EMPIRE INDUSTRIES LTD

2Q17

Management's Discussion & Analysis

For the 3 and 6 month periods ending June 30, 2017

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 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 condensed consolidated financial statements and accompanying notes of the Group for the period ended June 30, 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 and six month periods ended June 30. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on August 9, 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 June 30	**YTD**			**Quarter ended**		
	2017	**2016**	**Variance**	**2017**	**2016**	**Variance**
Operating Results:						
Revenues	**64,259**	58,126	6,133	**31,831**	30,348	1,483
Adjusted gross margin	**14,481**	10,296	4,185	**7,212**	5,055	2,157
Adjusted gross margin %	**22.5%**	17.7%	4.8%	**22.7%**	16.7%	6.0%
Adjusted EBITDA	**5,743**	2,401	3,342	**2,686**	873	1,813
Adjusted EBITDA %	**8.94%**	4.13%	4.8%	**8.44%**	2.88%	5.6%
Adjusted EBIT	**3,792**	1,185	2,607	**1,812**	208	1,604
Adjusted EBIT %	**5.90%**	2.04%	3.9%	**5.69%**	0.69%	5.0%
Net Income	**1,424**	6,848	(5,424)	**1,267**	3,086	(1,819)
Per share data:						
Basic income per share - continuing ops	**0.022**	0.067	(0.045)	**0.019**	0.004	0.015
Diluted income per share - continuing ops	**0.021**	0.066	(0.045)	**0.018**	0.004	0.014
Basic income per share - discontinued ops	-	0.039	(0.039)	-	0.044	(0.044)
Diluted income per share - discontinued ops	-	0.038	(0.038)	-	0.043	(0.043)

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.

Contract backlog as of June 30, 2017, grew significantly from CAD$114 million at the end of Q1, 2017 to CAD$260 million at the end of Q2, 2017. The Group has successfully positioned itself to be 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.

Profit performance is expected to continue 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.

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 80,000-square foot customer prototyping facility is offering prospective customers a much broader range of the services than we did before.

The change in the Canadian and USA exchange rate will continue to impact profit margins because the Media-based Attractions are sold predominantly in US dollars and the Company has a policy of hedging its US dollar contracts to the extent possible so as the exchange rate fluctuates, impacting the fair value changes in derivative financial instruments purchased by the Company.

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 $6.6 million of deferred tax assets at June 30, 2017 will continue to shield the Group from cash tax expense on approximately $24.4 million of future taxable income at the current statutory tax rates.

The spin-out of Tornado Global Hydrovacs (Tornado) into a stand-alone, publicly traded company in mid-2016 sharply increased Empire's focus on its Media-based Attractions segment. The Group's Board of Directors recently decided to convert its $2.7 million loan to Tornado into an equity shareholding of just over 20% of Tornado. This decision was made concurrent with the decision of the major shareholder of Tornado to participate in a $2.5 million private placement and allow a rights offering to take place amongst all the remaining shareholders. The Group expects this to provide a superior return and better liquidity compared to holding the asset in the form of a long term fixed interest rate loan.

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. The Group has been consolidating 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.

Dynamic Structures continued to make good progress on its $10 million contract to complete the conceptual design and produce the detailed design for the Thirty Meter Telescope (TMT) enclosure. The decision selecting the TMT site in Hawaii or the Canary Islands will take place in early 2018 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, as it is the only company that has this specialized expertise, having designed and built more than half the world's large telescope enclosures.

The Company recently announced executive management changes to reflect the Company plans to strategically grow the value of its business by focusing on several profit centers: ride systems, show services, ride parts and service, attraction ownership and precision fabrication of large, dynamic structures.

2017 Year to Date Results Review

Revenues

Revenues from continuing operations increased by 10.6% to $64.3 million in the six-months ended compared to the same period in 2016. This increase in revenues compared to 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 4.8% 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 $0.8 million in 2017 compared to 2016 through six months. 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 six-month period ended June 30, 2017 of $5.7 million was $3.3 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 $2.8 million in the six-month period when compared to the same period 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 $0.5 million in 2017 compared to same period in 2016. This increase was due to higher property, plant and equipment volumes when compared to June 30, 2016. The Group's net book value of property, plant and equipment is $2.4 million higher at June 30, 2017 than it was at June 30, 2016.

