1Q18

Management's Discussion & Analysis
For the 3 month period ending March 31, 2018

Consolidated Financial Statements
For the 3 month period ending March 31, 2018

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, 2017. Reference should also be made to the annual MD&A for the year ended December 31, 2017.

The interim condensed consolidated financial statements and accompanying notes of the Group for the period ended March 31, 2018 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 periods 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 22, 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's operations take place primarily through the following controlled affiliates:

Business Unit	Description
Dynamic Attractions – 100%	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 – 100%	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.
Zhejiang Dynamic Structures Engineering Technology Limited 100%	Incorporated in January 2017, the purpose of this entity will be to expand and improve the Group's manufacturing capacity in China.
Dynamic Entertainment Group Ltd. – 73.5%	Incorporated in July 2017, the purpose of this entity will be to operate the Group's co-venture business in North America, and to hold its investments in the Group's co-venture business in China.

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

Enterprise	Business
Tornado Global Hydrovacs Ltd. ("Tornado") – 23.8%	TGHL designs, manufactures and sells hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. It operates through a leased production facility in Stettler, AB and a sales office located in Calgary, Alberta. TGHL is also in the early stages of commencing similar operations in China and has established an office in Beijing China.
Dongguan Qiguang Dynamic Steel Structures, Ltd. (45%)	Fabrication and installation of complex structural steel projects in China through a Company owned 55% by Guangdong Qiguang Steel Structures Co. Ltd. and 45% by Empire Industries Ltd. The Company operates out of a leased facility in the Guangdong Province.

EIL maintains its head office in Winnipeg, Manitoba. The Group's common shares are listed on the TSX Venture Exchange under the trading symbol EIL.

Consolidated Financial Results

Periods ended March 31	**Quarter ended**		
	2018	**2017**	**Variance**
Operating Results:			
Revenues	**33,698**	32,428	1,270
Adjusted gross margin	**6,589**	7,269	(680)
Adjusted gross margin %	**19.6%**	22.42%	(2.9%)
Adjusted EBITDA	**1,458**	3,057	(1,599)
Adjusted EBITDA %	**4.3%**	9.43%	(5.1%)
Adjusted EBIT	**84**	1,980	(1,896)
Adjusted EBIT %	**0.2%**	6.1%	(5.9%)
Net Income	**(845)**	**157**	(1,002)
Income (loss) per share - basic & diluted	(0.01)	0.02	(0.03)

Outlook

In addition to other sections of the Group's report, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. For more information, see the section titled "Forward- Looking Information" in this MD&A.

The Group had a difficult and disappointing end to its 2017 fiscal year but started to trend back on plan for 2018. The Group is executing its plan to strengthen its balance sheet as evidenced by the announcement of a $5.0 million Unit Private Placement on May 10, 2018 that also includes warrants that can be exercised at $5.6 million ($0.50 per share) in the first 18 months or $8.3 million ($0.75 per share) in the subsequent 18 months. Strengthening its balance sheet will allow the Group to effectively and efficiently execute its existing backlog of $214 million as well as near-term projected awards currently estimated at $93 million USD resulting from the five-year strategic cooperation agreement with a theme park conglomerate in Asia announced on May 1, 2018. Generating profitable earnings and cashflow on its record backlog of business is the company's primary focus.

In addition to its strong existing backlog and significant near-term awards projected, the Group also continues to develop and finalize future projects to maintain its higher level of backlog to maximize the returns that the rapid growth experienced in that past four years has afforded it. Concurrently with building and maintaining a strong backlog of projects and pipeline of future opportunities, the Group is also focusing on streamlining and improving its efficiencies by reducing its cost structure in all areas. Capacity is tight in the industry and the Group is exploring ways to increase its capacity concurrent with lowering the cost structure of its manufacturing base, predominantly located in Vancouver.

The Group has undertaken an organization-wide cost reduction initiative to reduce headcount, reduce fixed costs as well as identifying and implementing design, procurement and production efficiencies that can improve not only the Group's execution capabilities but also its key financial metrics. The Group invested close to $30 million over the last four years in developing a core product line and increased and improved production and design facilities to become the global leader in the higher margin, media-based attractions market niche with both a proprietary product line and a unique capability to work with only select clients on supplying them iconic ride systems.

