EMPIRE INDUSTRIES LTD

# 3Q16

## Management's Discussion & Analysis
For the 3 and 9 month periods ending September 30, 2016

## Consolidated Financial Statements
For the 3 and 9 month periods ending September 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 September 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 nine-month periods ended September 30. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on November 28, 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 September 30** | **Nine months ended** | | | **Quarter ended** | | |
|---|---|---|---|---|---|---|
| **($000 except per share amounts)** | **2016 $** | **2015 $** | **Variance $** | **2016 $** | **2015 $** | **Variance $** |
| Operating Results: | | | | | | |
| Revenues | 90,456 | 97,561 | (7,105) | 32,330 | 38,366 | (6,036) |
| Adjusted gross margin | 15,625 | 15,057 | 568 | 5,329 | 5,610 | (281) |
| Adjusted gross margin % | 17.3% | 15.4% | 1.9% | 16.5% | 14.6% | 1.9% |
| Adjusted EBITDA | 4,415 | 5,139 | (724) | 2,014 | 2,134 | (120) |
| Adjusted EBITDA % | 4.9% | 5.3% | (0.4%) | 6.2% | 5.6% | 0.6% |
| Adjusted EBIT | 2,568 | 3,973 | (1,405) | 1,383 | 1,631 | (248) |
| Adjusted EBIT % | 2.8% | 4.1% | (1.3%) | 4.3% | 4.3% | - |
| Net income | 6,536 | 995 | 5,541 | (312) | 990 | (1,302) |
| Per share data: | | | | | | |
| Basic eps – continuing ops | 0.064 | 0.021 | 0.043 | (0.004) | 0.018 | (0.022) |
| Diluted eps – continuing ops | 0.056 | 0.020 | 0.036 | (0.004) | 0.018 | (0.022) |
| Basic eps – discontinued ops | 0.038 | (0.004) | 0.042 | (0.000) | (0.003) | 0.003 |
| Diluted eps – discontinued ops | 0.034 | (0.004) | 0.038 | (0.000) | (0.003) | 0.003 |

## 2016 Overview

The nine months ended September 30, 2016 yielded a decline in revenues from continuing operations of 7.3% compared to the nine-month period ended September 30, 2015 to $90.5 million. The Group's Adjusted Gross Margin increased 1.9% in the period as compared to the same period in 2015.

The Group's Adjusted EBITDA decreased by 14% to $4.4 million in the period as compared to $5.1 million in comparative period. The Group's net income from continuing operations of $4.1 million in the period was driven by a $5.0 million unrealized gain recorded as a result of marking to market foreign currency forward instruments outstanding as of September 30 2016.

The Group's unrealized gain of $5.0 million in the nine-month period as compared to an unrealized loss of $1.3 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 September 30, 2016 the USD/CAD foreign exchange rate was 1.3117. The table below lists the outstanding forward contracts in place as at September 30, 2016:

| **As at September 30, 2016** | | | |
|---|---|---|---|
| **Notional Amount** | **Forward Rate** | **Settlement Month** | **Fair Value** |
| $3,240 | 1.1150 | March, 2017 | ($633) |
| $7,500 | 1.3289 | October 2016 | $131 |
| $7,500 | 1.4035 | January, 2017 | $696 |
| $7,500 | 1.3868 | February 2017 | $571 |
| $5,000 | 1.3705 | April 2017 | $303 |
| $2,500 | 1.3854 | April 2017 | $189 |
| **$33,240** | | | **$1,257** |

## 3Q16 Overview

During the quarter revenues decline from the same period in 2015 by 15.7% over that period. Consistent with the year-to-date analysis the groups Adjusted Gross Margin improved 1.9% to $5.3 million on the lower revenues.

Adjusted EBITDA decreased by $0.1 million in the quarter compared to 2015 due to lower volumes compared to the same period in 2015.

## 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.

- 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.

- On September 20, 2016 the Group announced that its Dynamic Attractions division has been awarded a contract in excess of $21 million USD to provide a ride system for a major theme park in Asia. The contract is to be executed over the next 36 months.

## Subsequent Significant Events

- On October 12, 2016 the Group closed a loan facility with Export Development Canada in the amount of $10 million USD. The loan bares interests at the US prime rate plus 2.5% per annum. The principal is to be repaid over 3 years with no payments in the first six month followed by 10 quarterly payments of $1 million USD. The proceeds of the facility will be used to improve the working capital position of the Group.

## 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.

| | September 30, 2016<br>$ | December 31, 2015<br>$ | June 30, 2015<br>$ |
|---|---|---|---|
| Accounts receivable | - | 1,601 | 388 |
| Inventory | - | 4,650 | 5,777 |
| Prepaid expenses | - | 87 | 117 |
| Property, plant and equipment (net) | - | 2,024 | 1,933 |
| Intangible assets | - | 312 | - |
| **Assets held for sale** | **-** | **8,674** | **8,215** |
| Accounts payable and accrued liabilities | - | 1,518 | 1,620 |
| Current portion of long-term debt | - | 67 | 64 |
| Long-term debt | - | 35 | 57 |
| **Liabilities of disposal group** | **-** | **1,620** | **1,741** |

Prior to the completion of the plan of arrangement 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.

