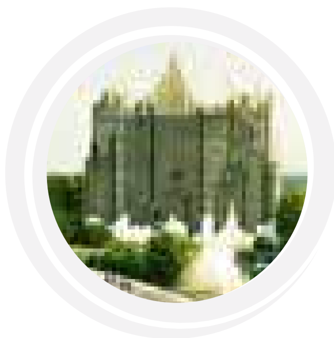
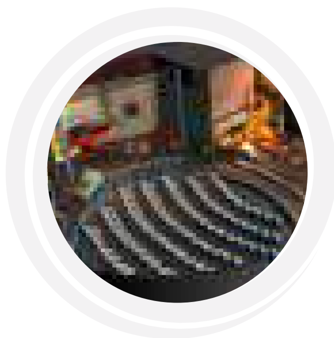
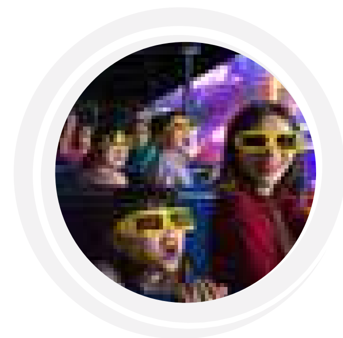
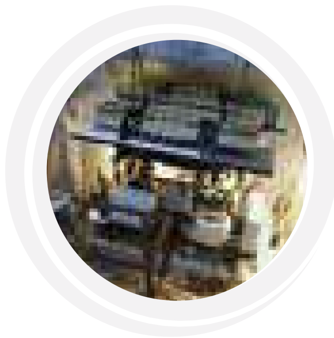
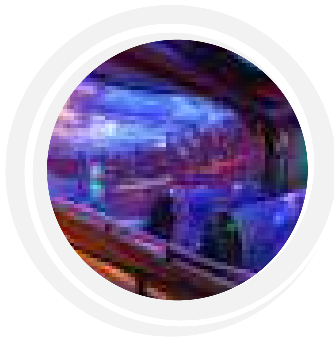
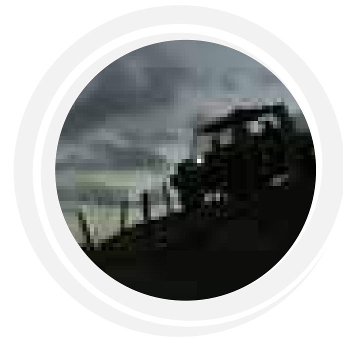
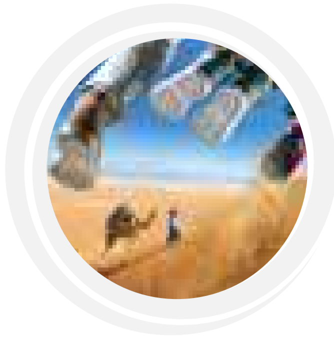
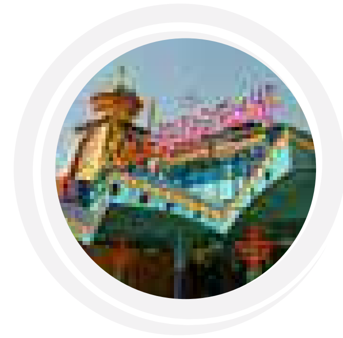
ANNUAL REPORT 2017

› MORE ATTRACTIONS

› MORE MARKETS



EMPIRE INDUSTRIES LTD

DYNAMIC ATTRACTIONS
HAS WON IAAPA'S
'BEST NEW ATTRACTION'
THREE YEARS IN A ROW

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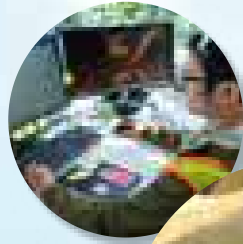
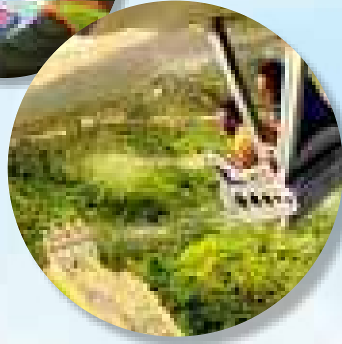
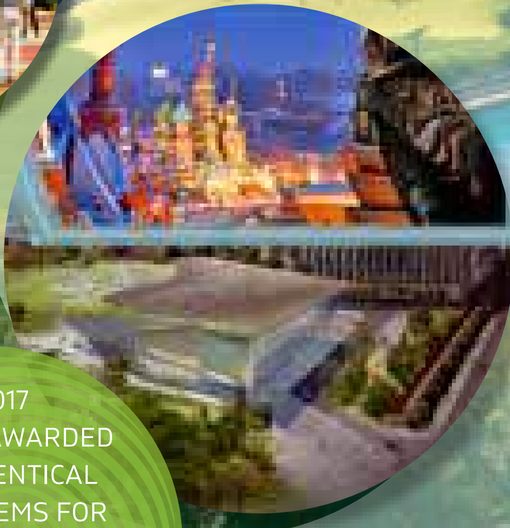






IN 2017
WE WERE AWARDED
THREE IDENTICAL
RIDE SYSTEMS FOR
THREE THEME PARKS,
THE LARGEST EVER
CONTRACT OF ITS KIND
IN THE INDUSTRY

WHO WE ARE

Empire Industries creates technologically-advanced, specialized products, most notably, theme park attractions.

Our businesses have a long, successful track record in engineering design and precision manufacturing extending back to 1926. Our Dynamic Structures business first entered the Attractions market in the late 1990's. It has steadily grown to the point that our Dynamic Attractions business is the core of our operations.

We are one of the leaders for the rapidly growing global market for immersive, media-based attractions. Our rides amaze guests with their high-tech mix of media and motion. Our rides can be found in the most popular theme parks in the US, Asia, Europe, and the Middle East.

Empire's other products and services are sold domestically and in select international export markets.

Empire is listed on the TSX Venture Exchange, trading under the stock symbol EIL.

ONE OF OUR FLYING THEATERS HELD ITS GRAND OPENING NEAR RED SQUARE IN MOSCOW

REPORT TO SHAREHOLDERS

2017 has been a landmark year, as we've aggressively prepared for solid growth.

Guy Nelson and Hao Wang

Empire has evolved to reflect our main focus: delivering the industry's top customized ride systems and line of attractions. We have bolstered our executive team with the expertise needed for our continued growth. Furthermore, we have enhanced our line of attractions with two cutting-edge ride systems.

2017 was also a year of significant challenges for Empire. Three of our first generation design/build ride contracts incurred cost overruns. Empire took a charge of $14 million in the Fourth Quarter to contain the issue to 2017.

Notwithstandig these difficulties, global theme park operators like what they see. Our products continue winning the industry's most coveted awards. More importantly, we continue winning contracts, including the largest ever of its kind in the industry. We now have a record backlog in excess of $285 million.

Perhaps the most exciting action in 2017 is the launch of our Co-Ventures initiative. By partnering with major tourist destinations, we will co-own and operate our award winning attractions. This leverages Empire's strengths as an attractions supplier, expands the company's reach in a new part of the market, and prepares us for a stream of recurring revenues.

Guy Nelson
Executive Chairman and CEO

Hao Wang
President and COO, Dynamic Attractions

May 31, 2018

Financial Highlights

- Revenues increased to $123.6 million, up 4.7% from $118.0 million in 2016.
- Net loss of $11.6 million versus prior year profit of $4.0 million. Virtually all of this loss was caused by three, "first-generation" design/build ride contracts. A provision of $14.0 million was accrued in Q4 2017 because management increased its estimated cost to complete on these three challenging contracts.
- Per Share Net Loss was $0.17 in 2017, down from Net Income of $0.02 in 2016.
- Excluding these three first-generation projects but including the remaining 14 active projects, Normalized Revenue in 2017 was $115.1 million and Normalized EBITDA in 2017 was $10.8 million (9.4% EBITDA Margin).
- Cash from operating activities was positive $3.3 million versus negative $6.3 million the prior year.
- Contract Backlog at the end of 2017 was $228 million down $7 million from $235 million at the end of the Company's third quarter 2017.
- Bank Indebtedness at year end decreased $4.6 million to $2.2 million from $6.8 million the prior year. The Company's financial performance tripped banking covenants with its senior lender; however, the Company received a waiver from its senior lender subsequent to year end.
- Shareholders' Equity as of December 31, 2017 was $20.7 million compared to $20.1 million the prior year end. The 2017 Net loss was largely offset by equity raises completed in 2017.
- The $31 million co-venture financing announced on August 28, 2017 is proceeding according to plan. The Company raised $8.5 million of equity in 2017 for the co-venture initiative and our co-venture strategic partner remains committed to funding $16.5 million of equity. The Company remains committed to funding the remaining $6 million as planned.

THE DYNAMIC OUTDOOR ALL-TERRAIN VEHICLE WAS PROCLAIMED THE 2017 'BEST NEW ATTRACTION' BY IAAPA — THIRD TIME IN A ROW RECEIVING THIS AWARD

Operational Highlights

Empire ended 2017 facing a huge challenge in completing the three, first-generation rides referred to above. The magnitude of the cost over-run on these three specific projects arose after factory and site acceptance testing and crystalized as the year end cost to complete calculations were being made. The financial results were unexpected and represent a major disappointment and are being dealt with aggressively by management. These three first-generation ride systems are the fundamental issue behind the financial reversal in Q4 2017 versus year to date Q3 2017.

The simultaneous designing and building of three first-generation ride systems was the principal reason for the $11.6 million loss in 2017 because it stretched our human resources and resulted in schedule delays which all led to material cost over-runs. The Company accrued a provision of $14.0 million in Q4 2017 because management increased its estimated cost to complete on these three very challenging contracts.

The Company has vigorously scrutinized what led to the cost overruns, strengthened our operations leadership team, and improved our work processes. Moving forward, we have restricted first-generation ride development to funded programs with customer sponsorship which is a better way to share the risk of continuing to develop industry leading iconic rides. A detailed operations plan addressing the challenges has been prepared by the new President and COO, of Dynamic Attractions, and it is being implemented. We are confident that the issues that led to the $14.0 million provision have been contained to 2017's fourth quarter. The good news is, we had the engineering depth to solve the plethora of technical challenges with these three, never been built before in the industry, ride systems. The Company has a track record of successfully designing and building some of the most challenging ride systems for Universal Studios and Disney, as well as more than half the world's very large optical telescope enclosures. In 2017, our record Contract Backlog strained our internal human resources and we had to supplement these proven, but capacity constrained human resources with new resources, both hired and contracted third parties, necessary to meet the aggressive schedules and lump sum contracts.

Management has assessed the unacceptable performance of its operations and is making adjustments to ensure the Company returns to profitability in 2018 and that this problem is put behind us. The addition of Hao Wang as President & COO of Dynamic Attractions last September helped identify a number of performance, structural and cultural issues that are all being addressed:

- There will be no more "first generation" projects undertaken unless it is a funded program and customer supported. These two factors mitigate the cost and market risk.
- The Company's engineering and production focus is on continuous optimization and development of its innovative product lines to increase competitiveness, decrease time to market and enhance our leadership position in delivering high value solutions to its customers.
- The sales and marketing focus will be on selling our award-winning and proven product line, but given our record backlog, we will be highly selective and only fill manufacturing gaps that we have available with good clients purchasing proven technology like our world class and very popular flying theater.

- Continue to support our Co-Venture business by driving down the capital costs of our flying theater which helps to increase the payback on these co-venture investments.
- We recently restructured our technical department to be product focused, not project focused:
  - > Theater ride systems
  - > Coaster ride systems
  - > Track guided ride systems
  - > Autonomous ride systems;
  - > Telescope systems and advanced mechanisms.
- Implemented a Chief Technical Office to assess all new bidding opportunities, engineering solutions, assess and mitigate risk through the design process
- We are in the process of streamlining and strengthening the organization and reducing overheads significantly. Overheads can be reduced, now that the technical design process is largely behind us. Headcount reductions have been identified and are in various stages of implementation based upon individual circumstances, and project requirements.
- There will be adjustments to our facility infrastructure as we continue to assess both our internal capabilities and align those with industry opportunities and threats and achieve our profitability targets going forward.
- The Company has adjusted the priorities of our Unlimited Attractions™ creative team to focus on pre-visualization services and marketing collaterals in the support of customer decision making for capital intensive ride systems. The Orlando creative team has also proven to be very useful and effective as an internal support group developing co-venture prospects. This change in focus has resulted in several adjustments in our organization in Orlando to accommodate this.

OUTLOOK

The first flying theater, sold over five years ago, had revenue that just covered its direct manufacturing costs whereas all the subsequent sales of flying theaters have generated healthy contribution margins for the Company. We also have historical evidence that our robotic tracked ride generated no job margin on the first installation, whereas the subsequent installations all have done well and were on budget. The three first-generation ride systems mentioned above, are on track to generate minimal contribution margin as well, after giving effect to the year-end provision taken in 2017. Therefore, it is important to look beyond these three challenging jobs to get a better sense of what lies ahead.

The Company has agreed to the terms of a five year strategic cooperation agreement with a new customer in Asia. The strategic cooperation agreement grants Dynamic Attractions preferred vendor status and is expected to be launched with Dynamic Attractions supplying three of the Company's proprietary ride systems with a combined value of USD $93 million to three different theme parks currently under construction. The first two theme park awards have just been finalized and announced 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. Our record backlog in 2018 and together with our reduced indirect and overhead expenses, will improve our EBITDA margins to acceptable levels.

Empire has invested $14 million in developing its proprietary product line over the past three years not to mention its investment in property, plant and equipment of $16 million during the same three-year period. All of these investments have positioned the company as a global leader in the higher margin, media-based attractions market niche with a proprietary product line and a unique capability

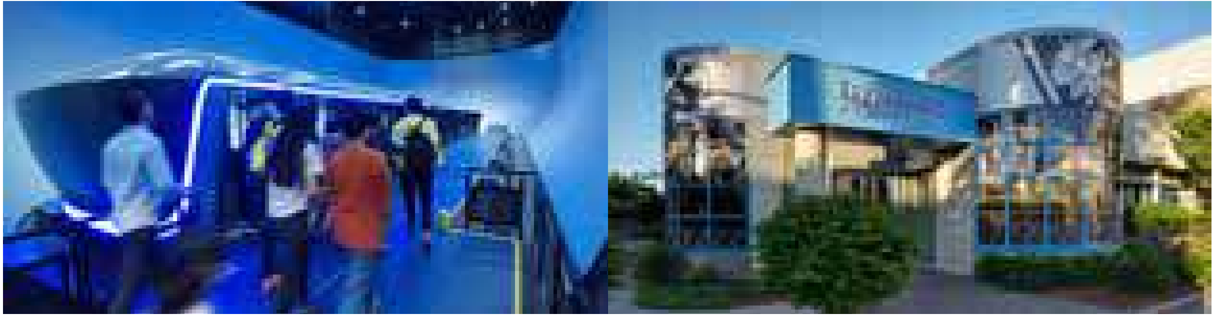
to work with only select clients on supplying them our iconic ride systems. We expect to benefit from our strategic focus on this market niche that is projected to grow rapidly for many years to come. We have a record high backlog of awarded contracts and continue to scour the world for great projects with great clients, leveraging the sale of our proprietary media-based attraction ride systems.

Capacity is tight in the industry and the Company is exploring ways to increase its capacity concurrent with lowering the cost structure of its manufacturing base, predominantly located in Vancouver.

The profit performance is expected to improve in the second half of 2018 because the first-generation backlog represents less than approximately 10% of the total backlog and products we have built before represents over 90% of current backlog. Production is scheduled to ramp up steadily in the first half of 2018. The results for Q4 2017 proved that the three, first-generation projects in later stages of manufacturing and acceptance, came back to hurt the Company. Now that we made the year end loss provision for these three projects, the proportion of first-generation products will decrease in 2018 and afterwards and the proportion of 'build to print' work will correspondingly increase.

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 $14.4 million of deferred tax assets at December 31, 2017 will continue to shield us from cash tax expense on approximately $50 million of future taxable income at the current statutory tax rates.

The Company has a current market capitalization of only $35 million, but the Company 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.



Business Unit Update

Attractions

During 2017, we were awarded three identical ride systems for three theme parks, the largest ever award of its kind in the industry. This added USD $120 million to our backlog. Also of note, is that we had a time and materials contract to build the prototype, establish the client approved design, finalize the bill of materials and estimate the lump sum cost to complete the production of the three identical ride systems. In other words, we worked collaboratively with the customer to prototype this iconic ride system, complete it successfully, and then drive it through production. This process avoided the "first generation" risk of offering a brand new, innovative ride system on a lump sum, time certain contract.

The Company was also awarded a USD $40 million contract in 2017 to build an identical ride system for the fourth time for a theme park in Asia.

The Company was also awarded a 72 seat flying theater in 2017 that was upsized to an 84 seat flying theater in early 2018 to be located in Bali Indonesia later in 2018.

The common theme of all these contract awards and all of our flying theater awards, is that they are largely build to print product manufacturing as opposed to design/build, first-generation contracts.

During the Trade Show in November in Orlando, we introduced a new product, the Outdoor All Terrain Vehicle. It was proclaimed the '2017 Best New Attraction' by the International Attractions and Amusement Parks Association (IAAPA), making this the third time in a row that this annual award was awarded to Dynamic Attractions. We also were awarded the Orlando Innovation Award in 2017, confirming the Company's role as an innovation leader in the industry.