Amortization of intangible assets increased by $0.3 million in 2017 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 June 30, 2016. The Group's net book value of intangible assets is $3.9 million higher at June 30, 2017 than it was at June 30, 2016.

Finance Costs

Finance costs increased by $0.5 million in 2017 compared to the same period in 2016 which is driven directly by the increase in long-term debt outstanding by the Group at June 30, 2017 as compared to the June 30, 2016.

Share of profit (loss) from associate

The Group recorded a loss from its associate investment in ACE Industrial Services Ltd. in Fort McMurray, AB of $0.2 million in 2017 which is less than the loss of $0.3 million recorded in the same period in 2016. The comparative period was directly affected by both the slowdown in the oil and gas sector as well as the wildfires that occurred during that period in 2016.

Stock-based compensation

Stock-based compensation expense in 2017 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 increased by $0.6 million to $1.2 million at June 30, 2017 from $0.6 million December 31, 2016. The USD exchange rate reduced to 1.2977 at June 30, 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 more favorable than the closing rate at June 30, 2017.

In the same period in 2016, there was a more significant adjustment of $5.6 million. The exchange rate had reduced significantly at June 30, 2016 to 1.2917 from 1.3810 at December 31, 2015. The Group's outstanding foreign currency forward contracts outstanding at June 30, 2016 had switched from a liability position of $3.7 million at December 31, 2015 to an asset of $1.9 million at June 30, 2016 as most of the contracts were at settlement rates above the 1.2917 rate.

Restructuring costs

The Group recorded a restructuring charge of $1.0 million in 2017 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.

Net income (loss) from discontinued operations

In 2016, the Group recorded the operating results and disposition of Tornado Trucks in discontinued operations as the business, which formed the Group's Manufactured Products operating segment was spun out and sold. The Group's $2.5 million net income from discontinued operations for the six months ended included the operating results for the operation and the gain realized on the disposition of operation which took place at the end of the June 2016.

Income tax expense

The Group had nominal current tax expense in 2017 which is consistent with the comparative period. Based on the income before tax, the Group estimates that deferred tax expense was $0.5 million for the six-month period versus a deferred tax expense of $1.5 million recorded in the same period of 2016.

As at June 30, 2017 the Group has recorded deferred tax assets of $6.6 million which, on a simplified basis, will continue to shield the Group from cash tax expense on $24.4 million of future taxable income at the current statutory tax rates.

Net income

The Group's net income decreased by $5.4 million in 2017 when compared to the same period in 2016 which is the net effect of the factors discussed above.

2017 Second Quarter Results Review

Revenues

Revenues from continuing operations increased by 5% to $31.8 million in the current quarter compared to the same period in 2016. This increase in revenues compared to the same period in 2016 was consistent with the six-month comparative discussion, 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 6% compared to same period in 2016. This increase in Adjusted gross margin is, consistent with the six-month comparative discussion, 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 $0.3 million in 2Q17 compared to 2Q16. 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 three-month period ended June 30, 2017 of $2.7 million was $1.8 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 $1.7 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. As outlined in the six-months ended discussion 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 $0.1 million in 2Q17 compared to same period in 2016 and amortization of intangible assets increased by $0.1 million in 2Q17 compared to the same period in 2016.

Finance Costs

Finance costs increased by $0.1 million in 2Q17 compared to the same period in 2016 which is driven directly by the increase in long-term debt outstanding by the Group at June 30, 2017 as compared to the June 30, 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 2Q17 which is less than the loss of $0.2 million recorded in the same period in 2016. The comparative period was directly affected by both the slowdown in the oil and gas sector as well as the wild fires that occurred during that time period in 2016.

Stock-based compensation

Stock-based compensation expense in 2Q17 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 increased by $0.6 million since December 31, 2016 most of which occurred in the current quarter. The USD exchange rate reduced to 1.2977 at June 30, 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 more favorable than the closing rate at June 30, 2017. The fair value change was prominent in the quarter because the closing rate at the end of the first quarter in 2017 was 1.3299 which was not materially different from the December 31, 2016 rate as well as the forward rates in the underlying instruments. In the same period in 2016, there was a similar adjustment of $0.4 million due to improved positions against the forward rates.