During the first quarter, the Group identified and actioned cost reductions that will have an annual run rate of $1.2 million and incurred $0.3 million in the first quarter relating to those costs. After March 31, 2018 and up to the date of this disclosure, the Group has identified and actioned on additional cost reductions that will yield further annual run rate reductions of $2.5 million. The Group will continue with this initiative throughout the balance of 2018 until it is satisfied that it has right-sized its cost structure appropriately to its volume.

The Group's sales opportunity pipeline continues to be strong, as the theme park industry continues to expand, particularly throughout Asia. The co-venture initiative is also progressing on schedule. The Group continues to expect to make an announcement of its first co-venture site in 2018, with an opening in 2019.

We will continue to shelter our profits from income tax through the utilization of loss carry forwards and investment tax credits arising from the use of Scientific Research & Experimental Development (SR&ED). On a simplified basis, our $15.6 million of net deferred tax assets at March 31, 2018 will continue to shield us from cash tax expense on approximately $57 million of future taxable income at the current statutory tax rates.

The Group has a current market capitalization of $36 million, but the Group believes its intrinsic value has never been higher. The officers, directors and insiders own over 50% of the company so our goals are completely aligned with shareholders to make sure that the market value rises to close the gap with its intrinsic value and that the intrinsic value rises as we execute our plan successfully.

1Q18 Results Review

Revenues and Adjusted Gross Margins

During the three-month period, the Group's revenues increased by 3.9% to $33.7 million compared to the same period in 2017. However, the Group's adjusted gross margin declined by 2.8% to 19.6% from the previous period which resulted in a decline of $0.7 million of adjusted gross margin when compared to the same period in 2017 due to higher indirect production costs in 1Q18 versus the same period in 2017. The increase indirect production costs are a result of continued growth in project opportunities over the past four years and the Group's efforts to capitalize on those opportunities and establish its presence in the media-based attractions industry as the global leader. As outlined in the outlook section of this MD&A, the Group has undertaken organization-wide cost reduction initiatives to reduce its cost structure while also improving its efficiency and execution capabilities.

Selling, General and Administrative Costs

Selling, general and administrative costs increased by $0.9 million in 1Q18 compared to 1Q17. The increase in selling, general and administrative expenses is driven by an increase of $0.9 million of selling, general and administrative expensive expenses in the media-based attractions segment. Notwithstanding the negative impact on the operating results discussed above, the media-based attraction segment continues to grow and have a significant backlog and the increase in selling, general and administrative has been driven by that rapid growth. The Group is undertaking and overall cost reduction and improved efficiency initiative as outlined in the outlook section of this MD&A.

Adjusted EBITDA

Adjusted EBITDA for the period ended March 31, 2018 of $1.5 million was $1.6 million less than the period ended March 31, 2017. This was due to the decline of adjusted gross margin of $0.7 million and increase in selling, general and administrative expenses of $0.9 million outlined above.

Cashflow Generated by Operations

The Group's cash flow generated by operations of $0.9 million decreased by $1.5 million in 1Q18 largely because of the $1.6 million reduction in adjusted EBITDA offset by lower finance costs of $0.1 million.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.1 million in 1Q18 compared to 1Q17. This increase was due to a full period presence of depreciation for the $6.3 million of additions recorded in 2017.

Amortization of intangible assets increased by $0.2 million in 1Q18 compared to 1Q17. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to full period presence arising from $3.9 million in additions from 2017.

Finance Costs

Finance costs decreased by $0.1 million in 1Q18 over 1Q17 which is driven by an overall reduction in interest bearing debt offset by a financing fee of $0.2 million recorded during the current period.

Share of profit (loss) from associate

The Group recorded a loss from its associate investment in TGHL of $0.2 million in 1Q18 compared to a loss of $0.1 million in 1Q17 which related to the Group's investment in ACE Industrial Services which it sold in late 2017.

Stock-based compensation

Stock-based compensation expense in 1Q18 was minimal and consistent with the 1Q17 with moderate charges relating to ongoing amortization of unvested options in the quarter.

