EMPIRE INDUSTRIES LTD

1Q20

Management's Discussion & Analysis
For the 3-month period ending March 31, 2020

Consolidated Financial Statements
For the 3-month period ending March 31, 2020

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, 2019. Reference should also be made to the annual MD&A for the year ended December 31, 2019.

The interim condensed consolidated financial statements and accompanying notes of the Group for the period ended March 31, 2020 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 29, 2020. 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. – 100%	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.

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 Mar 31	Quarter ended		
	2020	2019	Variance
Operating Results:			
Revenues	**17,525**	29,329	(11,804)
Gross margin	**4,065**	4,455	(390)
Gross margin %	**23.2%**	15.2%	8.0%
EBITDA	**(63)**	471	(534)
EBITDA %	**(0.4%)**	1.6%	(2.0%)
EBIT	**(1,744)**	(1,163)	(581)
EBIT %	**(10.0%)**	(4.0%)	(6.0%)
Net loss from continuing operations	**(3,770)**	345	(4,115)
Net loss from discontinued operations	**(542)**	(442)	(100)
Net loss	**(4,312)**	(97)	(4,215)
Loss per share continuing operations - basic & diluted	**(0.022)**	0.000	(0.022)
Loss per share discontinued operations - basic & diluted	**(0.003)**	(0.000)	(0.003)
Loss per share - basic & diluted	**(0.025)**	(0.000)	(0.025)

Selected Quarterly Financial Information

Quarterly Financial Information **For the years ended**	**2020 Q1**	**2019 Q4**	**2019 Q3**	**2019 Q2**	**2019 Q1**	**2018 Q4**	**2018 Q3**	**2018 Q2**
Sales	17,525	14,666	26,977	39,157	29,330	18,888	51,754	32,073
Profit (loss) from continuing operations	(3,770)	(20,520)	(2,546)	2,276	345	(47,732)	624	(1,017)
Loss from discontinued operations	(542)	(4,802)	(882)	(582)	(442)	(718)	(458)	(195)
Profit (loss) per share (basic & diluted) - continuing operations	(0.022)	(0.200)	(0.020)	0.020	0.00	(0.510)	0.010	(0.010)
Loss per share (basic & diluted) - discontinued operations	(0.003)	(0.040)	(0.010)	(0.010)	(0.000)	0.000	(0.010)	0.000
Loss per share (basic & diluted) - all operations	**(0.025)**	**(0.240)**	**(0.030)**	**0.010**	**(0.000)**	**(0.510)**	**0.000**	**(0.010)**

Outlook

The COVID-19 pandemic has had some significant adverse effects on the theme park industry itself, and this in turn is going to impact its supply chain in general, and Empire in particular. Most of the theme parks in the world are currently closed to customers, and it is not clear how long that will remain the case. As such, every theme park is re-assessing its capital spending plans, both for timing and amounts. However, we are confident that the COVID-19 issues will pass, and guests will return to the theme parks. In fact, some theme parks have already opened and several other major theme parks have announced plans to re-open In the coming weeks. We are well positioned to withstand the slowdown, we have adjusted our ride workforce by approximately 40% because in discussion with our customers we have determined that our expected sales in 2020 and 2021 have been negatively impacted by some of the contracts being deferred and some of the contracts have been put on hold. Having said that, we do have a decent backlog to ride out this pandemic. We were able to introduce rigorous best practices inside our manufacturing facilities to continue manufacturing throughout the pandemic. Just this week, we have introduced very detailed work rules to bring those employees back that were working remotely from home (teleworking). to emerge on the other side as one of the strongest theme attractions suppliers. Here are some of the reasons:

Contract Backlog

The Company expects that financial results will improve in the coming quarters because revenue and margins will remain at a manageable level that allows for profitable operations as the Company works through its contract backlog. The Company is working diligently to replenish the backlog. It is fortunate to have almost two years of backlog, based upon the new, reduced level of current capacity. Given the uncertainties of future capital spending in the rides business, we expect to remain at this new lower level of production capacity for some time.

Contract Backlog represents the dollar value of customer contracts where the associated work has not yet been completed by the Company and the associated revenue has not yet been recognized. As work is executed on the projects in the Contract Backlog, the Contract Backlog is depleted. As new projects come under contract, the Contract Backlog is replenished. The projects currently in the Contract Backlog are expected to be executed over the next 24 to 36 months. The Company's Contract Backlog as of March 31, 2020 is $218 million, up slightly from December 31, 2019.

