2Q18

Management's Discussion & Analysis

For the 3 and 6 month periods ending June 30, 2018

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2018

EMPIRE INDUSTRIES LTD

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 periods ended June 30, 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 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 27, 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.

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In addition to these business units, the Group holds significant equity interests in the following business enterprise:

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.

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

Consolidated Financial Results

Periods ended June 30	Six months ended			Quarter ended		
	2018	2017	Variance	2018	2017	Variance
Operating Results:						
Revenues	**67,086**	61,549	5,537	**33,555**	32,223	1,332
Adjusted gross margin	**12,016**	11,771	245	**5,594**	7,604	(2,010)
Adjusted gross margin %	**17.9%**	19.1%	(1.2%)	**16.7%**	23.6%	(6.9%)
Adjusted EBITDA	**1,322**	3,033	(1,711)	**31**	3,078	(3,047)
Adjusted EBITDA %	**2.0%**	4.9%	(3.0%)	**0.1%**	9.6%	(9.5%)
Adjusted EBIT	**(1,458)**	2,204	(3,662)	**(1,541)**	1,082	(2,623)
Adjusted EBIT %	**(2.2%)**	3.6%	(5.8%)	**(4.6%)**	3.4%	(8.0%)
Net Income	**(2,179)**	**(554)**	(1,625)	**(1,212)**	**1,554**	(2,766)
Income (loss) per share basic & diluted:	(0.03)	(0.01)	(0.02)	(0.02)	0.02	(0.04)

Adoption of IFRS 15 "Revenue from Contracts with Customers"

Effective January 1, 2018 IFRS 15 – "Revenue from Contracts with Customers" became effective, replacing IAS 11 – "Construction Contracts" and IAS 18 – "Revenue". 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.

IFRS 15 also provides additional discussion and application guidance around circumstances when there is an inability to reliably estimate progress on performance obligations and that are earned over time. Under such circumstances, the recognition of revenue is required but limited only to the extent that it offsets the costs incurred, resulting in any projected profit to be realized on the contract performance obligations being deferred until there is sufficient information available for the Group to more reliably measure the performance of the contracts and performance obligations identified.

Applying the provisions of this standard, the Group concluded that certain contracts with performance obligations that have a high degree of technical risk should be accounted for in this manner. The Group currently has three contracts with performance obligations that it has concluded have a high degree of technical risk and thus present an inability to reliably estimate progress on the performance obligations of the contracts at this point. For those three contracts, the Group is deferring any profit and immediately recognizing any projected losses in accordance with IFRS 15. In adopting IFRS 15, the Group has applied the standard retroactively, to demonstrate the effect on the consolidated condensed financial statements as if the policy was in place for all periods presented.

The impact of adopting IFRS 15 and the deferral of projected profit on the contracts identified resulted in a reduction of shareholder's equity of $3.5 million as of December 31, 2017 (a reduction of $10.9 million as of January 1, 2017).

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 is executing its plan to strengthen its balance sheet as evidenced by the closing of a $5.0 million Unit Private Placement on June 22, 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. In addition to that, the Group also raised an additional $1.7 million of equity by 6,300,000 outstanding warrants being exercised for gross proceeds of $1.7 million. Strengthening its balance sheet will allow the Group to effectively and efficiently execute its existing backlog of $280 million which is the highest level that it has been in the Group's history. This improved working capital happened at the end of the second quarter so the benefit of accelerating production of its record backlog won't be experienced until Q318 and afterwards.

In addition to its very strong existing backlog, the Group also continues to develop and finalize future projects to maintain its higher level of backlog thereby maximizing the bottom line returns in future quarters. Concurrently with building and maintaining a strong backlog of projects and converting its pipeline of future opportunities into contracts, 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 its other 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 previous four fiscal years in developing a proprietary product line and increased and improved production and design facilities to become the global leader in the higher priced, media-based attractions market niche with both a proprietary product line and a unique capability to work with only select clients on supplying them world class iconic ride systems that generates world class guest satisfaction and attendance.

The Group's sales pipeline of opportunities 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 late 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 $18.9 million of net deferred tax assets at June 30, 2018 will continue to shield us from cash tax expense on approximately $70 million of future taxable income at the current statutory tax rates.

The Group has a current market capitalization of $48.4 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.

Year-to-Date Results Review

Revenues and Adjusted Gross Margins

The Group's revenues increased by 9% to $67.1 million compared to the same six-month period in 2017 while the Group's adjusted gross margin declined by 1.2% to 17.9% over that period. This increase in revenues is driven by an increase in the number of projects that the Group has secured and these incremental awards were just being executed during the same period in the previous year. The decline in adjusted gross margin is driven by the application of IFRS 15 on projects that the Group has assessed as having a high degree of technical risk and in turn the Group is deferring any projected profit on the associated contracts until there is sufficient information to reasonably project the contracts estimated profitability. The current six-month period has more production on those types contracts then the same period in the prior year. It is important to point out that the most recent contracts that the group has secured over the past 12-18 months do not possess a high degree of technical risk as they are projects where the technical risks have been assessed as low or have been mitigated in previous contracts and therefore not posing significant incremental risk to the Group during the execution.

Selling, General and Administrative Costs

Selling, general and administrative costs increased by $2.0 million compared to the prior period. The increase in selling, general and administrative expenses is driven by an increase of $2.1 million of selling, general and administrative expenses in the media-based attractions segment. 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 an overall cost reduction and improved efficiency initiative as outlined in the outlook section of this MD&A.