Fair value changes in derivative financial instruments

The Group recorded a loss of $0.3 million in 1Q18 from changes to the fair value of its outstanding foreign currency forward contracts. The reason for the change in fair value is because the outstanding forward contracts $15 million at March 31, 2018 had a weighted average forward rate of 1.2315 versus the period-end exchange rate of 1.2894. In the comparative quarter, the Groups underlying position was such that there was a minimal fair value change recorded in the period.

Other Component of Income (loss)

The loss of $0.1 million recorded for 1Q18 represents a rebate provision provided for a strategic customer. In the comparative period the Group had recorded a restructuring provision of $1.0 million related to the downsizing and curtailment of its steel fabrication activities

Income tax expense

The Group's cash tax expense was $nil in 1Q18 and 1Q17. Deferred tax recoveries of $0.3 million were recorded in 1Q18 versus $nil in the 1Q17. Deferred tax recoveries arise from the recognition of tax loss carryforwards for use against future taxable income.

As at March 31, 2018 the Group has recorded net deferred tax assets of $15.6 million which is an increase of $8.5 million compared to March 31, 2017. The net increase in deferred tax assets was the recognition of $3.6 million in investment tax credits in 2017 and loss carry forwards of $4.9 million. On a simplified basis, the Group's $15.6 million of net deferred tax assets at March 31, 2017 will continue to shield the Group from cash tax expense on $57 million of future taxable income at the current statutory tax rates.

Net income (loss)

The Group's net loss of $0.8 million in 1Q18 compared to net income of $0.2 million in 1Q17. These changes were driven largely by the factors discussed above throughout the 1Q18 Results Review section.

Subsequent Significant Events

- On May 1, 2018, the Group announced that its wholly owned subsidiary, Dynamic Attractions Ltd., has agreed to the terms of a five-year strategic cooperation agreement with a theme park conglomerate in Asia.

  The strategic cooperation agreement grants Dynamic Attractions preferred vendor status and is expected to be launched with Dynamic Attractions supplying one of the Group's proprietary ride systems to three different theme parks currently under construction, with a combined value of USD $93 million. The first two theme park awards are in the process of being finalized and the third such award is expected before year-end. The delivery schedule will be 24 months from when each specific supply agreement is executed, at which time, the contracts will be added to backlog.

- On May 10, 2018, the Group announced its intentions to complete a non-brokered private placement financing of 11,111,112 common shares at $0.45 per share for gross proceeds of $5,000.

  Each unit will be comprised of one common share and one common share purchase warrant. The warrants expire three years from closing date. Each warrant will entitle the holder to purchase one additional common share at the following exercise prices:

  (i) months 1 to 18 from the closing date $0.50 per common share; and

  (ii) months 19 to 36 from the closing date - $0.75 per common share. The warrants shall be transferrable with the consent of the Group.

  Closing of the offering is subject to customary conditions, including receipt of all regulatory approvals, and is anticipated to occur on or before June 25, 2018. All securities issued as part of the offering will be subject to a four month and one day hold period. The Group intends to use the proceeds of the offering for working capital.

Selected Quarterly Financial Information

Quarterly Financial Information For the years ended	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
Sales	33,698	17,790	41,501	31,831	32,428	27,531	32,330	30,348
Profit (loss) from continuing operations	(845)	(12,638)	990	890	(885)	(2,660)	(269)	218
Profit (loss) from discontinued operations	-	-	-	-	-	102	(43)	2,868
Profit (loss) per share:								
Basic & Diluted - continuing operations	(0.01)	(0.20)	0.01	0.02	0.00	(0.04)	(0.00)	0.00
Basic & Diluted - discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	(0.00)	0.40
Basic & Diluted - all operations operations	(0.01)	(0.20)	0.01	0.02	0.00	(0.04)	(0.00)	0.40

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended March 31, 2018, the Group's continuing operations generated $1.3 million of cash, compared with $0.3 million of cash generated in the same period in 2017 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 $9.5 million was drawn as of March 31, 2018. The Group's marginable assets at March 31, 2018 were $15.0 million, which is $5.5 million more than the Group's total draw on the operating line.

The Group made $1.6 million of cash principal repayments during the period. Total long-term debt of $11.2 million as at March 31, 2018 consisted of $2.4 million of term debt with CIBC, $7.7 million of term debt with EDC, $0.2 million under finance leases, and $0.9 million of a limited recourse loan.