## Selected Quarterly Financial Information

| Quarterly Financial Information | 2016 | 2016 | 2016 | 2015 | 2015 | 2015 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|
| **For the quarters ended** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** |
| Sales | 32,330 | 30,348 | 27,778 | 33,665 | 38,366 | 30,611 | 28,584 | 26,726 |
| Adjusted EBITDA | 2,014 | 873 | 1,528 | 3001 | 2,134 | 1,355 | 1,650 | 1,238 |
| Profit (loss) from continuing operations (net of tax) | (269) | 218 | 4,125 | 931 | 1,162 | 813 | (693) | 355 |
| Profit (loss) from discontinued operations (net of tax) | (43) | 2,868 | (363) | (556) | (172) | 77 | (192) | 2,117 |
| Profit (loss) | (312) | 3,086 | 3,762 | 375 | 990 | 890 | (885) | 2,472 |
| Profit (loss) per share | | | | | | | | |
| Basic – continuing ops | (0.004) | 0.004 | 0.064 | 0.010 | 0.018 | 0.013 | (0.010) | 0.005 |
| Diluted – continuing ops | (0.004) | 0.004 | 0.056 | 0.010 | 0.018 | 0.012 | (0.010) | 0.004 |
| Basic – discontinued ops | (0.000) | 0.044 | (0.006) | (0.006) | (0.003) | 0.001 | (0.002) | 0.031 |
| Diluted – discontinued ops | (0.000) | 0.043 | (0.007) | (0.006) | (0.003) | 0.001 | (0.002) | 0.024 |

## Liquidity and Capital Resources

### Liquidity

For the period ended September 30, 2016, the Group's continuing operations generated $2.3 million of cash, compared with $3.9 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 $13.0 was drawn as of September 30, 2016. The Group's marginable assets at September 30 2016 were $20.3 million, which is $7.3 million in excess of the Group's total draw on the operating line.

The Group made $1.3 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 $8.1 million as at September 30, 2016 consisted of $6.5 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 $22.4 million at September 30, 2016 is $1.2 million less than the shareholders' equity at December 31, 2015 due to comprehensive income of $6.5 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 6,067,500 outstanding options at September 30, 2016. The average exercise price of the outstanding options is $0.40 per share. Of these options, 5,254,166 are currently exercisable at an average exercise price of $0.39 per share.

## Market Capitalization

The market capitalization of the Group’s 65,128,236 issued and outstanding common shares at November 25, 2016 was $25.4 million or $0.39 per share, compared to the Group’s book value per share of $0.35 at September 30, 2016. The issued and outstanding common shares at November 25, 2016, together with securities convertible into common shares are summarized in the table below.

| **Fully Diluted Shares** | | |
|---|---|---|
| **As at November 25, 2016** | | |
| Issued and outstanding common shares | | 65,128,237 |
| | | |
| Securities convertible into common shares | | |
| Convertible Debentures[1] | 1,360,294 | |
| Warrants | 6,925,000 | |
| Stock Options | 6,067,500 | |
| Total Securities convertible into common shares | | 14,352,794 |
| | | |
| Fully Diluted Shares | | 79,481,031 |

[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 $370,000 (Sept 30, 2016 - $450,000) convertible debenture being convertible into 1,360,294 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 | September 30, 2016 $ | December 31, 2015 $ | September 30, 2015 $ |
|---|---|---|---|
| Current portion of long-term debt including finance leases | 999 | 903 | 791 |
| Long-term debt including finance leases | 5,740 | 1,526 | 1,555 |
| Long-term funded debt | 6,739 | 2,429 | 2,346 |
| Shareholders' equity | 22,408 | 23,660 | 23,529 |
| Convertible debentures | 431 | 951 | 922 |
| Limited recourse loan and subordinate note payable | 933 | 984 | 925 |
| Less: deferred tax assets | (4,184) | (5,829) | (5,023) |
| Less: intangible assets (net) | (6,053) | (4,123) | (2,842) |
| Tangible net worth | 13,535 | 15,643 | 17,511 |
| Capitalization | 20,274 | 18,072 | 19,857 |
| Long-term funded debt : Capitalization | 33.2% | 13.4% | 11.8% |

The Group's leverage ratio increased to 33.2% from 13.4% at December 31, 2015 and 11.8% at September 30, 2015. The Group's adjusted working capital ratio of 1.03 is increased from the December 31, 2015 ratio of 0.91 and slightly less than the rate at September 30, 2015 of 1.06.

## 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 September 30** ($000) | **Nine months ended** 2016 $ | 2015 $ | Variance $ | **Quarter ended** 2016 $ | 2015 $ | Variance $ |
|---|---|---|---|---|---|---|
| Operating Results: | | | | | | |
| Revenues | 78,310 | 73,664 | 4,646 | 27,528 | 30,551 | (3,023) |
| Adjusted gross margin | 13,435 | 12,360 | 1,075 | 4,766 | 4,399 | 367 |
| Adjusted gross margin % | 17.2% | 16.8% | 0.4% | 17.3% | 14.4% | 2.9% |
| Adjusted EBITDA | 6,715 | 7,128 | (413) | 2,884 | 2,421 | 463 |
| Adjusted EBITDA % | 8.6% | 9.7% | (1.1%) | 10.5% | 7.9% | 2.6% |
| Adjusted EBIT | 5,134 | 6,245 | (1,111) | 2,337 | 2,016 | 321 |
| Adjusted EBIT % | 6.6% | 8.5% | (1.9%) | 8.5% | 6.6% | 1.9% |

### 3Q16 Overview

Revenues for the operating segment decreased by 9.9% to $27.5 million in the period ended September 30, 2016 compared to the same period in 2015.

The segment's Adjusted Gross Margin increased by 2.9% to 17.3% over the same period in 2015 and the segment's selling, general and administrative expenses were consistent with the same period of 2015 decreasing by $0.1 million.