Adjusted EBITDA

Adjusted EBITDA for the six-month period ended June 30, 2018 of $1.3 million is $1.7 million less than the comparative period. This was due to the increase in revenues offset by reduced adjusted gross margins and increases in selling, general and administrative expenses of $2.0 million as outlined above.

Cashflow Generated by Operations

The Group's cash flow generated by operations of $0.4 million decreased by $1.6 million because of the $1.7 million decline in adjusted EBITDA offset by lower finance costs of $0.1 million.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.5 million through the six-months ended June 30, 2018 compared to the same period in 2017. This increase was due to a full period presence of depreciation for the $6.3 million of additions recorded in 2017 as well as the $0.8 million of additions incurred thus far in 2018.

Amortization of intangible assets increased by $0.4 million through the six-months ended June 30, 2018 compared to the same period in 2017. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to the full period presence arising from $3.9 million in additions from 2017 as well as the $1.5 million of additions incurred thus far in 2018.

Finance Costs

Finance costs decreased by $0.1 million through six months when compared to 2017 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 through the six months which was equivalent to the loss of $0.2 million through the same period in 2017 relating to the Group's investment in ACE Industrial Services which it sold in late 2017.

Stock-based compensation

Stock-based compensation expense through six months is $0.1 million higher than the comparative period due to additional options issued in the current six-month period.

Fair value changes in derivative financial instruments

The Group's fair value changes in derivative financial instruments through the six-month period ended June 30, 2018 was negligible compared to a gain of $0.6 million during the comparative period from changes to the fair value of its outstanding foreign currency forward contracts. As at June 30, 2018 the aggregate fair value liability was virtually the same as the liability at recorded at December 31, 2017 which is why the fair value change is negligible. In the previous period, the gain was driven by the weighted average forward rate on the outstanding foreign currency forward contracts was higher than USD/CAD exchange rate at June 30, 2017, increasing the fair value of the asset.

Other Component of Income (loss)

The loss of $0.1 million recorded for the first six months of 2018 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 the current and comparative periods. Deferred tax recoveries of $0.8 million have been recorded through six months in 2018 as opposed to $0.2 million in the comparative period. Deferred tax recoveries arise from the recognition of tax loss carryforwards for use against future taxable income.

Net income (loss)

The Group's net loss of $2.2 million through the six-month period ended June 30 was a decline of $1.6 million compared to same period in 2017. These changes were driven largely by the factors discussed above.

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Revenues and Adjusted Gross Margins

The Group's revenues increased by 4% to $33.6 million compared to the same period in 2017 while the Group's adjusted gross margin declined by 6.9% to 16.7% over the period. This increase in revenues is driven by an increase in the number of projects that the Group has secured and these incremental awards were just being executed during the same period in the previous year. The decline in adjusted gross margin is driven by the application of IFRS 15 on projects that the Group has assessed as having a high degree of technical risk and in turn the Group is deferring any projected profit on the associated contracts until there is sufficient information to reasonably project the contracts estimated profitability. During the current quarter, there was a higher volume of its production was from projects that were impacted by the Group's policy adoption than the comparative period resulting in the appearance of lower adjusted gross margins.

Selling, General and Administrative Costs

Selling, general and administrative costs increased by $1.0 million compared to the prior period. The increase in selling, general and administrative expenses is driven by an increase of $1.2 million of selling, general and administrative expensive expenses in the media-based attractions segment. 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.

Adjusted EBITDA

Adjusted EBITDA for the quarter ended June 30, 2018 of $nil is $3.0 million less than the Adjusted EBITDA for the comparative period. This was driven by reduced adjusted gross margins and higher selling, general and administrative costs of $1.0 million in the current period.

Cashflow Generated by Operations

The Group's cash flow used by operations of $0.4 million decreased by $3.0 million because of the $3.0 million decline in adjusted EBITDA over the same period in 2017.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.4 million through the quarter ended June 30, 2018 compared to the same period in 2017. This increase was due to a full period impact of depreciation for the $6.3 million of additions recorded in 2017 as well as the $0.8 million of additions incurred thus far in 2018.

Amortization of intangible assets increased by $0.2 million through the quarter ended June 30, 2018 compared to the same perio in 2017. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to the full period presence arising from $3.9 million in additions from 2017 as well as the $1.5 million of additions incurred thus far in 2018.

Finance Costs

Finance costs were consistent when compared to the same period in 2017.

Share of profit (loss) from associate

The Group recorded a loss from its associate investment in TGHL of $nil million in the quarter compared to a loss of $0.1 million through the same period in 2017 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 the quarter is $0.1 million higher than the comparative period due to additional options issued in the current quarter.

Fair value changes in derivative financial instruments

The Group's recorded a gain of $0.3 million because of fair value changes in derivative financial instruments during the quarter ended June 30, 2018 as compared to a gain of $0.6 million during the comparative period from changes to the fair value of its outstanding foreign currency forward contracts.

Other Component of Income (loss)

There was no activity in other components of income (loss) in both the current and comparative period.

Income tax expense

The Group's cash tax expense was $nil in the current and comparative periods. Deferred tax recoveries of $0.5 million have been recorded in the quarter as opposed to deferred tax expense of $0.6 million in the comparative period.

Net income (loss)

The Group's net loss of $1.2 million in the quarter ended June 30 was a reduction of $2.8 million compared to same period in 2017. These changes were driven largely by the factors discussed above.