Management uses Contract Backlog as a forward-looking financial indicator of future revenues for the Company. However, the amount and timing of such revenue is uncertain, as it depends on project schedules which may get delayed for reasons within or beyond the Company's control. Also, it is possible that customer contracts may be delayed or cancelled, which will reduce the size of the Contract Backlog without generating revenue for the Company. As of now, approximately 1/3 of the backlog (5 contracts) are on hold because of client caused delays. The company is not anticipating working on these contracts in 2020 but is hopeful it can resolve the contractual issues so that work can resume sometime in 2021. The remainder of the backlog is all being worked on in 2020, albeit at a reduced pace because the theme parks these rides are going into are all facing delays caused by the global pandemic. As forward-looking financial information, Contract Backlog is subject to material risks and uncertainties such as those described above.

In addition to its existing backlog, the Company continues its business development efforts to identify and establish future projects.

Strong Base Business

We have a solid base business. Excluding first generation rides and discontinued operations, we have consistently averaged approximately $100 million in annual revenue with EBITDA of 12% over the past 5 years.

Industry leading and award winning product line

First generation products have been expensive, but they have allowed us to develop a world class, proprietary product line with extremely high barriers to entry. With those developmental costs behind us, this product line will just add to our base business, in an increasingly profitable way.

Top Tier Customers

Not all amusement parks will not survive the pandemic. Empire is fortunate to be a ride manufacturer of choice for the two largest global theme park operators. They are believed to have the best ability to survive, rebuild, and thrive. We have been providing services for their various theme parks around the world, as well as other top tier parks, for two decades.

Improved cost structure

The pandemic has also focused our attention on ensuring we reduce and align our cost structure with the more cautious approach to capital spending of our customers. The Company has undertaken an organization-wide cost reduction initiative to reduce headcount, as well as identifying and implementing design, procurement and production efficiencies and facility cost reductions (mentioned above) that can improve not only the Company's execution capabilities but also its key financial metrics. There has been $13 million of costs removed from its operations, reducing its ride payroll from a high of 400 a few years ago, to 300 just before the pandemic to 179 on our ride payroll by the end of 2020. The effect of this initiative is to drive our overhead (indirect and SG&A) to a targeted level approaching under 25% of sales instead of the historical level of over 30% of sales. We have implemented operational processes that have dramatically improved our productivity and are more in line with a product-based manufacturing operation than a project based fabrication operation.

Improved liquidity

We substantially improved our liquidity in 2019 as was detailed in our 2019 year-end financial reports. This liquidity will continue to help us with cost effective procurement in 2020 and beyond as will the addition of profitable free cashflow expected to be generated in 2020. The liquidity that was raised in Q4 2019 will be available for deployment throughout 2020 to keep our revenue-generating projects progressing, even in the face of COVID-19 restrictions. Our cash at year end was $12.4 million and reduced slightly to $11.2 million at March 31, 2020. We anticipate further financing activities in 2020, particularly as our $38.5 million debt facility matures in Q4 2021. We are currently in productive negotiations with our senior lender to extend the facility.

Co-venture opportunities

The Company is bullish on its ability to penetrate the location-based entertainment market leveraging its world class attraction intellectual property. It is the Company's view that its co-venture strategy is well suited to capitalize on a post-pandemic world where affordability and value will be the key success factors and popular tourist-based locations are complemented with our award winning, world class, media-based attractions.

We hold an option to acquire a 50% share of the flying theatre attraction currently being built in the Island at Pigeon Forge in Tennessee, the sixth most popular theme park in the US according to TripAdvisor. The company has completed the design of the flying theater attraction facility and it has commenced construction. The custom movie has filmed about 40% of the required scenes and the balance of the filming is scheduled to take place in the next six months. The flying theater hardware is approximately 50% complete. The flying theater attraction is on schedule to open to the public in Spring, 2021.

Summary

We strongly believe that full commercialization of our truly amazing first generation products, two years' of contract backlog, a stronger balance sheet and the opening of our first co-venture all place us in the position to emerge into the post pandemic world as a more resilient and much more valuable company.

Segment Performance

The tables below show the comparative segmented performance for the Company from its three operating segments, Ride System Manufacturing, Parts & Services and Corporate & Other for the periods ended March 31, 2020 and March 31, 2019:

Ride Systems Manufacturing

Periods ended Mar 31	Quarter ended		
	2020	2019	Variance
Operating Results:			
Revenues	14,898	26,593	(11,695)
Gross margin	3,177	3,613	(436)
Gross margin %	21.3%	13.6%	7.7%
EBITDA	443	985	(542)
EBITDA %	3.0%	3.7%	(0.7%)
EBIT	(1,176)	(712)	(464)
EBIT %	(7.9%)	(2.7%)	(5.2%)

Parts & Service

Periods ended Mar 31	Quarter ended		
	2020	2019	Variance
Operating Results:			
Revenues	1,906	2,207	(301)
Gross margin	848	835	13
Gross margin %	44.5%	37.8%	6.7%
EBITDA	591	516	75
EBITDA %	31.0%	23.4%	7.6%
EBIT	586	516	70
EBIT %	30.7%	23.4%	7.4%