Adjusted EBITDA increased $0.5 million as a result of the factors discussed above. Adjusted EBIT increased $0.4 million from 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 6.3% to $78.3 million in the period ended September 30, 2016 compared to the same period 2015. The segment's Adjusted Gross Margin increased by 0.4% to 17.2% through the nine-months ended compared to the same period in 2015

Selling, general and administrative expenses increased $1.5 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 $0.4 million as a result of the factors discussed above. Adjusted EBIT decreased $1.1 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 September 30 ($000) | Nine months ended | | | Quarter ended | | |
|---|---|---|---|---|---|---|
| | 2016 $ | 2015 $ | Variance $ | 2016 $ | 2015 $ | Variance $ |
| Operating Results: | | | | | | |
| Revenues | 11,962 | 23,899 | (11,937) | 4,784 | 7,883 | (3,099) |
| Adjusted gross margin | 2,006 | 2,699 | (693) | 545 | 1,279 | (734) |
| Adjusted gross margin % | 16.8% | 11.3% | 5.5% | 11.4% | 16.2% | (4.8%) |
| Adjusted EBITDA | (216) | 103 | (319) | (136) | 494 | (630) |
| Adjusted EBITDA % | (1.8%) | 0.4% | (2.2%) | (2.8%) | 6.3% | (9.1%) |
| Adjusted EBIT | (467) | (180) | (287) | (215) | 396 | (611) |
| Adjusted EBIT % | (3.9%) | (0.8%) | (3.1%) | (4.5%) | 5.0% | (9.5%) |

### 3Q16 Overview

Revenues decreased by 39% to $4.8 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 decreased by 4.8% to 11.4% in the segment due to the lower volume of work that was executed as compared the same period in 2015.

Selling and administrative expenses were $0.1 million lower in the quarter compared to the same period in 2015. The segment braced for a slow period based on the booked backlog. Cost reduction measures that were instituted earlier in 2016 were realized in the quarter.

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

### 2016 Overview

Revenues decreased by 50% to $12.0 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 5.5% to 16.8% 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 $0.4 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 subsequent periods.

Adjusted EBITDA decreased by $0.3 million to a loss $0.2 million in the current period compared to the same period of 2015.

## Corporate (non-operating)

| Periods ended September 30 ($000) | Nine months ended | | | Quarter ended | | |
|---|---|---|---|---|---|---|
| | 2016 $ | 2015 $ | Variance $ | 2016 $ | 2015 $ | Variance $ |
| Operating Results: | | | | | | |
| Revenues | 184 | (2) | 186 | 18 | (68) | 86 |
| Adjusted EBITDA | (2,084) | (2,092) | 8 | (734) | (781) | 47 |
| Adjusted EBIT | (2,099) | (2,092) | (7) | (739) | (781) | 42 |

### 3Q16 Overview

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

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

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

### 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 consistent with the comparative period of 2015.

### Forward Looking Information

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

## 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 has successfully positioned itself to become a globally competitive leader in the higher margin, rapidly growing, media-based attractions market niche. The company expects to benefit from its strategic focus on a market niche that is expected to grow rapidly for many years to come as it works to convert its record high pipeline of outstanding proposals into a backlog of contracts. The annual global attractions trade show in Orlando in mid-November continued to provide the company's Dynamic Attractions business with momentum winning two prestigious awards, further confirming that its strategic positioning in this vibrant industry is very well conceived.

The media-based attractions segment continues to build several new, first generation media-based ride system products concurrently. There continues to be 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 company is excited about the future related to this investment in world class, innovative ride systems for next generation media-based attractions. 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. Notwithstanding the lower margins on first generation ride systems, the company continues to be a net generator of profit.

The media-based attractions segment's recently launched Unlimited Attractions™ division in Orlando is offering prospective customers a much broader range of the products and services (show elements) that transform its unique ride systems into true, media-based attractions. These services include story concept, lighting, scenery, media, and special effects.

The weaker Canadian dollar will continue to positively impact profit margins because the media-based attractions are 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.

The company also has a strategic investment in telescope design and manufacturing. The investment in telescope design and manufacturing is strategic because it provides the company with a unique, globally competitive competency in equipment design and the manufacturing prowess to build very complex, mobile equipment, including telescopes and telescope enclosures. This unique competency has also helped to make our complex ride systems used in media-based attractions business, so much in demand. Dynamic Structures' award of a $10 million contract to complete the conceptual design and produce the detailed design for the Thirty Meter Telescope (TMT) enclosure is well underway and will continue to be impacting operations throughout 2017. 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 completed its alternative site selection process and selected the Canary Islands in Spain. This was necessitated in the event that the Hawaiian site does not obtain the required approvals in a timely manner. A decision selecting 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 company that has this specialized expertise, having designed and built more than half the world's large telescope enclosures.

The company continues to have a material investment in steel fabrication and assembly capacity. The company has made the strategic decision to focus these competencies on the steel intensive requirements of its media-based attractions and steel fabrication supply chain opportunities that it is uniquely positioned to pursue in Canada and China. The company plans to reduce its focus on competing in domestic steel fabrication in Western Canada and China.

The Group will continue to shelter its profits from income tax through the utilization of loss carry forwards and investment tax credits. Its balance sheet will strengthen throughout the year as its equity increases because of earnings and its working capital increases because of the financing it has arranged.