Net income (loss) from discontinued operations

In 2016, the Group recorded the operating results and disposition of Tornado Trucks in discontinued operations as the business, which formed the Group's Manufactured Products operating segment was spun out and sold. In the second quarter of 2016, the Group recoded income from discontinued operations of $2.9 million which included the operating results of the discontinued operation in the quarter as well as the gain realized upon its disposition.

Income tax expense

The Group had nominal current tax expense in 2Q17 which is consistent with the comparative period. Based on the income before tax, the Group estimates that deferred tax expense was $0.5 million for the quarter versus a deferred tax recovery of $0.2 million was recorded in the same period of 2016.

Net income

The Group's net income from continued operations increased $1.8 million in 2Q17 when compared to the same period in 2016 but net income, including discontinued operations, decreased by $1.7 million compared to the same period in 2016 which is the 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.
- 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 Group's Vancouver-based design and manufacturing facilities as well as their Attractions Development Center in Orlando Florida.
- On June 14, 2017 the Group announced that is has received a USD$ 40 million contract to deliver a ride system with on the leading, global theme park owners. This contract will large be executed of the next 24-30 months from the Group's Vancouver-based design and manufacturing facilities.

Subsequent Significant Events

- On August 4, 2017, the Group announced a proposed Tornado Shares for Debt Transaction. The Shares for Debt Transaction is one piece of a financing arrangement Tornado intends to complete which also includes a rights offering, a common share private placement, and a unit private placement (the "Financing Arrangement"). It is intended that all common shares issued pursuant to the Financing Arrangement and the Shares for Debt Transaction will be issued at $0.09 per common share, subject to the policies of the TSX Venture Exchange.

Selected Quarterly Financial Information

Quarterly Financial Information For the years ended	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Sales	31,831	32,428	27,531	32,330	30,348	27,778	33,665	38,365
Profit (loss) from continuing operations	1,267	157	(2,660)	(269)	218	4,125	567	1,162
Profit (loss) from discontinued operations	-	-	102	(43)	2,868	(363)	(192)	(172)
Profit (loss) per share:								
Basic & Diluted - continuing ops	0.020	0.000	(0.040)	(0.000)	0.000	0.060	0.010	0.020
Basic & Diluted - discontinued ops	-	-	0.000	(0.000)	0.040	0.000	(0.000)	(0.000)
Basic & Diluted - all operations	0.020	0.000	(0.040)	0.000	0.040	0.060	0.010	0.020

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended June 30, 2017, the Group's operations generated $2.9 million of cash, compared with $2.3 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 $4.0 million was drawn as of June 30, 2017. The Group's marginable assets at June 30, 2017 were $17.2 million, which is $13.2 million more than the Group's total draw on the operating line.

The Group made $4.2 million of cash principal repayments during the six months. Total long-term debt of $16.4 million as at June 30, 2017 consisted of $3.6 million of term debt with CIBC, $11.7 million of term debt with EDC, $0.2 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 June 30, 2017 compared with 0.97:1 at June 30, 2016.

Shareholders' Equity

Shareholders' equity of $21.8 million at June 30, 2017 is $1.6 million more than the shareholders' equity at December 31, 2016 due substantially 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 5,804,167 outstanding options at June 30, 2017. The average exercise price of the outstanding options is $0.40 per share. Of these options, 4,997,083 are currently exercisable at an average exercise price of $0.39 per share.

Market Capitalization

The market capitalization of the Group's 66,200,393 issued and outstanding common shares at August 9, 2017 was $43 million or $0.65 per share, which is greater than the Group's book value per share of $0.33 at June 30, 2017. The issued and outstanding common shares at August 9, 2017, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares **As at August 9, 2017**		
Issued and outstanding common shares		**66,200,393**
Securities convertible into common shares		
Warrants	6,925,000	
Stock Options	5,804,167	
Total Securities convertible into common shares		12,729,167
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 and six-month periods ended June 30, 2017 is as follows:

	3 Months		6 Months	
	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Asia	13,845	11,768	33,714	21,119
United States	9,355	6,653	15,986	11,487
Middle East & Europe	5,819	7,154	8,770	17,664
Canada	2,812	4,773	5,789	7,856
	31,831	**30,348**	**64,259**	**58,126**