Corporate & Other

Periods ended Mar 31	Quarter ended		
	2020	2019	Variance
Operating Results:			
Revenues	721	529	192
Gross margin	40	7	33
Gross margin %	5.5%	1.3%	4.2%
EBITDA	(1,097)	(1,030)	(67)
EBITDA %	(152.1%)	(194.7%)	42.6%
EBIT	(1,154)	(1,105)	(49)
EBIT %	(160.1%)	(208.9%)	48.8%

1Q19 Results Review

Revenues and Gross Margins

During the three-month period, the Company's revenues decreased by 40% to $17.5 million compared to $29.3 million in the same period in 2019. Of the Company's total revenue decline of $11.8 million, $11.7 million was from the Company's Ride Systems Manufacturing segment. The decline in revenues is attributable to a number of factors, including:

- The Company continued to experience technical challenges on three First-Generation projects in 2019. Those technical challenges have a negative impact on the production output during the period;
- The COVID-19 outbreak did cause a number of project sites the Company was working on to abruptly close in March of 2020 and inhibiting the ability to achieve production plans.

The revenues realized by the Company in the period, were largely from contracts that were under contract at the beginning the year so there was no revenue impact associated with selling prices of the underlying contracts.

While Revenues declined by $11.8 million, Gross Margins only decreased by $0.4 million. As such, Gross Margin percentage increased by 8% to 23.2% of sales compared 15.2% of sales in same period ended March 31, 2019. The increased Gross Margin percentage is due mainly to revenues and costs of sales on the challenging first-generation projects were a relatively small portion of the volume in the current quarter compared to the same period in 2019. Even with the projected losses accrued, progress achieved on these projects in a period have a negative impact on Gross Margin percentages because as the revenues are recognized there is no associated Gross Margin realized.

Selling, General and Administrative Costs

The Company's selling, general and administrative expenses increased by $0.1 million in the three-month period ended March 31, 2020 from the same three-month period ended March 31, 2019. The Company's Ride Systems Manufacturing and Corporate & Other segments incurred increases of $0.1 million while the Company's Parts & Service segment realized as decrease of $0.1 million when compared to the same period in 2019.

EBITDA

EBITDA for the period ended March 31, 2019 of $0.2 million is $1.1 million less than the period ended March 31, 2018. This was due to the decrease in revenues and gross margins offset by the decrease in selling, general and administrative expenses of $0.9 million outlined above.

Depreciation and Amortization

The Company's depreciation and amortization expense was consistent with the same period in 2019. The Company has depreciation from property, plant and equipment, depreciation on right of use assets and amortization of intangible assets and changes in each of the categories, when compared to the same period in 2019 were minimal.

Finance Costs

Finance costs increased by $1.3 million for the three-month period ended March 31, 2020, compared to the three-month period ended March 31, 2019. The Company completed a refinancing on April 29, 2019 increasing its funded debt by $23.5 million. In accordance with the new and renegotiated credit facilities, the underlying interest rates increased from prime plus 2.5% to prime plus 9.5%. In 2020, the Company's finance costs are reflective of the increased debt levels and increased interest rate as compared to the same period in 2019 where the increased overall debt level and interest rates were not present.

Share of profit (loss) from associate

In December of 2019, the Company sold a portion of its interest in TGHL, reducing its ownership to 10% and as such, the Company changed the method of accounting for the investment from the equity method to a portfolio investment. The Company now accounts for this financial asset as fair value through other comprehensive income, marking the investment balance to market each period based on the closing share price of TGHL at each period end date. As such, in 2020, there is no longer any income (loss) from associate investments in the Company statement of net income (loss). In 2019, during the period ended March 31, 2019, the company recorded a loss from TGHL of $nil.

Stock-based compensation

Stock-based compensation expense in the period ended March 31, 2020 was $0.1 million, compared to the nominal amount recorded in the same period in 2019.

Fair value changes in derivative financial instruments

The Company recorded a gain of $2.3 million in 2019 from changes to the fair value of its outstanding foreign currency forward contracts. In 2020, the Company did not have any foreign currency forward contracts outstanding at the beginning of the year or at March 31, 2012.

Non-controlling interest

In November of 2019, the Company acquired the non-controlling ownership percentage of DEGL, therefore in 2020, there is no non-controlling interest impact in the Company's statement of net income (loss). For the period ended March 31, 2019, included in the Company's statement of net income (loss) was non-controlling interest of $0.1 million.

Discontinued operations

The Company recorded a loss from discontinued operations of $0.5 million in the three-month period ended March 31, 2020 compared to a loss from discontinued operations of $0.4 million in the same period ended March 31, 2019.

Net income (loss)

The Company's net loss increased by $4.2 million to $4.3 million in the three-month period ended March 31, 2020. The increase in the net loss in 2020 is a result of higher finance costs in 2020 of $1.3 million and the presence of a $2.3 million gain from the increase in the fair value for foreign currency forward contracts in 2019.