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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 29, 2018, the Group announced the first two ride contracts under the five-year strategic partnership agreement announced on May 1, 2018. The two contracts awarded are for a combined value of $73 million. Under the contracts, Dynamic Attractions will be supplying one of its proprietary ride systems to two different theme parks currently under construction. The company has completed the design and manufacturing requirements in two prior contracts. The supply portion of the contracts will be executed over the course of 24 months.

- On June 12, 2018 the Group announced that Canada Zhoufa Agricultural Holding Company Limited exercised all of their outstanding warrants, resulting in 6,300,000 common shares being issued by the Group. The exercise price of the warrants was $0.272 per share, yielding gross proceeds of approximately $1.7 million.
- On June 22, 2018 the Group announced the closing of a non-brokered private placement financing of 11,111,110 units at a price of $0.45 per unit for gross proceeds of $5,000. Each unit is comprised of one common share and one common share purchase warrant. An aggregate of 11,111,110 common shares and 11,111,110 warrants were issued. The warrants expire three years from the closing date and have an exercise price of $0.50 per common share until December 22, 2019 and $0.75 per common share thereafter until June 22, 2019. The warrants are transferrable with the consent of the Group.

Selected Quarterly Financial Information

Quarterly Financial Information **For the years ended**	**2018** **Q2**	**2018** **Q1**	**2017** **Q4**	**2017** **Q3**	**2017** **Q2**	**2017** **Q1**	**2016** **Q4**	**2016** **Q3**
Sales	33,555	33,531	28,995	43,140	32,223	29,326	27,531	32,330
Profit (loss) from continuing operations	(1,212)	(967)	(5,778)	2,087	1,554	(2,108)	(2,660)	(269)
Profit (loss) from discontinued operations	-	-	-	-	-	-	102	(43)
Profit (loss) per share:								
Basic & Diluted - continuing operations	(0.02)	(0.01)	(0.06)	0.03	0.02	(0.03)	(0.04)	(0.00)
Basic & Diluted - discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.00)
Basic & Diluted - all operations operations	(0.02)	(0.01)	(0.06)	0.03	0.02	(0.03)	(0.04)	(0.00)

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended June 30, 2018, the Group's continuing operations generated $0.1 million of cash, compared with $0.7 million of cash used 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 $10.5 million was drawn as of June 30, 2018. The Group's marginable assets at June 30, 2018 were $18.5 million, which is $8.0 million more than the Group's total draw on the operating line.

The Group made $2.9 million of cash principal repayments during the period. Total long-term debt of $9.7 million as at June 30, 2018 consisted of $2.1 million of term debt with CIBC, $6.6 million of term debt with EDC, $0.1 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 June 30, 2018, resulting in long-term debt amounts due beyond June 30, 2019 but subject to the financial covenant are required by IRFS accounting standards to be classified as current for the period-ended June 30, 2018. This reclassification has an adverse effect on the accounting presentation of the Group's working capital position at June 30, 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 Jun 30, 2018 As Reported	Non-IFRS Adjustment	 Jun 30, 2018 Adjusted	IFRS Jun 30, 2017 As Reported	Non-IFRS Adjustment	 Jun 30, 2017 Adjusted
Current Assets	41,327	-	41,327	29,571	(1,206)	28,365
Less: Cash and equivalents	(79)	-	(79)	-	-	-
Current Liabilities	(57,778)	2,948	(54,830)	(50,366)	-	(50,366)
Non-Cash Working Capital Position	(16,530)	2,948	(13,582)	(20,795)	(1,206)	(22,001)
Working Capital Ratio	**0.72**		**0.75**	**0.59**		**0.56**

The Group's adjusted working capital ratio has increased at June 30, 2018 at 0.75 to 1 compared with 0.56 to 1 at June 30, 2017. The adjustments identified to calculate the Group's adjusted working capital ratio at June 30, 2018 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. As at June 30, 2018 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 $22.0 million at June 30, 2018 is $4.7 million more than the shareholders' equity at December 31, 2017 due to the $6.7 million of equity raised, offset by 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 6,166,667 outstanding options at June 30, 2018. The average exercise price of the outstanding options was $0.44 per share. Of these options, 4,576,667 were currently exercisable at an average exercise price of $0.41 per share.

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Market Capitalization

The market capitalization of the Group's 103,072,678 issued and outstanding common shares at August 24, 2018 was $48.4 million or $0.47 per share, which is greater than the Group's book value per share of $0.21 June 30, 2018. The issued and outstanding common shares at August 24, 2018, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares As at August 24, 2018		
Issued and outstanding common shares		**103,072,678**
Securities convertible into common shares		
Warrants	11,111,110	
Stock Options	6,166,667	
Total Securities convertible into common shares		17,277,777
Fully Diluted Shares		**120,350,455**

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 for the three-month period ended June 30, 2018 are listed below:

2018	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	31,243	2,312	-	**33,555**
Cost of goods sold excluding depreciation and amortization	(25,932)	(2,029)	-	**(27,961)**
Gross profit, excluding depreciation and amortization	5,311	283	-	**5,594**
Selling, general and administrative expenses	(4,432)	(333)	(798)	**(5,563)**
Result before depreciation, amortization, finance costs and other items	879	(50)	(798)	**31**

2017	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	30,882	1,289	52	**32,223**
Cost of goods sold excluding depreciation and amortization	(22,921)	(1,698)	-	**(24,619)**
Gross profit, excluding depreciation and amortization	7,961	(409)	52	**7,604**
Selling, general and administrative expenses	(3,271)	(224)	(1,031)	**(4,526)**
Result before depreciation, amortization, finance costs and other items	4,690	(633)	(979)	**3,078**