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 June 30	Six Months Ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Profit (loss) - before taxes	**1,952**	5,882	(3,930)	**1,795**	2	1,793
Add : Depreciation and amortization	**1,951**	1,216	735	**874**	665	209
Add/Deduct : Restructuring charge & other	**1,045**	33	1,012	**-**	33	-
Add : Finance costs	**1,099**	560	539	**458**	326	132
Add/Deduct : Deduct Share of profit of associate	**174**	283	(109)	**88**	176	(88)
Add/Deduct : Fair value of changes of foreign currency option contracts	**(558)**	(5,636)	5,078	**(567)**	(357)	0
Add : non cash stock-based compensation	**80**	63	17	**38**	28	10
Adjusted EBITDA	5,743	2,401	3,342	2,686	873	1,813

Calculation of Adjusted EBIT

Periods ended June 30	Six Months Ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Adjusted EBITDA	**5,743**	2,401	3,342	**2,686**	873	1,813
Less : Depreciation and amortization	***(1,951)***	*(1,216)*	(735)	***(874)***	*(665)*	(209)
Adjusted EBIT	**3,792**	1,185	2,607	**1,812**	208	1,604
% of revenue	**5.9%**	2.0%	3.9%	**5.7%**	0.7%	5.0%

Calculation of Adjusted Gross Margin

Periods ended June 30	Six Months Ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Revenues	**64,259**	58,126	6,133	**31,831**	30,348	1,483
Cost of sales excluding depreciation and amortization	**(49,778)**	(47,830)	(1,948)	**(24,619)**	(25,293)	674
Adjusted gross margin	**14,481**	10,296	4,185	**7,212**	5,055	2,157
% of revenue	**22.54%**	17.71%	4.82%	**22.66%**	16.66%	6.00%

Cashflow Generated by Operations

Periods ended June 30	Six Months Ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Adjusted EBITDA	**2,686**	873	1,813	**5,743**	2,401	3,342
Less: Finance Costs	**(458)**	(326)	(132)	**(1,099)**	(560)	(539)
Cashflow Generated by Operations	**2,228**	547	1,681	**4,644**	1,841	2,803

Adjusted Working Capital

For the periods ended	IFRS	Non-IFRS		IFRS	Non-IFRS	
	Jun 30, 2017		Jun 30, 2017	Jun 30, 2016		Jun 30, 2016
	As Reported	Adjustment	Adjusted	As Reported	Adjustment	Adjusted
Current Assets	46,668	(1,206)	45,462	45,485	(1,885)	43,600
Less: Cash and equivalents	-	-	-	-	-	-
Current Liabilities	(49,854)	-	(49,854)	(44,779)	-	(44,779)
Non-Cash Working Capital Position	(3,186)	(1,206)	(4,392)	706	(1,885)	(1,179)
Working Capital Ratio	**0.94**		**0.91**	**1.02**		**0.97**

2nd Quarter

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2017

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.

2Q17

EMPIRE INDUSTRIES LTD

Condensed Consolidated Statement of
Comprehensive Income

For the periods ended June 30		Three Months		Six Months	
		2017	2016	2017	2016
(In $000's CAD, except where otherwise indicated)	Notes				
Revenues[1]		**31,831**	30,348	**64,259**	58,126
Cost of sales, excluding depreciation and amortization[2]	5	**(24,619)**	(25,293)	**(49,778)**	(47,830)
Gross Profit, excluding depreciation and amortization		**7,212**	5,055	**14,481**	10,296
Selling and administration expenses	6	**(4,526)**	(4,182)	**(8,738)**	(7,895)
Result before depreciation, amortization finance costs, and other items		**2,686**	873	**5,743**	2,401
Finance costs	7	**(458)**	(326)	**(1,099)**	(560)
Result before depreciation, amortization and other items		**2,228**	547	**4,644**	1,841
Depreciation of property, plant and equipment		**(437)**	(336)	**(1,083)**	(629)
Amortization of intangible assets		**(437)**	(329)	**(868)**	(587)
Result before other items of income		**1,354**	(118)	**2,693**	625
Share of (loss) profit from associate		**(88)**	(176)	**(174)**	(283)
Stock-based compensation		**(38)**	(28)	**(80)**	(63)
Fair value changes in derivative financial instruments	8	**567**	357	**558**	5,636
Restructuring charge & other expenses	9	**-**	(33)	**(1,045)**	(33)
Net Income from continuing operations before tax		**1,795**	2	**1,952**	5,882
Net income (loss) from discontinued operations (net of tax)		**-**	2,868	**-**	2,505
Income tax (expense) recovery					
Current		**(2)**	(17)	**(2)**	(46)
Deferred		**(526)**	233	**(526)**	(1,493)
		(528)	216	**(528)**	(1,539)
Net income		**1,267**	3,086	**1,424**	**6,848**
Other comprehensive loss		**47**	(44)	**35**	(51)
Comprehensive income		**1,314**	3,042	**1,459**	6,797