Other Comprehensive income (loss)

The Company's record a other comprehensive loss in the current period of $1.8 million versus $nil in the same period in 2019. The key driver behind the loss in the current quarter is two-fold:

1. The Company's portfolio investment in TGHL decreased by $0.9 million in the current period as a result of the market price of the shares decreasing to $0.12 from $0.19 per share at December 31, 2019. The Company accounted for its interest in TGHL in the comparative period as an associate investment, using the equity method of accounting.
2. The translation of the Company's foreign operations from US dollars to Canadian dollars resulted in a charge of $0.9 million to other comprehensive loss in the period. The US dollar strengthened from $1.2988 to $1.4187 from December 31, 2019 to March 31, 2020. In the comparative period, the US dollar weakened from $1.3642 to $1.3363.

Subsequent Significant Events

Credit Facility Waivers

After March 31, 2020 the Company has received additional covenant waivers for the periods ending June 30, 2020 and negotiated extensions on the maturity date on of Facility C, first to May 29, 2020 and additionally to July 15, 2020. On May 14, 2020, the Company repaid $1,480 USD of the principal balance of Facility C prior to finalizing the extension of the balance of Facility C.

The Company is in active discussions with its senior lenders to restructure and extend the maturity dates of its current credit facilities and expects to complete that process prior to the maturity dates of the current facilities. The waivers and extensions received after March 31, 2020 have been granted as part of that overall process.

COVID-19 impact

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Company's operations have been impacted as result of installations sites being closed requiring demobilization costs and new and existing customers re-evaluating their near-term project plans and budgets.

The Company has responded to this by staggering operations in its production facilities to reduce the number of workers in the production facilities at any given time, reducing expenses including headcount where required and enrolling in government monetary stabilization programs where required.

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended March 31, 2020, the Company's continuing operations used $1.1 million of cash, compared with $0.6 million of cash generated in the same period in 2019 excluding the impact of changes in non-cash working capital amounts. The Company expects that its operations will generate sufficient cash on a go-forward basis to meet its obligations.

The Company has a USD $11.1 million revolving credit facility with its senior lender which was fully drawn as of March 31, 2020. The Company's marginable assets at March 31, 2020 were CAD $33.2 million, which is CAD $17.4 million more than the Company's total draw on the operating line.

The Company made $0.4 million of cash principal repayments during the period. Total funded debt of $30.4 million as at March 31, 2020 consisted of $14.6 million from Facility B, $8.4 million from Facility C and $5.2 million from EDC. In addition to funded debt, the Company also made $0.4 million of principal payments on lease liabilities.

The Company was not in compliance with the senior debt to earnings before interest, taxes, depreciation and amortization "EBITDA", fixed charge coverage, total debt to total capitalization and accounts payable aging financial covenants contained in its credit facilities agreement as at March 31, 2020. For the period ended March 31, 2020 the Company's senior debt to EBTIDA covenant was 2.25:1, its fixed charge coverage ratio covenant was 1.75:1 and its debt to capitalization covenant ratio was 55%. Because the Company has reported a trailing twelve-month EBITDA loss for the year and negative shareholder's equity balance at March 31, 2020 achieving compliance with these financial ratios was not possible. In anticipation of this, the Company secured a waiver of these covenants prior to March 31, 2020 and as a result, any funded debt subject to those covenants that was due in 2021 and beyond was classified as long-term. All existing credit facilities are subject to the same financial covenants.

As part of receiving the waiver for the covenant ratios noted above, the Company also received an extension on the repayment of the balance of Facility C to May 29, 2020. On May 26, 2020, the Company has negotiated another waiver for the financial covenant ratios as at June 30, 2020 as well as another extension on the repayment of Facility C to July 15, 2020. In conjunction with most recent extension, the Company made a principal payment of USD $1.5 million on Facility C.

The Company is in active discussions with its senior lenders to restructure and extend the maturity dates of its current credit facilities and expects to complete that process prior to the maturity dates of the current facilities.

Contract Assets

The Company's contract asset balance decreased by $10.8 million over 37% to $17.9 million at March 31, 2020 compared to $28.7 million at December 31, 2019. Contract assets are the aggregate amount of revenue recognized on specific customer contract in excess of the amounts billed to the customer as at the same date. Historically this was referred to as "Unbilled Accounts Receivable". A contract asset represents to consideration in exchange for goods or services that the company has transferred to a customer, however, is conditional upon further performance obligations under the contract. The Company considers contract assets when managing its credit risk and obtains contract frustration insurance, where possible or receives letters of credit in circumstances where insurance is not an option.