## 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 September 30 | Nine months ended | | | Quarter ended | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |
| ($000’s, except for per share amounts) | $ | $ | $ | $ | $ | $ |
| Profit (loss) – continuing operations before taxes | 5,673 | 1,282 | 4,391 | (209) | 1,162 | (1,371) |
| Add: Depreciation and amortization | 1,847 | 1,166 | 681 | 631 | 503 | 128 |
| Add/Deduct: (Gain) loss on disposal of assets and other (income) loss | 33 | 51 | (18) | - | 52 | (52) |
| Add: Finance costs | 973 | 1,006 | (33) | 413 | 252 | 161 |
| Add/Deduct Share of profit of associate | 348 | 120 | 228 | 65 | (91) | 156 |
| Add/Deduct Fair value changes of foreign currency option contracts | (5,008) | 1,346 | (6,354) | 628 | 218 | 410 |
| Add: non cash stock-based compensation | 549 | 168 | 381 | 486 | 38 | 448 |
| Adjusted EBITDA – continuing operations | 4,415 | 5,139 | (724) | 2,014 | 2,134 | (120) |

## Calculation of Adjusted EBIT

| Periods ended September 30 | Nine months ended | | | Quarter ended | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |
| ($000’s, except for percentages) | $ | $ | $ | $ | $ | $ |
| Adjusted EBITDA | 4,415 | 5,139 | (724) | 2,014 | 2,134 | (120) |
| Less: Depreciation and amortization | (1,847) | (1,166) | (681) | (631) | (503) | (128) |
| Adjusted EBIT | 2,568 | 3,973 | (1,405) | 1,383 | 1,631 | (248) |
| % of revenue | 2.8% | 4.1% | (1.3%) | 4.1% | 4.3% | (0.2%) |

## Calculation of Adjusted Gross Margin

| Periods ended September 30 | Nine months ended | | | Quarter ended | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |
| ($000's, except for percentages) | $ | $ | $ | $ | $ | $ |
| Revenues | 90,456 | 97,561 | (7,105) | 32,330 | 38,366 | (6,036) |
| Cost of sales excluding depreciation & amortization | (74,831) | (82,504) | 7,673 | (27,001) | (32,756) | 5,755 |
| Adjusted gross margin | 15,625 | 15,057 | 568 | 5,329 | 5,610 | (281) |
| % of revenue | 17.3% | 15.4% | 1.9% | 16.5% | 14.6% | 1.9% |

# 3rd Quarter

# Consolidated Financial Statements

For the 3 and 9 month periods ending September 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.

3Q16

EMPIRE INDUSTRIES LTD

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

| | | Three months ended | | Nine months ended | |
|---|---|---|---|---|---|
| For the three month and nine month periods ended September 30 | Notes | 2016 | 2015 | 2016 | 2015 |
| (In $000's CAD, except per-share amounts) | | $ | | | $ |
| **Revenues** *(1)* | | **32,330** | 38,366 | **90,456** | 97,561 |
| Cost of sales, excluding depreciation and amortization *(2) (3)* | **6** | **(27,001)** | (32,756) | **(74,831)** | (82,504) |
| Gross Profit, excluding depreciation and amortization | | **5,329** | 5,610 | **15,625** | 15,057 |
| Selling and administrative expenses | **7** | **(3,315)** | (3,476) | **(11,210)** | (9,918) |
| Result before depreciation, amortization and other items of income (loss) | | **2,014** | 2,134 | **4,415** | 5,139 |
| Depreciation of property, plant and equipment | | **(338)** | (261) | **(967)** | (632) |
| Amortization of intangible assets | | **(293)** | (242) | **(880)** | (534) |
| Result before other items of income (loss) | | **1,383** | 1,631 | **2,568** | 3,973 |
| Share of loss from associates | | **(65)** | 91 | **(348)** | (120) |
| Stock-based compensation expense | | **(486)** | (38) | **(549)** | (168) |
| Finance costs | **8** | **(413)** | (252) | **(973)** | (1,006) |
| Unrealized gains (losses) on derivative financial instruments | **9** | **(628)** | (218) | **5,008** | (1,346) |
| Other non-operating income (loss) | | **—** | (52) | **(33)** | (51) |
| | | **(1,592)** | (469) | **3,105** | (2,691) |
| **Net income (loss) from continuing operations before tax** | | **(209)** | 1,162 | **5,673** | 1,282 |
| Income tax (expense) recovery | | | | | |
| Current | | **(60)** | — | **(106)** | — |
| Deferred | | **—** | — | **(1,493)** | — |
| | | **(60)** | — | **(1,599)** | — |
| **Net income (loss) from continuing operations** | | **(269)** | 1,162 | **4,074** | 1,282 |
| **Net income (loss) from discontinued operations *(net of tax)*** | **14** | **(43)** | (172) | **2,462** | (287) |
| **Net income (loss)** | | **(312)** | **990** | **6,536** | **995** |
| **Other comprehensive income (loss)** | | **43** | — | **(8)** | — |
| **Net income and comprehensive income (loss)** | | **(269)** | **990** | **6,528** | **995** |

*(1)* Included in revenue are foreign exchange gains of $918 for the three month period ended September 30, 2016 (2015 losses - $423)
Included in revenue are foreign exchange gains of $8 for the nine month period ended September 30, 2016 (2015 - gains $224)
*(2)* Cost of sales including depreciation and amortization was ($27,531) for the three months ended September 30, 2016 (2015 - $33,181)
Cost of sales including depreciation and amortization was ($76,388) for the nine months ended September 30, 2016 (2015 - $83,480)