Co-Ventures

The Company's Co-Venture business unit, called Dynamic Entertainment Group, was launched in 2017 and was very active, especially in China because the funding of our first owned flying theater in China is fully committed. Moreover, our strategic partner in China has been able to bring two potential sites to the table for negotiation and possible co-venture partnership.

Efforts to secure locations in each of China and North America are underway. $8.5 million of equity was raised in Q4 2017 and the Company's strategic partner also committed an additional $16.5 million to implement the specific co-venture opportunities being developed. The Company expects to announce its first Co-Venture site in 2018 with an opening in 2019.

The Co-Venture business unit has used some of its private placement funding raised in 2017 to commence manufacturing a flying theater already, in order to save time later in the process. Our equity funding to supply the second flying theater attraction, destined for North America, will be arranged later in the year. We have ample equity funds to continue to analyze and develop the North American market and identify the most preferred site.

Dynamic Entertainment was created to allow Empire shareholders to share in a potential recurring stream of profits from co-ownership of what is believed to be the best flying theater design in the world. Dynamic Entertainment was set up as the exclusive licensee to leverage Dynamic Attractions flying theater attraction on a co-venture basis. Dynamic Attractions will continue to be able to sell its flying theater to clients around the world, provided it is not a site identified as a co-venture site by Dynamic Entertainment.

Telescopes

Empire's Dynamic Structures unit progressed well on the final design contract for the Thirty Meter Telescope (TMT) enclosure throughout 2017. Our engineers in Port Coquitlam are continuing their work on this $10 million contract which will finish off in the summer of 2018.

The TMT is a partnership between the United States, Japan, China, India and Canada. Its planned location atop Mauna Kea, Hawaii is being contested in the Hawaiian courts and this is expected to be resolved before the end of 2018. The Canary Islands has been selected as an alternate site if needed. Subsequent phases of the Canadian enclosure project, including fabrication, shipping the enclosure to the project site, supervision of the enclosure's installation, and commissioning the structure, have not yet been awarded. Because the Company is completing the design of the enclosure, and because the Company has built more than half of the world's large telescope enclosures, we believe that we are uniquely positioned to perform these specific phases of the TMT enclosure project on behalf of the Canadian Government. The telescope enclosure represents a major part of Canada's 15% contribution in kind to the international partnership.

Steel Fabrication

In early 2017, we made the decision to re-deploy our Edmonton steel fabrication assets into Dynamic Attractions. This was driven by continued low oil prices curtailing major capital expansion projects in the oil sands and over capacity in the fabrication industry in Western Canada. We have chosen to largely remove ourselves from this unattractive industrial market by no longer seeking third party steel fabrication projects. We have downsized our steel fabrication capacity to match the steel fabrication requirements of Dynamic Attractions and Dynamic Structures.

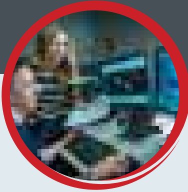
Investments

Empire Industries spun out its Tornado hydrovac truck business unit (the Manufactured Products segment) in June 2016. Tornado officially became its own TSX Venture Exchange publicly listed company, Tornado Global Hydrovacs Ltd. (TSXV:TGH), in July 2016. In 2017, Empire decided to convert its Promissory note of $2.7 million into a 23.8% equity ownership, concurrent with Tornado's majority stakeholder investing an additional $2.5 million of cash in a private placement and rights offering.

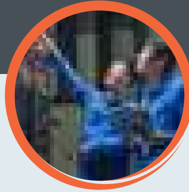
The ACE minority investment has been sold to the majority partner. This sale was consistent with our strategy to deploy resources into our core business.

Our minority owned Chinese joint venture finished off the last two steel fabrication jobs successfully. We decided to cease supporting the joint venture with our seconded, bilingual fabrication management team. The Company did not have any asset value recorded on our balance sheet. The Company has decided to refocus our Chinese manufacturing plans closer to central China, where our newly hired executive management team have considerable experience operating wholly owned operations in China.

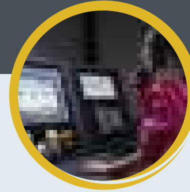
SHARED VALUES



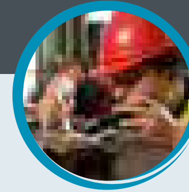
INNOVATION



TRUST



INTEGRITY



SAFETY

TEAMWORK

Strategic Vision & Mission

Our mission is to be the global leader in the development & provision of innovative ride and attractions related systems. We do this through teamwork, trust and respect, with a focus on exceeding our customers' expectations.

KEY STRATEGIC IMPERATIVES

INNOVATIVE SOLUTIONS

Industry leading products providing **best value**

STRATEGY

Create a product portfolio & road map to **standard products** encompassing our differentiation & competitive advantages

ENGAGED TEAM

Collaboratively achieving common objectives and personal growth

STRATEGY

Inspire, empower & have **fun!** Attract and retain the best available talent, provide training and mentoring.

QUALITY & DELIVERY

Drive to **zero** defects, Drive to **zero** employee harm **quality**, **cost**, **delivery**, **service**

STRATEGY

Quality management systems, focus on problem prevention and eliminate waste. Set and **exceed** customer expectations.

FINANCIAL PERFORMANCE

Sustained growth with acceptable economic returns

STRATEGY

Develop a product order backlog and long term contracts with key customers. Grow parts & services and execute co-ventures.

HOW WE DO IT

We invent, design, fabricate, build and install. From iconic entertainment attractions to specialized products, our focus on everything we do is innovation, reliability, and safety.

Attractions

Dynamic Attractions is a turnkey supplier of premium entertainment rides, from concept through to installation. The company is contracted to work confidentially with global theme park operators to develop exciting, new ride systems for cornerstone attractions. In addition to this, the company sells its proprietary line of rides, which includes specialty theatres, trackless rides, special effects roller coasters and robotic arm rides. The company's after sales department provides training, inspections, parts and other services for its own attractions as well as other amusement park attractions.

DYNAMIC ATTRACTIONS DEVELOPS EXCITING NEW RIDE SYSTEMS FOR THEME PARKS' CORNERSTONE ATTRACTIONS

Proprietary Products

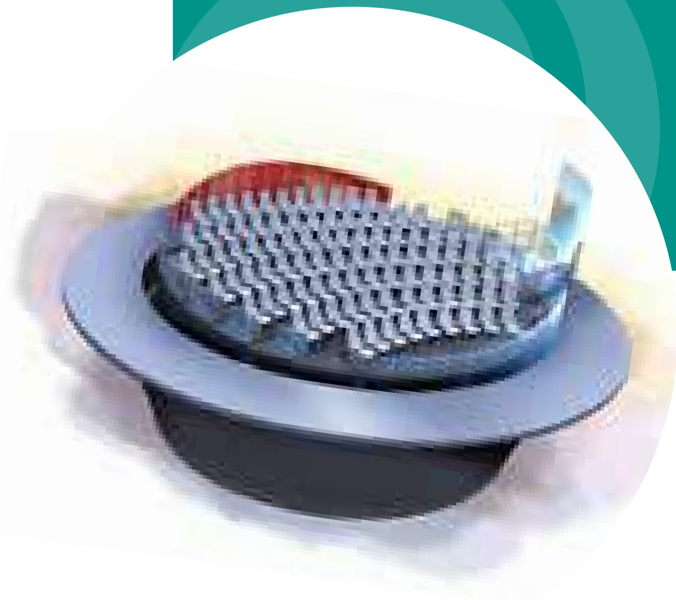
Trackless Ride Vehicles

Dynamic's proprietary 'fully untethered' vehicles, allowing riders a different experience each time. They rely on high-tech, military-grade technology. The three models are:

> All-Terrain Dark Ride — Agile to tackle rough terrain, indoors and out

> Motion Dark Ride — omni-directional turning

> Classic Dark Ride — greater acceleration, speed and roaming ability



Motion Theater

Round seating area that lifts, tilts and spins to enhance the show, which is a combination of movie, live action and special effects.

Robotic Arm Dark Ride

Either track-mounted or stationary robot arms combined with media-based audio visual equipment and interactive options.

Onboard Drive Racing Vehicle

This new genre varies from the traditional 'train' of vehicles, as the drive system is connected to each vehicle instead of the track.

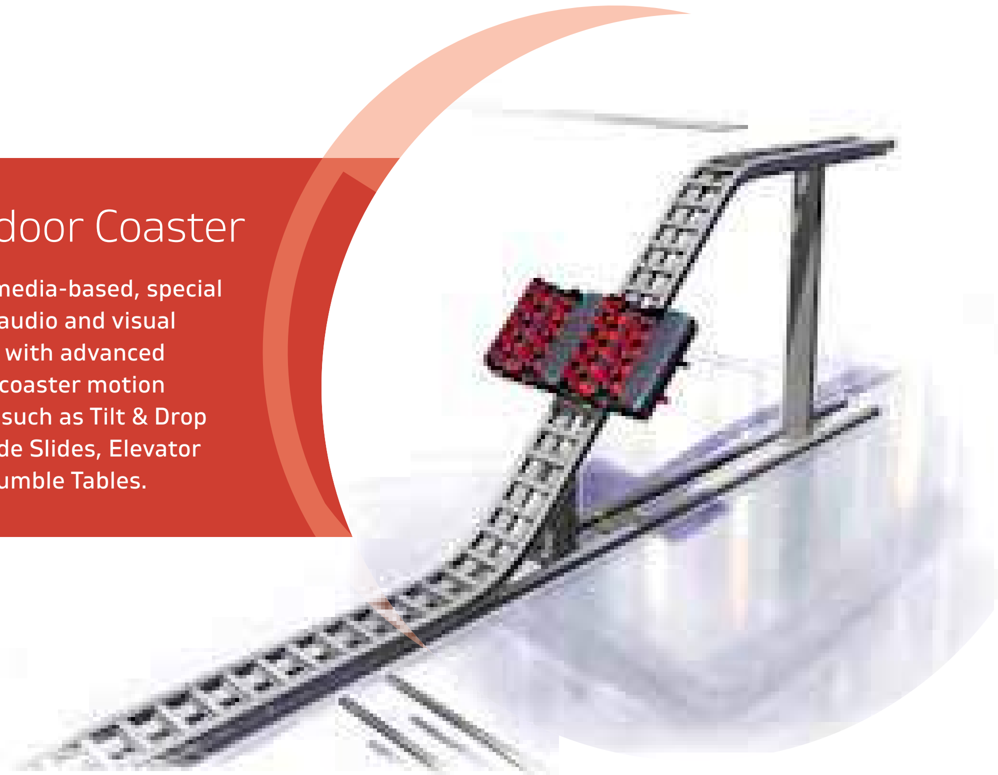
Immersive Transporter

These train-car style attractions are surrounded on all sides by panoramic screens and audio-visual effects.

Proprietary Products

Flying Theatre

Seating area rotates from horizontal to vertical positions, putting each rider in front of a panoramic screen that fills their view. Synchronized motion and special effects add to the storytelling experience.



SFX Indoor Coaster

Combining media-based, special effects and audio and visual experiences with advanced proprietary coaster motion techniques, such as Tilt & Drop switches, Side Slides, Elevator Drops and Tumble Tables.

Unique Ride Systems

Many of our projects are confidential, fully customized ride systems for global theme park operators. These specialized ride systems are often installed in the client's multiple theme parks.

This division works in partnership with famous entertainment destinations to conceptualize, engineer, and build.

These ride systems involve emerging technologies; thus making these marquee attractions extraordinarily unique. Our projects are some of the most famous and beloved attractions of all time.

Parts and Services

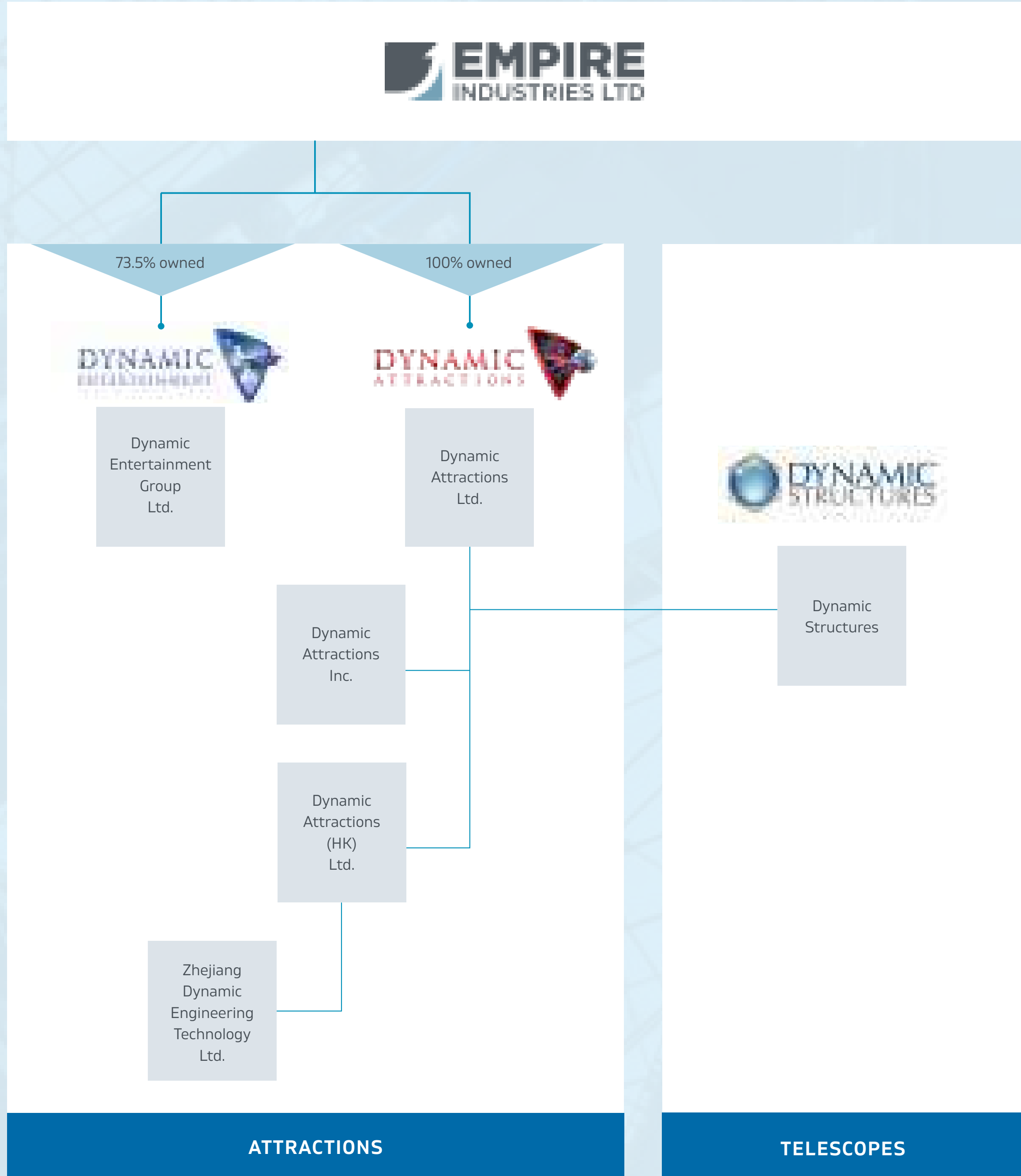
This division supplies parts for our own attractions as well as for rides manufactured by others. The company also provides warranty, inspection, audits and consulting services.

Furthermore, the company provides full service engineering, detailing, and fabrication capabilities, enabling operators to upgrade their existing ride, improve maintenance efficiency, and reduce downtime.

Telescopes

Dynamic Structures has the enviable distinction of having designed and/or built half of the world's largest telescope enclosures. These enclosures demand extremely precise mobility to ensure the position of scientific telescopes; their remote locations require extraordinary reliability. Another Empire business, Dynamic Optics, is pioneering research on mirrors that could disrupt the field of astrophysics by making these scientific instruments dramatically more accessible. The company also engineers, fabricates and installs large, dynamic steel structures because of its unique skills with complex mechanical and structural projects.

Corporate Structure



OTHER INVESTMENTS:

- Parr Metal Fabricators (100%)
- Dynamic Optics Inc. (42.2%)
- Tornado Global Hydrovacs Ltd. (23.8%)

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.

The audited consolidated financial statements and accompanying notes of the Group for the year ended December 31, 2017 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a year relates to the Group's fiscal year ended December 31. All amounts are reported in Canadian dollars unless specifically stated to the contrary. Financial information disclosed in this MD&A is presented in thousands (000's) with the exception of percentages and per share data.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on April 30, 2017. Disclosure contained in this document is current to this date, unless otherwise stated.

Additional information on EIL is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Business Description

The Group's operations take place primarily through the following controlled affiliates:

Business Unit	Description
Dynamic Attractions – 100%	Turn-key supplier of a proprietary line of premium entertainment attractions for theme parks and stand-alone tourist venues. Provides Unlimited Attractions™ line of theming services that develop rides or ride systems into attractions. The Group also provides parts and services for its own ride systems and those ride systems supplied by others. Leased production and office facilities in Port Coquitlam, BC. Leased Attractions Development Center in Orlando FL. Leased Parts and Service offices in Arlington TX. Leased Business Development office in Toronto ON.
Dynamic Structures – 100%	Primarily designs and manufactures complex ride systems for global theme park customers. Also designs and manufactures sophisticated custom machinery and equipment, such as astronomical telescopes and enclosures. Leased production facilities in Port Coquitlam, BC in addition to one owned production facility west of Edmonton, AB and a leased production support office in Edmonton AB.
Zhejiang Dynamic Structures Engineering Technology Limited – 100%	Incorporated in January 2017, the purpose of this entity will be to expand and improve the Group's manufacturing capacity in China.
Dynamic Entertainment Group Ltd. – 73.5%	Incorporated in July 2017, the purpose of this entity will be to operate the Group's co-venture business in North America, and to hold its investments in the Group's co-venture business in China.