The performance of the Group's operating segments for the six-months ended June 30, 2018 are listed below:

2018	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	63,237	3,849	-	**67,086**
Cost of goods sold excluding depreciation and amortization	(51,149)	(3,921)	-	**(55,070)**
Gross profit, excluding depreciation and amortization	12,088	(72)	-	**12,016**
Selling, general and administrative expenses	(8,233)	(684)	(1,777)	**(10,694)**
Result before depreciation, amortization, finance costs and other items	3,855	(756)	(1,777)	**1,322**

2017	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	58,010	3,435	104	**61,549**
Cost of goods sold excluding depreciation and amortization	(45,687)	(4,091)	-	**(49,778)**
Gross profit, excluding depreciation and amortization	12,323	(656)	104	**11,771**
Selling, general and administrative expenses	(6,139)	(663)	(1,936)	**(8,738)**
Result before depreciation, amortization, finance costs and other items	6,184	(1,319)	(1,832)	**3,033**

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.

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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 June 30	**Six months ended**			**Quarter ended**		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
Profit (loss) - before taxes	**(2,997)**	**(758)**	(2,239)	**(1,672)**	**2,187**	(3,859)
Add : Depreciation and amortization	**2,863**	**1,951**	912	**1,489**	**874**	615
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	**144**	**1,045**	(901)	**-**	-	-
Add : Finance costs	**954**	**1,099**	(145)	**401**	**458**	(57)
Add/Deduct : Deduct Share of loss of associate	**169**	**174**	(5)	**12**	**88**	(76)
Add/Deduct : Fair value of changes of foreign currency option contracts	**12**	**(558)**	570	**(319)**	**(567)**	248
Add : non cash stock-based compensation	**177**	**80**	97	**120**	**38**	82
Adjusted EBITDA	**1,322**	3,033	(1,711)	**31**	3,078	(3,047)

Calculation of Adjusted EBIT

Periods ended June 30	**Six months ended**			**Quarter ended**		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
Adjusted EBITDA	**1,322**	**3,033**	(1,711)	**31**	3,078	(3,047)
Less : Depreciation and amortization	***(2,863)***	*(1,951)*	(912)	***(1,489)***	*(874)*	(615)
Adjusted EBIT	**(1,541)**	1,082	(2,623)	**(1,458)**	2,204	(3,662)
% of revenue	**(1.2%)**	0.9%	(2.2%)	**(8.2%)**	8.0%	(16.2%)

Calculation of Adjusted Gross Margin

Periods ended June 30	Six months ended			Quarter ended		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
Revenues	67,086	61,549	5,537	33,555	32,223	1,332
Cost of sales excluding depreciation and amortization	(55,070)	(49,778)	(5,292)	(27,961)	(24,619)	(3,342)
Adjusted gross margin	12,016	11,771	245	5,594	7,604	(2,010)
% of revenue	17.9%	19.1%	(1.2%)	16.7%	23.6%	(6.9%)

Cashflow Generated by Operations

Periods ended June 30	Six months ended			Quarter ended		
	2018	**2017**	**Variance**	**2018**	**2017**	**Variance**
Adjusted EBITDA	**1,322**	3,033	(1,711)	**31**	**3,078**	(3,047)
Less: Finance Costs	**(954)**	**(1,099)**	145	**(401)**	**(458)**	57
Cashflow Generated by Operations	**368**	1,934	(1,566)	**(370)**	2,620	(2,990)

2nd Quarter

Consolidated Financial Statements

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

2Q18

EMPIRE INDUSTRIES LTD

Consolidated Statement of

Comprehensive Income (Loss)

For the 3 month and 6 month periods ended June 30	Notes	Three Months 2018	Three Months 2017	Six Months 2018	Six Months 2017
(In $000's CAD, except where otherwise indicated)					
Revenues[(1)]		**33,555**	**32,223**	**67,086**	61,549
Cost of sales, excluding depreciation and amoritzation[(2)]	**6**	**(27,961)**	**(24,619)**	**(55,070)**	(49,778)
Gross Profit, excluding depreciation and amortization		**5,594**	**7,604**	**12,016**	11,771
Selling, general and administration expenses	**7**	**(5,563)**	**(4,526)**	**(10,694)**	(8,738)
Result before depreciation, amortization, finance costs, and other items		**31**	**3,078**	**1,322**	3,033
Finance costs	**8**	**(401)**	**(458)**	**(954)**	(1,099)
Result before depreciation, amortization and other items		**(370)**	**2,620**	**368**	1,934
Depreciation of property, plant and equipment		**(839)**	**(437)**	**(1,613)**	(1,083)
Amortization of intangible assets		**(650)**	**(437)**	**(1,250)**	(868)
Result before other items of income (loss)		**(1,859)**	**1,746**	**(2,495)**	(17)
Share of loss from associate		**(12)**	**(88)**	**(169)**	(174)
Stock-based compensation		**(120)**	**(38)**	**(177)**	(80)
Fair value changes in derivative financial instruments		**319**	**567**	**(12)**	558
Other components of income (loss)	**9**	**-**	**-**	**(144)**	(1,045)
Net Income (loss) from continuing operations before tax		**(1,672)**	**2,187**	**(2,997)**	(758)
Tax (expense) recovery					
Current		**-**	**(2)**		(2)
Deferred		**460**	**(631)**	**818**	206
		460	**(633)**	**818**	204
Net income (loss)		**(1,212)**	**1,554**	**(2,179)**	**(554)**
Other comprehensive income (loss)		**(45)**	**47**	**35**	35
Comprehensive income (loss)		**(1,257)**	**1,601**	**(2,144)**	(519)
Income (loss) per share continuing operations - basic & diluted	**10**	**(0.02)**	**0.02**	**(0.03)**	(0.01)

(1) Included in revenue are foreign exchange losses of $103 for the three month period ended June 30, 2018 (2017 - $76). Included in revenues are foreign exchange losses of $312 for the six month period ended June 30, 2018 (2017 - gains of $1,223).