Shareholders' Deficit

Shareholders' deficit of $39.7 million at March 31, 2020 is $6.0 million more than the shareholders' deficit at December 31, 2019 due to the net loss and other comprehensive loss recorded for the period. No dividends were declared or paid in the period. The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 6,144,167 outstanding options at March 31, 2020. The average exercise price of the outstanding options was $0.48 per share. Of these options, 2,619,168 were currently exercisable at an average exercise price of $0.45 per share.

Market Capitalization

The market capitalization of the Group's 163,516,826 issued and outstanding common shares at May 28, 2019 was $36.8 million or $0.225 per share. The issued and outstanding common shares at May 28, 2020, together with securities convertible into common shares are summarized in the table below:

Fully Diluted Shares As at May 28, 2020		
Issued and outstanding common shares		**163,516,826**
Securities convertible into common shares		
Warrants	7,611,110	
Stock Options	6,144,167	
Total Securities convertible into common shares		13,755,277
Fully Diluted Shares		**177,272,103**

Forward Looking Information

This MD&A contains certain “forward-looking statements.” All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company 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 Company. 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 Company’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 Company 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 Company 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-GAAP Measures

In this MD&A, the Company uses three financial management metrics that are not in accordance with GAAP “Earnings (loss) before interest, tax, depreciation and amortization (EBITDA)”, “Earnings (loss) before interest and tax (EBIT)” and “Gross Margin”. Because these terms are not defined by IFRS they cannot be formally presented in the consolidated financial statements. The definition of EBITDA does not consider the Company’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. EBIT is the result of the Company’s EBITDA less depreciation and amortization expenses. The Gross Margin metric is the result of revenues less cost of sales, excluding depreciation and amortization expenses. It should be noted that the Company’s definition of EBITDA, EBIT and Gross Margin may differ from those definitions used by other companies.

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

Reconciliation of Profit (loss) to EBITDA

Periods ended Mar 31	Quarter ended		
	2020	**2019**	**Variance**
Profit (loss) - before taxes from continuing operations	**(3,770)**	345	(4,115)
Add : Depreciation and amortization	**1,681**	1,634	47
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	**-**	-	-
Add : Finance costs	**1,933**	657	1,276
Add/Deduct : Deduct Share of loss of associate	**-**	27	(27)
Add/Deduct : Fair value of changes of forgeign currency option contracts	**-**	(2,299)	(4,013)
Add/Deduct: Non-controlling interest	**-**	66	(123)
Add : non cash stock-based compensation	**93**	41	52
EBITDA	**(63)**	471	(534)

Calculation of EBIT

Periods ended Mar 31	Quarter ended		
	2020	**2019**	**Variance**
EBITDA	**(63)**	471	(534)
Less : Depreciation and amortization	***(1,681)***	*(1,634)*	(47)
EBIT	**(1,744)**	(1,163)	(581)
% of revenue	**(10.0%)**	(4.0%)	(6.0%)

Calculation of Gross Margin

Periods ended Mar 31	Quarter ended		
	2020	**2019**	**Variance**
Revenues	17,525	29,329	(11,804)
Cost of sales	(13,460)	(24,874)	11,414
Gross margin	4,065	4,455	(390)
% of revenue	23.20%	15.19%	8.0%

1st Quarter

Consolidated Financial Statements

For the 3-month period ending March 31, 2020

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.

1Q20

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Loss and Comprehensive Income (Loss)

For the For the periods ended March 31 (In $000's CAD, except where otherwise indicated)	Notes	2020	2019
Revenues[1]		**17,525**	29,329
Cost of sales	5	**(13,460)**	(24,874)
Depreciation and amortization	6	**(1,681)**	(1,634)
Operating income		**2,384**	2,821
Expenses			
Selling, general and administration expenses	7	**(4,088)**	(3,984)
Fair value changes in derivative financial instruments		**-**	2,299
Share of loss from associate		**-**	(27)
Stock-based compensation		**(93)**	(41)
Loss before the following		**(1,797)**	1,068
Finance costs	8	**(1,933)**	(657)
Non-controlling interest		**-**	(66)
Loss before tax		**(3,730)**	345
Loss from discontinued operations, net of tax		**(542)**	(442)
Current tax expense		**-**	-
Deferred tax expense		**-**	-
Net loss		**(4,272)**	(97)
Exchange differences on translating foreign operations		**(932)**	16
Fair value changes in financial assets at FVOCI		**(877)**	-
Share of other comprehensive income (loss) of investments in associates		**-**	7
Other comprehensive income (loss)		**(1,809)**	23
Comprehensive loss		**(6,081)**	(74)
Loss per share continuing operations - basic & diluted	9	**(0.022)**	0.000
Loss per share discontinued operations - basic & diluted	9	**(0.003)**	(0.000)
Loss per share - basic & diluted	9	**(0.025)**	(0.000)

(1) Included in revenues are foreign exchange gains of $1,767 for the period ended March 31, 2020 (2019 - losses of $1,236).