Basic income per share - continuing operations	10	**0.019**	0.004	**0.022**	0.067
Diluted income per share - continuing operations	10	**0.018**	0.004	**0.021**	0.066
Basic income per share - discontinued operations	10	**-**	0.044	**-**	0.039
Diluted income per share - discontinued operations	10	**-**	0.043	**-**	0.038

(1) Included in revenue are foreign exchange losses of $76 for the three-month period ended June 30, 2017 (2016 - $22).
Included in revenue are foreign exchange gains of $1,223 for the six-month period ended June 30, 2017 (2016 - losses $910).

(2) Cost of sales including depreciation and amortization was $25,362 for the three-month period ended June 30, 2017 (2016 -$25,857).
Cost of sales including depreciation and amortization was $51,857 for the six-month period ended June 30, 2017 (2016 - $48,857).

See accompanying notes

EMPIRE INDUSTRIES LTD

Condensed Consolidated Statement of
Financial Position

As at	Notes	Jun 30, 2017	Dec 31, 2016	Jun 30, 2016
(In $000's CAD, except where otherwise indicated)	**Notes**			
ASSETS				
Current assets				
Cash and cash equivalents		**-**	102	-
Accounts receivable	**3**	**42,694**	40,933	40,923
Inventory		**1,581**	1,486	1,559
Prepaid expenses		**1,187**	1,343	1,118
Derivative financial instruments		**1,206**	647	1,885
Total current assets		**46,668**	44,511	45,485
Non-current assets				
Property, plant and equipment and investment property, net		**14,518**	13,983	12,134
Intangible assets, net		**8,412**	7,762	4,531
Deferred tax assets		**6,612**	7,138	4,184
Note receivable	**14**	**2,704**	2,814	2,895
Investment in associate		**1,315**	1,489	1,707
Advances to associate		**976**	929	887
Other non-current assets		**239**	92	78
Total non-current assets		**34,776**	34,207	26,416
Total assets		**81,444**	78,718	71,901
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**3,985**	6,856	13,926
Accounts payable and accrued liabilities		**16,350**	23,886	19,634
Deferred revenue from construction contracts	**4**	**22,945**	7,269	9,779
Current portion of long-term debt		**6,574**	7,473	1,009
Long-term debt classified as current		**-**	11,937	-
Current portion of convertible debentures		**-**	-	431
Total current liabilities		**49,854**	57,421	44,779
Non-current liabilities				
Long-term debt		**8,883**	197	4,013
Limited recourse loan		**923**	955	918
Total non-current liabilites		**9,806**	1,152	4,931
Total Liabilities		**59,660**	58,573	49,710
SHARHOLDERS' EQUITY				
Share capital		**8,583**	8,300	7,955
Equity component of convertible debentures		**-**	-	69
Contributed surplus		**4,310**	4,413	3,859
Retained earnings - opening		**7,502**	11,853	11,853
Net Income		**1,424**	3,978	6,848
Dividend distribution of TGHL		**-**	(8,329)	(8,329)
Retained earnings - closing		**8,926**	7,502	10,372
Accumulated other comprehensive loss		**(35)**	(70)	(64)
Total shareholders' equity		**21,784**	20,145	22,191
Total liabilities and shareholders' equity		**81,444**	78,718	71,901

Guarantees and contingencies *[note 13]*
See accompanying notes

On behalf of the Board of Directors:

Ian Macdonald
Director

Director

As at June 30, 2017

(In $000's CAD, except where otherwise indicated)	Share capital	Equity component of convertible debentures	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at December 31, 2016	**8,300**	**-**	**4,413**	**7,502**	**(70)**	**20,145**
Exercise of stock options	283	-	(183)	-	-	100
Net income for the year	-	-	-	1,424	-	1,424
Other comprehensive income (loss)	-	-	-	-	35	35
Stock-based compensation	-	-	80	-	-	80
As at June 30, 2017	**8,583**	**-**	**4,310**	**8,926**	**(35)**	**21,784**

As at June 30, 2016

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

See accompanying notes

Condensed Consolidated Statement of
Cash Flows

(In $000's CAD, except where otherwise indicated)	Three Months 2017	Three Months 2016	Six Months 2017	Six Months 2016
OPERATING ACTIVITIES				
Income from continuing operations after tax	**1,267**	174	**1,424**	4,292
Add (deduct) items not affecting cash :				
Depreciation of property, plant and equipment	**437**	336	**1,083**	629
Amortization of intangible assets	**437**	329	**868**	587
Amortization of deferred financing charges	**6**	4	**10**	8
Loss on foreign exchange revaluation of limited recourse loan	**(23)**	(5)	**(32)**	(66)
Foreign currency adjusted (net of tax)	**47**	44	**35**	51
Share of profit from associate investments	**88**	176	**174**	283
Stock-based compensation	**38**	28	**80**	63
Fair value changes in derivative financial instruments	**(567)**	(357)	**(558)**	(5,636)
Unrealized foreign currency translation gains recorded in revenues	**76**	22	**(1,223)**	910
Non-cash restructuring charge	**(81)**	-	**519**	-
Income taxes paid	**-**	-	**-**	(138)
Investment tax credits recorded in cost of sales	**-**	-	**-**	(133)
Deferred income taxes	**526**	(99)	**526**	1,493
Cash from (used in) continuing operations	**2,251**	652	**2,906**	2,343
Cash flow from (used in) discontinued operations	-	(2,044)	-	(1,245)
Net change in non-cash working capital balances	**4,132**	(3,889)	**4,827**	(8,751)
Cash (used in) from operating activities	**6,383**	(5,281)	**7,733**	(7,653)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment *(note 9)*	**(666)**	(1,199)	**(1,618)**	(1,785)
Acquisition of other long term assets	**(116)**	-	**(147)**	-
Proceeds from repayment of note receivable from TGHL	**60**	-	**120**	-
Acquisiton of intangible assets *(note 8)*	**(653)**	(708)	**(1,518)**	(986)
Cash used in investing activities of continuing operations	**(1,375)**	(1,907)	**(3,163)**	(2,771)
Cash used in investing activities of discontinued operations	-	(124)	-	(125)
Cash used in investing activities	**(1,375)**	(2,031)	(3,163)	(2,896)
FINANCING ACTIVITIES				
Proceeds received from warrants and stock options exercised	**100**	-	**100**	-
Proceeds received from long-term debt and finance leases	**-**	3,059	**-**	3,059
Repayment of long-term debt	**(1,744)**	(259)	**(4,150)**	(474)
Repayment of convertible debentures	**-**	-	**-**	(520)
Cash from (used in) financing activites of continuing operations	**(1,644)**	2,800	**(4,050)**	2,065
Cash used in financing activities of discontinued operations	-	(19)	-	(37)
Cash flow from (used in) financing activities	(1,644)	2,781	**(4,050)**	2,028
Effect of translation of foreign currency cash and equivalents	**629**	34	**2,249**	905
Net (decrease) increase in cash and equivalents during the period	**3,993**	(4,497)	**2,769**	(7,616)
Cash and cash equivalents, beginning of period	**(7,978)**	(9,429)	**(6,754)**	(6,310)
Cash and cash equivalents, end of period	**(3,985)**	(13,926)	**(3,985)**	(13,926)
Cash and cash equivalents is comprised of :				
Cash	**-**	-	-	-
Bank indebtedness	**(3,985)**	(13,926)	(3,985)	(13,926)
	(3,985)	(13,926)	**(3,985)**	(13,926)

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.

