normal but due to the uncertainty that exists in the current economic environment, the number of projects that were approved we much lower than expected.

Adjusted Gross Margins increased by 11.5% to 20.4% in the segment due to the nature of the work that was executed as well as the segment being in position to effectively reduce discretionary costs accordingly. In the previous year, the Group had significant backlog to execute but the contribution margins on the backlog were much lower.

Selling and administrative expenses were $0.3 million lower in the period compared to the same period in 2015 due to cost reduction measures instituted in the first quarter being fully realized in the second quarter.

Adjusted EBITDA increased by $0.3 million to a loss $0.1 million in the current period compared to the same period of 2015.

Corporate (non-operating)

Periods ended June 30	**Six months ended**			**Quarter ended**		
($000)	**2016 $**	**2015 $**	**Variance $**	**2016 $**	**2015 $**	**Variance $**
Operating Results:						
Revenues	166	66	100	104	51	53
Adjusted EBITDA	(1,350)	(1,311)	(39)	(753)	(741)	(12)
Adjusted EBIT	(1,360)	(1,311)	(49)	(758)	(741)	(17)

2Q16 Overview

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

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

Adjusted EBITDA and Adjusted EBIT were $0.06 million less than the comparative period of 2015.

2016 Overview

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

Selling and administrative expenses were $0.2 million higher than the same period in 2015

Adjusted EBITDA and Adjusted EBIT were $0.1 million less than the comparative period of 2015.

Forward Looking Information

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

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 improve its operating performance in the second half of 2016 as a result of the following:

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

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

Dynamic Structures was awarded a $10 million contract to complete the conceptual design and produce the detailed design for the Thirty Meter Telescope (TMT) enclosure. The design contract was separated from the supply and installation contract because the Canadian Government wanted to stay on time for the master schedule for TMT. The TMT Corporation has initiated an alternative site selection process, in the event that the Hawaiian site does not obtain the required approvals in a timely manner. A decision for the TMT site will take place in 2017 and the supply and installation contract is expected to be awarded shortly thereafter. We remain confident that the TMT enclosure will be supplied and installed by Dynamic Structures, even if the site location is changed because we are the only Canadian company that has this specialized expertise, having designed and built more than half the world's large telescope enclosures.

As expected, the significant reduction in oil and gas prices has had a profound negative effect on capital expenditures in Western Canada. We expect the Company's steel fabrication segment's operating performance in 2016 to continue to be challenged given the difficult competitive environment in Western Canada. We continue to pursue global steel supply chain opportunities, and cost saving initiatives to scale this segment's capacity to match the available market.

The Group's backlog remains healthy at $117 million. The Company has a healthy pipeline of sales prospects it is working on to turn into backlog, and has never felt more bullish about its sales pipeline.

The Group successfully spun out the Tornado Hydrovac Truck division into its own public company named Tornado Global Hydrovacs Ltd. (TSXV: TGH) at the end of Q2 2016. This occurred concurrent with a Chinese strategic investor injecting $7 million of equity. This initiative in addition to the further planned injection of $2.5 million of subordinate debt will pave the way for an exciting and invigorated strategy that will start immediately and open up growth and profit opportunities in both North America and China. This spinout gives the hydrovac business access to capital and management focus required to execute its strategy. It also gives Empire the ability to devote its capital and management attention on its core business. Empire's shareholders will have the opportunity to benefit from their 54.5% publicly traded ownership of TGH and 100% publicly traded ownership of EIL.