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Financial Position

As at	Notes	Mar 31, 2020	Dec 31, 2019
(In $000's CAD, except where otherwise indicated)			
ASSETS			
Current assets			
Cash and cash equivalents		**11,188**	12,848
Accounts receivable and contract assets	**3**	**38,104**	42,190
Inventory		**2,945**	2,944
Prepaid expenses and deposits		**1,440**	1,373
Total current assets		**53,677**	59,355
Non-current assets held for sale		**1,618**	1,895
Non-current assets			
Property, plant and equipment and investment property		**9,135**	7,816
Right of use assets		**10,091**	10,561
Contract assets - noncurrent	**4**	**6,585**	10,612
Investments and other non-current assets		**1,655**	2,532
Intangible assets		**2,692**	2,896
Total non-current assets		**30,158**	34,417
Total assets		**85,453**	95,667
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness and bank operating lines		**15,777**	14,444
Accounts payable, accrued liabilities and other contract liabilities		**30,606**	36,699
Contract liabilities	**4**	**6,939**	7,429
Current portion of funded debt		**26,185**	24,332
Current portion of lease liabilities		**1,470**	1,571
Derivative financial instruments		**-**	-
Total current liabilities		**80,977**	84,475
Non-current liabilities			
Long-term funded debt		**4,256**	3,896
Lease liabilities		**9,485**	9,623
Long-term contract liabilities	**4**	**30,348**	31,373
Total non-current liabilites		**44,089**	44,892
Total Liabilities		**125,066**	129,367
SHARHOLDERS' EQUITY			
Share capital		**51,210**	51,075
Contributed surplus		**2,595**	2,562
Accumulated deficit		**(93,167)**	(88,895)
Non-controlling interest		**-**	-
Accumulated other comprehensive income (loss)		**(251)**	1,558
Total shareholders' equity		**(39,613)**	(33,700)
Total liabilities and shareholders' equity		**85,453**	95,667

Guarantees and contingencies *[note 12]*

Going concern basis of presentation [*note 2, 11 & 13*]

See accompanying notes

On behalf of the Board of Directors:

Guy Nelson, Director

Terence Quinn, Director

As at March 31, 2020

	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, 2019	**51,075**	**-**	**2,562**	**(88,895)**	**1,558**	**(33,700)**
Proceeds from the exercise of stock options	75	-	-	-	-	75
Reclass of fair value of stock options exercised	60	-	(60)	-	-	-
Net loss for the period	-	-	-	(4,272)	-	(4,272)
Other comprehensive income	-	-	-	-	(1,809)	(1,809)
Stock-based compensation	-	-	93	-	-	93
As at December 31, 2019	**51,210**	**-**	**2,595**	**(93,167)**	**(251)**	**(39,613)**

As at March 31, 2019

	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2018	**24,981**	**2,270**	**4,398**	**(62,568)**	**(83)**	**(31,002)**
IFRS 16 transition adjustment	**-**	**-**	**-**	**342**	**-**	**342**
Adjusted balance @ January 1, 2019	**24,981**	**2,270**	**4,398**	**(62,226)**	**(83)**	**(30,660)**
Net loss for the period	-	(66)	-	(31)	-	(97)
Other comprehensive income	-	-	-	-	23	23
Stock-based compensation	-	-	41	-	-	41
As at December 31, 2018	**24,981**	**2,204**	**4,439**	**(62,257)**	**(60)**	**(30,693)**

See accompanying notes

(In $000's CAD, except where otherwise indicated)	2020	2019
OPERATING ACTIVITIES		
Income (loss) after tax from continuing operations	**(3,730)**	411
Add (deduct) items not affecting cash :		
Depreciation and amortization *(note 6)*	**1,681**	1,634
Finance costs on short-tem borrowings *(note 8)*	**570**	398
Fair value changes in derivative financial instruments	**-**	(2,299)
Share of loss from associate investments	**-**	27
Stock-based compensation	**93**	41
Foreign currency adjusted	**(932)**	-
Foreign exchange revaluation of monetary assets and liabilities	**1,301**	406
Cash used in continuing operations	**(1,017)**	618
Cash used in discontinued operations	**(510)**	(311)
Net change in non-cash working capital balances	**802**	(12,153)
Cash from (used in) operating activities	**(725)**	(11,846)
INVESTING ACTIVITIES		
Investment in property, plant and equipment	**(1,506)**	(33)
Proceeds from sale of items of property, plant and equipment	**20**	-
Investment in intangible assets	**(199)**	(25)
Non-controlling interest	**-**	(66)
Cash used in investing activities from continuing operations	**(1,685)**	(124)
FINANCING ACTIVITIES		
Proceeds received from warrants and stock options exercised	**75**	-
Proceeds received from funded debt and finance leases	**-**	7,835
Increase in bank indebtedness and bank operating lines	**-**	5,891
Repayment of funded debt	**(394)**	(183)
Repayment of lease liabilities	**(380)**	(687)
Finance costs paid on long-term borrowings *(note 8)*	**(935)**	(120)
Cash flow from financing activities	**(1,634)**	12,736
Effect of translation of foreign currency cash and equivalents	**2,384**	(823)
Net increase in cash and equivalents during the year	**(1,660)**	(57)
Cash and cash equivalents, beginning of year	**12,848**	137
Cash and cash equivalents, end of year	**11,188**	80