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

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

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

Consolidated Financial Results

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Operating Results:						
Revenues	123,550	117,987	5,563	17,790	27,531	(9,741)
Adjusted gross margin	18,366	22,462	(4,096)	(3,385)	6,837	(10,222)
Adjusted gross margin %	14.87%	19.04%	(4.2%)	(19.0%)	24.83%	(43.9%)
Adjusted EBITDA	(1,798)	5,594	(7,392)	(10,198)	1,179	(11,377)
Adjusted EBITDA %	(1.5%)	4.74%	(6.2%)	(57.3%)	4.28%	(61.6%)
Adjusted EBIT	(6,753)	1,946	(8,699)	(12,144)	(622)	(11,522)
Adjusted EBIT %	(5.5%)	1.65%	(7.1%)	(68.3%)	(2.3%)	(66.0%)
Net Income	**(11,643)**	**3,978**	**(15,621)**	**(13,958)**	**(2,558)**	**(11,400)**
Income (loss) per share:						
Basic & diluted – continuing operations	(0.170)	0.020	(0.190)	(0.200)	(0.040)	(0.160)
Basic & diluted – discontinued operations	–	0.400	(0.400)	–	–	–
Basic & diluted – all operations	(0.170)	0.060	(0.230)	(0.200)	(0.040)	(0.160)

IN MAY 2018, DYNAMIC ANNOUNCED A 5-YEAR STRATEGIC COOPERATION AGREEMENT WITH A NEW CLIENT THAT HAS MULTIPLE THEME PARKS IN ASIA.

DYNAMIC WAS AWARDED 2 RIDE CONTRACTS VALUED AT $73 MILLION UNDER THE AGREEMENT, BOOSTING ITS BACKLOG TO A RECORD $285 MILLION. A THIRD SIMILAR CONTRACT IS EXPECTED THIS YEAR.

Outlook

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

The Group had a Net loss of $11.6 million in 2017 versus prior year Net profit of $4.0 million. The operating results for 2017 were negatively impacted by provisions of $14.0 million taken in the fourth quarter because the Group concluded that it was appropriate to increase the project budgets on 3 of 22 active projects due to new information being identified and disclosed late the fourth quarter and after December 31, 2017. Virtually all of this loss was caused by three, "first-generation" design/build ride contracts. This provision arose because management increased its estimated cost to complete on these three challenging contracts.

Excluding these three first-generation projects but including the remaining 19 active projects, Normalized Revenue in 2017 was $115.1 million and Normalized EBITDA in 2017 was $10.8 million (9.4% EBITDA Margin).

The first flying theater, sold over five years ago, had revenue that just covered its direct manufacturing costs whereas all the subsequent sales of flying theaters have generated healthy contribution margins for the Group. We also have historical evidence that our robotic tracked ride generated no job margin on the first installation, whereas the subsequent installations all have done well and were on budget. The three first-generation ride systems mentioned above, are on track to generate minimal contribution margin as well, after giving effect to the year-end provision taken in 2017. Therefore, it is important to look beyond these three challenging jobs to get a better sense of what lies ahead.

The Group has agreed to the terms of a five-year strategic cooperation agreement with a new customer in Asia. The strategic cooperation agreement grants Dynamic Attractions preferred vendor status and is expected to be launched with Dynamic Attractions supplying three of the Group's proprietary ride systems with a combined value of USD $93 million to three different theme parks currently under construction. 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. This will add to our backlog in 2018 and together with our reduced indirect and overhead expenditures, will improve our EBITDA margins to acceptable levels.

The Group has invested $14 million in developing its proprietary product line over the past three years not to mention its investment in property, plant and equipment of $16 million during the same three-year period. All of these investments have positioned the Group as a global leader in the higher margin, media-based attractions market niche with a proprietary product line and a unique capability to work with only select clients on supplying them our iconic ride systems. We expect to benefit from our strategic focus on this market niche that is projected to grow rapidly for many years to come. We have a record high backlog of awarded contracts and continue to scour the world for great projects with great clients, leveraging the sale of our proprietary media-based attraction ride systems.

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 profit performance is expected to improve in 2018 because the first-generation backlog represents approximately 11% of the total backlog. Production is scheduled to ramp up steadily in the first half of 2018. The results for Q4 2017 proved that the three, first-generation projects in later stages of manufacturing and acceptance, came back to hurt the Group. Now that we made the year end loss provision for these three projects, the proportion of first-generation products will decrease in 2018 and afterwards and the proportion of 'build to print' work will correspondingly increase.

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 $14.4 million of deferred tax assets at December 31, 2017 will continue to shield us from cash tax expense on approximately $50 million of future taxable income at the current statutory tax rates.

The Group has a current market capitalization of only $40 million, but the Group believes its intrinsic value has never been higher. The officers, directors and insiders own over 50% of EIL 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.

2017 Results Review

Revenues and Adjusted Gross Margins

The operating results for 2017 were negatively impacted by a $14.0 million provision taken in the fourth quarter because the Group concluded that it was appropriate to increase the project budgets on 3 of 22 active projects due to new information being identified and disclosed late the fourth quarter and after December 31, 2017.

Increases in revenues of $5.6 million in 2017 or 4.7% were negatively offset by a significant decline in the Group's adjusted gross margin percentage to 14.9% from 19.0% in the previous year. Before giving effect to the above-mentioned adjustments, the Group's revenues would have increased to $137.6 million or an increase of 16.6% compared to the previous year. Consistent with that, the Group's adjusted gross margins would have also increased by 4.5% to 23.5% compared to the previous and in line with results that the Group had posted through the first nine months of 2017.

The key factors behind the Group's conclusions are:

1. Technical challenges related to proprietary products that did not present themselves until this point. Solutions to these challenges have been identified and corrective action has been put into place, however, with extensions of the schedule for the Group and some of its key sub-contractors and incremental materials both of which required the Group to increase the project budgets.
2. Scheduling challenges caused by design delays resulted in bringing in outside resources to assist in the completion of certain milestones as well as a more condensed manufacturing schedule resulting in expedited purchases and overtime costs and increased shipping costs.
3. Capacity constraints caused by the Group having a backlog of $228 million at the end of 2017, required the Group to outsource components of the remaining project deliverables not only to meet project specific schedules but to also ensure that the delays and challenges being experienced in these three contracts do not impact the Group's other projects by tying up the Group's production capacity longer than expected.

The Group believes that the revisions were necessary to make the appropriate decisions for the above noted issues to be isolated to 3 projects which it will largely work through over the next 12 months and continue to execute its remaining backlog effectively while also securing new contracts to continue to grow the business.

Selling, General and Administrative Costs

Selling, general and administrative costs increased by $3.3 million in 2017 compared to 2016. The increase in selling, general and administrative expenses is driven by an increase of $4.0 million of selling, general and administrative expensive expenses in the media-based attractions segment and an increase $0.9 million in the corporate segment offset by a reduction of $1.6 million of selling, general and administrative expense in the steel fabrication segment. Notwithstanding the negative impact on the operating results discussed above, the media based attraction segment continues to grow and have a significant backlog and the increase in selling, general and administrative has been driven by and in response to that rapid growth. The increase in the selling, general and administrative expenses in the corporate segment were largely correlated with completion of numerous capital transactions and other corporate initiatives undertaken and/or completed by the Group. The reduction of selling, general and administrative expenses in the steel fabrication segment is due to the

reduction of the operations in Edmonton, Alberta as the Group restructured that operation in the current year.

Selling, general and administrative expenses in 4Q17 increased by $1.1 million compared to the same period in 2016. This increase is reflective of the increase for the twelve-month period ended and driven by same factors discussed in the full year analysis.

Adjusted EBITDA

Adjusted EBITDA loss for the year ended December 31, 2017 of $1.8 million was $7.4 million less than 2016. This was due to the increase in project budgets identified above.

Adjusted EBITDA loss for 4Q17 of $10.2 million was $11.4 million less than the same quarter in 2016. This reduction in adjusted EBITDA for the quarter is driven by the increase in project budgets identified above.

Cashflow Generated (used) by Operations

The Group's cash flow generated (used) by continuing operations decreased by $8.5 million in 2017 largely as a consequence of the $11.6 million Loss from continuing operations. In 4Q17, the Group's cashflow generated by operations decreased by $11.8 million to a usage of $11.1 million when compared to the same three-month period in 2016.

The Group's cash from operating activities increased by $3.3 million because of the positive net change on non-cash working capital of $13.9 million in 2017. This was a marked increase over 2016 that used $6.3 million in cash from operating activities.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.9 million in 2017 compared to 2016. This increase was due to a full year of depreciation of the $5.3 million of additions recorded in 2016 and the commencement of depreciation of the $6.3 million of additions recorded by the Group in 2017.

Amortization of intangible assets increased by $0.5 million in 2017 compared to 2016. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to full year amortization expense arising from $6.9 million in additions from 2016 and the commencement of amortization of $3.9 million of additions in 2017.

Depreciation and amortization expense increased $0.1 million in 4Q17 compared to the same three-month period in 2016 because of the same factors outlined on an annual basis.

Finance Costs

Finance costs increased by $1.1 million in 2017 over 2016 which is driven in part by the full year effect of the increase in long-term debt of the Group but also approximately $0.4 million of finance costs from customer discounts relating to prompt payments of milestones achieved. The Group raised $18.5 million in long-term debt in 2016 $15.3 million of which was raised in the fourth quarter.

Finance costs in 4Q17 increased $0.4 million over 4Q16 because of the impact of the finance costs associated with the customers discounts identified above being realized in the quarter.

Share of profit (loss) from associate

The Group recorded a loss from its associate investment in ACE Industrial Services Ltd. in Fort McMurray, Alberta of $0.6 million in 2017 compared to a loss of $0.5 million in 2016. Effective December 28, 2017, the Group sold its shares of ACE to the majority shareholder for gross proceeds of just over $1.8 million representing the carrying value of its investment as well as balances owing to the Group from ACE.

The Group also converted its note receivable from Tornado Global Hydrovacs ("TGHL") into common shares of TGHL representing 25% ownership. The Group recorded a loss from TGHL of $0.2 million in 2017 representing is share of TGHL's operating losses from September 15, 2017 through the end of 2017.

In 4Q17 the Group recorded equity losses from its associates of $0.5 million representing $0.3 million from ACE Industrial Services Ltd. and $0.2 million from TGHL compared to an equity loss of $0.2 million in 2016 from ACE Industrial Services.

Stock-based compensation

The Group recorded stock based compensation expense in 2017 of $0.9 million which is an increase $0.3 million over the same period in 2016. The increase in stock based compensation is correlated to the 1.2 million incentive shares that were issued to 3 executives in August 2017.

Stock-based compensation expense in 4Q17 was minimal and consistent with the 4Q16 with moderate charges relating to ongoing amortization of unvested options in the quarter.

Fair value changes in derivative financial instruments

The Group recorded a loss of $1.1 million in 2017 on changes to the fair value of its outstanding foreign currency forward contracts. In 2016 the Group recorded a gain of $4.4 million. At December 31, 2016 the Group had a fair value asset recorded relating to its foreign currency forward contracts of $0.6 million compared to a liability of $0.5 million recorded as at December 31, 2017. The reason for large change in fair value is because the outstanding forward contracts $20 million at December 31, 2017 had a weighted average forward rate of 1.2315 versus the year-end exchange rate of 1.2545. At December 31, 2016, the Group had $34.1 million of outstanding forward contracts outstanding with a weighted average forward rate of $1.3591 versus a year-end exchange rate of 1.3427.

The fair value changes are driven primarily by the rate differential between the forward rates and the actual rates on the valuation dates which for this MD&A was December 31, 2017 and 2016.

In 4Q17, the Group recorded a fair value loss on derivative financial instruments of $2.8 million compared to loss of $0.6 million recorded in same period in 2016. The loss in 4Q17 was driven by the Group settling forward contracts with a notional value of $30 million USD at forward rates of $1.3340 which represented fair value assets at current foreign exchange rates. In addition to the forward contracts settled in the quarter, the outstanding forward contract held by the group are in a liability position as the forward rates of 1.2315 were less than the spot rate of 1.2545 at December 31, 2017.

Other Component of Income (loss)

The loss of $3.5 million recorded for 2017 represents a previously reported and recorded restructuring charge of $1.0 million relating to its steel fabrication operations in Edmonton as well as a loss of $0.1 million recorded as result of the fair value difference between the share price of $0.09 per share relating to the conversion of the note receivable of TGHL and the market price of the shares on September 15, 2017 of $0.085 which is the date of the conversion. The Group has also recorded a provision of $2.3 million for rebates to a strategic customer for future business opportunities. The Group did not have such a program in place with any other customer in previous years.

In 2016, the loss recorded was an impairment charge relating to a previously developed and patented technology design.

The quarterly variance in this category compared to 2016 is solely based on timing, where the Group recorded the restructuring provision for its steel fabrication operation in the first quarter of 2017 and the impairment charge recorded in 2016 was recorded in the fourth quarter.

Net income (loss) from discontinued operations

The Group had no activity in discontinued operations in 2017.

In 2016, up to June 28 when the spin out of Tornado Hydrovacs was completed, the Group's discontinued operations had $9.1 million of revenues and an operating loss of $0.7 million before tax. The Group realized a gain on the spin out transaction in the amount $3.3 million net of tax which is yielding the income from discontinued operations in 2016 of $2.6 million. There was minimal activity in discontinued operations in 4Q16.

Income tax expense

The Group's cash tax expense was $nil in 2017 compared to $0.1 million in 2016. Deferred tax expense decreased by $5.2 million in 2017 as compared 2016 due to the net loss in 2017. Deferred tax expense arises from the utilization of recorded deferred tax assets consisting of loss carry forwards, temporary differences and investment tax credits. While deferred tax recoveries arise from the recognition of tax loss carryforwards for use against future taxable income.

In 4Q17, the Group's cash tax expense was $nil which is consistent with the same period in 2016. In 4Q17, the group reversed projected deferred tax expense of $0.9 million recorded through nine months based on the operating results at that point and set up a deferred tax recovery of $3.9 million in the quarter relating to the changes in the Group's operating results reported. In 4Q16, the Group had $0.2 million of deferred tax expensed reclassified to discontinued operations and no incremental deferred tax expense in the quarter.

As at December 31, 2017 the Group has recorded net deferred tax assets of $15.3 million which is an increase of $8.2 million compared to December 31, 2016. The net increase in deferred tax assets was the recognition of $4.3 million in investment tax credits in 2017 and loss carry forwards of $3.9 million. On a simplified basis, the Group's $15.3 million of deferred tax assets at December 31, 2017 will continue to shield the Group from cash tax expense on $56.7 million of future taxable income at the current statutory tax rates.

Net income

The Group's net loss of $11.6 million in 2017 compared to net income of $4.0 million in 2016. In 4Q17, the Group's net loss was $14.0 million compared to a net loss of $2.6 million in same period in 4Q16. These changes were driven largely by the factors discussed above throughout the 2017 Results Review section.

Significant Events

- On January 22, 2017, the Group incorporated a wholly-owned foreign enterprise in the People's Republic of China named Zhejiang Dynamic Structures Engineering Technology Limited. The purpose of this entity will be to expand and perform some of the Group's manufacturing and procurement activities in China.
- On May 19, 2017, the Group announced that it has received a USD $120 million, multi-year, multi-theme park ride system series of contracts with one of the leading, global theme park owners. These contracts will largely be executed over the next 4 years from the Group's Vancouver-based design and manufacturing facilities as well as their Attractions Development Center in Orlando Florida.
- On June 14, 2017, the Group announced that is has received a USD $40 million contract to deliver a ride system with on the leading, global theme park owners. This contract will large be executed of the next 24-30 months from the Group's Vancouver-based design and manufacturing facilities.
- On August 17, 2017, the Group closed a private placement of 2 million shares to 4 key executives. Each executive received 200,000 shares priced at $0.53 per share, plus 300,000 inducement shares at no cost. The deemed value of the inducement shares was $0.66 per share, which has been recorded as a stock based compensation expense.
- On August 28, 2017, the Group announced that it entered into a letter of intent to structure and capitalize $31 million of equity in co-venture attractions companies. These co-venture attraction companies will partner with tourist-based locations to co-own and operate the Group's propriety attractions at key tourist venues in North America and China.
- On September 15, 2017, the Group completed the Tornado shares for debt transaction that was initially proposed on August 4, 2017. This transaction was completed after the completion of common share private placement. The Group received 30,185,544 common shares of Tornado valued at $2.7 million representing 26.6% of the outstanding common shares of Tornado.
- On October 12, 2017, the Group announced that it has closed a private placement of 6,000,000 subscription receipts at a price of $0.50 each for gross aggregate proceeds of $3 million, subject to final regulatory approval. Pursuant to the Subscription Receipt Agreement, the subscription receipts will be exchanged for 6,000,000 common shares of the Group and the funds will be released from escrow, upon satisfaction of certain escrow conditions including closing of a rights offering and the Group investing at least $6 million of equity in Dynamic Entertainment Group Ltd. on or before January 31, 2018. This condition was satisfied at the end of 2017.
- On October 16, 2017, the Group announced that it is commencing a rights offering to its shareholders on the basis of 0.15 rights for each common share. Each right will entitle the holder to subscribe for one common share at a price of $0.50. $7,823,675 million of common shares were issued pursuant to this rights offering.