The condensed consolidated financial statements were recommended for approval by the Audit Committee on August 8, 2017 and were approved and authorized for issue by the Board of Directors on August 9, 2017.

2. Summary of significant accounting policies

The interim condensed consolidated financial statements are condensed and have been prepared in accordance with International Account Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as disclosed in the 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 condensed consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the periods ended June 30, 2017 and include the results for the comparative periods ended June 30, 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 interim condensed consolidated financial statements are the accounts for Empire and all its subsidiaries (the "Group"). These interim condensed 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 June 30, 2017.

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

3. Accounts receivable

	June 30, 2017 $	December 31, 2016 $	June 30, 2016 $
Trade	4,688	9,339	11,694
Unbilled construction contract receivables (note 4)	37,168	30,851	28,999
Associates and other related parties	-	-	-
Other receivables	941	847	230
Allowance for doubtful accounts	(104)	(104)	-
	42,694	**40,933**	**40,923**

Holdbacks included in trade receivables are $1,636 as at June 30, 2017 (December 31, 2016 - $1,672 – June 30, 2016 - $2,131).

4. Construction contracts

	June 30, 2017 $	December 31, 2016 $	June 30, 2016 $
Construction costs incurred, and estimated profits less recognized losses to date	179,368	186,054	233,735
Less: Progress billings	(165,145)	(162,472)	(214,515)
	14,223	**23,582**	**19,220**
Items recognized and included in the financial statements as:			
Unbilled construction contract receivables (note 3)	37,168	30,851	28,999
Deferred revenue from construction contracts	(22,945)	(7,269)	(9,779)
	14,223	**23,582**	**19,220**

5. Cost of sales

	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Direct construction costs	(20,626)	(21,702)	(42,233)	(40,715)
Indirect salaries and benefits	(2,366)	(2,261)	(4,418)	(4,405)
Indirect production costs	(1,627)	(1.330)	(3,127)	(2,710)
	(24,619)	**(25,293)**	**(49,778)**	**(47,830)**

6. Selling and administrative expenses

	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Salaries and benefits	(2,794)	(2,672)	(5,365)	(4,786)
General, selling and administrative expenses	(1,732)	(1.510)	(3,373)	(3,109)
	(4,526)	**(4,182)**	**(8,738)**	**(7,895)**

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

7. Finance costs

	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Interest on long-term borrowings	(249)	(85)	(658)	(160)
Interest on short-term borrowings and other	(203)	(237)	(431)	(392)
Deferred financing charges	(6)	(4)	(10)	(8)
	(458)	**(326)**	**(1,099)**	**(560)**

8. Fair value changes in derivative financial instruments

The Group utilizes forward currency contracts and options to provide protection against foreign exchange rate movements on long-term sales contracts. The Group's policy is to not utilize derivative financial instruments for trading or speculative purposes. During the six months, the Group recorded unrealized mark-to market gains on foreign currency forward contracts and options of $558 with gains of $567 recorded in the three-month period ended (2016 – mark to market gains of $5,636 for the six-month period ended and gains of $357 recorded in the comparative three-month period). As at June 30, 2017 the Group recorded an asset associated with the unrealized mark-to market gains on foreign currency forward contracts and options of $1,206 (2016 – December – $647, June – $1,885).

9. Restructuring costs and other

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 $519 remains in accrued liabilities at June 30, 2017. The restructuring charge and remaining provision includes severances for the affected employees, lease costs for facilities and equipment and other permitted expenditures.

10. Income per share

Income per share for the three months ended June 30:

	June 30, 2017 $	June 30, 2016 $
Net income from continuing operations	1,267	218
Net loss from discontinued operations	-	2,868
Effect of diluted securities on net income		
Net income from assumed debenture conversion	-	18
Diluted net income attributable to shareholders	1,267	3,104
Basic weighted average number of shares	65,980,467	64,834,119
Effect of dilutive securities:		
Net incremental dilutive shares	3,998,970	1,574,295
Diluted weighted average number of shares	69,979,437	66,408,414
Basic earnings per share from continuing operations	**0.019**	**0.004**
Diluted earnings per share from continuing operations	**0.018**	**0.004**
Basic earnings per share from discontinued operations	**-**	**0.044**
Diluted earnings per share from discontinued operations	**-**	**0.043**