1. Corporate information

Empire Industries Ltd. ("Empire" or "the Company") designs, builds and installs premium entertainment attractions and ride systems for the global entertainment industry. The Company 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 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 29, 2020.

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"). Excepted 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 Company's consolidated financial statements for the year ended December 31, 2019. The Company's 2019 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the period ended March 31, 2020 and include the results for the comparative period ended March 31, 2019. 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. These consolidated financial statements have been presented in Canadian dollars which is the functional currency of the Company.

Statement of compliance

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

Going Concern Basis of presentation

These consolidated financial statements have been prepared by management on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company's recent financial results have been negatively impacted by certain "First-Generation" projects which are defined as projects that were first of a kind in nature, posing significant technical and financial risks to the Company to overcome these risks and deliver the projects successfully from a commercial standpoint. These projects have been a key driver behind the Company's deteriorating financial performance including negative cash flows and the Company not achieving compliance with the financial covenants of its credit facilities (note 11). Prior to March 31, 2020, the Company received waivers relating to its financial covenants and an extension on the maturity date of one its facilities. After March 31, 2020 the Company negotiated additional waivers and extensions to its credit facilities with its main senior lender (note 13).

The Company continues to pursue incremental equity, as required, to ensure that the necessary cash flows and capital structure are in place to continue to meet its obligations and achieve its business plan. However, there can be no assurance as to the outcome or success and as a result there exists a material uncertainty which may cast significant doubt on the

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

Company's ability to continue as a going concern. Failure to maintain compliance with the covenants under the Company's new credit facilities could result in default, permitting its arm's length third party lender to demand all amounts outstanding under the lending agreement.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities and the reported revenues and expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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 Company as at March 31, 2020.

3. Accounts receivable

	Mar 31, 2020	Dec 31, 2019
Trade	**5,108**	4,883
Contract assets (note 4)	**17,937**	28,668
Other receivables	**748**	968
Contract assets - current holdbacks (note 4)	**14,311**	7,671
	38,104	42,190

The Company's breakdown of the aging of trade accounts receivables is as follows:

	Mar 31, 2020	Dec 31, 2019
< 30 days	**3,163**	3,041
> 30 days	**345**	469
> 60 days	**485**	593
> 90 days	**1,115**	780
	5,108	4,883

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

4. Construction contracts

	Mar 31, 2020	Dec 31, 2018
Construction costs incurred and estimated profits, less recognized losses to date	325,597	345,256
Less: Progress billings	(344,947)	(355,390)
	(19,350)	(10,134)
Items recognized and included in the consolidated financial statements as:		
Contract assets - unbilled revenue *(note 3)*	17,937	28,668
Contract liabilities - deferred revenue - current portion	(6,939)	(7,429)
Contract liabilities - deferred revenue - long-term portion	(30,348)	(31,373)
	(19,350)	(10,134)
Contract assets - current holdbacks *(note 3)*	14,311	7,671
Contract assets - non-current holdbacks	6,585	10,612
	20,896	18,283

5. Cost of sales

	Mar 31, 2020	Mar 31, 2019
Direct construction costs	**(9,936)**	(21,158)
Construction cost overruns	-	-
Indirect salaries and benefits	**(2,182)**	(2,696)
Indirect production costs	**(1,342)**	(1,020)
	(13,460)	(24,874)

6. Depreciation and amortization

	Mar 31, 2020	Mar 31, 2019
Depreciation of property, plant and equipment	**(716)**	(714)
Amortization of intangible assets	**(403)**	(336)
Depreciation of right-of-use assets	**(562)**	(584)
	(1,681)	(1,634)

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

7. Selling and administrative expenses

	Mar 31, 2020	Mar 31, 2019
Salaries and benefits	**(3,042)**	(3,016)
General, selling and administrative expenses	**(1,046)**	(968)
	(4,088)	(3,984)

8. Finance costs

	Dec 31, 2019	Mar 31, 2019
Interest on long-term borrowings	**(935)**	(120)
Interest on short-term borrowing and other	**(570)**	(398)
Interest on right of use lease liabilities	**(236)**	(139)
Finance charges	**(192)**	-
	(1,933)	(657)