Subsequent Significant Events

- The Group has agreed to the terms of a five-year strategic cooperation agreement with a new customer in Asia. The strategic cooperation agreement grants Dynamic Attractions preferred vendor status and is expected to be launched with Dynamic Attractions supplying three of the Group's proprietary ride systems with a combined value of USD $93 million to three different theme parks currently under construction. 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.

Selected Annual and Quarterly Financial Information

Annual Financial Information For the years ended	2017	2016	2015
Sales	123,550	117,987	131,225
Profit (loss) from continuing operations	(11,643)	1,414	1,849
Profit (loss) from discontinued operations	–	2,564	(479)
Profit (loss) from all operations	(11,643)	3,978	1,370
Profit (loss) per share, basic & diluted	(0.18)	0.06	0.02
Total Assets	86,387	78,718	80,140
Total long-term financial liabilities	6,100	13,089	2,937
Cash dividends declared per common share	–	–	–

Quarterly Financial Information For the years ended	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Sales	17,790	41,501	31,831	32,428	27,531	32,330	30,348	27,778
Profit (loss) from continuing operations	(12,638)	990	890	(885)	(2,660)	(269)	218	4,125
Profit (loss) from discontinued operations	–	–	–	–	102	(43)	2,868	(363)
Profit (loss) per share:								
Basic & Diluted – continuing operations	(0.20)	0.01	0.02	0.00	(0.04)	(0.00)	0.00	0.06
Basic & Diluted – discontinued operations	0.00	0.00	0.00	0.00	0.00	(0.00)	0.40	(0.00)
Basic & Diluted – all operations	(0.20)	0.01	0.02	0.00	(0.04)	(0.00)	0.40	0.06

Liquidity and Capital Resources

Working Capital and Liquidity

For the year ended December 31, 2017, the Group's continuing operations used $10.6 million of cash, compared with $2.4 million of cash generated in 2016 excluding the impact of changes in non-cash working capital amounts. Cash from operating activities was positive $3.3 million versus negative $6.3 million the prior year. The Company had a net increase in cash and equivalents during the 2017 of $4.7 million, which caused the bank advances to be reduced from $6.9 million at the end of 2016 to $2.2 million at December 31, 2017. 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 $2.2 million was drawn as of December 31, 2017. The Group's marginable assets at December 31, 2017 were $15.0 million, which is $12.8 million more than the Group's total draw on the operating line.

The Group made $7.5 million of cash principal repayments during the year. Total term debt of $12.4 million as at December 31, 2017 consisted of $2.7 million of term debt with CIBC, $8.7 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 December 31, 2017. The waiver for the breach was not obtained until after December 31, 2017. As a result of the timing of the receipt of the waiver, long-term debt amounts due beyond 2018 but subject to the financial covenant were required by IRFS accounting standards to be classified as current for the year-ended December 31, 2017. This reclassification has an adverse effect on the accounting presentation of the Group's working capital position at December 31, 2017.

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	Non-IFRS		IFRS	Non-IFRS	
	Dec 31, 2017 As Reported	Adjustment	Dec 31, 2017 Adjusted	Dec 31, 2016 As Reported	Adjustment	Dec 31, 2016 Adjusted
Current Assets	42,075	–	42,075	44,511	(647)	43,864
Less: Cash and equivalents	(83)	–	(83)	(102)	–	(102)
Current Liabilities	(57,263)	5,658	(51,605)	(57,421)	11,937	(45,484)
Non-Cash Working Capital Position	(15,271)	5,658	(9,613)	(13,012)	11,290	(1,722)
Working Capital Ratio	**0.74**		**0.81**	**0.78**		**0.96**

The Group's adjusted working capital ratio has declined significantly when compared to last year at 0.81 to 1 compared with 0.96 to 1 at December 31, 2016. The adjustments identified to calculate the Group's adjusted working capital ratio in 2017 was the long-term portion of the CIBC and EDC debt that was classified as current removed from current liabilities as well as the fair value liabilities relating foreign currency forward contracts also removed. In 2016 the adjustments identified were the long-term portions of the CIBC and EDC debt that was classified as current removed from current liabilities and the current portion Group's fair value assets relating to foreign currency forward contracts also removed from current assets.

Shareholders' Equity

Shareholders' equity of $20.8 million at December 31, 2017 is $0.7 million higher than the shareholders' equity at December 31, 2016 due largely to increases in share capital through private placements, offset by the net loss in the period. No dividends were declared or paid in the year. The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. The Group had 4,691,667 outstanding options at December 31, 2017. The average exercise price of the outstanding options was $0.40 per share. Of these options, 4,426,667 were currently exercisable at an average exercise price of $0.40 per share.

Market Capitalization

The market capitalization of the Group's 85,661,568 issued and outstanding common shares at April 30, 2018 was $45.4 million or $0.53 per share, which is greater than the Group's book value per share of $0.25 at December 31, 2017.

THE PROPORTION OF FIRST GENERATION PRODUCTS WILL DECREASE IN 2018 AND AFTERWARDS; THE PROPORTION OF 'BUILD TO PRINT' WORK WILL CORRESPONDINGLY INCREASE

The issued and outstanding common shares at April 30, 2018, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares As at April 27, 2018		
Issued and outstanding common shares		**85,661,568**
Securities convertible into common shares		
Warrants	6,300,000	
Stock Options	5,566,667	
Total Securities convertible into common shares		11,866,667
Fully Diluted Shares		**97,528,235**

Segment Performance

The Group's operations consist of three separately identifiable segments, Media-based Attraction, Steel Fabrication Services and Corporate. The Manufactured Products segment was divested during 2016 and is now presented as discontinued operations. The performance of the Group's operating segments is listed below:

Media-Based Attractions

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Operating Results:						
Revenues	116,160	101,991	14,169	16,130	23,681	(7,551)
Adjusted gross margin	19,101	21,258	(2,157)	(2,922)	7,823	(10,745)
Adjusted gross margin %	16.4%	20.8%	(4.4%)	(18.1%)	33.0%	(51.2%)
Adjusted EBITDA	4,447	10,594	(6,147)	(8,168)	3,879	(12,047)
Adjusted EBITDA %	3.8%	10.4%	(6.6%)	(50.6%)	16.4%	(67.0%)
Adjusted EBIT	17	2,376	(2,359)	(9,952)	2,311	(12,263)
Adjusted EBIT %	0.0%	2.3%	(2.3%)	(61.7%)	9.8%	(71.5%)

Steel Fabrication

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Operating Results:						
Revenues	7,215	15,778	(8,563)	1,645	3,816	(2,171)
Adjusted gross margin	(910)	986	(1,896)	(573)	(1,020)	447
Adjusted gross margin %	(12.6%)	6.2%	(18.9%)	(34.8%)	(26.7%)	(8.1%)
Adjusted EBITDA	(2,452)	(2,115)	(337)	(1,038)	(1,899)	861
Adjusted EBITDA %	(34.0%)	(13.4%)	(20.6%)	(63.1%)	(49.8%)	(13.3%)
Adjusted EBIT	(2,964)	(2,605)	(359)	(1,187)	(2,138)	951
Adjusted EBIT %	(41.1%)	(16.5%)	(24.6%)	(72.2%)	(56.0%)	(16.1%)

Corporate (non-operating)

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Operating Results:						
Revenues	175	218	(43)	15	34	(19)
Adjusted gross margin	175	218	(43)	15	34	(19)
Adjusted EBITDA	(3,793)	(2,885)	(908)	(1,088)	(801)	(287)
Adjusted EBIT	(3,806)	(2,895)	(911)	(1,101)	(796)	(305)

Other Matters

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, any changes in which may have a material impact on the Group's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

Revenue recognition

The percentage of completion method and the revenue to be recognized are determined on the basis of estimates for which the Group has implemented an internal financial budgeting and reporting system which relies on historical experience. The Group reviews the estimates of contract revenue and contract costs as of each reporting date. Contract losses are recognized as soon as they are identified.

Cash generating units

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Management determines which groups of assets are capable of generating cash inflows that are largely independent of other operations within the Group.

Allowance for doubtful accounts

Given the nature of business and the credit terms provided to customers, estimates and judgements are inherent in the on-going assessment of the recoverability of some accounts receivable. The Group maintains an allowance for doubtful accounts to reflect expected credit losses. The Group is not able to predict changes in the financial conditions of its customers and the Group's judgement related to the recoverability of accounts receivable may be materially impacted if the financial condition of the Group's customers deteriorates.

Valuation of inventory

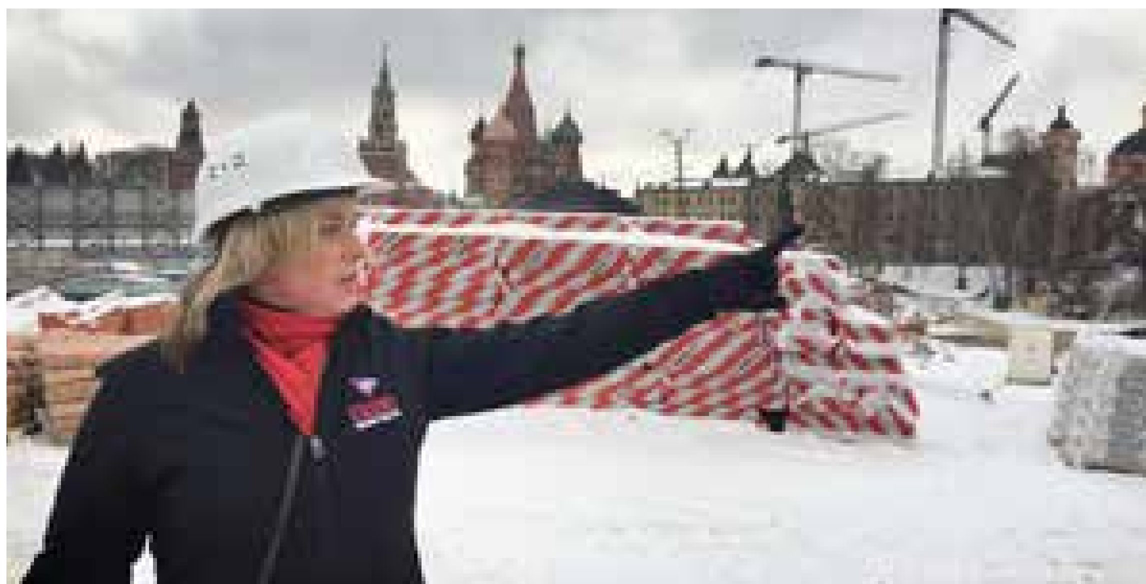
Estimates and judgements are inherent in the determination of the net realizable value of inventories. The cost of inventories may not be fully recoverable if they are damaged or if the selling price of the inventory is less than its cost. The Group regularly reviews its inventory quantities and reduces the cost attributed to inventory no longer deemed to be fully recoverable. Estimates related to the determination of net realizable value may be impacted by a number of factors including market conditions.

Share-based payments

The Group measures the cost of share-based payments to employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Valuation of Long-lived Assets and Asset Impairment

The Group periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the



expected future cash flows is less than the carrying value of the asset, an impairment loss would be recognized based on the excess of the carrying value of the asset over the fair market value calculated using discounted future cash flows.

Useful lives of key property, plant and equipment investment property and intangible assets

The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Group. Useful lives, depreciation methods, and residual values are reviewed periodically and, historically, changes to estimates of remaining useful lives have not been material.

Deferred Income Taxes

The Group accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse. If the estimates and assumptions are modified in the future, the Group may be required to reduce or increase the value of deferred tax assets or liabilities resulting in, where applicable, an income tax expense or recovery. The Group regularly evaluates deferred tax assets and liabilities.

Investment tax credits

Federal and provincial investment tax credits are accounted for as a reduction to the corresponding expenditures in the period in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

Risks and Uncertainties

Operating Results

The Group's mix of businesses typically require significant financial resources, and there is no assurance that future revenues will be sufficient to generate the funds required to continue the Group's business development and marketing activities. In certain markets, the Group competes with local, regional, national and international companies for work. With the experience of the Group's operating subsidiaries, management believes it has developed systems, policies, and procedures to mitigate this risk.

Design Risk

As the Group's projects are on the cutting edge of attraction design, there is the risk that new attractions will not perform as designed. This may result in significant costs to re-design and modify attractions after they have been manufactured and installed to bring them into conformity with contractual performance specifications, or it may result in contractual penalties including rejection of the attraction by the customer. The Group mitigates against these risks by ensuring it has multiple technical solutions to cutting edge engineering issues, so if the preferred solution does not function as intended, there are still alternatives.

Project Performance

Most of the Group's sales contracts are fixed-price contracts, often resulting from competitive bids. When bidding on a project, the Group estimates its costs, including projected increases in the costs of labour, materials and services.

Despite these estimates, actual costs could vary from the estimated amounts. These variations could adversely affect the Group's business. Any inability of the Group's

subsidiaries to execute customer projects in accordance with requirements, including adherence to completion timetables, may have a material adverse effect on the Group's business, operations and prospects.

The Group recognizes revenue using the percentage of completion accounting method, based on costs incurred as compared to projected costs. Estimated losses on contracts are immediately recognized. Revenue estimates are based on management assumptions supported by historical experience. There can be no assurance that these estimates made during the contract execution phase will not vary from the actual results measured at the completion of the contract.

Cost of Components and Raw Materials

Significant components include audio visual equipment such as screens and projectors, motion control equipment and software, robot arm equipment, launch equipment. The Group mitigates the risk of cost escalation in these components by means of long term strategic alliances with suppliers, by procurement policies and procedures designed to ensure that there are multiple suppliers available and that specific components are contracted for on a fixed price basis. However, the cutting edge nature of the work being undertaken by the Group means that there is still risk that the components will ultimately cost more than originally estimated on any particular project.

The principal cost of raw material is structural steel and other steel products. These supply and pricing arrangements are negotiated directly with steel manufacturers or steel supply companies that buy and warehouse steel products. Where appropriate, the Group will endeavor to include an escalation clause for material costs in jobs being tendered in the industrial, commercial and institutional sector in each contract. In the absence of an escalation clause, the Group mitigates its risk, to the extent possible, through contracted buying arrangements or limitations on the length of time that bids can remain outstanding prior to acceptance. In the circumstance of volatility in the commodity price of steel, unexpected increases in steel prices which are not hedged by escalation clauses or similar means, may negatively impact margins on a particular job and therefore the Group's future results of operations or financial position.

Liquidity Requirements

The Group requires significant amounts of working capital in order to be able to operate. The Group's contracts are primarily based upon firm prices and billing is generally performed on a milestone basis. Projects often involve changes or requests for extra work and although the Group endeavors to bill promptly for this extra work, any delay in issuing change orders can impact cash flows. Contracts typically allow for the customer to withhold between five and ten percent of the Group's total billings until the completion of the project. As a consequence, larger and longer-term projects can greatly increase capitalization requirements for working capital.

The Group's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the construction industry. There can be no assurance that the current working capital of the Group will be sufficient to enable it to implement all of its objectives. Furthermore, the current state of the world's financial markets may limit the Group's ability to access credit in the event that it identifies a potential acquisition or some other business opportunity that would require a significant investment in resources. There can be no assurance that if and when the Group seeks equity or debt financing, it will be able to obtain the required funding on favorable commercial terms, or at all. Any such future financing may also result in additional dilution to existing shareholders.

The Group requires sufficient financing to fund its operations. Failure to obtain financing on a timely basis could cause missed acquisition opportunities, delays in expansion and may also impact ongoing operations.

Foreign Exchange Risk

Rapid currency fluctuations can have a significant impact on un-hedged non-Canadian dollar denominated projects. The Group typically sells in foreign currency, mostly US dollars. Similarly, many of the raw material and component inputs are purchased in US dollars. Where possible, the net exposure from these projects have been hedged with forward contracts to sell US dollars.

Global Economic and Trade Environment

Businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Group may adversely affect the Group over the course of time. For example, a credit contraction in financial markets, combined with reduced economic activity, may adversely affect theme park operators, developers, general contractors, and other businesses that collectively constitute a significant portion of the Group's customer base. As a result, these customers may need to reduce their purchases of the Group's products or services, or the Group may experience greater difficulty in receiving payment for the products or services that these customers purchase from the Group. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Group's business, operating results, and financial condition.

In addition, the global nature of the Group's sales means the Group is exposed to the risk of potential changes to international trade agreements.

Credit Risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Group. Notwithstanding the Group's current credit policies and practices, there can be no assurance that customers will remain able to fulfill their commitments to the Group which may have an adverse effect on the Group's financial performance.

Bonding Capacity

Some customers require performance bonds underwritten by insurance providers, or irrevocable letters of credit as a condition of contract award. However, there can be no assurance that the Group will be able to obtain such bonds or letters of credit in the quantity required to maintain or increase its level of activity.

Reliance on Key Personnel

The business activities of the Group involve a certain degree of risk that even a combination of experience, knowledge and diligence may not be able to overcome. Shareholders must rely on the ability, expertise, judgment, direction and integrity of the management of the Group. Success will be dependent on the services of a number of key personnel, including its executive officers and other key employees, the loss of any one of whom could have an adverse effect on its operations and business prospects. The Group feels that by being a publicly traded company it will have more flexibility than its private competitors to implement attractive incentive plans for key employees to attract and retain the necessary employees.

Competitive Market

The Group's approach to competitive risk is to develop strong relationships with clients, increase the breadth of services offered and to broaden our geographic coverage to enhance service and competitiveness.