The Group was in violation of two of its financial covenants at March 31, 2018. The waiver for the breach was not obtained until after March 31, 2018. Because of the timing of the receipt of the waiver, long-term debt amounts due beyond March 31, 2019 but subject to the financial covenant were required by IRFS accounting standards to be classified as current for the period-ended March 31, 2018. This reclassification has an adverse effect on the accounting presentation of the Group's working capital position at March 31, 2018.

The table below shows the comparative impact of the Groups working capital position with the reclassification and without the reclassification:

For the periods ended	IFRS Mar 31, 2018 As Reported	Non-IFRS Adjustment	Non-IFRS Mar 31, 2018 Adjusted	IFRS Mar 31, 2017 As Reported	Non-IFRS Adjustment	Non-IFRS Mar 31, 2017 Adjusted
Current Assets	51,197	-	51,197	40,489	(638)	39,851
Less: Cash and equivalents	(94)	-	(94)	(92)	-	(92)
Current Liabilities	(66,908)	4,620	(62,288)	(43,560)	-	(43,560)
Non-Cash Working Capital Position	(15,805)	4,620	(11,185)	(3,163)	(638)	(3,801)
Working Capital Ratio	**0.77**		**0.82**	**0.93**		**0.91**

The Group's adjusted working capital ratio has declined significantly at March 31, 2018 at 0.82 to 1 compared with 0.91 to 1 at March 31, 2017. The adjustments identified to calculate the Group's adjusted working capital ratio in 1Q18 was the long-term portion of the CIBC and EDC debt that was classified as current removed from current liabilities as well as the fair value liabilities relating foreign currency forward contracts also removed. In 1Q17 the adjustments identified were the current portion of the Group's fair value assets relating to foreign currency forward contracts also removed from current assets.

Shareholders' Equity

Shareholders' equity of $20.1 million at March 31, 2018 is $0.7 million less than the shareholders' equity at December 31, 2017 due to the comprehensive loss 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 5,566,667 outstanding options at March 31, 2018. The average exercise price of the outstanding options was $0.43 per share. Of these options, 4,376,667 were currently exercisable at an average exercise price of $0.40 per share.

Market Capitalization

The market capitalization of the Group's 85,661,568 issued and outstanding common shares at May 22, 2018 was $36.0 million or $0.42 per share, which is greater than the Group's book value per share of $0.23 March 31, 2018. The issued and outstanding common shares at May 22, 2018, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares As at May 22, 2018		
Issued and outstanding common shares		**85,661,568**
Securities convertible into common shares		
Warrants	6,300,000	
Stock Options	5,566,667	
Total Securities convertible into common shares		11,866,667
Fully Diluted Shares		**97,528,235**

Segment Performance

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

2018	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	32,161	1,537	-	**33,698**
Cost of goods sold excluding depreciation and amortization	(25,217)	(1,892)	-	**(27,109)**
Gross profit, excluding depreciation and amortization	6,944	(355)	-	**6,589**
Selling, general and administrative expenses	(3,801)	(351)	(979)	**(5,131)**
Result before depreciation, amortization, finance costs and other items	3,143	(706)	(979)	**1,458**

2017	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	30,230	2,146	52	**32,428**
Cost of goods sold excluding depreciation and amortization	(22,766)	(2,393)	-	**(25,159)**
Gross profit, excluding depreciation and amortization	7,464	(247)	52	**7,269**
Selling, general and administrative expenses	(2,868)	(439)	(905)	**(4,212)**
Result before depreciation, amortization, finance costs and other items	4,596	(686)	(853)	**3,057**

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

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

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended March 31	**Quarter ended**		
	2018	**2017**	**Variance**
Profit (loss) - before taxes	**(1,158)**	157	(1,315)
Add : Depreciation and amortization	**1,374**	1,077	297
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	**144**	1,045	(901)
Add : Finance costs	**553**	641	(88)
Add/Deduct : Deduct Share of loss of associate	**157**	86	71
Add/Deduct : Fair value of changes of foreign currency option contracts	**331**	9	322
Add : non cash stock-based compensation	**57**	42	15
Adjusted EBITDA	**1,458**	3,057	(1,599)

