EMPIRE INDUSTRIES LTD

1Q17

Management's Discussion & Analysis

For the 3 month period ending March 31, 2017

Consolidated Financial Statements

For the 3 month period ending March 31, 2017

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, 2016. Reference should also be made to the annual MD&A for the year ended December 31, 2016.

The interim consolidated financial statements and accompanying notes of the Group for the period ended March 31, 2017 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 period ended March 31. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on May 24, 2017. 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 focusses its business on designing, supplying, and installing premium entertainment attractions and ride systems for the global entertainment industry. The Group also uses these same turn-key integration services for special projects such as large optical telescopes and enclosures.

The Group's operations take place primarily through the following wholly owned business units:

Business Unit	Description
Dynamic Attractions	Turn-key supplier of a proprietary line of premium entertainment attractions for theme parks and stand-alone tourist venues. Provides Unlimited Attractions™ line of theming services that develop rides or ride systems into attractions. The Group also provides parts and services for its own ride systems and those ride systems supplied by others. Leased production and office facilities in Port Coquitlam, BC. Leased Attractions Development Center in Orlando FL. Leased Parts and Service offices in Arlington TX. Leased Business Development office in Toronto ON.
Dynamic Structures	Primarily designs and manufactures complex ride systems for global theme park customers. Also designs and manufactures sophisticated custom machinery and equipment, such as astronomical telescopes and enclosures. Leased production facilities in Port Coquitlam, BC in addition to one owned production facility west of Edmonton, AB and a leased production support office in Edmonton AB.

In addition to these wholly owned operating business units, the Group holds significant equity interests in two major business enterprises:

Enterprise	Business
Dongguan Qiguang Dynamic Steel Structures, Ltd. ("QDS") (45%)	Manufacturing of ride system components in China for ride systems destined for the Asian market. QDS is 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.
Athabasca Chipewyan Empire Industrial Services Ltd. ("ACE") (49%)	Maintenance services, machining, multi-trade industrial construction and steel fabrication/installation 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.

The Group's head office located in a leased facility in Winnipeg, MB, with an additional leased executive office located in Toronto, ON. These offices are responsible for executive management, managerial and financial oversight, business development and compliance requirements for the overall organization.

The Group's common shares are listed on the TSX Venture Exchange under the trading symbol EIL.

Consolidated Financial Results

Periods ended Mar 31	**Quarter ended**		
	2017	**2016**	**Variance**
Operating Results:			
Revenues	**32,428**	27,778	4,650
Adjusted gross margin	**7,269**	5,241	2,028
Adjusted gross margin %	**22.4%**	18.9%	3.5%
Adjusted EBITDA	**3,057**	1,528	1,529
Adjusted EBITDA %	**9.43%**	5.50%	3.93%
Adjusted EBIT	**1,980**	977	1,003
Adjusted EBIT %	**6.11%**	3.52%	2.59%
Net Income	**157**	3,762	(3,605)
Per share data:			
Basic & diluted eps - continuing ops	**0.002**	0.064	(0.062)
Basic & diluted eps - discontinued ops	**0.000**	(0.004)	0.004

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.

In early 2017, with the approval of the Board of Directors, the Group commenced curtailment of the operations of the Steel Fabrication segment in all material respects, and redeployed those assets into the Media-Based Attractions segment to support the existing capacity and planned growth of this operating segment. Management believes that continuing to operate the industrial structural steel supply business on a stand-alone basis is not the best use of the Group's capital. The domestic steel fabrication market outlook has taken a demonstrable turn for the worse that was further aggravated by long term structural disadvantages, negatively impacting the industrial, commercial and institutional market in Western Canada. This combined with excess steel fabrication capacity does not bode well for this market going forward. In the immediate future, the Group will right-size and consolidate its industrial steel fabrication activities in Western Canada and China to match its Media-based Attractions requirements for fabricated steel. The re-deployment of the Steel Fabrication segment assets into the Media-based Attractions segment is expected to improve the Group's financial performance in the future. It will also allow management to focus even more on the Media-based Attractions business.