9. Income per share

Income per share for the three months ended March 31:

	Mar 31, 2020	Mar 31, 2019
Net income (loss) from continuing operations	**(3,730)**	345
Net loss from disontinued operations	**(542)**	(442)
Basic weighted average number of shares	**163,516,826**	103,142,678
Net loss per share - continuing operations	**(0.022)**	0.000
Net loss per share - discontinued operations	**(0.003)**	(0.000)
Net loss per share	**(0.025)**	(0.000)

Basic earnings per share is derived by dividing the earnings for the period by the weighted average number of common shares outstanding for the period. Dilutive earnings per share is derived by dividing the adjusted earnings by the weighted average number of common shares outstanding assuming all dilutive securities are exercised at the beginning of the period. The effect of potentially dilutive securities ("in-the-money" executive stock options and "in-the-money" warrants) have been excluded as they are anti-dilutive.

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

10. Reportable segments

The tables below show the segmented performance for the Company from its three operating segments, Ride System Manufacturing, Parts & Services and Corporate & Other for the three months ended March 31, 2020 and 2019 respectively:

2020	Ride System Mfg	Parts & Service	Corporate & other	Inter-segment	Total
Sales	14,898	1,906	721	-	**17,525**
Cost of goods sold	(11,721)	(1,058)	(681)	-	**(13,460)**
Depreciation & amortization	(1,619)	(5)	(57)	-	**(1,681)**
Operating income	**1,558**	**843**	**(17)**	**-**	**2,384**
Selling, general and administrative expenses	(2,694)	(257)	(1,137)	-	**(4,088)**
Finance costs	(1,502)	(2)	(429)	-	**(1,933)**
Other non-operating items	-	-	(93)	-	**(93)**
Net loss before tax from continuing operations	**(2,638)**	**584**	**(1,676)**	**-**	**(3,730)**

2019	Ride System Mfg	Parts & Service	Corporate & other	Inter-Segment	Total
Sales	26,593	2,207	529	-	29,329
Cost of goods sold	(22,980)	(1,372)	(522)	-	(24,874)
Depreciation & amortization	(1,559)	-	(75)	-	(1,634)
Operating income	2,054	835	(68)	-	2,821
Selling, general and administrative expenses	(2,628)	(319)	(1,037)	-	(3,984)
Finance costs	(232)	(1)	(424)	-	(657)
Other non-operating items	-	-	2,165	-	2,165
Net loss before tax from continuing operations	(806)	515	636	-	345

11. Capital Disclosure and Management

The Company's capital base is comprised of share capital, contributed surplus, accumulated deficit and accumulated other comprehensive (AOCI). At March 31, 2020 the Company's capital base was a deficit of $39,613 (December 31 2019 - $33,700). The Company's focus is on increasing earnings and improving its statement of financial position. The Company has historically retained all earnings for reinvestment into the operations of the Company. Of the three financial covenants that are part of the credit agreements with the senior lenders that provide the Company's credit facilities, one covenant involves shareholders equity in the calculation.

The Company was not in compliance with the senior debt to earnings before interest, taxes, depreciation and amortization "EBITDA", fixed charge coverage, total debt to total capitalization and accounts payable aging financial covenants contained in its credit facilities agreement as at March 31, 2020. In anticipation of this, the Company secured a waiver of those covenants prior to March 31, 2020 and as a result, any funded debt subject to those covenants that was due after March 31, 2021 and beyond was classified as long-term. All existing credit facilities are subject to the same financial covenants.

12. Guarantees and contingencies

Letters of Credit

In the normal course of business, the Company contracted letters of credit for an amount of $3,894 USD as at March 31, 2020 (December 31, 2019 - $3,894, March 31, 2019 $5,111). The Company has a guarantee facility with Export Development

Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Company on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility and is secured by a general security agreement providing second security interests in all of the Company's present and after-acquired property.

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.

13. Subsequent events

Credit Facility Waivers

After March 31, 2020 the Company has received additional covenant waivers for the periods ending June 30, 2020 and negotiated extensions on the maturity date on of Facility C, first to May 29, 2020 and additionally to July 15, 2020. On May 14, 2020, the Company repaid $1,480 USD of the principal balance of Facility C prior to finalizing the extension of the balance of Facility C.

The Company is in active discussions with its senior lenders to restructure and extend the maturity dates of its current credit facilities and expects to complete that process prior to the maturity dates of the current facilities. The waivers and extensions received subsequent to December 31, 2019 have been granted as part of that overall process.

Covid 19 impact

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Company's operations have been impacted as result of installations sites being closed requiring demobilization costs and new and existing customers re-evaluating their near-term project plans and budgets.

The Company has responded to this by, staggering operations in its production facilities to reduce the number of workers in the production facilities at any given time, reducing expenses including headcount where required and enrolling in government monetary stabilization programs where required.