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

Non-IFRS Methods

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

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

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended June 30	Six months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for per share amounts)	$	$	$	$	$	$
Profit (loss) – continuing operations before taxes	5,882	120	5,762	2	1,088	(1,086)
Add: Depreciation and amortization	1,216	663	553	665	343	322
Add/Deduct: (Gain) loss on disposal of assets and other (income) loss	33	(1)	34	33	(1)	34
Add: Finance costs	560	754	(194)	326	502	(176)
Add/Deduct Share of profit of associate	283	211	72	176	88	88
Add/Deduct Fair value changes of foreign currency option contracts	(5,636)	1,128	(6,764)	(357)	(758)	401
Add: non cash stock-based compensation	63	130	(67)	28	95	(67)
Adjusted EBITDA – continuing operations	2,401	3,005	(604)	873	1,357	(484)

Calculation of Adjusted EBIT

Periods ended June 30	Six months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for percentages)	$	$	$	$	$	$
Adjusted EBITDA	2,401	3,005	(604)	873	1,357	(484)
Less: Depreciation and amortization	(1,216)	(663)	(553)	(665)	(343)	(322)
Adjusted EBIT	1,185	2,342	(1,157)	208	1,014	(806)
% of revenue	2.0%	4.0%	(2.0%)	0.7%	3.3%	(2.6%)

Calculation of Adjusted Gross Margin

Periods ended June 30	Six months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for percentages)	$	$	$	$	$	$
Revenues	58,126	59,195	(1,069)	30,348	30,611	(263)
Cost of sales excluding depreciation & amortization	(47,830)	(49,748)	1,918	(25,293)	(25,854)	561
Adjusted gross margin	10,296	9,447	849	5,055	4,757	298
% of revenue	17.7%	16.0%	1.7%	16.7%	15.5%	1.2%

EMPIRE
INDUSTRIES LTD

2nd Quarter

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2016

Unaudited

NOTICE TO READER

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

2Q16

EMPIRE INDUSTRIES LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the three month and six month periods ended June 30	Notes	Three months ended 2016	Three months ended 2015	Six months ended 2016	Six months ended 2015
(In $000's CAD, except per-share amounts)		$			$
Revenues *(1)*		**30,348**	30,611	**58,126**	59,195
Cost of sales, excluding depreciation and amortization *(2) (3)*	5	**(25,293)**	(25,854)	**(47,830)**	(49,748)
Gross Profit, excluding depreciation and amortization		**5,055**	4,757	**10,296**	9,447
Selling and administrative expenses	6	**(4,182)**	(3,400)	**(7,895)**	(6,442)
Result before depreciation, amortization and other items of income (loss)		**873**	1,357	**2,401**	3,005
Depreciation of property, plant and equipment		**(336)**	(186)	**(629)**	(371)
Amortization of intangible assets		**(329)**	(157)	**(587)**	(292)
Result before other items of income (loss)		**208**	1,014	**1,185**	2,342
Share of loss from associates		**(176)**	(88)	**(283)**	(211)
Stock-based compensation expense		**(28)**	(95)	**(63)**	(130)
Finance costs	7	**(326)**	(502)	**(560)**	(754)
Unrealized gains (losses) on derivative financial instruments	8	**357**	758	**5,636**	(1,128)
Other non-operating income (loss)		**(33)**	1	**(33)**	1
		(206)	74	**4,697**	(2,222)
Net income (loss) from continuing operations before tax		**2**	1,088	**5,882**	120
Income tax (expense) recovery					
Current		**(17)**	—	**(46)**	—
Deferred		**233**	(275)	**(1,493)**	—
		216	(275)	**(1,539)**	—
Net income from continuing operations		**218**	813	**4,343**	120
Net income (loss) from discontinued operations *(net of tax)*	13	**2,868**	77	**2,505**	(115)
Net income		**3,086**	**890**	**6,848**	**5**
Other comprehensive loss		**(44)**	—	**(51)**	—
Net income and comprehensive income		**3,042**	**890**	**6,797**	**5**

(1) Included in revenue are foreign exchange losses of $22 for the three month period ended June 30, 2016 (2015 - $157)
Included in revenue are foreign exchange losses of $910 for the six month period ended June 30, 2016 (2015 - $145)
(2) Cost of sales including depreciation and amortization was ($25,857) for the three months ended June 30, 2016 (2015 - $26,141)
Cost of sales including depreciation and amortization was ($48,857) for the six months ended June 30, 2016 (2015 - $50,300)