The spin-out of our Manufactured Products segment (Tornado Global Hydrovacs) into a stand-alone publicly traded company in mid 2016 plus the steel fabrication redeployment in early 2017 has sharply increased Empire's focus on its Media-based Attractions segment.

The Group has successfully positioned itself to become a globally competitive leader in the higher margin, rapidly growing, media-based attractions market niche. The Group expects to benefit from its strategic focus on a market niche that is expected to grow rapidly for many years to come. Contract backlog as of March 31, 2017 was $114 million, but will be substantially higher in our 2nd quarter reporting period arising from the recently announced $USD 120MM contract awards. Profit performance is expected to improve as the Group moves from first generation products into second generation products, taking advantage of the learning curve. There was a large mix of proprietary, first generation products in our work in process during 2016 negatively impacting margins over the balance of our other work. This high mix of first generation products is expected to decrease in 2017 and afterwards as they get delivered and the mix of "build to print" work increases.

There are several strategic moves the Group has made in the United States that are already paying dividends and this trend is expected to increase going forward. Our Media-based Attractions segment's Unlimited Attractions™ division in Orlando is gathering momentum by converting our proprietary ride systems into attractions by adding various show elements that we did not provide before. Additionally, our Orlando-based ride system design and assembly staff is increasing significantly where there is a larger pool of experienced, ride system people to draw from, and our 57,000 square foot customer prototyping facility is offering prospective customers a much broader range of the services than we did before.

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.

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 contribute to our bottom line throughout 2017. 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, because it is the only company that has this specialized expertise, having designed and built more than half the world's large telescope enclosures.

The Group will continue to shelter its profits from income tax through the utilization of loss carry forwards and investment tax credits. On a simplified basis, the Group's $7.1 million of deferred tax assets at March 31, 2017 will continue to shield the Group from cash tax expense on approximately $26.3 million of future taxable income at the current statutory tax rates.

1Q17 Results Review

Revenues

Revenues from continuing operations increased by 17% to $32.4 million in 1Q17. This increase in revenues compared to the same period in 2016 was due to the Group being into the production phase on 3 major projects which in the previous year were still in largely the design phase. This increase in production has also offset the Group's decision to curtail operations in the industrial steel fabrication.

Adjusted Gross Margins

Adjusted gross margins from continuing operations improved by 3.5% compared to same period in 2016. This increase in Adjusted gross margin is resulting from improved project margins on the current projects in production and gains realized on foreign exchange.

Selling, General and Administrative Costs

Selling, general and administrative costs increased by $0.5 million in 1Q17 compared to 1Q16. The increase in selling, general and administrative expenses is driven by an increase in overall expenses but also an increase in the proportion of such expenses incurred in the segment's Orlando facility compared to its Port Coquitlam facility. This results in an increase due to the translation impact of the stronger US dollar.

Adjusted EBITDA

Adjusted EBITDA for the period ended March 31, 2017 of $3.1 million was $1.5 million more than the same period in 2016 which was a result of higher revenue volumes and improved adjusted gross margins more than offsetting the increase in selling, general and administrative expenses.

Cashflow Generated by Operations

The Group's cash flow generated by operations increased by $1.1 million in the quarter when compared to the same quarter in 2016. The increase in Adjusted EBITDA was offset in part by increased finance costs due to higher debt levels over the comparative period. The Group, raised approximately $18.5 million of long-term debt in 2016 which was mostly raised in the fourth quarter.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.4 million in 1Q17 compared to same period in 2016. This increase was due to higher property, plant and equipment volumes when compared to March 31, 2016. The Group's net book value of property, plant and equipment is $3.0 million higher at March 31, 2017 than it was at March 31, 2016.

Amortization of intangible assets increased by $0.2 million in 1Q17 compared to the same period in 2016. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to the higher balance when compared to March 31, 2016. The Group's net book value of intangible assets is $4.0 million higher at March 31, 2017 than it was at March 31, 2016.

Finance Costs

Finance costs increased by $0.4 million in 1Q17 compared to the same period in 2016 which is driven directly by the increase in long-term debt outstanding by the Group at March 31, 2017 as compared to the March 31, 2016.