Due to the competitive nature of the business, the Group must compete on price and quality of service. A significant portion of the Group's business is to provide a contracted scope of work to clients on a fixed price or unit price basis. There can be no assurance that the fixed price commitment adequately recovers the full cost of providing the contracted scope of work. Nor can there be any assurance that the contracted scope of work is so clear as to prevent disagreements over the interpretation of what has been contracted for. Management is of the view that the Group's experience in the industry provides it with the necessary expertise to resolve disputes that may arise in a manner that is satisfactory to the Group's overall requirements.

Interest Rate Risk

Fluctuations in interest rates will affect that portion of the Group's debt that is subject to variable interest rates, and will also affect the prices for other financial instruments. Such fluctuations could have an adverse effect on the Group's financial performance.

Labour Relations

The employment of skilled tradespersons in the field and shops is subject to multi-year, collective agreements with a variety of unions. The increasing shortage of skilled tradespersons is increasing the wage expectations and concessions of all fabricators and manufacturers. The Group has three non-union shops, and two unionized shops that are subject to their own collective agreements and several different collective agreements relating to field erection. The Group is at risk if there

are labour disruptions relating to any of these collective agreements.

Management feels the staggered expiration dates and independence of each collective agreement mitigates the issue of work stoppage that may arise at any one location.

Acquisitions

The Group may seek to expand its business through acquisitions and may divest underperforming or non-core businesses. The Group's success depends, in part, upon management's ability to identify such acquisition and divestiture opportunities and to negotiate favorable contractual terms. The Group's ability to successfully integrate acquisitions into its operations could affect the Group's financial results.

The Group assesses the "labour/capital" trade-off that is associated with the increased usage of software to enhance employee productivity and increase profitability. Management has historically invested in prudent capital expenditures designed to mitigate the increasing cost of labour and the historically tight supply of skilled tradespersons. To the extent that the Group is unable to continue to invest in technological advancements designed to enhance its competitive cost structure, it may have an adverse effect on the Group's operations.

Environment | Regulatory

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that environmental laws will not result in an increase in the costs of the Group's activities or otherwise adversely affect the Group's financial condition, results of operations or prospects.

The Group maintains insurance consistent with industry practice to protect against losses due to sudden and accidental environmental contamination, accidental destruction of assets, and other operating accidents or disruption. The Group also has operational and emergency response procedures, and safety and environmental programs in place to reduce potential loss exposure. The Group believes that it is in substantial compliance, in all material respects, with all current environmental legislation and is taking such steps as it believes are prudent to ensure that compliance will be maintained.

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. Such statements include statements with respect to the expected execution of the theme park agreements and the shipping dates of the three rides. 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.

IN JANUARY 2017, THE GROUP INCORPORATED AN ENTITY IN CHINA TO EXPAND AND PERFORM ACTIVITIES IN CHINA

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 Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Profit (loss) – before taxes	(15,548)	2,823	(18,371)	(18,722)	(2,850)	(15,872)
Add : Depreciation and amortization	4,955	3,648	1,307	1,946	1,801	145
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	3,470	1,001	2,469	2,425	968	1,457
Add : Finance costs	2,507	1,425	1,082	876	452	424
Add/Deduct : Deduct Share of loss of associate	830	501	329	508	153	355
Add/Deduct : Fair value of changes of foreign currency option contracts	1,097	(4,398)	5,495	2,758	610	2,148
Add : non cash stock-based compensation	891	594	297	11	45	(34)
Adjusted EBITDA	**(1,798)**	**5,594**	**(7,392)**	**(10,198)**	**1,179**	**(11,377)**

Calculation of Adjusted Gross Margin

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Revenues	123,550	117,987	5,563	17,790	27,531	(9,741)
Cost of sales excluding depreciation and amortization	(105,184)	(95,525)	(9,659)	(21,175)	(20,694)	(481)
Adjusted gross margin	18,366	22,462	(4,096)	(3,385)	6,837	(10,222)
% of revenue	**14.87%**	**19.04%**	**(4.2%)**	**(19.03%)**	**24.83%**	**(43.9%)**

Calculation of Adjusted EBIT

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Adjusted EBITDA	(1,798)	5,594	(7,392)	(10,198)	1,179	(11,377)
Less : Depreciation and amortization	(4,955)	(3,648)	(1,307)	(1,946)	(1,801)	(145)
Adjusted EBIT	(6,753)	1,946	(8,699)	(12,144)	(622)	(11,522)
% of revenue	**(5.5%)**	**1.6%**	**(7.1%)**	**(68.3%)**	**(2.3%)**	**(66.0%)**

Cashflow Generated by Operations

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2017	2016	Variance	2017	2016	Variance
Adjusted EBITDA	(1,798)	5,594	(7,392)	(10,198)	1,179	(11,377)
Less: Finance Costs	(2,507)	(1,425)	(1,082)	(876)	(452)	(424)
Cashflow Generated by Operations	**(4,305)**	**4,169**	**(8,474)**	**(11,074)**	**727**	**(11,801)**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 **AUDITED**

Management's Report to the Shareholders of Empire Industries Ltd.

The accompanying consolidated financial statements of Empire Industries Ltd. contained in this annual report, including the notes thereto, have been prepared by management in accordance with the Company's accounting policies, which are in compliance with International Financial Reporting Standards (IRFS). In addition, the financial information contained elsewhere in this Annual Report is consistent with the financial statements.

The Board of Directors is responsible for the financial statements included in this annual report. The Audit Committee reviewed the contents of the consolidated financial statements with management and the independent auditor prior to their approval by the Board of Directors. The independent auditor discussed their audit work with the Committee.

Management has overall responsibility for internal controls and maintains accounting control systems designed to provide reasonable assurance that transactions are properly authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Guy Nelson, MBA, B. Comm.
Chief Executive Officer

Michael Martin, CA
Chief Financial Officer

April 30, 2018

Independent Auditors' Report to the Shareholders of Empire Industries Ltd.

To the Shareholders of Empire Industries Ltd.:

We have audited the accompanying consolidated financial statements of Empire Industries Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of earnings (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empire Industries Ltd. and its subsidiaries as at December 31, 2017, December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Winnipeg, Manitoba

April 30, 2018

2500–201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP

Consolidated Statement of Comprehensive Income

For the years ended December 31 (In $000's CAD, except where otherwise indicated)	Notes	**2017**	2016
Revenues [(1)]		**123,550**	117,987
Cost of sales, excluding depreciation and amortization [(2)]	17	**(105,184)**	(95,525)
Gross Profit, excluding depreciation and amortization		**18,366**	22,462
Selling, general and administration expenses	18	**(20,164)**	(16,868)
Result before depreciation, amortization, finance costs, and other items		**(1,798)**	5,594
Finance costs	19	**(2,507)**	(1,425)
Result before depreciation, amortization and other items		**(4,305)**	4,169
Depreciation of property, plant and equipment	9	**(2,933)**	(2,077)
Amortization of intangible assets	8	**(2,022)**	(1,571)
Result before other items of income (loss)		**(9,260)**	521
Share of loss from associate	10	**(830)**	(501)
Stock-based compensation	16	**(891)**	(594)
Fair value changes in derivative financial instruments	25	**(1,097)**	4,398
Other components of income (loss)	20	**(3,470)**	(1,001)
Net Income (loss) from continuing operations before tax		**(15,548)**	2,823
Net income (loss) from discontinued operations (net of tax)	27	**–**	2,564
Tax (expense) recovery			
Current	22	**(2)**	(130)
Deferred	22	**3,907**	(1,279)
		3,905	(1,409)
Net income (loss)		**(11,643)**	3,978
Other comprehensive income (loss)		**99**	(57)
Comprehensive income (loss)		**(11,544)**	3,921
Income (loss) per share continuing operations — basic & diluted	21	**(0.17)**	0.02
Income per share discontinued operations — basic & diluted	21	**–**	0.04
Income (loss) per share all operations — basic & diluted	21	**(0.17)**	0.06

(1) Included in revenue are foreign exchange gains of $257 for the year ended December 31, 2017 (2016 — $1,085)

(2) Cost of sales including depreciation and amortization was $109,180 for the year ended December 31, 2017 (2016 — $98,155)

Cost of sales excluding depreciation and amortization includes investment tax credits of $3,337 of which $425 were previously unrecognized (2016 — $1,835 of which $755 were previously unrecognized)

See accompanying notes

Consolidated Statement of Financial Position

As at (In $000's CAD, except where otherwise indicated)	Notes	**Dec 31, 2017**	Dec 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	13	**83**	102
Accounts receivable	5	**38,850**	40,933
Inventory	7	**2,339**	1,486
Prepaid expenses		**803**	1,343
Derivative financial instruments	25	**–**	647
Total current assets		**42,075**	44,511
Non-current assets			
Property, plant and equipment and investment property, net	9	**16,849**	13,983
Intangible assets, net	8	**8,941**	7,762
Deferred tax assets	22	**15,385**	7,138
Note receivable	11	**648**	2,814
Investment in associate	10	**2,366**	1,489
Advances to associate		**–**	929
Other non-current assets		**123**	92
Total non-current assets		**44,312**	34,207
Total assets		**86,387**	78,718
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	13	**2,165**	6,856
Accounts payable and accrued liabilities	12	**27,742**	23,886
Deferred revenue from construction contracts	6	**15,379**	7,269
Current portion of long-term debt	14	**6,319**	7,473
Long-term debt classified as current	14	**5,208**	11,937
Derivative financial instruments	25	**450**	–
Total current liabilities		**57,263**	57,421
Non-current liabilities			
Long-term debt	14	**–**	197
Limited recourse loan	15	**892**	955
Long-term deferred revenue	6	**7,379**	–
Deferred tax liabilities	22	**71**	–
Total non-current liabilities		**8,342**	1,152
Total liabilities		**65,605**	58,573
SHAREHOLDERS' EQUITY			
Share capital	16	**18,278**	8,300
Contributed surplus	16	**4,116**	4,413
Retained earnings – opening		**7,502**	11,853
Net income		**(11,643)**	3,978
Divided distribution of TGHL shares		**–**	(8,329)
Retained earnings – closing	16	**(4,141)**	7,502
Non-controlling interest	16	**2,500**	–
Accumulated other comprehensive income (loss)		**29**	(70)
Total shareholders' equity		**20,782**	20,145
Total liabilities and shareholders' equity		**86,387**	78,718

Guarantees and contingencies [note 28]

See accompanying notes

On behalf of the Board of Directors:

Director

Director

Consolidated Statements of Changes in Shareholders' Equity

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 income (loss)	Total equity
As at December 31, 2016	**8,300**	**–**	**4,413**	**7,502**	**(70)**	**20,145**
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	–	–	–	(11,643)	–	(11,643)
Other comprehensive income	–	–	–	–	99	99
Stock-based compensation	768	–	123	–	–	891
As at December 31, 2017	**18,278**	**2,500**	**4,116**	**(4,141)**	**29**	**20,782**

As at December 31, 2016 (In $000's CAD, except where otherwise indicated)	Share capital	Equity component of convertible debentures	Contributed Surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at December 31, 2015	**7,955**	**144**	**3,721**	**11,853**	**(13)**	**23,660**
Distribution of shares of TGHL	–	–	–	(8,329)	–	(8,329)
Conversion of convertible debenture	345	(144)	98	–	–	299
Net income for the year	–	–	–	3,978	–	3,978
Other comprehensive loss	–	–	–	–	(57)	(57)
Stock-based compensation	–	–	594	–	–	594
As at December 31, 2016	**8,300**	**–**	**4,413**	**7,502**	**(70)**	**20,145**

See accompanying notes

Consolidated Statements of Cash Flows

(In $000's CAD, except where otherwise indicated)	**2017**	2016
OPERATING ACTIVITIES		
Income (loss) from continuing operations after tax	**(11,544)**	1,357
Add (deduct) items not affecting cash :		
Depreciation of property, plant and equipment	**2,933**	2,077
Amortization of intangible assets	**2,022**	1,571
Impairment of intangible assets	**–**	952
Finance costs on short-tem borrowings	**1,034**	767
Share of loss from associates investments	**830**	501
Stock-based compensation	**891**	594
Fair value changes in derivative financial instruments	**1,097**	(4,398)
Other items affecting cash flow *(note 29)*	**(602)**	(1,171)
Investment tax credits recorded in cost of sales	**(3,337)**	(1,835)
Deferred income taxes (recovery) expense	**(3,907)**	2,030
Cash from (used in) continuing operations	**(10,583)**	2,445
Cash flow from (used in) discontinued operations	**–**	(2,120)
Net change in non-cash working capital balances *(note 29)*	**13,889**	(6,595)
Cash from (used in) operating activities	**3,306**	(6,270)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment *(note 9)*	**(6,341)**	(5,279)
Acquisition of other long term assets	**(31)**	(233)
Proceeds from repayment of note receivable from TGHL	**120**	120
Proceeds from sale of items of property, plant and equipment	**75**	–
Acquisiton of intangible assets *(note 8)*	**(3,902)**	(6,902)
Non-controlling interest *(note 16)*	**2,500**	–
Decrease (increase) amounts due from an associate	**–**	32
Cash used in investing activities of continuing operations	**(7,579)**	(12,262)
Cash used in investing activities of discontinued operations	**–**	(98)
Cash used in investing activities	**(7,579)**	(12,360)
FINANCING ACTIVITIES		
Issue of common shares *[net of transaction costs of $245]*	**8,041**	–
Proceeds received from warrants and stock options exercised	**683**	–
Proceeds received from long-term debt and finance leases	**–**	18,548
Repayment of long-term debt	**(7,525)**	(1,252)
Long-term deferred revenue deposits received *(note 6)*	**7,379**	–
Repayment of convertible debentures	**–**	(670)
Finance costs paid on long-term borrowings	**(1,055)**	(418)
Cash from financing activites of continuing operations	**7,523**	16,208
Cash used in financing activities of discontinued operations	**–**	(37)
Cash flow from financing activities	**7,523**	16,171
Effect of translation of foreign currency cash and equivalents	**1,422**	2,015
Net (decrease) increase in cash and equivalents during the period	**4,672**	(444)
Cash and cash equivalents, beginning of period	**(6,754)**	(6,310)
Cash and cash equivalents, end of period	**(2,082)**	(6,754)
Cash and cash equivalents is comprised of :		
Cash	**83**	102
Bank indebtedness	**(2,165)**	(6,856)
	(2,082)	(6,754)

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 consolidated financial statements were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on April 30, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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").

Basis of consolidation

The consolidated financial statements include the accounts of Empire Industries Ltd. and its wholly owned subsidiaries:

	Jurisdiction / Functional Currency	Ownership (%)	Main Activity
Dynamic Attractions Ltd.	CAN/CAD	100%	Media-based attraction integrator
Dynamic Attractions Inc.	US/USD	100%	Retail Sales
Dynamic Attractions HK Ltd.	HKD/CAD	100%	Holding Company
Dynamic Entertainment Group Ltd.	CAN/CAD	70%	Co-venture Company
Dynamic Optics Inc.	CAN/CAD	100%	Holding Company
Zhejiang Dynamic Engineering Technology, Ltd.	PRC/CNY	100%	Holding Company
Tornado Global Hydrovacs Ltd.	CAN/CAD	25%	Hydrovac Sales and Manufacturing
Qiuguang Dynamic Structures Ltd.	PRC/CNY	45%	Industrial steel manufacturing
1868480 Alberta Ltd.	CAN/CAD	100%	Holding Company

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Empire, using consistent accounting policies. All inter-company balances, income and expenses and unrealized gains and losses resulting from inter-company transactions are eliminated in full.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed and included in selling, general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition.

Investment in associates

An associate is an entity over which the Group has significant influence (i.e. the power to participate in the financial and operating policy decisions of the associate) but not have control or joint control. Investments in associates are accounted for using the equity method. The share of income of associates is recognized in the consolidated statement of comprehensive income and its share of other comprehensive income of associates is included in other comprehensive income.

If the cumulative losses exceed the carrying value of the equity investment, they are first applied to any additional advances that are receivable from the associate to the extent of the total amount receivable. Additional losses are recognized only to the extent that there exists a legal or constructive obligation.

Foreign currency translation

The reporting currency for the consolidated financial statements is the Canadian dollar. For subsidiaries in the Group whose functional currency is not the Canadian

dollar, their results are translated into Canadian dollars as follows:

- assets and liabilities are translated into Canadian dollars at the exchange rate in effect on the statement of financial position date;
- results of operations are translated into Canadian dollars at the average monthly exchange rate;
- foreign exchange differences arising from exchange rate fluctuations are accounted for in other comprehensive income and equity.

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Gains or losses resulting from the translations are recognized in comprehensive income. Monetary items are translated at the Canadian dollar spot rate as of the reporting date. Exchange differences from monetary items are recognized in comprehensive income. Nonmonetary items that are not carried at fair value are translated using the exchange rates as at the dates of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Revenue recognition

Revenues are recorded according to IAS 11, "Construction Contracts", when the criteria are satisfied; otherwise, revenues are recorded in accordance with IAS 18, "Revenue". A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Revenue from construction contracts is determined using the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. Contract costs include all direct material and labour costs. Provisions are recorded for anticipated contract losses as soon as they are evident. In circumstances where significant advance purchases under a contract, such as materials, would result in a materially higher percentage of completion estimate for sales than would be indicated by other measures such as labour hours, management adjusts the percentage of completion to the lower level indicated by the alternative measure.

Anticipated revenues on contracts may include future revenues from claims and unapproved change orders, if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. Such additional revenues are limited to the costs related to the claims or unapproved change orders.

Revenues from the design, fabrication and installation of equipment are recorded when the products are completed and accepted by the customer or the services are rendered and collection is reasonably assured. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues from the sale of used equipment are recognized when title passes from the Group to its customers and collection is reasonably assured. Revenues from operating leases are recognized over the lease term including estimated renewal periods.