See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	30-Jun-16	31-Dec-15	30-Jun-15
(In $000's CAD)			$	$
ASSETS				
Current assets				
Cash and cash equivalents		—	81	—
Accounts receivable	**3**	**40,923**	44,596	**47,702**
Inventory		**1,559**	1,629	**1,402**
Prepaid expenses and other assets		**1,118**	1,188	**1,426**
Derivative financial instruments		**1,885**	—	
Total current assets		**45,485**	**47,494**	**50,530**
Assets held for sale		—	**8,674**	**6,743**
Non-current assets				
Property, plant and equipment and investment property, net		**12,134**	11,029	**8,652**
Intangible assets, net		**4,531**	4,132	**2,340**
Other non-current assets		**78**	107	**96**
Note receivable from TGHL		**2,895**	—	—
Investment in associate		**1,707**	1,990	**1,753**
Advances to associate		**887**	885	**847**
Deferred tax assets		**4,184**	5,829	**5,023**
Total non-current assets		**26,416**	23,972	**18,711**
Total assets		**71,901**	80,140	75,984
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**13,926**	6,391	**5,371**
Accounts payable and accrued liabilities		**19,634**	20,626	**14,662**
Deferred revenue from construction contracts	**4**	**9,779**	19,590	**25,078**
Current income taxes payable		—	138	—
Current portion of long-term debt		**1,009**	903	**807**
Current portion of convertible debentures		**431**	951	**491**
Foreign currency forward intruments		—	3,324	**2,754**
Total current liabilities		**44,779**	51,923	49,163
Liabilities of disposal group		—	1,620	1,609
Non-current liabilities				
Long-term debt		**4,013**	1,526	1,740
Limited recourse loan		**918**	984	825
Derivative financial instruments		—	427	—
Convertible debentures		—	—	416
Total non-current liabilities		**4,931**	2,937	2,981
Total liabilities		**49,710**	56,480	53,753
SHAREHOLDERS' EQUITY				
Share capital		**7,955**	7,955	**7,898**
Equity component of convertible debentures		**69**	144	**151**
Contributed surplus		**3,859**	3,721	**3,694**
Retained earnings	**9**	**10,372**	11,853	**10,488**
Accumulated other comprehensive loss		**(64)**	(13)	—
Total shareholders' equity		**22,191**	23,660	22,231
Total liabilities and shareholders' equity		**71,901**	80,140	75,984

Guarantees and contingencies *[note 14]*
See accompanying notes

On behalf of the Board of Directors:

"Ian Macdonald" — Director

"Guy Nelson" — Director

As at June 30, 2016

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD)	$	$	$	$		$
As at December 31, 2015	**7,955**	**144**	**3,721**	**11,853**	**(13)**	**23,660**
Net income for the year	—	—	—	6,848	(51)	6,797
Re-classed on maturity of convertible debenture	—	(75)	75	—	—	—
TGHL share dividends	—	—	—	(8,329)	—	(8,329)
Stock-based compensation	—	—	63	—	—	63
As at June 30, 2016	**7,955**	**69**	**3,859**	**10,372**	**(64)**	**22,191**