(2) Cost of sales including depreciation and amortization is $29,237 for the three month period ended June 30, 2018 (2017 - $25,362). Cost of sales including depreciation and amortization is $57,649 for the six month period ended June 30, 2018 (2017 - $51,857).

(3) Included in cost of sales are investment tax credit recoveries of $1,272 for the three-month period ended June 30, 2018 (2017 - $nil). Included in cost of sales are investment tax credit recoveries of $1,272 for the six-month period ended June 30, 2018 (2017 - $425).

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Financial Position

As at	Notes	Jun 30, 2018	Dec 31, 2017	Jan 01, 2017
(In $000's CAD, except where otherwise indicated)				
ASSETS				
Current assets				
Cash and cash equivalents		**79**	83	102
Accounts receivable	**3**	**37,717**	34,466	29,974
Inventory		**2,615**	2,339	1,486
Prepaid expenses		**916**	803	1,343
Derivative financial instruments		**-**	-	647
Total current assets		**41,327**	37,691	33,552
Non-current assets				
Property, plant and equipment and investment property, net		**16,026**	16,849	13,983
Intangible assets, net		**9,233**	8,941	7,762
Deferred tax assets		**18,761**	16,671	11,160
Note receivable		**648**	648	2,814
Investment in associate		**2,197**	2,366	1,489
Advances to associate		**-**	-	929
Other non-current assets		**34**	123	92
Total non-current assets		**46,899**	45,598	38,229
Total assets		**88,226**	83,289	71,781
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**10,520**	2,165	6,856
Accounts payable and accrued liabilities		**29,376**	27,742	23,886
Deferred revenue from construction contracts	**4**	**8,759**	15,760	11,209
Current portion of long-term debt		**6,175**	6,319	7,473
Long-term debt classified as current	**5**	**2,486**	5,208	11,937
Derivative financial instruments		**462**	450	-
Total current liabilities		**57,778**	57,644	61,361
Non-current liabilities				
Long-term debt		**101**	-	197
Limited recourse loan		**936**	892	955
Long-term deferred revenue	**4**	**7,379**	7,379	-
Deferred tax liabilities		**71**	71	**-**
Total non-current liabilites		**8,487**	8,342	1,152
Total Liabilities		**66,265**	65,986	62,513
SHARHOLDERS' EQUITY				
Share capital		**24,933**	18,278	8,300
Contributed surplus		**4,293**	4,116	4,413
Retained earnings		**(9,800)**	(7,620)	(3,375)
Non-controlling interest		**2,500**	2,500	-
Accumulated other comprehensive income (loss)		**35**	29	(70)
Total shareholders' equity		**21,961**	17,303	9,268
Total liabilities and shareholders' equity		**88,226**	83,289	71,781

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

On behalf of the Board of Directors:

Director

Director

As at June 30, 2018

(In $000's CAD, except where otherwise indicated)	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
As at December 31, 2017	**18,278**	**2,500**	**4,116**	**(7,620)**	**29**	**17,303**
Proceeds from issuance of common shares	4,941	-	-	-	-	4,941
Procees from the exercise of warrants	1,714	-	-	-	-	1,714
Net loss for the year	-	-	-	(2,180)	-	(2,180)
Other comprehensive income	-	-	-	-	6	6
Stock-based compensation	-	-	177	-	-	177
As at June 30, 2018	**24,933**	**2,500**	**4,293**	**(9,800)**	**35**	**21,961**

As at June 30, 2017

(In $000's CAD, except where otherwise indicated)	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at December 31, 2016	**8,300**	**-**	**4,413**	**(3,375)**	**(70)**	**9,268**
Exercise of stock options	283	-	(183)	-	-	100
Net income for the year	-	-	-	(554)	-	(554)
Other comprehensive loss	-	-	-	-	35	35
Stock-based compensation	-	-	80	-	-	80
As at June 30, 2017	**8,583**	**-**	**4,310**	**(3,929)**	**(35)**	**8,929**

As at December 31, 2017

(In $000's CAD, except where otherwise indicated)	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at January 1, 2017	**8,300**	**-**	**4,413**	**(3,375)**	**(70)**	**9,268**
Proceeds from issuance of common shares	8,969	-	-	-	-	8,969
Conversion of stock options	420	-	(420)	-	-	-
Transaction costs (net of tax)	(179)	-	-	-	-	(179)
Non-controlling interest	-	2,500	-	-	-	2,500
Net loss for the year	-	-	-	(4,245)	-	(4,245)
Other comprehensive loss	-	-	-	-	99	99
Stock-based compensation	768	-	123	-	-	891
As at December 31, 2017	**18,278**	**-**	**4,116**	**(7,620)**	**29**	**17,303**