*See accompanying notes*

EMPIRE INDUSTRIES LTD

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| As at | Notes | 30-Sep-16 | 31-Dec-15 | 30-Sep-15 |
|---|---|---|---|---|
| (In $000's CAD) | | | $ | $ |
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | **—** | 81 | — |
| Accounts receivable | **3** | **44,615** | 44,596 | 52,790 |
| Inventory | | **1,551** | 1,629 | 1,739 |
| Prepaid expenses and other assets | | **1,145** | 1,188 | 1,542 |
| Derivative financial instruments | | **1,257** | — | — |
| **Total current assets** | | **48,568** | 47,494 | 56,071 |
| Assets held for sale | | **—** | 8,674 | 8,215 |
| **Non-current assets** | | | | |
| Property, plant and equipment and investment property, net | | **12,188** | 11,029 | 8,986 |
| Intangible assets, net | | **6,053** | 4,132 | 2,842 |
| Other non-current assets | | **—** | 107 | 133 |
| Note receivable from TGHL | | **2,835** | — | — |
| Investment in associate | | **1,642** | 1,990 | 1,844 |
| Advances to associate | | **910** | 885 | 879 |
| Deferred tax assets | | **4,184** | 5,829 | 5,023 |
| **Total non-current assets** | | **27,812** | 23,972 | 19,707 |
| **Total assets** | | **76,380** | 80,140 | 83,993 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness | | **12,977** | 6,391 | 8,950 |
| Accounts payable and accrued liabilities | | **27,153** | 20,626 | 12,012 |
| Deferred revenue from construction contracts | **4** | **5,739** | 19,590 | 30,867 |
| Current income taxes payable | | **—** | 138 | — |
| Current portion of long-term debt | **5** | **999** | 903 | 791 |
| Current portion of convertible debentures | | **431** | 951 | 498 |
| Foreign currency forward intruments | | **—** | 3,324 | 2,971 |
| **Total current liabilities** | | **47,299** | 51,923 | 56,089 |
| Liabilities of disposal group | | **—** | 1,620 | 1,741 |
| **Non-current liabilities** | | | | |
| Long-term debt | **5** | **5,740** | 1,526 | 1,555 |
| Limited recourse loan | | **933** | 984 | 925 |
| Derivative financial instruments | | **—** | 427 | — |
| Convertible debentures | | **—** | — | 424 |
| **Total non-current liabilities** | | **6,673** | 2,937 | 2,904 |
| **Total liabilities** | | **53,972** | 56,480 | 60,734 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | | **7,955** | 7,955 | 7,898 |
| Equity component of convertible debentures | | **69** | 144 | 151 |
| Contributed surplus | | **4,345** | 3,721 | 3,732 |
| Retained earnings | **10** | **10,060** | 11,853 | 11,478 |
| Accumulated other comprehensive loss | | **(21)** | (13) | — |
| **Total shareholders' equity** | | **22,408** | 23,660 | 23,259 |
| **Total liabilities and shareholders' equity** | | **76,380** | 80,140 | 83,993 |

Guarantees and contingencies *[note 16]*
*See accompanying notes*

On behalf of the Board of Directors:

"Ian Macdonald" — Director

"Guy Nelson" — Director

**As at September 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 (note 10) | **—** | **—** | **—** | **6,536** | **(8)** | **6,528** |
| Re-classed on maturity of convertible debenture | **—** | **(75)** | **75** | **—** | **—** | **—** |
| TGHL share dividends (note 10) | **—** | **—** | **—** | **(8,329)** | **—** | **(8,329)** |
| Stock-based compensation | **—** | **—** | **549** | **—** | **—** | **549** |
| **As at September 30, 2016** | **7,955** | **69** | **4,345** | **10,060** | **(21)** | **22,408** |

**As at September 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 (note 10) | **—** | **—** | **—** | **995** | **—** | **995** |
| Proceeds received from exercise of warrants | **54** | **—** | **—** | **—** | **—** | **54** |
| Conversion of convertible debenture | **46** | **—** | **—** | **—** | **—** | **46** |
| Stock-based compensation | **—** | **—** | **168** | **—** | **—** | **168** |
| **As at September 30, 2015** | **7,898** | **151** | **3,732** | **11,478** | **—** | **23,259** |