Calculation of Adjusted EBIT

Periods ended March 31	**Quarter ended**		
	2018	**2017**	**Variance**
Adjusted EBITDA	**1,458**	3,057	(1,599)
Less : Depreciation and amortization	***(1,374)***	*(1,077)*	(297)
Adjusted EBIT	**84**	1,980	(1,896)
% of revenue	**0.2%**	6.1%	(5.9%)

Calculation of Adjusted Gross Margin

Periods ended March 31	Quarter ended		
	2018	**2017**	**Variance**
Revenues	33,698	32,428	1,270
Cost of sales excluding depreciation and amortization	(27,109)	(25,159)	(1,950)
Adjusted gross margin	6,589	7,269	(680)
% of revenue	19.55%	22.42%	(2.9%)

Cashflow Generated by Operations

Periods ended March 31	Quarter ended		
	2018	**2017**	**Variance**
Adjusted EBITDA	**1,458**	3,057	(1,599)
Less: Finance Costs	**(553)**	(641)	88
Cashflow Generated by Operations	**905**	2,416	(1,511)

1st Quarter

Consolidated Financial Statements

For the 3 month period ending March 31, 2018

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.

1Q18

EMPIRE INDUSTRIES LTD

Consolidated Statement of

Comprehensive Income (Loss)

For the 3 month periods ended March 31 (In $000's CAD, except where otherwise indicated)	Notes	2018	2017
Revenues[(1)]		**33,698**	32,428
Cost of sales, excluding depreciation and amortization[(2)]	6	**(27,109)**	(25,159)
Gross Profit, excluding depreciation and amortization		**6,589**	7,269
Selling, general and administration expenses	7	**(5,131)**	(4,212)
Result before depreciation, amortization, finance costs, and other items		**1,458**	3,057
Finance costs	8	**(553)**	(641)
Result before depreciation, amortization and other items		**905**	2,416
Depreciation of property, plant and equipment		**(774)**	(646)
Amortization of intangible assets		**(600)**	(431)
Result before other items of income (loss)		**(469)**	1,339
Share of loss from associate		**(157)**	(86)
Stock-based compensation		**(57)**	(42)
Fair value changes in derivative financial instruments		**(331)**	(9)
Other components of income (loss)	9	**(144)**	(1,045)
Net Income (loss) from continuing operations before tax		**(1,158)**	157
Tax (expense) recovery			
Current		**-**	-
Deferred		**313**	-
		313	-
Net income (loss)		**(845)**	**157**
Other comprehensive income (loss)		**80**	(12)
Comprehensive income (loss)		**(765)**	145
Income (loss) per share continuing operations - basic & diluted	**10**	**(0.01)**	0.02

(1) Included in revenue are foreign exchange losses of $208 for the period ended March 31, 2018 (2017 - foreign exchange gains $1,299)

(2) Cost of sales including depreciation and amortization was $28,212 for the period ended March 31, 2018 (2017 - $26,010)

See accompanying notes

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Financial Position

As at	Notes	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
(In $000's CAD, except where otherwise indicated)				
ASSETS				
Current assets				
Cash and cash equivalents		**94**	83	92
Accounts receivable	**3**	**47,415**	38,850	37,038
Inventory		**2,317**	2,339	1,435
Prepaid expenses		**1,371**	803	1,286
Derivative financial instruments		**-**	-	638
Total current assets		**51,197**	42,075	40,489
Non-current assets				
Property, plant and equipment and investment property, net		**16,575**	16,849	14,289
Intangible assets, net		**8,962**	8,941	8,196
Deferred tax assets		**15,698**	15,385	7,138
Note receivable		**648**	648	2,746
Investment in associate		**2,281**	2,366	1,403
Advances to associate		**-**	-	952
Other non-current assets		**123**	123	119
Total non-current assets		**44,287**	44,312	34,843
Total assets		**95,484**	86,387	75,332
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**9,456**	2,165	8,070
Accounts payable and accrued liabilities		**29,204**	27,742	18,344
Deferred revenue from construction contracts	**4**	**17,325**	15,379	10,439
Current portion of long-term debt		**6,303**	6,319	6,707
Long-term debt classified as current	**5**	**3,839**	5,208	-
Derivative financial instruments		**781**	450	-
Total current liabilities		**66,908**	57,263	43,560
Non-current liabilities				
Long-term debt		**135**	-	10,494
Limited recourse loan		**917**	892	946
Long-term deferred revenue	**4**	**7,379**	7,379	-
Deferred tax liabilities		**71**	71	**-**
Total non-current liabilites		**8,502**	8,342	11,440
Total Liabilities		**75,410**	65,605	55,000
SHARHOLDERS' EQUITY				
Share capital		**18,278**	18,278	8,300
Contributed surplus		**4,173**	4,116	4,455
Retained earnings		**(4,986)**	(4,141)	7,659
Non-controlling interest		**2,500**	2,500	-
Accumulated other comprehensive income (loss)		**109**	29	(82)
Total shareholders' equity		**20,074**	20,782	20,332
Total liabilities and shareholders' equity		**95,484**	86,387	75,332