See accompanying notes

Consolidated Statements of

Cash Flows

(In $000's CAD, except where otherwise indicated)	Three Months 2018	Three Months 2017	Six Months 2018	Six Months 2017
OPERATING ACTIVITIES				
Income (loss) from continuing operations after tax	**(1,257)**	1,267	**(2,144)**	(519)
Add (deduct) items not affecting cash :				
Depreciation of property, plant and equipment	**839**	437	**1,613**	1,083
Amortization of intangible assets	**650**	437	**1,250**	868
Finance costs on short-tem borrowings	**245**	203	**443**	431
Share of loss from associates investments	**12**	88	**169**	174
Stock-based compensation	**120**	38	**177**	80
Fair value changes in derivative financial instruments	**(319)**	(567)	**12**	(558)
Other items affecting cash flow *(note 14)*	**437**	25	**665**	(691)
Investment tax credits recorded in cost of sales	**(1,272)**	-	**(1,272)**	-
Deferred income taxes (recovery) expense	**(460)**	631	**(818)**	(206)
Cash from (used in) operations	**(1,005)**	2,559	**95**	662
Net change in non-cash working capital balances	**(3,430)**	4,073	**(8,493)**	7,729
Cash from (used in) operating activities	**(4,435)**	6,632	**(8,398)**	8,391
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	**(424)**	(666)	**(790)**	(1,618)
Acquisition of other long term assets	**-**	(116)	**-**	(147)
Proceeds from repayment of note receivable from TGHL	**-**	60	**-**	120
Acquisiton of intangible assets	**(921)**	(653)	**(1,542)**	(1,518)
Cash used in investing activities	**(1,345)**	(1,375)	**(2,332)**	(3,163)
FINANCING ACTIVITIES				
Issue of common shares *[net of transaction costs of $59]*	**4,941**	100	**4,941**	100
Proceeds received from warrants and stock options exercised	**1,714**	-	**1,714**	-
Proceeds received from long-term debt and finance leases	**-**	-	**161**	-
Repayment of long-term debt	**(1,291)**	(1,744)	**(2,926)**	(4,150)
Finance costs paid on long-term borrowings	**(140)**	(249)	**(300)**	(658)
Cash flow from financing activities	**5,224**	(1,893)	**3,590**	(4,708)
Effect of translation of foreign currency cash and equivalents	**(523)**	629	**(1,218)**	2,249
Net (decrease) increase in cash and equivalents during the period	**(1,079)**	3,993	**(8,358)**	2,769
Cash and cash equivalents, beginning of period	**(9,362)**	(7,978)	**(2,083)**	(6,754)
Cash and cash equivalents, end of period	**(10,441)**	(3,985)	**(10,441)**	(3,985)
Cash and cash equivalents is comprised of :				
Cash	**79**	-	**79**	-
Bank indebtedness	**(10,520)**	(3,985)	**(10,520)**	(3,985)
	(10,441)	(3,985)	**(10,441)**	(3,985)

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 August 27, 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"). Except as outlined below, 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, 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. The adoption of IFRS 9 – "Financial Instruments" did not have a material impact on the Group's financial statements, however, after careful consideration, the adoption of IFRS 15 – "Revenue from Contracts with Customers" did have a material impact on the Group's financial statements which is outlined below with the impact on the comparative periods outlined in note 14 to these interim condensed, consolidated 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:

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.

IFRS 15 also provides additional discussion and application guidance around circumstances when there is an inability to reliably estimate progress on performance obligations and that are earned over time. Under such circumstances, the recognition of revenue is required but limited only to the extent that it offsets the costs incurred, resulting in any projected profit to be realized on the contract performance obligations being deferred until better information that can estimate a reasonable measure of performance is obtained.

Applying the provisions of this standard, the Group concluded that certain contracts with performance obligations that have a high degree of technical risk should be accounted for in this manner. The Group currently has three contracts with performance obligations that it has concluded still have a high degree of technical risk and thus present an inability to reliably estimate progress on the performance obligations of the contracts. For those three contracts, the Group is deferring any profit and immediately recognizing any projected losses in accordance with IFRS 15. In adopting IFRS 15, the Group has applied the standard retroactively, to demonstrate the effect on the consolidated condensed financial statements as if the policy was in place for all periods presented. A reconciliation of the impact on the comparative

period is provided in note 14 of these interim, condensed consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the period ended June 30, 2018 and include the results for the comparative periods ended June 30, 2017 which have been restated for the adoption of IFRS 15 as outlined above. 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").

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, 2018.

3. Accounts receivable

	Jun 30, 2018	Dec 31, 2017	Jan 01, 2017
Trade	**14,897**	7,292	9,339
Unbilled construction contract receivables (note 4)	**21,601**	24,686	19,892
Other receivables	**839**	1,308	847
Current portion of note receivable	**400**	1,200	-
Allowance for doubtful accounts	**(20)**	(20)	**(104)**
	37,717	34,466	29,974

Holdbacks included in trade receivables are $4,451 as at June 30, 2018 (December 31, 2017 - $3,204 – June 30, 2017 - $1,636).

4. Construction contracts

	Jun 30, 2018	Dec 31, 2017	Jan 01, 2017
Construction costs incurred and estimated profits, less recognized losses to date	**235,683**	193,966	171,155
Less: Progress billings	**(230,220)**	(192,419)	(162,472)
	5,463	1,547	8,683
Items recognized and included in the consolidated financial statements as:			
Unbilled construction contract receivables (note 3)	**21,601**	24,686	19,892
Deferred revenue from construction contracts - current portion	**(8,759)**	(15,760)	(11,209)
Deferred revenue from construction contracts - long-term portion	**(7,379)**	(7,379)	-
	5,463	1,547	8,683

5. Long term debt

The Group was not in compliance with its Senior Debt to EBITDA and Fixed Charge financial covenants as at June 30, 2018 and December 31, 2017. The Group has classified the long-term portion of it's long-term debt as current for the period ended June 30, 2018 as well as December 31, 2017 and January 1, 2017.