As at June 30, 2015

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD)	$	$	$	$		$
As at December 31, 2014	**7,798**	**151**	**3,564**	**10,483**	—	**21,996**
Net income for the period	—	—	—	5	—	5
Proceeds received from exercise of warrants	54	—	—	—	—	54
Conversion of convertible debenture	46	—	—	—	—	46
Stock-based compensation	—	—	130	—	—	130
As at June 30, 2015	**7,898**	**151**	**3,694**	**10,488**	—	**22,231**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In $000's CAD, except per-share amounts)	Three months ended 2016	Three months ended 2015	Six months ended 2016	Six months ended 2015
	$			$
OPERATING ACTIVITIES				
Comprehensive income from continuing operations	**174**	**890**	**4,292**	**5**
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	**336**	**186**	**629**	371
Amortization of intangible assets	**329**	**157**	**587**	292
Amortization of deferred financing charges	**4**	**5**	**8**	11
Loss (gain) on sale of property, plant and equipment	**—**	**(1)**	**—**	(1)
Loss on foreign exchange revaluation of limited recourse loan	**(5)**	**—**	**(66)**	—
Foreign exchange adjustment (net of tax)	**44**	**—**	**51**	—
Share of (profit) loss from associate investments	**176**	**88**	**283**	211
Finance costs paid on short-term and long-term borrowings	**(180)**	**—**	**(375)**	—
Investment tax credits	**—**	**—**	**(133)**	—
Unrealized foreign currency translation gains	**22**	**369**	**910**	(647)
Stock-based compensation	**28**	**95**	**63**	130
Unrealized (gains) losses on derivative financial instruments	**(357)**	**(758)**	**(5,636)**	1,128
Income taxes paid	**—**	**—**	**(138)**	—
Deferred income taxes	**(99)**	**275**	**1,493**	—
Cash flow from continuing operations	**472**	**1,306**	**1,968**	**1,500**
Cash flow from (used in) discontinued operations	**(2,044)**	**44**	**(1,245)**	89
Net change in non-cash working capital balances	**(3,709)**	**5,786**	**(8,376)**	4,206
Cash flow (used in) from operating activities	**(5,281)**	**7,136**	**(7,653)**	**5,795**
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment *(note 9)*	**(1,199)**	**(507)**	**(1,785)**	(1,174)
Proceeds from sale of property, plant and equipment	**—**	**1**	**—**	1
Repayment in advances from associate	**—**	**—**	**—**	240
Recognition of intangible assets *(note 8)*	**(708)**	**(405)**	**(986)**	(649)
Cash flow used in investing activities of continuing operations	**(1,907)**	**(911)**	**(2,771)**	**(1,582)**
Cash flow from (used in) investing activities of discontinued operations	**(124)**	**—**	**(125)**	—
Cash flow used in investing activities	**(2,031)**	**(911)**	**(2,896)**	**(1,582)**
FINANCING ACTIVITIES				
Proceeds from shares issued from warrants exercised	**—**	**54**	**—**	**54**
Repayment of convertible debt	**—**	**—**	**(520)**	**—**
Proceeds received from long-term debt and finance leases	**3,059**	**—**	**3,059**	—
Repayment of long term debt	**(259)**	**(229)**	**(474)**	(429)
Cash flow from (used in) financing activities of continuing operations	2,800	(175)	2,065	(375)
Cash flow used in financing activities of discontinued operations	**(19)**	**—**	**(37)**	—
Cash flow from (used in) financing activities	**2,781**	**(175)**	**2,028**	**(375)**
Effect of translation of foreign currency cash and equivalents	**34**	**456**	**905**	545
Net (decrease) increase in cash and equivalents during the period	(4,497)	6,506	(7,616)	4,383
Cash and cash equivalents, beginning of period	**(9,429)**	**(11,877)**	**(6,310)**	(9,754)
Cash and cash equivalents, end of period	**(13,926)**	**(5,371)**	**(13,926)**	(5,371)
Cash and cash equivalents is comprised of:				
Cash	—	—	—	—
Bank indebtedness	(13,926)	(5,371)	(13,926)	(5,371)
	(13,926)	**(5,371)**	**(13,926)**	**(5,371)**

1. Corporate information

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

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

The consolidated financial statements were recommended for approval by the Audit Committee on August 26, 2016 and were approved and authorized for issue by the Board of Directors on August 26, 2016.