Other revenues are recognized when earned in accordance with IAS 18.

Income taxes

Tax expense is comprised of two components; current tax expense and deferred tax expense.

Current tax

Recoverable tax assets or current tax liabilities represent the tax authorities' obligations or claims for prior or current periods which are not received or paid at the end of the reporting period. Current tax is based on taxable income which differs from accounting income by definition. Recoverable tax assets or current tax liabilities are measured using the tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax

Deferred tax is determined based on differences between the carrying amounts of the assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the calculation of taxable income. Deferred tax assets or liabilities are measured based on tax rates that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets or liabilities are recognized for all deductible or taxable temporary differences arising if it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference(s) can be utilized.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Investment tax credits

Federal and provincial investment tax credits are accounted for as a reduction to the corresponding expenditures and assets in the period in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. In the consolidated statement of financial position, non-current assets held for sale have been separately identified.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Property, plant and equipment and investment property

Property, plant and equipment are stated at cost, net of any accumulated depreciation, impairment losses and subsequent reversals (if any). Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Buildings (including investment property)	25 years
Machinery and equipment ("M&E")	3 to 15 years
Vehicles	1 to 7 years
Office furniture and equipment ("Office Equip")	3 to 10 years
Leasehold improvements	Over the lease period
Parking lots	10 years

The assets' useful lives, residual values and methods of depreciation of assets are reviewed annually, and adjusted prospectively, if appropriate.

Investment property is held to earn rental income and for capital appreciation. It is recognized at cost less accumulated depreciation and accumulated impairment losses. With the exception of land, which is not depreciated, investment property is depreciated using the straight-line method over its useful life (25 years). Useful lives and residual values are revised annually or when warranted by the circumstances.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time, which the Group considers to be 12 months or more, to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets

Intangible assets are initially recognized when the recognition criteria outlined in IAS 38 — Intangible Assets are met. IAS 38 outlines the recognition criteria as well as the nature of the amounts to be recognized.

Internally generated intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of comprehensive income.

Finite life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

Internally developed product designs	3 to 7 years
Internally generated patents	5 to 7 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Impairment of non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that the non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. An impairment loss is recognized in profit or loss when the carrying amount of the asset exceeds its recoverable amount.

If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher

of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of cash flows have not been adjusted.

Cash and cash equivalents

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Inventory

Inventory is comprised of raw materials and work in progress. Inventory is valued at the lower of cost and net realizable value, using an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and subsequently recognized according to their classification. The classification depends on the intention with which the financial instruments were acquired and their characteristics. Unless specific circumstances permitted under IFRS are present, the classification is not modified after initial recognition.

Hierarchy of fair value measurements

The Group classifies its financial assets and liabilities measured at fair value into three levels according to the observability of the inputs used in their measurement.

Level 1

Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2

Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3

Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Financial assets

Financial assets are classified into the following specified categories:

Financial assets at fair value through profit or loss ["FVTPL"] — Financial assets classified as assets held for trading are recognized at fair value at each reporting period date, and any change in the fair value is reflected in profit or loss in the period during which these changes take place.

Loans and receivables — Financial assets classified as loans and receivables are accounted for at amortized cost using the effective interest rate method. Interest income is included in profit or loss over the expected life of the financial asset.

Held-to-maturity investments — Bonds with fixed or determinable payments and fixed maturity dates where the Group has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available for sale assets — Financial assets classified as available-for-sale are recorded at fair value, and the gains/losses resulting from the revaluation at the end of each period are recognized in other comprehensive income. Upon derecognition, all cumulative gains or losses previously recognized in accumulated other comprehensive income are reflected in comprehensive income.

Impairment of Financial Assets

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially

all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities are classified as at FVTPL if the financial liability is either held for trading or it is designated as such upon initial recognition.

Other financial liabilities

Accounts payable and accrued liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at fair value determined using the perspective of a market participant at the measurement date which is typically the proceeds received. Direct issue costs are deducted from this value.

Convertible debentures

The proceeds from the offerings of convertible debentures are recognized as a liability component and an equity component, which represents the fair value of equity and the fair value of the financial liability from the fair value of the convertible debentures issued. The fair value of the financial liability is estimated by comparing the stated interest rate on the debentures to the prevailing market rates for non-convertible debt with all other terms and conditions consistent to the underlying debenture.

Warrants

Warrants granted in connection with issuing common shares and convertible debentures are recorded at fair value on the date of grant using the Black-Scholes option-pricing model or other appropriate measure. The component of the capital raised attributable to the fair value of the warrants is recorded in the corresponding period to contributed surplus. Any consideration paid by the warrant holder on exercise of the warrant is credited to share capital and contributed surplus is decreased.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, comprising foreign exchange forward contracts and options. Derivatives are initially recognised at their fair values at the date the derivative contract is entered into and are subsequently re-measured to their fair values at the end of each reporting period. The Group's derivatives are not designated or do not qualify for hedge accounting, any subsequent change in fair value is recognized in income.

Transaction costs

Transaction costs related to financial instruments that are not classified as assets and liabilities at fair value through profit and loss, are recognized on the consolidated statement of financial position as an adjustment to the cost of the financial instrument upon initial recognition and amortized using the effective interest rate method. Deferred financing expenses related to revolving loans and recognized under non-current assets are amortized over the financing period.

Earnings per share

The computation of earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share are computed in a similar way to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares assuming the exercise of share options, share appreciation rights and convertible debt options, if dilutive.

Share-based compensation plans

Employees of the Group may receive remuneration in the form of stock options. Awards granted under the Group's stock option plan are recognized in comprehensive income using the fair value method using the Black Scholes method for option valuation.

Equity settled transactions

The cost of equity settled transactions is recognized, together with a corresponding increase in other capital reserves, in equity, over the period in which the performance and/or service conditions are fulfilled.

When options, warrants and other share-based compensation awards are exercised or exchanged, the amounts previously credited to contributed surplus are reversed and credited to shareholder's equity. The amount of cash, if any, received from participants is also credited to shareholder's equity.

The dilutive effect of outstanding options is reflected as

additional share dilution in the computation of diluted earnings per share.

Reportable segments

A reportable business segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Group's other segments. All inter-segment transactions are accounted for at fair value. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group has three main reportable segments; Media-Based Attractions, Steel Fabrication Services and Corporate segment. The operating segments are described below.

Operating Segment	Description
Media-based Attractions	Design and manufacture complex ride systems, telescopes and custom machinery and equipment. Turn key supplier of premium entertainment attractions and provider of parts and service of amusement park attractions. Leased production facilities in Port Coquitlam, BC. Leased sales offices in Orlando FL, Arlington, TX and Toronto, ON.
Steel Fabrication Services	Structural steel fabrication and installation. Fabrication of tanks, pressure vessels and other specialty carbon and stainless-steel products. One owned production facility west of Edmonton, AB and a leased sales office in Edmonton, AB as well as a leased production facility in Winnipeg, MB.
Corporate	Head office located in Winnipeg. Executive management, managerial and financial oversight, business development and compliance requirements for the overall organization as well as management services to the other operating segments.

Post-retirement benefit plans

The Group contributes to retirement savings plans subject to maximum limits per employee. The Group accounts for such defined contributions as an expense in the period in which the contributions are required to be made. The Group does not have any defined benefit plans.

Adoption of new accounting standards — IAS 7 Statement of Cash Flows

The IASB issued amendments to IAS 7, Statement of Cash Flows, which were effective January 1, 2017. The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments require additional disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The adoption of these amendments has resulted in additional disclosures in the consolidated financial statements (note 29).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. Actual results could differ from those judgements, estimates and assumptions. The items whose actual results could differ significantly from those judgements, estimates and assumptions are described below.

CRITICAL JUDGEMENTS MADE IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Cash generating units

For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Management determines which groups of assets can generate cash inflows that are largely independent of other operations within the Group.

Operating segments

The Group considers both the qualitative and quantitative aspects when identifying reportable operating segments, specifically whether a subset of the Group has a separate chief operating decision maker even if it meets one or more of the separate recognition quantitative thresholds.

Control and significant influence over less than 100% owned affiliates

The Groups assumes that it exercises significant influence when its ownership percentage exceeds 20% but is less than 50% and assumes that it exercises control when its ownership percentage exceeds 50% unless in either scenario, there are other factors that would change that assumption.

KEY SOURCES OF ESTIMATION UNCERTAINTY

Revenue recognition

The percentage of completion method and the revenue to be recognized are determined on the basis of estimates for which the Group has implemented an internal financial budgeting and reporting system which relies on historical experience. The Group reviews the estimates of contract revenue and contract costs as of each reporting date. Contract losses are recognized as soon as they are identified.

The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, productivity, and possible claims from subcontractors.

The determination of anticipated revenues includes the contractually agreed revenue and may also involve estimates of future revenues from claims and unapproved change orders if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. A change order results from a change to the scope of the work

to be performed compared to the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgments are required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered. Revenues associated with these construction costs will be recognized if management believes the receipt of such revenues is probable and the amount to be received can be measured reliably.

Allowance for doubtful accounts

Given the nature of business and the credit terms provided to customers, estimates and judgements are inherent in the on-going assessment of the recoverability of some accounts receivable. The Group maintains an allowance for doubtful accounts to reflect expected credit losses. The Group is not able to predict changes in the financial conditions of its customers and the Group's judgement related to the recoverability of accounts receivable may be materially impacted if the financial condition of the Group's customers deteriorates.

Valuation of inventory

Estimates and judgements are inherent in the determination of the net realizable value of inventories. The cost of inventories may not be fully recoverable if they are damaged or if the selling price of the inventory is less than its cost. The Group regularly reviews its inventory quantities and reduces the cost attributed to inventory no longer deemed to be fully recoverable. Estimates related to the determination of net realizable value may be impacted by a number of factors including market conditions.

Share-based payments

The Group measures the cost of share-based payments to employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Warranty Provision

The Group provides warranty services for its media-based attractions and related service offerings that are sold to its clients. The Group assesses the amount of warranty provision required based on number of products under warranty and uses its judgement based on previous experience to determine the value of the warranty provision required. At December 31, 2017 the Group has recorded a warranty provision of $128 (2016 — $nil).

Intangible assets

Expenditures of research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product of process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset (note 8).

Impairment of non-financial assets

The Group's impairment test is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the forecast and do not include restructuring activities that the Group is not yet committed to or significant future investments that may enhance the performance of the cash generating unit being tested. The calculation is sensitive to the discount rate applied as well as the expected future cash inflows.

Useful lives of key property, plant and equipment, investment property and intangible assets

Estimated useful lives of property, plant and equipment, investment property and intangible assets are based on management's judgment and experience. When management identifies that the actual useful lives for these assets differ materially from the estimates used to calculate depreciation and amortization, that change is adjusted prospectively. Asset lives, depreciation and amortization methods, and residual values are reviewed periodically.

The Group periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as significant changes in technological, market, economic or legal environment, business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates either the value in use or fair value less costs to sell.

Taxes

The Group accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse. If the estimates and assumptions are modified in the future, the Group may be required to reduce or increase the value of deferred tax assets or liabilities resulting in, where applicable, an income tax expense or recovery. The Group regularly evaluates deferred tax assets and liabilities. As at December 31, 2017 the Group has an asset of $15,385 (2016 — $7,138) pertaining to projected future use based on management's budget and estimates. Management has recorded investment tax credit using costs and project methodologies that had been previously accepted as filed.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

As of January 1,2018 or later dates, the Group will be required to adopt certain standards and amendments issued by the IASB as described below, for which the Group is currently assessing the impact. Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for these consolidated financial statements. The Group reasonably expects the following standards to be applicable to its consolidated financial statements at a future date as listed below:

IFRS 9 Financial instruments

IFRS introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9 financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to the financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC31 *Revenue — barter transactions involving advertising services.* The standard provides a single, principles based fivestep model to be applied to all contracts with customers, with certain exceptions. The five steps are:

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

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 — Leases replaces IAS 17 — Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Group is currently assessing the impact of this standard on its consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	Dec 31, 2017	Dec 31, 2016
Trade	**7,292**	9,339
Unbilled construction contract receivables *(note 6)*	**29,070**	30,851
Other receivables	**1,308**	847
Current portion of note receivable *(note 10)*	**1,200**	–
Allowance for doubtful accounts	**(20)**	(104)
	38,850	40,933

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

	Dec 31, 2017	Dec 31, 2016
< 30 days	**1,423**	4,686
> 30 days	**1,014**	1,613
> 60 days	**845**	402
> 90 days	**806**	966
Holdbacks	**3,204**	1,672
	7,292	9,339

6. CONSTRUCTION CONTRACTS

	Dec 31, 2017	Dec 31, 2016
Construction costs incurred and estimated profits, less recognized losses to date	**198,731**	186,118
Less: Progress billings	**(192,419)**	(162,472)
	6,312	23,646
Items recognized and included in the consolidated financial statements as:		
Unbilled construction contract receivables *(note 5)*	**29,070**	30,915
Deferred revenue from construction contracts — current portion	**(15,379)**	(7,269)
Deferred revenue from construction contracts — long-term portion	**(7,379)**	–
	6,312	23,646

7. INVENTORIES

Inventories are comprised of the following:

	Dec 31, 2017	Dec 31, 2016
Raw Materials	**2,289**	1,421
Work-in-progress	**50**	65
	2,339	1,486

During the year, the Group recorded inventory write-downs of $104 (2016 — $nil). The value of inventories recognized as an expense within cost of goods sold is $249 (2016 — $596).

	Product Design	Patents	Total
Opening cost balance December 31, 2015	**2,534**	**2,965**	**5,499**
Additions	3,674	3,228	6,902
Investment tax credits	(366)	(383)	(749)
Impairment and disposals	(706)	(1,219)	(1,925)
Ending cost balance December 31, 2016	5,136	4,591	9,727
Opening amortization balance December 31, 2015	675	692	1,367
Amortization expense for the year	701	870	1,571
Impairment and disposals	(706)	(267)	(973)
Ending amortization balance December 31, 2016	670	1,295	1,965
Opening net book value December 31, 2015	1,859	2,273	4,132
Ending net book value December 31, 2016	**4,466**	**3,296**	**7,762**
Opening cost balance December 31, 2016	**5,136**	**4,591**	**9,727**
Additions	2,159	1,743	3,902
Investment tax credits	(316)	(385)	(701)
Ending cost balance December 31, 2017	6,979	5,949	12,928
Opening amortization balance December 31, 2016	670	1,295	1,965
Amortization expense for the year	1,084	938	2,022
Ending amortization balance December 31, 2017	1,754	2,233	3,987
Opening net book value December 31, 2016	**4,466**	**3,296**	**7,762**
Ending net book value December 31, 2017	**5,225**	**3,716**	**8,941**

8. INTANGIBLE ASSETS

The Group's Media-based attractions operating segment has designated certain proprietary product designs and other items under development that will be patented as internally generated intangible assets.

In 2016, patented technology recorded under patents, was redesigned by the Group resulting in an impairment charge of $952 being recorded by the Group for the previous technology due to its uncertainty regarding future use. Should those circumstances change in future accounting periods, the Group will consider reversing all or some portion of the impairment charge recorded.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Land	Building	M&E	Office Equip.	Lease–holds	Vehicles	Parking Lots	Total
COST								
Balance, December 31, 2015	**850**	**4,104**	**10,744**	**3,853**	**1,728**	**241**	**45**	**21,565**
Additions	–	349	2,711	993	1,220	3	3	5,279
Investment tax credits received	–	–	(224)	–	–	–	–	(224)
Foreign exchange adjustments	–	–	–	(7)	(17)	(1)	–	(25)
Disposals	–	–	–	(19)	0	(2)	–	(21)
Balance, December 31, 2016	**850**	**4,453**	**13,231**	**4,820**	**2,931**	**241**	**48**	**26,574**
DEPRECIATION								
Balance, December 31, 2015	**–**	**1,002**	**6,235**	**2,745**	**369**	**155**	**30**	**10,536**
Depreciation charge for the year	–	210	819	499	519	27	3	2,077
Foreign exchange adjustments	–	–	–	–	(1)	–	–	(1)
Disposals	–	–	–	(19)	–	(2)	–	(21)
Balance, December 31, 2016	**–**	**1,212**	**7,054**	**3,225**	**887**	**180**	**33**	**12,591**
Net book value, December 31, 2016	**850**	**3,241**	**6,177**	**1,595**	**2,044**	**61**	**15**	**13,983**
COST								
Balance, December 31, 2016	**850**	**4,453**	**13,231**	**4,820**	**2,931**	**241**	**48**	**26,574**
Additions	–	50	3,980	892	1,381	38	–	6,341
Investment tax credits received	–	–	(165)	–	–	–	–	(165)
Foreign exchange adjustments	–	–	(47)	(17)	(109)	(3)	–	(176)
Disposals	–	–	(301)	–	–	–	–	(301)
Balance, December 31, 2017	**850**	**4,503**	**16,698**	**5,695**	**4,203**	**276**	**48**	**32,273**
DEPRECIATION								
Balance, December 31, 2016	**–**	**1,212**	**7,054**	**3,225**	**887**	**180**	**33**	**12,591**
Depreciation charge for the year	–	214	1,354	585	748	29	3	2,933
Foreign exchange adjustments	–	–	(10)	(7)	(33)	(1)	–	(51)
Disposals	–	–	(49)	–	–	–	–	(49)
Balance, December 31, 2017	**–**	**1,426**	**8,349**	**3,803**	**1,602**	**208**	**36**	**15,424**
Net book value, December 31, 2017	**850**	**3,077**	**8,349**	**1,892**	**2,601**	**68**	**12**	**16,849**

During the year, the Group recorded revenue of $61 from the investment property (2016 — $63) with recoverable direct operating expenses of $29 (2016 — $37). Included in depreciation expense for the year is depreciation of $20 relating to the investment property (2016 — $20). The Group estimates that the net book value of investment property consisting of land of $190 (2016 — $190) and the net book value of the building of $374 (2016 — $394) which the Group estimates approximates the fair value.