6. Share capital

On June 22, 2018, the Group closed a private placement of 11,111,110 units at a share price of $0.45 per share for gross proceeds of the $5,000. Transaction costs associated with the private placement were $59 for net proceeds received of $4,941.

Each unit issued pursuant to the offering was comprised of one common share and one common share purchase warrant. An aggregate of 11,111,110 Common Shares and 11,111,110 Warrants were issued. The Warrants expire on June 22, 2021, which is three years from closing date. Each warrant entitles the holder to purchase one additional common share at the following exercise price: (i) $0.50 per common share until December 22, 2019; and (ii) $0.75 per common share thereafter until expiry on June 22, 2021. The warrants are transferrable with the consent of the Group.

On June 12, 2018, 6,300,000 outstanding common share purchase warrants at an exercise price of $0.272 per common share purchase warrant for gross proceeds of $1,700.

7. Cost of sales

	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Direct construction costs	**(25,197)**	**(20,626)**	(47,909)	(42,233)
Indirect salaries and benefits	**(2,373)**	**(2,366)**	**(5,124)**	(4,418)
Indirect production costs	**(391)**	**(1,627)**	**(2,037)**	(3,127)
	(27,961)	**(24,619)**	**(55,070)**	**(49,778)**

8. Selling and administrative expenses

	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Salaries and benefits	**(3,351)**	**(2,794)**	(6,525)	(5,365)
General, selling and administrative expenses	**(2,212)**	**(1,732)**	(4,169)	(3,373)
	(5,563)	**(4,526)**	(10,694)	(8,738)

9. Finance costs

	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Interest on long-term borrowings	**(140)**	(249)	**(300)**	(658)
Interest on short-term borrowing and other	**(245)**	(203)	**(443)**	(431)
Financing fee	**-**	-	**(180)**	-
Deferred financing charges	**(16)**	(6)	**(31)**	(10)
	(401)	(458)	**(954)**	(1,099)

10. Other components of income (loss)

	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Restructuring provision	**-**	-	**-**	(1,045)
Provision for customer rebates	**-**	-	**(144)**	-
	-	-	**(144)**	(1,045)

11. Income per share

Income per share for the three months ended June 30:

	Jun 30, 2018	Jun 30, 2017
Net income (loss) from continuing operations	**(1,212)**	**1,554**
Basic weighted average number of shares	**87,884,523**	**65,980,467**
Effect of diluted securities		
Net incremental dilutive shares	**-**	**3,998,970**
Diluted weighted average number of shares	**87,884,523**	**69,979,437**
Net earnings (loss) per share		
Basic and diluted	**(0.01)**	**0.02**

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

	Jun 30, 2018	Jun 30, 2017
Net income (loss) from continuing operations	**(2,179)**	**(554)**
Basic weighted average number of shares	**86,779,186**	**65,958,883**
Effect of diluted securities		
Net incremental dilutive shares	**-**	**-**
Diluted weighted average number of shares	**86,779,186**	**65,958,883**
Net earnings (loss) per share		
Basic and diluted	**(0.03)**	**(0.01)**

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.

12. Operating segments

The tables below show the segmented performance for the Group from its two operating segments, Media-based Attractions, Steel Fabrication Services and its Corporate non-operating segment for three month periods ended June 30, 2018 and 2017 respectively:

2018	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	31,243	2,312	-	**33,555**
Cost of goods sold excluding depreciation and amortization	(25,932)	(2,029)	-	**(27,961)**
Gross profit, excluding depreciation and amortization	5,311	283	-	**5,594**
Selling, general and administrative expenses	(4,432)	(333)	(798)	**(5,563)**
Result before depreciation, amortization, finance costs and other items	879	(50)	(798)	**31**

2017	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	30,882	1,289	52	**32,223**
Cost of goods sold excluding depreciation and amortization	(22,921)	(1,698)	-	**(24,619)**
Gross profit, excluding depreciation and amortization	7,961	(409)	52	**7,604**
Selling, general and administrative expenses	(3,271)	(224)	(1,031)	**(4,526)**
Result before depreciation, amortization, finance costs and other items	4,690	(633)	(979)	**3,078**

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 six month periods ended June 30, 2018 and 2017 respectively:

2018	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	63,237	3,849	-	**67,086**
Cost of goods sold excluding depreciation and amortization	(51,149)	(3,921)	-	**(55,070)**
Gross profit, excluding depreciation and amortization	12,088	(72)	-	**12,016**
Selling, general and administrative expenses	(8,233)	(684)	(1,777)	**(10,694)**
Result before depreciation, amortization, finance costs and other items	3,855	(756)	(1,777)	**1,322**

2017	**Media-based Attractions**	**Steel Fabrication Services**	**Corporate**	**Total**
Sales	58,010	3,435	104	**61,549**
Cost of goods sold excluding depreciation and amortization	(45,687)	(4,091)	-	**(49,778)**
Gross profit, excluding depreciation and amortization	12,323	(656)	104	**11,771**
Selling, general and administrative expenses	(6,139)	(663)	(1,936)	**(8,738)**
Result before depreciation, amortization, finance costs and other items	6,184	(1,319)	(1,832)	**3,033**

13. 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 June 30, 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 June 30, 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 June 30, 2018 ($6,273 as at December 31, 2017 and $5,159 as at June 30, 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.