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

On behalf of the Board of Directors:

Ian Macdonald
Director

Director

As at March 31, 2018

	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2017	**18,278**	**2,500**	**4,116**	**(4,141)**	**29**	**20,782**
Net loss for the year	-	-	-	(845)	-	(845)
Other comprehensive income	-	-	-	-	80	80
Stock-based compensation	-	-	57	-	-	57
As at March 31, 2018	**18,278**	**2,500**	**4,173**	**(4,986)**	**109**	**20,074**

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

See accompanying notes

EMPIRE INDUSTRIES LTD

Consolidated Statements of

Cash Flows

(In $000's CAD, except where otherwise indicated)	**2018**	**2017**
OPERATING ACTIVITIES		
Income (loss) from continuing operations after tax	**(765)**	157
Add (deduct) items not affecting cash :		
Depreciation of property, plant and equipment	**774**	646
Amortization of intangible assets	**600**	431
Finance costs on short-tem borrowings	**198**	228
Share of loss from associates investments	**157**	86
Stock-based compensation	**57**	42
Fair value changes in derivative financial instruments	**331**	9
Other items affecting cash flow *(note 13)*	**238**	(1,339)
Deferred income taxes (recovery) expense	**(313)**	-
Cash from (used in) operations	**1,277**	260
Net change in non-cash working capital balances *(note 13)*	**(5,241)**	1,499
Cash from (used in) operating activities	**(3,964)**	1,759
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(366)**	(952)
Acquisition of other long term assets	**-**	(31)
Proceeds from repayment of note receivable from TGHL	**-**	60
Acquisiton of intangible assets	**(621)**	(865)
Cash used in investing activities	**(987)**	(1,788)
FINANCING ACTIVITIES		
Proceeds received from long-term debt and finance leases	**161**	-
Repayment of long-term debt	**(1,635)**	(2,406)
Finance costs paid on long-term borrowings	**(160)**	(409)
Cash flow from financing activities	**(1,634)**	(2,815)
Effect of translation of foreign currency cash and equivalents	**(695)**	1,620
Net (decrease) increase in cash and equivalents during the period	**(7,280)**	(1,224)
Cash and cash equivalents, beginning of period	**(2,082)**	(6,754)
Cash and cash equivalents, end of period	**(9,362)**	(7,978)
Cash and cash equivalents is comprised of :		
Cash	**94**	92
Bank indebtedness	**(9,456)**	(8,070)
	(9,362)	(7,978)

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 and custom steel fabrication services. 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 and were approved and authorized for issue by the Board of Directors on May 22, 2018.

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 Company's consolidated financial statements for the year ended December 31, 2017. The Group's 2017 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.

Adoption of new accounting standards

Effective January 1, 2018, the Group adopted the following standards, interpretations and/or amendments thereto, which had no material impact on the Group's financial statements.

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial instruments and is a partial replacement of IAS 39, "Financial Instruments: Recognition and Measurement." The standard is effective for accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 mainly affects the classification and measurement of financial assets and financial liabilities; the recognition of expected credit losses; and hedge accounting. The Group does not employ hedge accounting for its risk management contracts currently in place.