Share of profit (loss) from associate

The Group recorded a loss from its associate investment in ACE Industrial Services Ltd. in Fort McMurray, Alberta of $0.1 million in 1Q17 which is consistent with loss recorded in the same period in 2016. Historically, this business has been slow in the first quarter of every year so the loss recorded in 1Q17 was not out of line with past performance.

Stock-based compensation

Stock-based compensation expense in 1Q17 was minimal and consistent with the same period in 2016 with moderate charges relating to ongoing amortization of unvested options in the quarter.

Fair value changes in derivative financial instruments

The Group's fair value of forward currency forward contracts remained largely unchanged since December 31, 2016 and as a result, there is no material gain or loss in the quarter. The USD exchange rate reduced modestly to 1.3299 at March 31, 2017 versus 1.3427 at December 31, 2016. In addition to that, the dollar value of forward contracts outstanding remained at consistent levels and at rates that were slightly better than the closing rate at March 31, 2017 on average.

In the same period in 2016, there was a much more dramatic adjustment. The exchange rate had reduced significantly at March 31, 2016 to 1.2987 from 1.3810 at December 31, 2015. The Group's outstanding foreign currency forward contracts outstanding at March 31, 2016 had switched from a liability position of $3.7 million at December 31, 2015 to an asset of $1.2 million at March 31, 2016 as most of the contracts were at settlement rates above the 1.2987 rate.

Restructuring costs

The Group recorded a restructuring charge of $1.0 million in 1Q17 relating to a previously announced decision by the Group to curtail its third-party steel fabrication operations and deploy the assets to support the Group's growing Media-Based Attractions business. The restructuring involves the reduction in head count, facilities and equipment requirements throughout the Group's operations. Most of the restructuring steps were executed within the 1Q17.

Net income (loss) from discontinued operations

In 2016, the Group recorded the operating results of Tornado Trucks in discontinued operations as the business, which formed the Group's Manufactured Products operating segment was spun out and sold.

Income tax expense

The Group had no current tax expense in 1Q17 and based on the income before tax, determined that deferred tax expenses were $nil for the quarter. Alternatively, the Group had $1.75 million of a deferred tax expense in the three-month period ended March 31, 2016 resulting largely from the temporary difference created by the fair value liability of the derivative financial instruments that was discharged in the period and replaced with a smaller asset.

As at March 31, 2017 the Group has recorded deferred tax assets of $7.1 million which, on a simplified basis, will continue to shield the Group from cash tax expense on $26.3 million of future taxable income at the current statutory tax rates.

Net income

The Group's net income decreased by $3.6 million in 1Q17 when compared to the same period in 2016 which is the net effect of the factors discussed above.

Significant Events

- On January 22, 2017, the Group incorporated a wholly-owned foreign enterprise in the People's Republic of China named Zhejiang Dynamic Structures Engineering Technology Limited. The purpose of this entity will be to expand and improve the Group's manufacturing capacity in China.

Subsequent Significant Events

- On May 19, 2017, the Group announced that it has received a USD$ 120 million, multi-year, multi-theme park ride system series of contracts with one of the leading, global theme park owners. These contracts will largely be executed over the next 4 years from the company's Vancouver-based design and manufacturing facilities as well as their Attractions Development Center in Orlando Florida.

Selected Quarterly Financial Information

Quarterly Financial Information **For the years ended**	**2017** **Q1**	**2016** **Q4**	**2016** **Q3**	**2016** **Q2**	**2016** **Q1**	**2015** **Q4**	**2015** **Q3**	**2015** **Q2**
Sales	32,428	33,664	32,330	30,348	27,778	33,665	38,365	30,611
Profit (loss) from continuing operations	157	(2,660)	(269)	218	4,125	567	1,162	813
Profit (loss) from discontinued operations	-	102	(43)	2,868	(363)	(192)	(172)	77
Profit (loss) per share:								
Basic & Diluted - continuing ops	0.002	(0.040)	(0.000)	0.000	0.060	0.010	0.020	0.010
Basic & Diluted - discontinued ops	0.000	0.000	(0.000)	0.040	(0.000)	(0.000)	(0.000)	0.000
Basic & Diluted - all operations	0.002	(0.040)	(0.000)	0.040	0.060	0.000	0.020	0.010

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended March 31, 2017, the Group's operations generated $0.6 million of cash, compared with $1.5 million of cash in the same period of 2016 excluding the impact of changes in non-cash working capital amounts. The Group expects that its operations will generate sufficient cash on a go-forward basis to meet the Group's obligations.