14. Adoption of IFRS 15 retroactive application reconciliation

The following schedule reconciles the changes to the consolidated statement of comprehensive income (loss) for the comparative three-month period:

For the 3 month period ended June 30 (In $000's CAD, except where otherwise indicated)	2017 IAS 11	Adjustments	2017 IFRS 15
Revenues[(1)]	31,831	392	**32,223**
Cost of sales, excluding depreciation and amoritzation[(2)]	(24,619)	-	**(24,619)**
Gross Profit, excluding depreciation and amortization	7,212	392	**7,604**
Selling, general and administration expenses	(4,526)	-	**(4,526)**
Result before depreciation, amortization, finance costs, and other items	2,686	392	**3,078**
Finance costs	(458)	-	**(458)**
Result before depreciation, amortization and other items	2,228	392	**2,620**
Depreciation of property, plant and equipment	(437)	-	**(437)**
Amortization of intangible assets	(437)	-	**(437)**
Result before other items of income (loss)	1,354	392	**1,746**
Share of loss from associate	(88)	-	**(88)**
Stock-based compensation	(38)	-	**(38)**
Fair value changes in derivative financial instruments	567	-	**567**
Other components of income (loss)	-	-	**-**
Net Income (loss) from continuing operations before tax	1,795	392	**2,187**
Tax (expense) recovery			
Current	(2)	-	**(2)**
Deferred	(526)	(105)	**(631)**
	(528)	(105)	**(633)**
Net income (loss)	1,267	287	**1,554**
Other comprehensive income (loss)	47	-	**47**
Comprehensive income (loss)	1,314	287	**1,601**
Income (loss) per share continuing operations - basic & diluted	0.02		**0.02**

The following schedule reconciles the changes to the consolidated statement of comprehensive income (loss) for the comparative six-month period:

For the 6 month periods ended June 30 (In $000's CAD, except where otherwise indicated)	**2017 IAS 11**	**Adjustments**	**2017 IFRS 15**
Revenues[(1)]	64,259	(2,710)	**61,549**
Cost of sales, excluding depreciation and amoritzation[(2)]	(49,778)	-	**(49,778)**
Gross Profit, excluding depreciation and amortization	14,481	(2,710)	**11,771**
Selling, general and administration expenses	(8,738)	-	**(8,738)**
Result before depreciation, amortization, finance costs, and other items	5,743	(2,710)	**3,033**
Finance costs	(1,099)	-	**(1,099)**
Result before depreciation, amortization and other items	4,644	(2,710)	**1,934**
Depreciation of property, plant and equipment	(1,083)	-	**(1,083)**
Amortization of intangible assets	(868)	-	**(868)**
Result before other items of income (loss)	2,693	(2,710)	**(17)**
Share of loss from associate	(174)	-	**(174)**
Stock-based compensation	(80)	-	**(80)**
Fair value changes in derivative financial instruments	558	-	**558**
Other components of income (loss)	(1,045)	-	**(1,045)**
Net Income (loss) from continuing operations before tax	1,952	(2,710)	**(758)**
Tax (expense) recovery			
Current	(2)	-	**(2)**
Deferred	(526)	732	**206**
	(528)	732	**204**
Net income (loss)	1,424	(1,978)	**(554)**
Other comprehensive income (loss)	35	-	**35**
Comprehensive income (loss)	1,459	(1,978)	**(519)**
Income (loss) per share continuing operations - basic & diluted	0.02		**(0.01)**

The following schedule reconciles the changes to the opening balance sheet effective January 1, 2017:

As at	Dec 31, 2016	Adjustments	Jan 01, 2017
(In $000's CAD, except where otherwise indicated)			
ASSETS			
Current assets			
Cash and cash equivalents	**102**	-	**102**
Accounts receivable	**40,933**	(10,959)	**29,974**
Inventory	**1,486**	-	**1,486**
Prepaid expenses	**1,343**	-	**1,343**
Derivative financial instruments	**647**	-	**647**
Total current assets	**44,511**	(10,959)	**33,552**
Non-current assets			
Property, plant and equipment and investment property, net	**13,983**	-	**13,983**
Intangible assets, net	**7,762**	-	**7,762**
Deferred tax assets	**7,138**	4,022	**11,160**
Note receivable	**2,814**	-	**2,814**
Investment in associate	**1,489**	-	**1,489**
Advances to associate	**929**	-	**929**
Other non-current assets	**92**	-	**92**
Total non-current assets	**34,207**	4,022	**38,229**
Total assets	**78,718**	(6,937)	**71,781**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	**6,856**	-	**6,856**
Accounts payable and accrued liabilities	**23,886**	-	**23,886**
Deferred revenue from construction contracts	**7,269**	3,940	**11,209**
Current portion of long-term debt	**7,473**	-	**7,473**
Long-term debt classified as current	**11,937**	-	**11,937**
Derivative financial instruments	**-**	-	**-**
Total current liabilities	**57,421**	3,940	**61,361**
Non-current liabilities			
Long-term debt	**197**	-	**197**
Limited recourse loan	**955**	-	**955**
Total non-current liabilites	**1,152**	-	**1,152**
Total Liabilities	**58,573**	3,940	**62,513**
SHARHOLDERS' EQUITY			
Share capital	**8,300**	-	**8,300**
Contributed surplus	**4,413**	-	**4,413**
Retained earnings	**7,502**	(10,877)	**(3,375)**
Accumulated other comprehensive income (loss)	**(70)**	-	**(70)**
Total shareholders' equity	**20,145**	(10,877)	**9,268**
Total liabilities and shareholders' equity	**78,718**	(6,937)	**71,781**