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, 2015. The Group's 2015 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the periods ended June 30, 2016 and include the results for the comparative periods ended June 30, 2015. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts for Empire and all of its subsidiaries (the "Group"). These consolidated financial statements have been prepared in Canadian dollars which is the functional currency of the Group.

Share consolidation

During the period, the Group completed a 4 for 1 stock consolidation of its common shares. The Group now has 68,834,119 shares outstanding after the completion of the consolidation.

Plan of arrangement

On June 27, 2016 the Group and Tornado Global Hydrovacs Limited ("TGHL"), a newly incorporated company, entered into a plan of arrangement to Spin-out the Group's wholly owned Hydrovac business (its Manufactured Products operating segment) for 54.5% ownership of TGHL. In addition to the assets and liabilities from the Group, TGHL also closed private placements for share capital totalling $6,954. The Group received total consideration for the assets and liabilities transferred of $11,224 consisting of shares valued at $8,329 and a note receivable from TGHL of $2,895. Upon the effective time of the arrangement each shareholder will receive ½ common share of TGHL for every common share of EIL immediately prior to the arrangement becoming effective.

The shares received by the Group were distributed to the shareholders in connection with the spin-off of the Hydrovac business on June 27, 2016 with the existing shareholders owning the 54.5% of the outstanding shares of TGHL immediately after completion of the plan of arrangement.

The Group accounted for the distribution in accordance with International Financial Reporting Interpretations Committee 17, Distribution of Non-Cash Assets to Owners, which requires the assets being distributed to be recognized at fair value. The Group used significant judgments related to the fair value measurement of assets and liabilities distributed pursuant to the Arrangement. The estimates required management to exercise judgment concerning valuation approaches and methods, estimates of future cash flows, and discount rates. The distribution was charged to retained earnings.

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

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, 2016

3. Accounts receivable

	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Trade	11,694	14,903	15,810
Unbilled construction contract receivables (note 4)	28,999	28,569	30,376
Other receivables	230	1,124	1,523
Allowance for doubtful accounts	-	-	(7)
	40,923	**44,596**	**47,702**

Holdbacks included in trade receivables are $2,131 as at June 30, 2016 (December 31, 2015 - $4,334 – June 30, 2015 - $5,058).

4. Construction contracts

	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Construction costs incurred, and estimated profits less recognized losses to date	233,735	192,283	187,737
Less: Progress billings	(214,515)	(183,304)	(182,439)
	19,220	**8,979**	**5,298**
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	28,999	28,569	30,376
Deferred revenue from construction contracts	(9,779)	(19,590)	(25,078)
	19,220	**8,979**	**5,298**

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

5. Cost of sales

	3 Months		6 Months	
	June 30, 2016 $	June 30, 2015 $	June 30, 2016 $	June 30, 2015 $
Direct construction costs	(21,702)	(22,180)	(40,715)	(42,769)
Indirect salaries and benefits	(2,261)	(2,230)	(4,405)	(3,954)
Indirect production costs	(1,330)	(1,444)	(2,710)	(3,025)
	(25,293)	**(25,854)**	**(47,830)**	**(49,748)**

6. Selling and administrative expenses

	3 Months		6 Months	
	June 30, 2016 $	June 30, 2015 $	June 30, 2016 $	June 30, 2015 $
Salaries and benefits	(2,672)	(1,845)	(4,786)	(3,854)
General, selling and administrative expenses	(1,510)	(1,505)	(3,109)	(2,507)
Research expenditures	-	(50)	-	(81)
	(4,182)	**(3,400)**	**(7,895)**	**(6,442)**

7. Finance costs

	3 Months		6 Months	
	June 30, 2016 $	June 30, 2015 $	June 30, 2016 $	June 30, 2015 $
Interest on long-term borrowings	(85)	(79)	(160)	(159)
Interest on short-term borrowing and other	(237)	(418)	(392)	(584)
Deferred financing charges	(4)	(5)	(8)	(11)
	(326)	(502)	(560)	(754)

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 $5,636 with gains of $357 recorded in the three-month period ended (2015 – mark to market loss of $1,128 for the six-month period ended with gains of $758 recorded in the comparative three-month period). As at June 30, 2015 the Group recorded an asset associated with the unrealized mark-to market gains on foreign currency forward contracts and options of $1,885 (2015 – December – liability - $3,751, June – liability - $2,754).