The Group has a $15.0 million revolving credit facility with CIBC, of which $8.1 million was drawn as of March 31, 2017. The Group's marginable assets at March 31, 2017 were $17.5 million, which is $9.4 million more than the Group's total draw on the operating line.

The Group made $2.4 million of cash principal repayments during the. Total long-term debt of $18.1 million as at March 31, 2017 consisted of $3.6 million of term debt with CIBC, $13.3 million of term debt with EDC, $0.3 million under finance leases, and $0.9 million of a limited recourse loan.

The Group's adjusted working capital ratio has declined to 0.91:1 at March 31, 2017 compared with 0.98:1 at March 31, 2016.

Shareholders' Equity

Shareholders' equity of $20.3 million at March 31, 2017 is $0.2 million more than the shareholders' equity at December 31, 2016 due to the net income in the period. No dividends were declared or paid in the period. The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. The Group had 6,067,500 outstanding options at March 31, 2017. The average exercise price of the outstanding options is $0.40 per share. Of these options, 5,260,416 are currently exercisable at an average exercise price of $0.39 per share.

Market Capitalization

The market capitalization of the Group's 65,937,060 issued and outstanding common shares at May 26, 2017 was $40.9 million or $0.62 per share, which is greater than the Group's book value per share of $0.31 at March 31, 2017. The issued and outstanding common shares at May 26, 2017, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares As at May 26, 2017		
Issued and outstanding common shares		**65,937,060**
Securities convertible into common shares		
Warrants	6,925,000	
Stock Options	6,067,500	
Total Securities convertible into common shares		12,992,500
Fully Diluted Shares		**78,929,560**

Segment Performance

As outlined in the Group's 2016 Annual Financial Statements, effective 2017 the Group made the decision to largely curtail its active operations in Steel Fabrication Services and re-deploy those assets to effectively execute the core production requirements of the Group's Media-Based Attraction business. Any residual steel fabrication activities executed by the Group are immaterial to the Group and no longer constitute and operating segment. The Group has determined that for periods commencing after January 1, 2017, the Group operates as one operating segment.

The Group's geographical breakdown of sales for the three-month period ended March 31, 2017 is as follows:

	Mar 31, 2017	**Mar 31, 2016**
Asia	**19,869**	9,351
United States	**6,631**	4,834
Middle East/Europe	**2,951**	10,510
Canada	**2,977**	3,083
	32,428	27,778

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 Group 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.

Non-IFRS Methods

In this MD&A, the Group uses financial management metrics that are not in accordance with IFRS “Adjusted earnings (loss) before interest, tax, depreciation and amortization (Adjusted EBITDA)”, “Adjusted Gross Margin”, Adjusted earnings (loss) before interest and taxes (Adjusted EBIT)”, “Cashflow Generated by Operations” and “Adjusted Working Capital”. 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, restructuring costs and non-cash components of stock based compensation. Adjusted EBIT is the result of the Group’s Adjusted EBITDA less depreciation and amortization expenses. The Adjusted Gross Margin metric is the result of revenues less cost of sales, excluding depreciation of property, plant and equipment and amortization of intangible assets. Cashflow Generation by Operations is the result of subtracting finance costs from Adjusted EBITDA. Adjusted working capital does not take into account cash on hand and the fair value of derivative financial instruments due in less than one year. It should be noted that the Group’s definition of Cashflow Generated by Operations, Adjusted EBITDA, Adjusted EBIT, Adjusted Gross Margin and Adjusted Working Capital may differ from those definitions used by other companies.