Fully amortized items of property, plant and equipment with a historical cost of $2,499 (2016 — $2,166) are still in use by the Group.

10. INVESTMENT IN ASSOCIATES

On September 15, 2017, the Group converted its note receivable in Tornado Global Hydrovacs Ltd. ("TGHL") of $2,696 into 30,185,544 common shares of TGHL valued at $0.09 per common share representing 25% of the outstanding common shares of TGHL. The closing share price of shares of TGHL on September 15, 2017 was $0.085 per share resulting in a loss on the initial conversion of $131.

TGHL Equity Accounted for Investments	Dec 31, 2017	Dec 31, 2016
Beginning balance	–	–
Conversion of note receivable in common shares of TGHL	2,696	–
Loss on conversion	(131)	–
Current period equity losses	(199)	–
	2,366	–

TGHL is incorporated in Alberta, Canada and through its subsidiaries, designs, fabricates, manufactures and sells hydrovac trucks to excavation service providers in the oil and gas and municipal markets in North America and is in the process of expanding into China. TGHL's corporate office is located at Suite 510, 7105 McLeod Trail, SW, Calgary, Alberta, T2H 2K6.

The tables below disclose the assets and liabilities as at December 31, 2017 and income and expenses of TGHL for the year ended December 31, 2017:

TGHL Statement of Financial Position	Dec 31, 2017	Dec 31, 2016
Current assets	14,871	–
Non-current assets	7,191	–
Current liabilities	(3,537)	–
Non-current liabilities	(672)	–
Equity	17,853	–

TGHL Revenue and Profit (Loss)	Dec 31, 2017	Dec 31, 2016
Revenue	29,781	–
Profit	(1,579)	–

Until December 28, 2017, the Group held a 49% interest in Athabasca Chipewyan Empire Industrial Services Ltd. ("ACE"), Fort McMurray, Canada, which is involved in the steel fabrication and installation business and provides multi-trade industrial construction as well as maintenance services.

ACE Equity Accounted for Investments	Dec 31, 2017	Dec 31, 2016
Beginning balance	1,489	1,990
Current year equity losses	(631)	(501)
Proceeds from disposal of investment *(note 11)*	(858)	–
	–	1,489

The tables below disclose the assets and liabilities as at December 31, 2017 and December 31, 2016 and income and expenses of ACE for the year ended December 31, 2017 and 2016:

ACE Statement of Financial Position	Dec 31, 2017	Dec 31, 2016
Current assets	–	1,813
Non-current assets	–	2,338
Current liabilities	–	(874)
Non-current liabilities	–	(2,294)
Equity	–	983

ACE Revenue and Profit (Loss)	Dec 31, 2017	Dec 31, 2016
Revenue	6,883	5,638
Profit	(1,262)	(1,024)

The Group has a 45% interest in Dongguan Qiguang Dynamic Steel Structures Ltd ("QDSL"), in Dongguan, Guangdong P.R. China which is involved in the steel fabrication and installation business in China which the Group has assessed as immaterial. QDSL is a private entity and is not listed on any public exchange. The Group's share of future equity earnings will be applied to the principal of the limited recourse loan owing to Qiguang Investment (HK) Limited until such time as the principal is repaid in full (note 14). The Group assessed the current fair value of the investment at $nil (2016 — $nil). The Group is not exposed to any additional losses beyond its initial investment amount. The Group has not disclosed any financial information for QDSL as financial information is not available at the date of release.

11. NOTES RECEIVABLE

	Dec 31, 2017	Dec 31, 2016
Beginning balance	**2,814**	–
Note receivable from the sale of TGHL	**–**	2,895
Accrued interest	**41**	39
Interest payments	**(39)**	–
Note principle payments	**(120)**	(120)
Conversion of note receivable from TGHL *(note 10)*	**(2,696)**	–
Note receivable from the sale of ACE	**1,848**	–
Reclass current portion of note receivable	**(1,200)**	–
	648	2,814

As outlined in note 10, on September 15, 2017, the Group converted it's note receivable in TGHL of $2,696 into 30,185,544 common shares of TGHL share representing 25% of the outstanding common shares of TGHL.

On December 28, 2017, the Group sold its 49% interest in ACE to the majority shareholder for total consideration of $1,848 representing the value of investment of $858 and the and the balance of the long-term shareholder advance of $990.

The consideration of $1,848 is in the form of an unsecured note receivable that yields interest at 3% per annum with payments of $800 due on closing which was received on January 8, 2018, $400 on September 30, 2018, $400 on September 30, 2019 and $248 plus all accrued interest on September 30, 2020. The Group has $1,200 recorded in accounts receivable related to the note receivable payments to be received in 2018 (note 5).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec 31, 2017	Dec 31, 2016
Accounts payable and accrued liabilities	**25,812**	22,830
Accrued wages, vacation and bonuses payable	**1,611**	986
Commodity and other taxes payable	**319**	70
	27,742	23,886

13. BANK INDEBTEDNESS AND BANK OPERATING LINES

The Group's cash balance of $83 (2016 — $102) represents funds on deposit. At December 31, 2017, the Group had total draws on its bank operating lines of credit of $2,165 (2016 — $6,856). Advances on the facility are payable on demand and bear interest at Canadian prime rate plus 1.5%. The overdraft facility with a limit of $15,000 (2016 — $15,000) is secured by a general security agreement providing a first security interest in all present and after-acquired property of the Group.

14. LONG-TERM DEBT

TGHL Statement of Financial Position	Dec 31, 2017	Dec 31, 2016
CIBC term loans	**2,728**	6,084
EDC term loan	**8,782**	13,427
Other finance leases	**114**	255
	11,624	19,766
Deferred finance costs allocated	**(97)**	(159)
	11,527	19,607
Less : current portion of long-term debt	**6,319**	7,473
Less : long-term debt classified as current	**5,208**	11,937
Long-term portion	**–**	197

The CIBC term loans bear interest at prime plus 1.5%. The Group makes equal monthly principal payments of $62 plus accrued interest in the first term loan which matures on November 1, 2018 and makes equal monthly principal payments of $51 plus accrued interest on the second loan which matures on May 1, 2021. The CIBC term loans are part of the same credit facility agreement described in note 13 and is secured by general security agreements providing a first security interest in all present and after-acquired property of the Group. The Group has recorded unamortized financing costs of $68 (2016 — $113) associated with securing the CIBC term loan as a net reduction of the overall long-term debt balance.

The EDC term loan bears interest at the US prime rate plus 2% has an outstanding principal balance of $10,000 USD. The loan is repayable in ten quarterly installments of $1,000 USD commencing in April 2017, to be repaid in full by October 2019. The EDC term loan has specific security ascribed to it in co-operation with CIBC and possesses cross-default clauses with the CIBC loan agreement. The Group has recorded unamortized financing costs of $29 (2016 — $46) associated with securing the EDC term loan as a net reduction of the overall long-term debt balance.

Long-term debt of $5,208 (2016 — $11,937) was classified as current as the Group was in violation of its Senior Debt to EBITDA and Fixed Charge covenants in its credit agreement as at December 31, 2017 and the comparative period for which a formal waiver was received after December 31, 2017 but prior to the release of the financial statements.

Other finance leases are for vehicles and shop equipment that bears interest between 4 – 7% with aggregate monthly payments of $14 maturing between in 2018. The leases are secured by the assets being leased with a net book value of $352 comprised of $321 of machinery and equipment and $31 of vehicles (2016 — $384 of machinery and equipment and $37 of vehicles).

The Group's long-term debt is scheduled with consideration of the waiver to be repaid over the next five years as follows:

2018	6,381
2019	4,376
2020	612
2021	255
	11,624

15. LIMITED RECOURSE LOAN

The limited recourse loan was issued on November 14, 2011 in the amount of $711 USD (2017 – CAD $892 and 2016 – CAD $955) and the proceeds were used to fund the Group's 45% investment in Dongguan Qiguang Dynamic Steel Structures Limited ("QDSL") in Dongguan, Guangdong, P.R. China (note 10). The loan bears interest at 10% per annum payable quarterly. Security for the loan for Qiguang Investment (HK) Limited is restricted to the Group's shares of QDSL. There is no term on the loan and principal repayments for the loan is restricted only to the Group's share of the equity earnings of QDSL. Total interest expense in 2017 of $92 (2016 — $94) has been paid or accrued on the limited recourse loan with accrued interest of $54 (2016 — $70) recorded in accounts payable at the date of the consolidated statement of financial position.

16. SHARE CAPITAL

Common shares

The Group is permitted to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, and the Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

	Dec 31, 2017	Dec 31, 2016
Common Shares (issued and outstanding — no par value)	***85,661,568***	*65,937,060*
Share capital — opening balance	**8,300**	7,955
Proceeds from right's offering	**3,912**	–
Proceeds from subscription receipts agreement	**3,000**	–
Proceeds from private placements	**1,374**	–
Stock-based compensation — inducement shares issued	**768**	–
Proceeds from exercise of stock options and warrants	**683**	–
Non-cash component of options and warrants exercised	**420**	–
Conversion of convertible debentures	**–**	345
Transaction costs (net of tax)	**(179)**	–
	18,278	8,300

On November 29th, 2017, the Group completed a right's offering for gross proceeds of $3,912 in exchange for 7,823,675 common shares valued at $0.50 per common share. Of the total gross proceeds, $3,000 is to be directed towards the Group's future planned investment into co-venture initiatives to own and operate media-based attractions in select locations throughout the world. The balance of the proceeds, $912 was directed towards general working capital purposes.

On December 21st, 2017, the Group completed a subscription receipt private placement for gross proceeds of $3,000 in

exchange for 6,000,000 common shares valued at $0.50 per common share. The total gross proceeds are also to be directed towards the Group's future planned co-venture investment initiatives. The subscription receipt private placement was conditional upon the Group raising a minimum of $3,000 in its separate right's offering which was completed on November 29th, 2017.

On December 18, 2017, the Group completed a private placement for gross proceeds of $950 in exchange for 1,900,000 common shares value at $0.50 per common share. The total gross proceeds were directed towards general working capital purposes.

On August 18th, 2017 the Group completed an executive private placement for gross proceeds of $424 in exchange for 800,000 common shares valued at $0.53 per common share. The total gross proceeds were directed towards general working capital purposes. In conjunction with this private placement, the Group issued inducement shares to the executives in the private placement totalling 1,200,000 common shares. The Group determined that fair value of the inducement shares to be $768 which represents the $0.64 per common share which was the closing price on the day the shares were issued.

During the year, 2,000,833 options and warrants were exercised for cash proceeds of $683. In addition to the cash proceeds, contributed surplus of $420 was reclassed to share capital upon the exercising of the options and warrants.

In 2016, 1,102,941 shares were issued through the conversion of convertible debentures. The $345 increase in share capital is the conversion of the convertible debenture liability of $299 and the equity portion of the convertible debentures converted of $46.

Warrants

The Group has 6,300,000 warrants outstanding from a private placement of common shares in 2013. Each outstanding warrant entitles the holder to buy one common share at an exercise price of $0.27 per share until July 10, 2018. A summary of the Group's warrants as at December 31, 2017 and December 31, 2016 and changes during the periods then ended follows:

	Dec 31, 2017	**Weighted Average Exercise Price**	Dec 31, 2016	Weighted Average Exercise Price
Balance, beginning of the year	**6,925,000**	**0.27**	6,925,000	0.27
Warrants issued	**–**	**–**	–	–
Warrants exercised	**(625,000)**	**0.27**	–	–
Warrants expired	**–**	**–**	–	–
Balance, end of the year	**6,300,000**	**0.27**	6,925,000	0.27
Exercisable	**6,300,000**	**0.27**	6,925,000	0.27
Weighted remaining average life (years)	**0.52**		1.52	

Stock Options

The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. At December 31, 2017 the Group was permitted to issue up to a maximum of 8,566,157 stock options, being 10% of the outstanding common shares. A summary of the Group's options as at December 31, 2017 and December 31, 2016 and changes to the years then ended are as follows:

	Dec 31, 2017	**Weighted Average Exercise Price**	Dec 31, 2016	Weighted Average Exercise Price
Balance, beginning of the year	**6,067,500**	**0.40**	6,002,500	0.39
Options issued	**–**	**0.00**	2,008,750	0.40
Options expired	**–**	**0.00**	(1,413,750)	0.40
Options forfeited	**–**	**0.00**	(530,000)	0.37
Options exercised	**(1,375,833)**	**0.37**	–	0.00
Balance, end of the year	**4,691,667**	**0.40**	6,067,500	0.40
Exercisable	**4,426,667**	**0.40**	5,260,416	0.39
Weighted remaining average life (years)	**2.42**		3.07	

	Options — Outstanding			**Options — Exercisable**	
Exercise Price ($)	**Number Outstanding**	**Weighted Average Remaining Life (years)**	**Weighted Average Exercise Price ($)**	**Number Exercisable**	**Weighted Average Exercise Price ($)**
0.32	25,000	3.13	0.32	25,000	0.32
0.36	1,358,750	0.94	0.36	1,358,750	0.36
0.40	2,495,417	3.35	0.40	2,230,417	0.40
0.44	250,000	2.07	0.44	250,000	0.44
0.50	562,500	2.40	0.50	562,500	0.50
	4,691,667	2.42	0.40	4,426,667	0.40

The fair value associated with the options granted was calculated using the Black-Scholes model for option valuation. A summary of the Group's valuations assumptions, key inputs, valuation results and stock-based compensation details are as follows:

Issuance Year	Vesting Term	Assumed Volatility	Risk-free Rate	Market Price @ Grant	Fair Value	**2017 SBC**	2016 SBC
2015	3 Years	138%	0.56%	0.42	85	**1**	17
2015	3 Years	134.93%	0.76%	0.50	226	**17**	70
2016	2 Years	135.94%	0.53%	0.395	640	**105**	501
2016	3 Years	127.42%	0.61%	0.32	7	**–**	6
						123	594

Included in the stock-based compensation balance of $891 is stock-based compensation of $768 which is the fair value of inducement shares issued to executives that participated in an executive private placement. Because the transaction resulted in the immediate issuance of the shares, the stock-based compensation expense associated with the shares was charged directly to share capital.

Contributed surplus

Changes in contributed surplus consisted of the following:

	Dec 31, 2017	Dec 31, 2016
Balance, beginning of the year	***4,413***	*3,721*
Stock-based compensation expense (net of forfeitures)	**123**	594
Equity portion of convertible debentures redeemed	**–**	98
Re-class of stock-based compensation expense for options exercised	**(420)**	–
Balance, end of the year	**4,116**	4,413

Retained Earnings

	Dec 31, 2017	Dec 31, 2016
Opening retained earnings	**7,502**	11,853
Net income (loss)	**(11,071)**	3,978
Dividend distribution of shares of TGHL	**–**	(8,329)
Balance, end of the year	**(3,569)**	7,502

On June 28, 2016, the Group and Tornado Global Hydrovacs Limited ("TGHL"), entered into a plan of arrangement to Spin-out the Group's Hydrovac business (its Manufactured Products operating segment) for 32,417,056 common shares of TGHL and a note receivable of $2,895 bearing interest at 2.7% representing total consideration of $11,224. $8,329 was distributed to the shareholders of EIL as proceeds from the transaction.

Non-controlling interest

On December 21, 2017 the Group incorporated a new entity, Dynamic Entertainment Group Ltd. ("DEGL"). The Group invested $6,000 for 71% ownership of DEGL and an additional $2,500 was invested by a third party for 30% ownership. The Group controls DEGL and as such has consolidated its opening statement of financial position within the Group's consolidated financial statements. In conjunction with that, the Group has separately disclosed the non-controlling interest component of DEGL within the Group's shareholder equity section. DEGL did not have any operations in the fiscal year.

17. COST OF SALES

	Dec 31, 2017	Dec 31, 2016
Direct construction costs	**(89,977)**	(81,495)
Indirect salaries and benefits	**(8,951)**	(8,308)
Indirect production costs	**(6,256)**	(5,722)
	(105,184)	(95,525)

Included in cost of sales is $953 (2016 — $974) expensed during the year for defined contribution plans.

18. SELLING AND ADMINISTRATIVE EXPENSES

	Dec 31, 2017	Dec 31, 2016
Salaries and benefits	**(11,519)**	(9,889)
General, selling and administrative expenses	**(8,645)**	(6,979)
	(20,164)	(16,868)

Included in selling and administrative expenses is $285 (2016 — $140) expensed during the year for defined contribution pension plans.

19. FINANCE COSTS

	Dec 31, 2017	Dec 31, 2016
Interest on long-term borrowings	**(987)**	(574)
Interest on short-term borrowing and other	**(1,034)**	(809)
Accelerated payments discounts	**(424)**	–
Accretion expense	**–**	(18)
Deferred financing charges	**(62)**	(24)
	(2,507)	(1,425)

20. OTHER COMPONENTS OF INCOME (LOSS)

	Dec 31, 2017	Dec 31, 2016
Restructuring provision	**(1,045)**	–
Loss on disposal of property, plant and equipment	**(177)**	–
Provision for customer rebates	**(2,322)**	–
Impairment of intangible assets *(note 8)*	**–**	(952)
Miscellaneous income (loss)	**74**	(49)
	(3,470)	(1,001)

The Group has recorded a restructuring charge of $1,045 in the period relating to its curtailment of independent steel fabrication services and has restructured and refining its overall operations, of which $469 remains in accrued liabilities at December 31, 2017. The restructuring charge and remaining provision includes severances for the affected employees, lease costs for facilities and equipment and other permitted expenditures.