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

9. Retained earnings

Upon completion of the disposals of that assets and liabilities of the Group's Hydrovac business, the shares received were distributed to the Group's shareholders and charged to retained earnings during the period:

	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Opening retained earnings	11,853	10,483	10,483
Net income	6,848	1,370	5
Distribution of shares of TGHL	(8,329)	-	-
	10,372	**11,853**	**10,488**

10. Income (loss) per share

Income per share for the three months ended June 30:

	June 30, 2016 $	June 30, 2015 $
Net income from continuing operations	218	813
Net income from discontinued operations	2,868	77
Effect of diluted securities on net income		
Net income from assumed debenture conversion	18	32
Diluted net income attributable to shareholders	3,104	922
Basic weighted average number of shares	64,834,119	64,674,503
Effect of dilutive securities		
Net incremental dilutive shares	1,574,295	5,262,717
Diluted weighted average number of shares	66,408,414	69,937,220
Net earnings per share		
Basic earnings per share from continuing operations	**0.004**	**0.013**
Diluted earnings per share from continuing operations	**0.004**	**0.012**
Basic earnings per share from discontinued operations	**0.044**	**0.001**
Diluted earnings per share from discontinued operations	**0.043**	**0.001**

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

Income (loss) per share for the six months ended June 30:

	June 30, 2016 $	June 30, 2015 $
Net income from continuing operations	4,343	120
Net income (loss) from discontinued operations	2,505	(115)
Effect of diluted securities on net income		
Net income from assumed debenture conversion	-	64
Diluted net income attributable to shareholders	6,848	69
Basic weighted average number of shares	64,834,119	64,616,495
Effect of dilutive securities		
Net incremental dilutive shares	1,205,070	4,460,732
Diluted weighted average number of shares	66,039,189	69,077,227
Net earnings per share		
Basic earnings per share from continuing operations	**0.067**	**0.003**
Diluted earnings per share from continuing operations	**0.066**	**0.003**
Basic earnings (loss) per share from discontinued operations	**0.039**	**(0.002)**
Diluted earnings (loss) per share from discontinued operations	**0.038**	**(0.002)**

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.

11. Operating segments

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three months ended June 30, 2016 and 2015 respectively:

2016	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	25,923	4,321	104	**30,348**
Cost of goods sold excluding depreciation and amortization	(21,779)	(3,514)	-	**(25,293)**
Adjusted gross profit (1)	4,144	807	104	**5,055**
Selling, general and administrative expenses	(2,608)	(717)	(857)	**(4,182)**
Adjusted EBITDA (2)	1,536	90	(753)	**873**
Depreciation and amortization expense	(575)	(85)	(5)	**(665)**
Adjusted EBIT (3)	961	5	(758)	**208**

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

2015	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	24,471	6,089	51	**30,611**
Cost of goods sold excluding depreciation and amortization	(20,218)	(5,636)	-	**(25,854)**
Adjusted gross profit (1)	4,253	453	51	**4,757**
Selling, general and administrative expenses	(1,686)	(922)	(792)	**(3,400)**
Adjusted EBITDA (2)	2,567	(469)	(741)	**1,357**
Depreciation expense	(254)	(89)	-	**(343)**
Adjusted EBIT (3)	2,313	(558)	(741)	**1,014**

The tables below show the segmented results for the six month periods end June 30, 2016 and 2015 respectively:

2016	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	50,782	7,178	166	**58,126**
Cost of goods sold excluding depreciation and amortization	(42,113)	(5,717)	-	**(47,830)**
Adjusted gross profit (1)	8,669	1,461	166	**10,296**
Selling, general and administrative expenses	(4,838)	(1,541)	(1,516)	**(7,895)**
Adjusted EBITDA (2)	3,831	(80)	(1,350)	**2,401**
Depreciation and amortization expense	(1,034)	(172)	(10)	**(1,216)**
Adjusted EBIT (3)	2,797	(252)	(1,360)	**1,185**

2015	Media-based Attractions $	Steel Fabrication Services $	Corporate $	Total $
Sales	43,113	16,016	66	**59,195**
Cost of goods sold excluding depreciation and amortization	(35,152)	(14,596)	-	**(49,748)**
Adjusted gross profit (1)	7,961	1,420	66	**9,447**
Selling, general and administrative expenses	(3,254)	(1,811)	(1,377)	**(6,442)**
Adjusted EBITDA (2)	4,707	(391)	(1,311)	**3,005**
Depreciation expense	(478)	(185)	-	**(663)**
Adjusted EBIT (3)	4,229	(576)	(1,311)	**2,342**

(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

12. 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	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Current portion of long-term debt including finance leases	1,009	903	807
Long-term debt including finance leases	4,013	1,526	1,740
Long-term funded debt	5,022	2,429	2,547
Shareholders' equity	22,191	23,660	22,231
Convertible debentures	431	951	907
Limited recourse loan and subordinate note payable	918	984	825
Less: deferred tax assets	(4,184)	(5,829)	(5,023)
Less: intangible assets (net)	(4,531)	(4,123)	(2,340)
Tangible net worth	14,825	15,643	16,600
Capitalization	19,847	18,072	19,147
Long-term funded debt: Capitalization	25.3%	13.4%	13.3%

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

13. Discontinued Operations

The following is a summary of the results from discontinued operations for the three-month and six month periods ended June 30, 2016 and June 30, 2015:

	3 Months		6 Months	
	June 30, 2016 $	June 30 2015 $	June 30, 2016 $	June 30, 2015 $
Revenues	**5,764**	6,686	**9,146**	11,311
Cost of sales excluding depreciation and amortization	**(5,431)**	(5,881)	**(8,781)**	(9,923)
Adjusted gross profit	**333**	805	**365**	1,388
Selling, general and administrative expenses	**(561)**	(677)	**(1,085)**	(1,396)
Adjusted EBITDA	**(228)**	128	**(720)**	(8)
Depreciation and amortization	**-**	(44)	**-**	(89)
Adjusted EBIT	**(228)**	84	**(720)**	(97)
Finance costs	**(4)**	(7)	**(9)**	(18)
Gain on disposal costs (net of disposal costs)	**3,518**	-	**3,518**	-
Net gain (loss) from discontinued operations before taxes	**3,286**	77	**2,789**	(115)
Tax expense (current and deferred)	**(418)**	-	**(284)**	-
Net gain (loss) from discontinued operations (net of tax)	**2,868**	77	**2,505**	(115)

Assets held for sale and liabilities of disposal group

	June 30, 2016 $	December 31, 2015 $	June 30, 2015 $
Accounts receivable	-	1,601	310
Inventory	-	4,650	4,461
Prepaid expenses	-	87	119
Property, plant and equipment (net)	-	2,024	1,853
Intangible assets	-	312	-
Assets held for sale	**-**	**8,674**	**6,743**
Accounts payable and accrued liabilities	-	1,518	1,469
Current portion of long-term debt	-	67	64
Long-term debt	-	35	76
Liabilities of disposal group	**-**	**1,620**	**1,609**

14. 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, 2016, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is $nil ($481 as at December 31, 2015 and $137 as at June 30, 2015).

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of up to $6,273 USD as at June 30, 2015 ($6,066 as at December 31, 2015 and $6,066 as at June 30, 2015). The Group has a guarantee facility with Export Development Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Group on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility. As at June 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.