*See accompanying notes*

| (In $000's CAD, except per-share amounts) | Three months ended 2016 | Three months ended 2015 | Nine months ended 2016 | Nine months ended 2015 |
|---|---|---|---|---|
| | $ | | | $ |
| **OPERATING ACTIVITIES** | | | | |
| Comprehensive income from continuing operations | (226) | 1,162 | 4,066 | 1,282 |
| *Add (deduct) items not affecting cash* | | | | |
| Depreciation of property, plant and equipment | 338 | 261 | 967 | 632 |
| Amortization of intangible assets | 293 | 242 | 880 | 534 |
| Amortization of deferred financing charges | 4 | 32 | 12 | 43 |
| Loss (gain) on sale of property, plant and equipment | — | (1) | — | (2) |
| Loss(gain) on foreign exchange revaluation of limited recourse loan | 15 | — | (51) | — |
| Foreign exchange adjustment (net of tax) | (43) | — | 8 | — |
| Share of (profit) loss from associate investments | 65 | (91) | 348 | 120 |
| Finance costs paid on short-term and long-term borrowings | (360) | — | (735) | — |
| Investment tax credits | — | — | (133) | — |
| Unrealized foreign currency translation (gains) losses | (918) | 423 | (8) | (224) |
| Stock-based compensation | 486 | 38 | 549 | 168 |
| Unrealized (gains) losses on derivative financial instruments | 628 | 218 | (5,008) | 1,346 |
| Income taxes paid | — | — | (138) | — |
| Deferred income taxes | — | — | 1,493 | — |
| **Cash flow from continuing operations** | 282 | 2,284 | 2,250 | 3,899 |
| Cash flow used in discontinued operations | (24) | (405) | (1,269) | (2,449) |
| Net change in non-cash working capital balances | 688 | (3,766) | (7,688) | 2,458 |
| **Cash flow (used in) from operating activities** | 946 | (1,887) | (6,707) | 3,908 |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of property, plant and equipment | (341) | (428) | (2,126) | (1,602) |
| Proceeds received from note receivable repayments | 60 | — | 60 | — |
| Proceeds from sale of property, plant and equipment | — | 1 | — | 2 |
| Repayment in advances from associate | — | — | — | 240 |
| Recognition of intangible assets | (1,815) | (744) | (2,801) | (1,393) |
| Cash flow used in investing activities of continuing operations | (2,096) | (1,171) | (4,867) | (2,753) |
| Cash flow used in investing activities of discontinued operations | — | (293) | (125) | (293) |
| **Cash flow used in investing activities** | (2,096) | (1,464) | (4,992) | (3,046) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from shares issued from warrants exercised | — | — | — | 54 |
| Repayment of convertible debt | — | — | (520) | — |
| Proceeds received from long-term debt and finance leases | 2,000 | — | 5,059 | — |
| Repayment of long term debt | (287) | (198) | (761) | (627) |
| Cash flow from (used in) financing activities of continuing operations | 1,713 | (198) | 3,778 | (573) |
| Cash flow used in financing activities of discontinued operations | — | (22) | (37) | (22) |
| Cash flow from (used in) financing activities | 1,713 | (220) | 3,741 | (595) |
| Effect of translation of foreign currency cash and equivalents | 386 | (8) | 1,291 | 537 |
| **Net (decrease) increase in cash and equivalents during the period** | 949 | (3,579) | (6,667) | 804 |
| Cash and cash equivalents, beginning of period | (13,926) | (5,371) | (6,310) | (9,754) |
| **Cash and cash equivalents, end of period** | (12,977) | (8,950) | (12,977) | (8,950) |
| *Cash and cash equivalents is comprised of:* | | | | |
| Cash | — | — | — | — |
| Bank indebtedness | (12,977) | (8,950) | (12,977) | (8,950) |
| | (12,977) | (8,950) | (12,977) | (8,950) |

## 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 November 28, 2016 and were approved and authorized for issue by the Board of Directors on November 28, 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 September 30, 2016 and include the results for the comparative periods ended September 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 September 30, 2016

## 3. Accounts receivable

| | September 30, 2016<br>$ | December 31, 2015<br>$ | September 30, 2015<br>$ |
|---|---|---|---|
| Trade | 9,884 | 14,903 | 18,625 |
| Unbilled construction contract receivables (note 4) | 34,593 | 28,569 | 31,984 |
| Other receivables | 138 | 1,124 | 2,181 |
| Allowance for doubtful accounts | - | - | - |
| | **44,615** | **44,596** | **52,790** |

Holdbacks included in trade receivables are $1,810 as at September 30, 2016 (December 31, 2015 - $4,334 – September 30, 2015 - $4,411).

## 4. Construction contracts

| | September 30, 2016<br>$ | December 31, 2015<br>$ | September 30, 2015<br>$ |
|---|---|---|---|
| Construction costs incurred, and estimated profits less recognized losses to date | 187,689 | 192,283 | 201,819 |
| Less: Progress billings | (158,835) | (183,304) | (200,702) |
| | **28,854** | **8,979** | **1,117** |
| Items recognized and included in the financial statements as: | | | |
| Unbilled construction contract receivables (note 3) | 34,593 | 28,569 | 31,984 |
| Deferred revenue from construction contracts | (5,739) | (19,590) | (30,867) |
| | **28,854** | **8,979** | **1,117** |

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

## 5. Long-term debt

During the nine months ended September 30, 2016, the Group has secured two separate tranches of long-term debt totalling $5,059 from its senior lender, CIBC. The first tranche of $3,059 was a replenishment of term debt that had been paid down. This tranche of term debt was combined with the existing outstanding term debt and bears interest at the prime rate plus 1.5% per annum. The combined amount was then restructured to be repaid over 60 months maturing on May 13, 2021.

The second tranche of $2,000 was a bridge facility to supplement the Group's working capital requirements and will be replaced by a larger $10,000 USD facility the Group was finalizing with Export Development Canada (EDC). This bridge facility also bears interest at prime plus 1.5% per annum.

Subsequent to September 30, 2016, the Group closed the abovementioned facility with EDC (note 15).

## 6. Cost of sales

| | 3 Months | | 9 Months | |
|---|---|---|---|---|
| | September 30, 2016<br>$ | September 30, 2015<br>$ | September 30, 2016<br>$ | September 30, 2015<br>$ |
| Direct construction costs | (23,681) | (29,185) | (64,397) | (71,954) |
| Indirect salaries and benefits | (1,772) | (2,037) | (6,177) | (5,991) |
| Indirect production costs | (1,548) | (1,534) | (4,257) | (4,559) |
| | **(27,001)** | **(32,756)** | **(74,831)** | **(82,504)** |

## 7. Selling and administrative expenses

| | 3 Months | | 9 Months | |
|---|---|---|---|---|
| | September 30, 2016<br>$ | September 30, 2015<br>$ | September 30, 2016<br>$ | September 30, 2015<br>$ |
| Salaries and benefits | (2,134) | (1,952) | (6,920) | (5,806) |
| General, selling and administrative expenses | (1,181) | (1,501) | (4,290) | (4,008) |
| Research expenditures | - | (23) | - | (140) |
| | **(3,315)** | **(3,476)** | **(11,210)** | **(9,918)** |