Classification and measurement of financial assets

The classification of financial assets is based on the Group's assessment of its business models for holding financial assets. The standard introduces new classification categories for financial assets. The main classification categories are: financial assets measured at amortized cost (assets held to maturity to collect contractual cash flows: principal and interest), financial assets at fair value through profit or loss (assets held for trading) and financial assets at fair value through other comprehensive income (trade, manage on a fair value basis, or maximize cash through sale). The IAS 39 available-for-sale category of financial instruments has been eliminated. The IFRS 9 accounting model for financial liabilities is broadly the same as that in IAS 39, except that in relation to the fair value option, any changes in fair value of a financial liability attributable to the Group's credit risk must be recognized in other comprehensive income (provided this does not give rise to an accounting mismatch). Based on the analysis performed to-date, the Group does not expect any material impact, given that most of the Group's assets and liabilities will continue to be recognized at amortized cost.

Impairment of financial assets

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument. Based on the analysis performed to-date, the Group does not expect any material impact from the current practice of recognizing credit losses. IFRS 9 is applicable retrospectively, subject to certain exemptions and exceptions. The table below outlines the classification changes for the Group's financial assets and liabilities in adopting IFRS 9 and superseding IAS 39:

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

Financial Assets	**IAS 39**	**IFRS 9**
Cash and equivalents	FVTPL	FVTPL
Accounts receivable	Loans & Rec	Amortized cost
Note receivable	Loans & Rec	Amortized cost
Financial Liabilities	**IAS 39**	**IFRS 9**
Derivative financial instruments	FVTPL	FVTPL
Bank indebtedness	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other Fin Liab	Amortized cost
Long-term debt including current portion	Other Fin Liab	Amortized cost
Limited recourse loan	Other Fin Liab	Amortized cost

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, "Revenue," and IAS 11, "Construction Contracts," and the related interpretations when it becomes effective. IFRS 15 is effective for years beginning on or after January 1, 2018.

The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The adoption of IFRS 15 did not result in any adjustments to the amounts recognized in the Group's consolidated financial statements for the year ended December 31, 2017.

Basis of presentation

The consolidated financial statements are prepared for the period ended March 31, 2018 and include the results for the comparative period ended March 31, 2017. 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 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").

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

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, 2018.

3. Accounts receivable

	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
Trade	**18,146**	7,292	9,339
Unbilled construction contract receivables (note 6)	**27,838**	29,070	30,851
Other receivables	**1,051**	1,308	847
Current portion of note receivable (note 10)	**400**	1,200	-
Allowance for doubtful accounts	**(20)**	(20)	**(104)**
	47,415	38,850	40,933

Holdbacks included in trade receivables are $3,688 as at March 31, 2018 (December 31, 2017 - $3,204 – March 31, 2017 - $2,775).

4. Construction contracts

	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
Construction costs incurred and estimated profits, less recognized losses to date	**220,322**	198,731	179,680
Less: Progress billings	**(217,188)**	(192,419)	(163,830)
	3,134	6,312	15,850
Items recognized and included in the consolidated financial statements as:			
Unbilled construction contract receivables (note 3)	**27,838**	29,070	26,289
Deferred revenue from construction contracts - current portion	**(17,325)**	(15,379)	(10,439)
Deferred revenue from construction contracts - long-term portion	**(7,379)**	(7,379)	-
	3,134	6,312	15,850

5. Long-term debt

The Group was not in compliance with its Senior Debt to EBITDA and Fixed Charge financial covenants as at March 31, 2018 and December 31, 2017. The Group received a waiver from its senior lender after March 31, 2018. Because the waiver was not obtained prior to March 31, 2018, the Group has classified the long-term portion of it's long-term debt as current for the period ended March 31, 2018 as well as December 31, 2017.

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

6. Cost of sales

	Mar 31, 2018	Mar 31, 2017
Direct construction costs	**(22,712)**	(21,607)
Indirect salaries and benefits	**(2,751)**	(2,052)
Indirect production costs	**(1,646)**	(1,500)
	(27,109)	(25,159)

7. Selling and administrative expenses

	Mar 31, 2018	Mar 31, 2017
Salaries and benefits	**(3,174)**	(2,571)
General, selling and administrative expenses	**(1,957)**	(1,641)
	(5,131)	(4,212)

8. Finance costs

	Mar 31, 2018	Mar 31, 2017
Interest on long-term borrowings	**(160)**	(409)
Interest on short-term borrowing and other	**(198)**	(228)
Financing fee	**(180)**	-
Deferred financing charges	**(15)**	(4)
	(553)	(641)