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

Income per share for the six months ended June 30:

	June 30, 2017 $	June 30, 2016 $
Net income from continuing operations	1,424	4,343
Net loss from discontinued operations	-	2,505
Effect of diluted securities on net income		
Net income from assumed debenture conversion	-	-
Diluted net income attributable to shareholders	1,424	6,848
Basic weighted average number of shares	65,958,883	64,834,119
Effect of dilutive securities:		
Net incremental dilutive shares	3,159,820	1,205,070
Diluted weighted average number of shares	69,118,704	66,039,189
Basic earnings per share from continuing operations	**0.022**	**0.067**
Diluted earnings per share from continuing operations	**0.021**	**0.066**
Basic earnings per share from discontinued operations	**-**	**0.039**
Diluted earnings per share from discontinued operations	**-**	**0.038**

Basic earnings per share is derived by dividing the earnings for the year by the weighted average number of common shares outstanding for the period. Dilutive earnings per share is derived by dividing the adjusted earnings by the weighted average number of common shares outstanding assuming all dilutive securities are exercised at the beginning of the year. In the dilutive earnings per share calculation, earnings is adjusted to reflect finance costs that would not have been incurred as a result of the assumed conversion of subordinate convertible debentures. The effect of potentially dilutive securities ("in-the-money" warrants, options and convertible debentures) are excluded if they are anti-dilutive.

11. Operating segments

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 and six month periods ended June 30 is as follows:

	3 Months		6 Months	
	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Asia	13,845	11,768	33,714	21,119
United States	9,355	6,653	15,986	11,487
Middle East & Europe	5,819	7,154	8,770	17,664
Canada	2,812	4,773	5,789	7,856
	31,831	**30,348**	**64,259**	**58,126**

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

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three months ended June 30, 2016 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	25,923	4,321	104	**30,348**
Cost of goods sold excluding depreciation and amortization	(21,779)	(3,514)	-	**(25,293)**
	4,144	807	104	**5,055**
Selling, general and administrative expenses	(2,608)	(717)	(857)	**(4,182)**
	1,536	90	(753)	**873**
Depreciation and amortization expense	(575)	(85)	(5)	**(665)**
	961	5	(758)	**208**

The tables below show the segmented results for the six month period ended June 30, 2016:

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

12. Capital disclosure and management

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

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

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

As at the periods ended	June 30, 2017 $	December 31, 2016 $	June 30, 2016 $
Current portion of long-term debt including finance leases	6,574	7,473	1,009
Long-term debt including finance leases	8,883	12,134	4,013
Long-term funded debt	15,457	19,607	5,022
Shareholders' equity	21,784	20,145	22,191
Convertible debentures	-	-	431
Limited recourse loan and subordinate note payable	923	955	918
Less: deferred tax assets	(6,612)	(7,138)	(4,184)
Less: intangible assets (net)	(8,412)	(7,762)	(4,531)
Tangible net worth	7,683	6,200	14,825
Capitalization	23,140	25,807	19,847
Long-term funded debt : Capitalization	66.8%	76.0%	25.3%

13. Guarantees and contingencies

Loan guarantees

The Group is contingently liable under one guarantee given to a third-party lender who has provided certain financing facilities to associated investments. As at June 30, 2017, the maximum amount of fixed guarantees provided to a third-party lender on behalf of an affiliated company is $621 ($309 as at December 31, 2016 and $nil as at June 30, 2016).

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of up to $5,159 USD as at June 30, 2017 ($6,273 as at December 31, 2016 and $6,273 as at June 30, 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.

14. Subsequent events

After the date of these condensed consolidated financial statements, on August 4, 2017, the Group announced a proposed Shares for Debt Transaction relating to its remaining note receivable from TGHL. Under the terms of the proposed transaction, the note receivable will be exchanged for 30,185,544 common shares of TGHL. The proposed transaction is one piece of a financing arrangement Tornado intends to complete which also includes a rights offering, a common share private placement, and a unit private placement.

The result of this transaction, if completed, will be that the note receivable asset currently held by the Group will be converted to common shares of a public company listed on Toronto Stock Exchange's venture exchange ("TSX-V").