## 8. Finance costs

| | 3 Months | | 9 Months | |
|---|---|---|---|---|
| | September 30, 2016<br>$ | September 30, 2015<br>$ | September 30, 2016<br>$ | September 30, 2015<br>$ |
| Interest on long-term borrowings | **(167)** | (83) | **(327)** | (231) |
| Interest on short-term borrowing and other | **(242)** | (137) | **(634)** | (732) |
| Deferred financing charges | **(4)** | (32) | **(12)** | (43) |
| | **(413)** | (252) | **(973)** | (1,006) |

## 9. Foreign currency forward contracts and options

The Group utilizes forward currency contracts and options to provide protection against foreign exchange rate movements on long-term sales contracts. The Group's policy is to not utilize derivative financial instruments for trading or speculative purposes. During the nine months, the Group recorded unrealized mark-to market gains on foreign currency forward contracts and options of $5,008 with losses of $628 recorded in the three-month period ended (2015

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

– mark to market loss of $1,346 for the nine-month period ended with losses of $218 recorded in the comparative three-month period). As at September 30, 2016 the Group recorded an asset associated with the unrealized mark-to market gains on foreign currency forward contracts and options of $1,257 (2015 – December – liability - $3,751, September – liability - $2,971).

## 10. 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:

| | September 30, 2016 $ | December 31, 2015 $ | September 30, 2015 $ |
|---|---|---|---|
| Opening retained earnings | 11,853 | 10,483 | 10,483 |
| Net income | 6,536 | 1,370 | 995 |
| Distribution of shares of TGHL | (8,329) | - | - |
| | **10,060** | **11,853** | **11,478** |

## 11. Income per share

Income per share for the three months ended September 30:

| | September 30, 2016 $ | September 30, 2015 $ |
|---|---|---|
| Net income from continuing operations | (269) | 1,162 |
| Net income from discontinued operations | (43) | (172) |
| **Effect of diluted securities on net income** | | |
| Net income from assumed debenture conversion | - | - |
| Diluted net income attributable to shareholders | (312) | 990 |
| Basic weighted average number of shares | 64,834,119 | 64,834,119 |
| **Effect of dilutive securities** | | |
| Net incremental dilutive shares | - | - |
| Diluted weighted average number of shares | 64,834,119 | 64,834,119 |
| Net earnings per share | | |
| Basic earnings per share from continuing operations | **(0.004)** | **0.018** |
| Diluted earnings per share from continuing operations | **(0.004)** | **0.018** |
| Basic earnings per share from discontinued operations | **(0.000)** | **(0.003)** |
| Diluted earnings per share from discontinued operations | **(0.000)** | **(0.003)** |

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

Income per share for the nine months ended September 30:

| | September 30, 2016 $ | September 30, 2015 $ |
|---|---|---|
| Net income from continuing operations | 4,074 | 1,282 |
| Net income (loss) from discontinued operations | 2,462 | (287) |
| **Effect of diluted securities on net income** | | |
| Net income from assumed debenture conversion | 51 | 98 |
| Diluted net income attributable to shareholders | 6,587 | 1,093 |
| Basic weighted average number of shares | 64,834,119 | 64,696,618 |
| **Effect of dilutive securities** | | |
| Net incremental dilutive shares | 8,529,845 | 3,884,995 |
| Diluted weighted average number of shares | 73,363,964 | 68,581,613 |
| Net earnings per share | | |
| Basic earnings per share from continuing operations | **0.064** | **0.021** |
| Diluted earnings per share from continuing operations | **0.056** | **0.020** |
| Basic earnings (loss) per share from discontinued operations | **0.038** | **(0.004)** |
| Diluted earnings (loss) per share from discontinued operations | **0.034** | **(0.004)** |

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.

## 12. 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 Septmeber 30, 2016 and 2015 respectively:

| 2016 | Media-based Attractions $ | Steel Fabrication Services $ | Corporate $ | Total $ |
|---|---|---|---|---|
| Sales | 27,528 | 4,784 | 18 | **32,330** |
| Cost of goods sold excluding depreciation and amortization | (22,762) | (4,239) | - | **(27,001)** |
| Adjusted gross profit (1) | 4,766 | 545 | 18 | **5,329** |
| Selling, general and administrative expenses | (1,882) | (681) | (752) | **(3,315)** |
| Adjusted EBITDA (2) | 2,884 | (136) | (734) | **2,014** |
| Depreciation and amortization expense | (547) | (79) | (5) | **(631)** |
| Adjusted EBIT (3) | 2,337 | (215) | (739) | **1,383** |

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

| 2015 | Media-based Attractions $ | Steel Fabrication Services $ | Corporate $ | Total $ |
|---|---|---|---|---|
| Sales | 30,551 | 7,883 | (68) | **38,366** |
| Cost of goods sold excluding depreciation and amortization | (26,152) | (6,604) | - | **(32,756)** |
| Adjusted gross profit (1) | 4,399 | 1,279 | (68) | **5,610** |
| Selling, general and administrative expenses | (1,978) | (785) | (713) | **(3,476)** |
| Adjusted EBITDA (2) | 2,421 | 494 | (781) | **2,134** |
| Depreciation expense | (405) | (98) | - | **(503)** |
| Adjusted EBIT (3) | 2,016 | 396 | (781) | **1,631** |