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

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended March 31	**Quarter ended**		
	2017	**2016**	**Variance**
Profit (loss) - before taxes	**157**	5,880	(5,723)
Add : Depreciation and amortization	**1,077**	551	526
Add/Deduct : Restructuring Charge	**1,045**	-	1,045
Add : Finance costs	**641**	234	407
Add/Deduct : Deduct Share of profit of associate	**86**	107	(21)
Add/Deduct : Fair value of changes of foreign currency option contracts	**9**	(5,279)	5,288
Add : non cash stock-based compensation	**42**	35	7
Adjusted EBITDA	**3,057**	1,528	1,529

Calculation of Adjusted EBIT

Periods ended March 31	**Quarter ended**		
	2017	**2016**	**Variance**
Adjusted EBITDA	**3,057**	1,528	1,529
Less : Depreciation and amortization	***(1,077)***	*(551)*	(526)
Adjusted EBIT	**1,980**	977	1,003
% of revenue	**6.1%**	3.5%	2.6%

Calculation of Adjusted Gross Margin

Periods ended March 31	**Quarter ended**		
	2017	**2016**	**Variance**
Revenues	32,428	27,778	4,650
Cost of sales excluding depreciation and amortization	(25,159)	(22,537)	(2,622)
Adjusted gross margin	7,269	5,241	2,028
% of revenue	22.42%	18.87%	3.55%

Cashflow Generated by Operations

Periods ended March 31	Quarter ended		
	2017	2016	Variance
Adjusted EBITDA	**3,057**	1,528	1,529
Less: Finance Costs	**(641)**	(234)	(407)
Cashflow Generated by Operations	**2,416**	1,294	1,122

Adjusted Working Capital

For the periods ended	IFRS	Non-IFRS		IFRS	Non-IFRS	
	Mar 31, 2017		Mar 31, 2017	Mar 31, 2016		Mar 31, 2016
	As Reported	Adjustment	Adjusted	As Reported	Adjustment	Adjusted
Current Assets	40,489	(638)	39,851	41,231	(947)	40,284
Less: Cash and equivalents	(92)	-	(92)	(62)	-	(62)
Current Liabilities	(43,560)	-	(43,560)	(41,031)	-	(41,031)
Non-Cash Working Capital Position	(3,163)	(638)	(3,801)	138	(947)	(809)
Working Capital Ratio	**0.93**		**0.91**	**1.01**		**0.98**

1st Quarter

Condensed Consolidated Financial Statements

For the 3 month periods ending March 31, 2017

Unaudited

NOTICE TO READER

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

1Q17

EMPIRE INDUSTRIES LTD

Condensed Consolidated Statement of

Comprehensive Income

For the 3 month periods ended March 31		**2017**	**2016**
(In $000's CAD, except where otherwise indicated)	**Notes**		
Revenues[(1)]		**32,428**	27,778
Cost of sales, excluding depreciation and amoritzation[(2)]	**5**	**(25,159)**	(22,537)
Gross Profit, excluding depreciation and amortization		**7,269**	5,241
Selling and administration expenses	**6**	**(4,212)**	(3,713)
Result before depreciation, amortization finance costs, and other items		**3,057**	1,528
Finance costs	**7**	**(641)**	(234)
Result before depreciation, amortization and other items		**2,416**	1,294
Depreciation of property, plant and equipment		**(646)**	(293)
Amortization of intangible assets		**(431)**	(258)
Result before other items of income		**1,339**	743
Share of (loss) profit from associate		**(86)**	(107)
Stock-based compensation		**(42)**	(35)
Fair value changes in derivative financial instruments		**(9)**	5,279
Restructuring charge	**8**	**(1,045)**	-
Net Income from continuing operations before tax		**157**	5,880
Net income (loss) from discontinued operations (net of tax)		**-**	(363)
Income tax (expense) recovery			
Current		**-**	(29)
Deferred		**-**	(1,726)
		-	(1,755)
Net income		**157**	**3,762**
Other comprehensive loss		**(12)**	(7)
Comprehensive income		**145**	3,755

Income per share continuing operations - basic & diluted	**9**	**0.002**	0.064
Income per share discontinued operations - basic & diluted	**9**	**0.000**	(0.004)
Income per share all operations - basic & diluted	**9**	**0.002**	0.060

(1) Included in revenue are foreign exchange gains of $1,299 for the period ended March 31, 2017 (2016 - losses $888)

(2) Cost of sales including depreciation and amortization was $26,010 for the year ended March 31, 2017 (2016 - $23,000)