9. Other components of income (loss)

	Mar 31, 2018	Mar 31, 2017
Restructuring provision	**-**	(1,045)
Provision for customer rebates	**(144)**	-
	(144)	(1,045)

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

10. Income per share

Income per share for the three months ended March 31:

	Mar 31, 2018	Mar 31, 2017
Net income (loss) from continuing operations	**(845)**	**157**
Basic weighted average number of shares	**85,661,568**	**65,937,060**
Effect of diluted securities		
Net incremental dilutive shares	**-**	**2,217,522**
Diluted weighted average number of shares	**85,661,568**	**68,154,582**
Net earnings (loss) per share		
Basic and diluted	**(0.01)**	**0.02**

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. The effect of potentially dilutive securities ("in-the-money" executive stock options, "in-the-money" warrants and convertible debentures) are excluded if they are anti-dilutive.

11. Operating segments

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three months ended March 31, 2018 and 2017 respectively:

2018	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	32,161	1,537	-	**33,698**
Cost of goods sold excluding depreciation and amortization	(25,217)	(1,892)	-	**(27,109)**
Gross profit, excluding depreciation and amortization	6,944	(355)	-	**6,589**
Selling, general and administrative expenses	(3,801)	(351)	(979)	**(5,131)**
Result before depreciation, amortization, finance costs and other items	3,143	(706)	(979)	**1,458**

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

2017	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	30,230	2,146	52	**32,428**
Cost of goods sold excluding depreciation and amortization	(22,766)	(2,393)	-	**(25,159)**
Gross profit, excluding depreciation and amortization	7,464	(247)	52	**7,269**
Selling, general and administrative expenses	(2,868)	(439)	(905)	**(4,212)**
Result before depreciation, amortization, finance costs and other items	4,596	(686)	(853)	**3,057**

12. Guarantees and contingencies

Loan guarantees

The Group was contingently liable under one guarantee given to a third-party lender who has provided certain financing facilities to associated investments until selling its interest in the associate in 2017. As at March 31, 2018, the Group was guaranteeing $nil to a third-party lender on behalf of an affiliated company ($nil as at December 31, 2017 and $680 as at March 31, 2017).

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, 2018 ($6,273 as at December 31, 2017 and $6,273 as at March 31, 2017). 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, 2018, 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.

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

13. Supplemental cash flow information

The follow table outlines the additional details that comprise cash flow from operating activities in the statement of cash flows:

	Mar 31, 2018	Mar 31, 2017
Amortization of deferred financing charges	**15**	**4**
Loss (gain) on foreign exchange revaluation of limited recourse loan	**25**	**(9)**
Foreign currency adjusted (net of tax)	**(80)**	**(12)**
Non-cash interest income earned	**-**	**(23)**
Gain on foreign exchange revaluation of long-term debt	**209**	**-**
Loss on foreign exchange revaluation of property, plant and equipment	**(139)**	**-**
Unrealized foreign currency translation gains recorded in revenues	**198**	**(1,299)**
	228	**(1,339)**

The following table outlines the details that comprises changes in non-cash working capital accounts in the statement of cash flows:

	Mar 31, 2018	Mar 31, 2017
Accounts receivable	**(8,565)**	3,895
Inventory	**22**	51
Prepaid expenses	**(568)**	57
Accounts payable and accrued liabilities	**1,462**	(5,542)
Deferred revenue from construction contracts	**1,946**	3,170
Other	**462**	(132)
	(5,241)	1,499

14. Subsequent event

After March 31, 2018, the Group announced its intentions to complete a non-brokered private placement financing of 11,111,112 common shares at $0.45 per share for gross proceeds of $5,000.

Each Unit will be comprised of one common share and one common share purchase warrant. The Warrants shall expire three years from closing date. Each Warrant will entitle the holder to purchase one additional common share at the following exercise price:

(i) Months 1 to 18 from the closing date $0.50 per common share; and

(ii) Months 19 to 36 from the closing date - $0.75 per common share. The Warrants shall be transferrable with the consent of the Company.

Closing of the Offering is subject to customary conditions, including receipt of all regulatory approvals, and is anticipated to occur on or before June 25, 2018. All securities issued as part of the Offering will be subject to a four month and one day hold period. The Group intends to use the proceeds of the Offering for working capital.