The tables below show the segmented results for the nine month periods ended September 30, 2016 and 2015 respectively:

| 2016 | Media-based Attractions $ | Steel Fabrication Services $ | Corporate $ | Total $ |
|---|---|---|---|---|
| Sales | 78,310 | 11,962 | 184 | **90,456** |
| Cost of goods sold excluding depreciation and amortization | (64,875) | (9,956) | - | **(74,831)** |
| Adjusted gross profit (1) | 13,435 | 2,006 | 184 | **15,625** |
| Selling, general and administrative expenses | (6,720) | (2,222) | (2,268) | **(11,210)** |
| Adjusted EBITDA (2) | 6,715 | (216) | (2,084) | **4,415** |
| Depreciation and amortization expense | (1,581) | (251) | (15) | **(1,847)** |
| Adjusted EBIT (3) | 5,134 | (467) | (2,099) | **2,568** |

| 2015 | Media-based Attractions $ | Steel Fabrication Services $ | Corporate $ | Total $ |
|---|---|---|---|---|
| Sales | 73,664 | 23,899 | (2) | **97,561** |
| Cost of goods sold excluding depreciation and amortization | (61,304) | (21,200) | - | **(82,504)** |
| Adjusted gross profit (1) | 12,360 | 2,699 | (2) | **15,057** |
| Selling, general and administrative expenses | (5,232) | (2,596) | (2,090) | **(9,918)** |
| Adjusted EBITDA (2) | 7,128 | 103 | (2,092) | **5,139** |
| Depreciation expense | (883) | (283) | - | **(1,166)** |
| Adjusted EBIT (3) | 6,245 | (180) | (2,092) | **3,973** |

(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

## 13. Capital disclosure and management

The Group's objective when managing its long-term capital structure is to strive for a long-term manageable level of long-term funded debt to total capitalization. The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell redundant or non-core assets or borrow through the issue of long-term debt.

Funded debt is defined as long term debt including finance leases. Tangible net worth includes shareholder's equity, subordinate debt such as subordinate convertible debentures and limited recourse loans less intangible assets and deferred tax assets. The Group's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. There are external restrictions to capital as lending limits are based on asset availability and financing agreements that are impacted by covenants. Management actively monitors these limits to ensure compliance.

| As at the periods ended | September 30, 2016 $ | December 31, 2015 $ | September 30, 2015 $ |
|---|---|---|---|
| Current portion of long-term debt including finance leases | 999 | 903 | 791 |
| Long-term debt including finance leases | 5,740 | 1,526 | 1,555 |
| Long-term funded debt | 6,739 | 2,429 | 2,346 |
| Shareholders' equity | 22,408 | 23,660 | 23,529 |
| Convertible debentures | 431 | 951 | 922 |
| Limited recourse loan and subordinate note payable | 933 | 984 | 925 |
| Less: deferred tax assets | (4,184) | (5,829) | (5,023) |
| Less: intangible assets (net) | (6,053) | (4,123) | (2,842) |
| Tangible net worth | 13,535 | 15,643 | 17,511 |
| Capitalization | 20,274 | 18,072 | 19,857 |
| Long-term funded debt: Capitalization | 33.2% | 13.4% | 11.8% |

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

## 14. Discontinued Operations

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

| | 3 Months | | 9 Months | |
|---|---|---|---|---|
| | September 30, 2016<br>$ | September 30 2015<br>$ | September 30, 2016<br>$ | September 30, 2015<br>$ |
| Revenues | **-** | 3,715 | **9,146** | 15,026 |
| Cost of sales excluding depreciation and amortization | **-** | (3,342) | **(8,781)** | (13,265) |
| Adjusted gross profit | **-** | 373 | **365** | 1,761 |
| Selling, general and administrative expenses | **-** | (495) | **(1,085)** | (1,891) |
| Adjusted EBITDA | **-** | (122) | **(720)** | (130) |
| Depreciation and amortization | **-** | (45) | **-** | (134) |
| Adjusted EBIT | **-** | (167) | **(720)** | (264) |
| Finance costs | **-** | (4) | **(9)** | (22) |
| Gain on disposal costs (net of disposal costs) | **(43)** | (1) | **3,475** | (1) |
| Net loss from discontinued operations before taxes | **(43)** | (172) | **2,746** | (287) |
| Tax expense (current and deferred) | **-** | - | **(284)** | - |
| **Net loss from discontinued operations (net of tax)** | **(43)** | (172) | **2,462** | (287) |

### Assets held for sale and liabilities of disposal group

| | September 30, 2016<br>$ | December 31, 2015<br>$ | September 30, 2015<br>$ |
|---|---|---|---|
| Accounts receivable | - | 1,601 | 388 |
| Inventory | - | 4,650 | 5,777 |
| Prepaid expenses | - | 87 | 117 |
| Property, plant and equipment (net) | - | 2,024 | 1,933 |
| Intangible assets | - | 312 | - |
| **Assets held for sale** | **-** | **8,674** | **8,215** |
| Accounts payable and accrued liabilities | - | 1,518 | 1,620 |
| Current portion of long-term debt | - | 67 | 64 |
| Long-term debt | - | 35 | 57 |
| **Liabilities of disposal group** | **-** | **1,620** | **1,741** |

## 15. Subsequent Events

On October 7, 2016 the Group finalized a loan from Export Development Canada in the amount of $10,000 USD. The loan which will be used for working capital purposes bears interest at the US prime rate plus 2.5%. The loan is to be repaid over 3 years with no payments in the first six month's post closing following by 10 equal quarterly installments thereafter.

## 16. Guarantees and contingencies

### Loan guarantees

The Group is contingently liable under one guarantee given to a third-party lender who has provided certain financing facilities to associated investments. As at September 30, 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 $344 as at September 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 September 30, 2016 ($6,066 as at December 31, 2015 and $6,066 as at September 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.