See accompanying notes

EMPIRE INDUSTRIES LTD

Condensed Consolidated Statement of
Financial Position

As at	Notes	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016
(In $000's CAD, except where otherwise indicated)				
ASSETS				
Current assets				
Cash and cash equivalents		**92**	102	62
Accounts receivable	**3**	**37,038**	40,933	35,605
Inventory		**1,435**	1,486	2,695
Prepaid expenses		**1,286**	1,343	1,922
Derivative financial instruments		**638**	647	947
Total current assets		**40,489**	44,511	41,231
Assets held for sale		**-**	-	8,104
Non-current assets				
Property, plant and equipment and investment property, net		**14,289**	13,983	11,326
Intangible assets, net		**8,196**	7,762	4,152
Deferred tax assets		**7,138**	7,138	4,370
Note receivable		**2,746**	2,814	-
Investment in associate		**1,403**	1,489	1,883
Advances to associate		**952**	929	876
Derivative financial instruments		**-**	-	582
Other non-current assets		**119**	92	392
Total non-current assets		**34,843**	34,207	23,581
Total assets		**75,332**	78,718	72,916
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**8,070**	6,856	9,491
Accounts payable and accrued liabilities		**18,344**	23,886	14,615
Deferred revenue from construction contracts	**4**	**10,439**	7,269	15,599
Current portion of long-term debt		**6,707**	7,473	895
Long-term debt classified as current		**-**	11,937	-
Current portion of convertible debentures		**-**	-	431
Total current liabilities		**43,560**	57,421	41,031
Liabilities of disposal group		**-**	**-**	2,197
Non-current liabilities				
Long-term debt		**10,494**	197	1,315
Limited recourse loan		**946**	955	923
Total non-current liabilites		**11,440**	1,152	2,238
Total Liabilities		**55,000**	58,573	45,466
SHARHOLDERS' EQUITY				
Share capital		**8,300**	8,300	7,955
Equity component of convertible debentures		**-**	-	69
Contributed surplus		**4,455**	4,413	3,831
Retained earnings - opening		**7,502**	11,853	11,853
Net Income		**157**	3,978	3,762
Dividend distribution of TGHL		**-**	(8,329)	-
Retained earnings - closing		**7,659**	7,502	15,615
Accumulated other comprehensive loss		**(82)**	(70)	(20)
Total shareholders' equity		**20,332**	20,145	27,450
Total liabilities and shareholders' equity		**75,332**	78,718	72,916

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

On behalf of the Board of Directors:

Ian Macdonald
Director

Director

As at March 31, 2017

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2016	**8,300**	**-**	**4,413**	**7,502**	**(70)**	**20,145**
Net income for the year	-	-	-	157	-	157
Other comprehensive loss	-	-	-	-	(12)	(12)
Stock-based compensation	-	-	42	-	-	42
As at March 31, 2017	**8,300**	**-**	**4,455**	**7,659**	**(82)**	**20,332**

As at March 31, 2016

	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2015	7,955	144	3,721	11,853	(13)	23,660
Conversion of convertible debenture	-	(75)	75	-	-	-
Net income for the year	-	-	-	3,762	-	3,762
Other comprehensive loss	-	-	-	-	(7)	(7)
Stock-based compensation	-	-	35	-	-	35
As at March 31, 2016	7,955	69	3,831	15,615	(20)	27,450

See accompanying notes

(In $000's CAD, except where otherwise indicated)	2017	2016
OPERATING ACTIVITIES		
Income from continuing operations after tax	**157**	4,118
Add (deduct) items not affecting cash :		
Depreciation of property, plant and equipment	**646**	293
Amortization of intangible assets	**431**	258
Amortization of deferred financing charges	**4**	4
Finance costs paid on short-term and long-term borrowings	**0**	(195)
Loss on foreign exchange revaluation of limited recourse loan	**(9)**	(61)
Foreign currency adjusted (net of tax)	**(12)**	7
Share of profit from associate investments	**86**	107
Non-cash interest income earned	**(23)**	0
Stock-based compensation	**42**	35
Fair value changes in derivative financial instruments	**9**	(5,279)
Unrealized foreign currency translation gains recorded in revenues	**(1,299)**	888
Non-cash restructuring charge	**600**	-
Income taxes paid	**-**	(138)
Investment tax credits recorded in cost of sales	**-**	(133)
Deferred income taxes	**-**	1,592
Cash from (used in) continuing operations	**632**	1,496
Cash flow from (used in) discontinued operations	**-**	799
Net change in non-cash working capital balances	**718**	(4,667)
Cash (used in) from operating activities	**1,350**	(2,372)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment *(note 9)*	**(952)**	(586)
Acquisition of other long term assets	**(31)**	-
Proceeds from repayment of note receivable from TGHL	**60**	-
Proceeds from sale of items of property, plant and equipment	**-**	-
Acquisiton of intangible assets *(note 8)*	**(865)**	(278)
Decrease (increase) amounts due from an associate	**0**	-
Cash used in investing activities of continuing operations	**(1,788)**	(864)
Cash used in investing activities of discontinued operations	**-**	(1)
Cash used in investing activities	**(1,788)**	(865)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(2,406)**	(215)
Repayment of convertible debentures	**-**	(520)
Finance costs paid on long-term borrowings	**-**	-
Cash from (used in) financing activites of continuing operations	**(2,406)**	(735)
Cash used in financing activities of discontinued operations	**-**	(18)
Cash flow from (used in) financing activities	**(2,406)**	(753)
Effect of translation of foreign currency cash and equivalents	**1,620**	871
Net (decrease) increase in cash and equivalents during the period	**(1,224)**	(3,119)
Cash and cash equivalents, beginning of period	**(6,754)**	(6,310)
Cash and cash equivalents, end of period	**(7,978)**	
Cash and cash equivalents is comprised of :		
Cash	**92**	62
Bank indebtedness	**(8,070)**	(9,491)
	(7,978)	(9,429)

1. Corporate information

Empire Industries Ltd. ("Empire" or "The Group") designs, builds and installs premium entertainment attractions and ride systems for the global entertainment industry. The Group also uses these same turn-key integration services for special projects such as large optical telescopes and enclosures. Key customer sectors include theme parks, stand-alone tourist venues, and the government sector.

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.

These condensed consolidated financial statements were recommended for approval by the Audit Committee on May 23, 2017 and were approved and authorized for issue by the Board of Directors on May 24, 2017.

2. Summary of significant accounting policies

These interim condensed 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 Group's consolidated financial statements for the year ended December 31, 2016. The Group's 2016 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

These condensed consolidated financial statements are prepared for the period ended March 31, 2017 and include the results for the comparative period ended March 31, 2016. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts for Empire and all of its subsidiaries (the "Group"). These consolidated financial statements have been prepared in Canadian dollars which is the functional currency of the Group.

Statement of compliance

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

Restructuring provisions

Restructuring provisions are only recognized when general recognition criteria for provisions are fulfilled. Additionally, the Group needs to have in place a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and the appropriate timeline. The people affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

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 condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly, the consolidated financial position of the Group as at March 31, 2017.

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

3. Accounts receivable

	March 31, 2017 $	December 31, 2016 $	March 31, 2016 $
Trade	9,751	9,339	11,417
Unbilled construction contract receivables (note 4)	26,289	30,851	23,949
Associates and other related parties	-	-	-
Other receivables	1,102	847	239
Allowance for doubtful accounts	(104)	(104)	-
	37,038	**40,933**	**35,605**

Holdbacks included in trade receivables are $2,775 as at March 31, 2017 (December 31, 2016 - $1,672 – March 31, 2016 - $2,813).

4. Construction contracts

	March 31, 2017 $	December 31, 2016 $	March 31, 2016 $
Construction costs incurred, and estimated profits less recognized losses to date	179,680	186,054	206,045
Less: Progress billings	(163,830)	(162,472)	(197,695)
	15,850	**23,582**	**8,350**
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	26,289	30,851	23,949
Deferred revenue from construction contracts	(10,439)	(7,269)	(15,599)
	15,850	**23,582**	**8,350**

5. Cost of sales

	March 31, 2017 $	March 31, 2016 $
Direct construction costs	(21,607)	(19,013)
Indirect salaries and benefits	(2,052)	(2,144)
Indirect production costs	(1,500)	(1,380)
	(25,159)	**(22,537)**

6. Selling and administrative expenses

	March 31, 2017 $	March 31, 2016 $
Salaries and benefits	(2,571)	(2,114)
General, selling and administrative expenses	(1,641)	(1,599)
	(4,212)	**(3,713)**

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

7. Finance costs

	March 31, 2017 $	March 31, 2016 $
Interest on long-term borrowings	(409)	(75)
Interest on short-term borrowing and other	(228)	(155)
Deferred financing charges	(4)	(4)
	(641)	**(234)**

8. Restructuring costs

The Group has recorded a restructuring charge of $1,045 in the period relating to its curtailment of independent steel fabrication services and has restructured and refining its overall operations, of which $600 remains in accrued liabilities at March 31, 2017. The restructuring charge and remaining provision includes severances for the affected employees, lease costs for facilities and equipment and other permitted expenditures.

9. Income per share

Income per share for the three months ended March 31:

	March 31, 2017 $	March 31, 2016 $
Net income from continuing operations	157	4,125
Net loss from discontinued operations	-	(363)
Basic weighted average number of shares	65,937,060	64,834,118
Effect of dilutive securities:		
Net incremental dilutive shares	2,217,522	-
Diluted weighted average number of shares	68,154,582	64,834,118
Basic and diluted earnings per share from continuing operations	**0.002**	**0.064**
Basic and diluted earnings per share from discontinued operations	**-**	**(0.004)**

Basic earnings per share is derived by dividing the earnings for the period 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. The effect of potentially dilutive securities ("in-the-money" warrants, options and convertible debentures) are excluded if they are anti-dilutive.

10. Operating segments

As outlined in the Group's 2016 Annual Financial Statements, effective 2017 the Group made the decision to largely curtail its active operations in Steel Fabrication Services and re-deploy those assets to effectively execute the core production requirements of the Group's Media-Based Attraction business. Any residual steel fabrication activities executed by the Group are immaterial to the Group as a whole and no longer constitute and operating segment. The Group has determined that for periods commencing after January 1, 2017, the Group operates as one operating segment. The Group's geographical breakdown of sales for the three month periods ended March 31 is as follows:

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

	March 31, 2017 $	March 31, 2016 $
Asia	19,869	9,351
United States	6,631	4,834
Middle East & Europe	2,951	10,510
Canada	2,977	3,083
	32,428	**27,778**

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three months ended March 31, 2016 since the decision to curtail the steel fabrication activities did not impact the presentation of the previous year:

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

11. Capital disclosure and management

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

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

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

As at the periods ended	March 31, 2017 $	December 31, 2016 $	March 31, 2016 $
Current portion of long-term debt including finance leases	6,707	7,473	895
Long-term debt including finance leases	10,494	12,134	1,315
Long-term funded debt	17,201	19,607	2,210
Shareholders' equity	20,332	20,145	27,450
Convertible debentures	-	-	431
Limited recourse loan and subordinate note payable	946	955	923
Less: deferred tax assets	(7,138)	(7,138)	(4,370)
Less: intangible assets (net)	(8,196)	(7,762)	(4,152)
Tangible net worth	5,944	6,200	20,282
Capitalization	23,145	25,807	22,492
Long-term funded debt : Capitalization	74.3%	76.0%	9.8%

The Group was not in compliance with its Senior Debt to EBITDA financial covenant as at March 31, 2017. However, the Group received a waiver of the covenant breach prior to March 31, 2017 therefore, no corresponding reclassification of the long-term portion of the long-term debt amounts was required at March 31, 2017.

12. Guarantees and contingencies

Loan guarantees

The Group is contingently liable under one guarantee given to a third-party lender who has provided certain financing facilities to associated investments. As at March 31, 2017, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is $680 ($309 as at December 31, 2016 and $nil as at March 31, 2016).

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 March 31, 2017 ($6,273 as at December 31, 2016 and $6,066 as at March 31, 2016). The Group has a guarantee facility with Export Development Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Group on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility. As at March 31, 2017, 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.