21. INCOME PER SHARE

	Dec 31, 2017	Dec 31, 2016
Net income (loss) from continuing operations	**(11,643)**	1,414
Net income (loss) from discontinued operations	**–**	2,564
	(11,643)	3,978
Basic weighted average number of shares	**67,970,425**	64,834,119
Effect of diluted securities		
Net incremental dilutive shares	**–**	1,102,941
Diluted weighted average number of shares	**67,970,425**	65,937,060
Net earnings (loss) per share		
Basic and diluted — continuing operations	**(0.17)**	0.02
Basic and diluted — discontinued operations	**–**	0.04
Basic and diluted — all operations	**(0.17)**	0.06

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.

22. INCOME TAX EXPENSE (RECOVERY)

The major components of tax expense (recovery) from continuing operations are as follows:

	Dec 31, 2017	Dec 31, 2016
Current tax expense	**2**	130
Total current tax expense (recovery)	**2**	130
Deferred tax expense relating to origination and reversal of temporary differences, unused tax losses, and unused tax credits	**(3,907)**	1,279
Total deferred tax expense (recovery)	**(3,907)**	1,279
Total income tax expense (recovery)	**(3,905)**	1,409

The reconciliation between income tax expense (recovery) and the product of accounting profit multiplied by the combined federal and provincial statutory income tax rate is as follows:

	Dec 31, 2017	Dec 31, 2016
Accounting profit	**(15,549)**	5,604
Combined federal and provincial statutory income tax rate	**27.01%**	27.00%
Income tax calculated using combined federal and provincial statutory income tax rate	**(4,200)**	1,513
Non-deductible expenses	**268**	189
Non-taxable portion of capital gains	**(2)**	(683)
Equity income of subsidiaries	**112**	–
Change in tax rates	**66**	0
Other	**(149)**	390
Income tax recovery	**(3,905)**	1,409

The amount of deferred tax assets and liabilities in respect of each type of temporary difference and in respect of each type of unused tax losses and unused tax credits is as follows:

	Dec 31, 2015	Recognized in income tax expense	Recognized in other expenses	Recognized in intangible assets	Dec 31, 2016	Recognized in income tax expense	Recognized in equit	Recognized in other expenses	Recognized in intangible assets	Dec 31, 2017
Deferred tax assets:										
Capital leases	121	(45)	–		76	(36)	–	–	–	**40**
Investment tax credits	2,769	–	1,835	971	5,575	–	–	3,338	865	**9,778**
Non–capital losses	5,007	687	–		5,694	3,063	–	–	–	**8,757**
Research and development expenses	1,158	708	–		1,866	2,753	–	–	–	**4,619**
Share issuance costs	35	(17)	–		18	(30)	66	–	–	**54**
Other	1,064	(1,220)	–		(156)	482	–	–	–	**326**
Total deferred tax assets	10,154	113	1,835	971	13,073	6,232	66	3,338	865	**23,574**
Deferred tax liabilities:										
Accounts receivable	(859)	407	–		(452)	(1,693)	–	–	–	**(2,145)**
Convertible debentures	(5)	5	–		–	–	–	–	–	**–**
Intangible assets	(1,082)	(876)	–		(1,958)	(367)	–	–	–	**(2,325)**
Investment in associate	(173)	68	–		(105)	106	–	–	–	**1**
Investment tax credits	(748)	(638)	–		(1,386)	(627)	–	–	–	**(2,013)**
Property, plant and equipment	(1,458)	(359)	–		(1,817)	327	–	–	–	**(1,490)**
Other	–	(217)	–		(217)	–	–	–	–	**(217)**
Total deferred tax liabilities	(4,325)	(1,610)	0	0	(5,935)	(2,254)	–	–	–	**(8,189)**
Foreign operations										
Property, plant and equipment					–	(54)	–	–	–	**(54)**
Other					–	(17)	–	–	–	**(17)**
Total deferred tax liabilities					–	(71)	–	–	–	**(71)**
Net deferred tax assets	**5,829**	**(1,497)**	**1,835**	**971**	**7,138**	**3,907**	**66**	**3,338**	**865**	**15,314**

23. OPERATING SEGMENTS

A description of the Group's business segments, Media-based Attractions, Steel Fabrication Services and Corporate are included in note 2. Revenue recognition is not consistent between the segments as all revenues are recognized in the Steel Fabrication Services segment and Media-based Attractions segments are recognized in accordance with IAS 11 — Construction Contracts. Revenue recognition for the Corporate segment is in accordance with IAS 18.

The tables below show the segmented performance for the Group from its three operating segments, Media-based Attractions, Steel Fabrication Services and Corporate for the years ended December 31, 2017 and 2016 respectively:

2017	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	116,160	7,215	175	**123,550**
Cost of goods sold excluding depreciation and amortization	(97,059)	(8,125)	–	**(105,184)**
Gross profit, excluding depreciation and amortization	19,101	(910)	175	**18,366**
Selling, general and administrative expenses	(14,654)	(1,542)	(3,968)	**(20,164)**
Result before depreciation, amortization, finance costs and other items	4,447	(2,452)	(3,793)	**(1,798)**

2016	Media-based Attractions	Steel Fabrication Services	Corporate	Total
Sales	101,991	15,778	218	**117,987**
Cost of goods sold excluding depreciation and amortization	(80,733)	(14,792)	–	**(95,525)**
Gross profit, excluding depreciation and amortization	21,258	986	218	**22,462**
Selling, general and administrative expenses	(10,664)	(3,101)	(3,103)	**(16,868)**
Result before depreciation, amortization, finance costs and other items	10,594	(2,115)	(2,885)	**5,594**

The following table breaks down the sales by geographical region:

	Dec 31, 2017	Dec 31, 2016
Canada	**12,021**	19,360
United States	**38,758**	19,110
Asia	**63,850**	44,989
Middle East/Europe	**8,921**	34,528
	123,550	117,987

All the Group non-current assets are in Canada except for $5,006 (2016 — $2,312) of property, plant and equipment located in the United States.

24. CAPITAL DISCLOSURE AND MANAGEMENT

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

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

For the years ended	Dec 31, 2017	Dec 31, 2016
Current portion of long-term debt including finance leases	**6,319**	7,473
Long-term debt classified as current and finance leases	**5,208**	12,134
Funded debt	**11,527**	19,607
Shareholders' equity	**20,782**	20,145
Limited recourse loan	**892**	955
Less: deferred tax assets (net)	**(15,314)**	(7,138)
Less: intangible assets (net)	**(8,941)**	(7,762)
Less: non-controlling interest	**(2,500)**	–
Tangible net worth	**(5,081)**	6,200
Capitalization	**6,446**	25,807
Funded debt/Capitalization	**178.8%**	76.0%

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following table presents information on the Group's assets and liabilities measured at fair value and discloses the fair value hierarchy of the valuation techniques used to determine this fair value at December 31, 2017:

	Carrying Value	Fair Value	Classification	Level
Cash and equivalents	83	83	FVTPL	1
Accounts receivable	38,850	38,850	Loans & Rec	1
Note receivable	648	648	Loans & Rec	1
Derivative financial instruments	(450)	(450)	FVTPL	2
Bank indebtedness	(2,165)	(2,165)	FVTPL	1
Accounts payable and accrued liabilities	(27,742)	(27,742)	Other Fin Liab	1
Long-term debt including current portion	(11,624)	(11,624)	Other Fin Liab	1
Limited recourse loan	(892)	(892)	Other Fin Liab	2

As at December 31, 2016:

	Carrying Value	Fair Value	Classification	Level
Cash and equivalents	102	102	FVTPL	1
Accounts receivable	40,933	40,933	Loans & Rec	1
Advances to associate	929	929	Loans & Rec	2
Note receivable	2,814	2,814	Loans & Rec	1
Derivative financial instruments	647	647	FVTPL	2
Bank indebtedness	(6,856)	(6,856)	FVTPL	1
Accounts payable and accrued liabilities	(23,886)	(23,886)	Other Fin Liab	1
Long-term debt including current portion	(19,352)	(19,352)	Other Fin Liab	1
Limited recourse loan	(955)	(955)	Other Fin Liab	2

The fair values of cash and equivalents, accounts receivable (including advances to associate), bank indebtedness and accounts payable and accrued liabilities approximate their carrying values given their short-term maturities. Management has determined that the fair value of long-term debt including finance leases and limited recourse loans do not materially differ from its carrying value as the majority of such debt is subject to floating interest rates and current market conditions. The fair value of the derivative financial instruments is determined by reference to information provided by CIBC who the Group holds the contracts with using recognized valuation techniques.

Risk management

In the normal course of its business, the Group is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Group, management considers the avoidance of undue concentrations of risk. The Group manages its risks and risk exposures through a combination of financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The primary types of financial risk which arise are liquidity, credit, and market risk. These risks and the actions taken to manage them are as follows:

Liquidity risk

Liquidity risk is the risk that the Group cannot meet its financial obligations associated with financial liabilities in full. A range of alternatives is available to the Group including cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Group's foreseeable financial obligations associated with financial liabilities.

The following table summarizes the Group's financial liabilities with corresponding maturity dates as at December 31, 2017:

	Total	2018	2019	2020	2021	2022+
Accounts payable and accrued liabilities	27,742	27,742	–	–	–	–
Deferred revenue from construction contracts	22,758	15,379	7,379	–	–	–
Bank indebtedness	2,165	2,165	–	–	–	–
Long-term debt	11,624	6,381	4,376	612	255	–
Limited recourse loan	892	–	–	–	–	892
Total	**65,181**	**51,667**	**11,755**	**612**	**255**	**892**

The Group expects to have adequate resources to discharge these financial liabilities. The Group performs a comprehensive budgeting process which includes a detailed analysis of projected future cash flows based upon but not limited to historical experience and backlog reports. This process is subject to sensitivity analysis and is periodically reviewed against recent and past performance.

Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Group. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Group has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Group also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. The Group may require letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information. At December 31, 2017, the Group had one individual customer accounting for approximately 20% of total accounts receivable (2016 — 29%) for which the Group has insured to effectively eliminate the credit risk.

Market risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. There has been no change to the Group's exposure to Market risks in the manner in which these risks are managed or measured. Market risk comprises three types of risk: currency risk, interest rate risk and commodity price risk.

Currency risk

The Group sells its products, as well as, purchases goods in both Canadian and U.S. currencies. Accordingly, the Group is exposed to currency risk as it relates to customer accounts receivable balances and trade accounts payable denominated in U.S. currency. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Group may secure forward exchange contracts or use other hedging activities to manage part of the foreign risk exposures relating to customer accounts receivable balances and trade accounts payable denominated in U.S. currency.

As at December 31, 2017, the Group had forward contracts for $20,000 to sell USD (2016 — $34,120) at forward rates of $1.2315 maturing through December 31, 2018. The accounts noted below include amounts denominated in U. S. currency that have been converted to the Canadian dollar equivalent on the balance sheet date at a rate of $1.2545 per U.S. dollar (2016 — $1.3427):

(In $000's USD)	Dec 31, 2017	Dec 31, 2016
Cash (bank indebtedness) (bank balance less outstanding cheques)	**5,587**	5,879
Accounts receivable (including unbilled construction receivables)	**23,465**	26,279
Accounts payable & accrued liabilities	**(8,031)**	(7,072)
Long-term debt	**(7,711)**	(10,000)
Derivative Financial Instruments	**(20,000)**	(34,120)
Net foreign currency exposure	**(6,690)**	(19,034)

For the year ended December 31, 2017, if the Canadian dollar had strengthened 10% percent against the US dollar with all other variables held constant, net income for the year would have been $669 higher (2016 — $1,903). Conversely, if the Canadian dollar had weakened 10% percent against the US dollar with all other variables held constant, net income would have been $669 lower (2016 — $1,903).

Included in revenue are losses on translation of foreign currency monetary assets and liabilities and gains on foreign currency transactions of $672 for the year ended December 31, 2017 (2016 – $728).

As at December 31, 2017, the Group has the following forward foreign currency contracts outstanding:

	Nominal Amount	Forward Rate	Fair Value
Forward contracts expiring March 29, 2018	5,000	1.2315	(119)
Forward contracts expiring June 29, 2018	5,000	1.2315	(115)
Forward contracts expiring September 28, 2018	5,000	1.2315	(110)
Forward contracts expiring December 31, 2018	5,000	1.2315	(106)
	20,000		**(450)**

As at December 31, 2016, Group had the following forward foreign currency contracts outstanding:

	Nominal Amount	Forward Rate	Fair Value
Forward contracts expiring January 30, 2017	540	1.1150	(123)
Forward contracts expiring January 31, 2017	7,500	1.4035	459
Forward contracts expiring February 1, 2017	7,500	1.3868	334
Forward contracts expiring February 27, 2017	540	1.1150	(122)
Forward contracts expiring March 31, 2017	540	1.1150	(122)
Forward contracts expiring April 28, 2017	2,500	1.3851	111
Forward contracts expiring April 28, 2017	5,000	1.3705	148
Forward contracts expiring December 29, 2017	10,000	1.3323	(38)
	34,120		**647**

The Group's mark to market liability of $450 relating for forward foreign currency contracts was a $1,097 reversal from the asset of $647 recorded as at December 31, 2016. A fair value liability is created when the actual exchange rate as of the date of these consolidated financial statements is higher than actual or average rates of the forward contracts outstanding. The size of the liability is influenced by the size of the rate differential as well as the total amount of contract outstanding. Inversely, if the actual exchange rate is below the actual or average rates of the forward contracts outstanding a fair value asset will be created.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk primarily through its variable rates on bank operating lines and long-term borrowings. The Group manages exposure to interest rate risk by using a combination of fixed and floating rate debt instruments.

For the year ended December 31, 2017, if interest rates had been 50 basis points lower with all other variables held constant, after-tax net income for the period would have been $135 (2016 — $110) higher, arising mainly as a result of lower interest expenses on variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, after-tax net income would have been $135 (2016 — $110) lower, arising mainly as a result of higher interest expenses on variable borrowings.

Commodity price risk

Manufacturing costs for the Group's products are affected by fluctuations in the price of raw materials, primarily steel. To manage its risk, the Group implements selling price adjustments to match raw material cost changes. This matching is not always possible as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets. For long term contracts, the Group may negotiate the inclusion of a flow through price adjustment clause into contracts whereby the customer agrees to price changes based on the

underlying market value of steel. To limit the risk associated with steel price increases, the Group locks in order prices to the extent possible as soon as contracts are awarded.

The sensitivity analyses in the currency risk and interest rate risk sections above do not take into consideration that the Group's liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs or be mitigated by management's actions to reduce exposure to risks. Other limitations in the above sensitivity analyses includes the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

26. RELATED PARTIES

The Group had sales to related parties and associates in the amount $413 (2016 — $60), of which $60 were management fees (2016 — $60) and purchases from an Associate of $3,902 (2016 — $3,656). In 2016, the Group had $66 of interest expense on convertible debentures paid or payable to related parties who were individual debenture holders. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Compensation awarded to key management included:

	Dec 31, 2017	Dec 31, 2016
Salary and short-term employee benefits	**2,935**	2,168
Post-employment benefits	**40**	31
Share-based payments	**507**	398
	3,482	2,597

27. DISCONTINUED OPERATIONS — TORNADO TRUCKS

The Group completed the Spin-out of Tornado Trucks on June 28, 2016 under the terms of a plan of arrangement. As a result, the Group has recorded the operations of Tornado Trucks as a discontinued operation in accordance with IFRS 5 for the periods presented in these financial statements.

	Dec 31, 2017	Dec 31, 2016
Revenues	**–**	9,146
Cost of sales excluding depreciation and amortization	**–**	(8,781)
Adjusted gross profit	**–**	365
Selling, general and administrative expenses	**–**	(1,085)
Adjusted EBITDA	**–**	(720)
Depreciation and amortization	**–**	–
Adjusted EBIT	**–**	(720)
Finance costs	**–**	(9)
Gain on disposal costs (net of disposal costs)	**–**	3,511
Net loss from discontinued operations before taxes	**–**	2,782
Tax expense (current and deferred)	**–**	(218)
Net loss from discontinued operations (net of tax)	**–**	2,564

28. GUARANTEES AND CONTINGENCIES

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of $6,273 USD as at December 31, 2017 (2016 — $6,273). 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 December 31, 2017, the limit on the facility was $10,000 USD and is secured by a general security agreement providing second security interests in all of the Group's present and after-acquired property.

Director and officer indemnification

The Group indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Group to the extent permitted by law. The Group has acquired and maintains liability insurance for its directors and officers as well as those of its wholly-owned subsidiaries and certain affiliated companies.

Other indemnification provisions

From time to time, the Group enters into agreements in the normal course of operations and in connection with business or asset acquisitions and dispositions. By their nature, these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Group from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Group has not made any significant payments in connection with these indemnification provisions.

Operating lease commitments

The Group has the operating lease commitments as at December 31, 2017 in the amount of $7,196 for 2018 and subsequent years broken down as follows:

Less than 1 year	2,914
1 year to 3 years	3,190
3 years to 5 years	1,092
	7,196

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.

29. SUPPLEMENTAL CASHFLOW INFORMATION

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

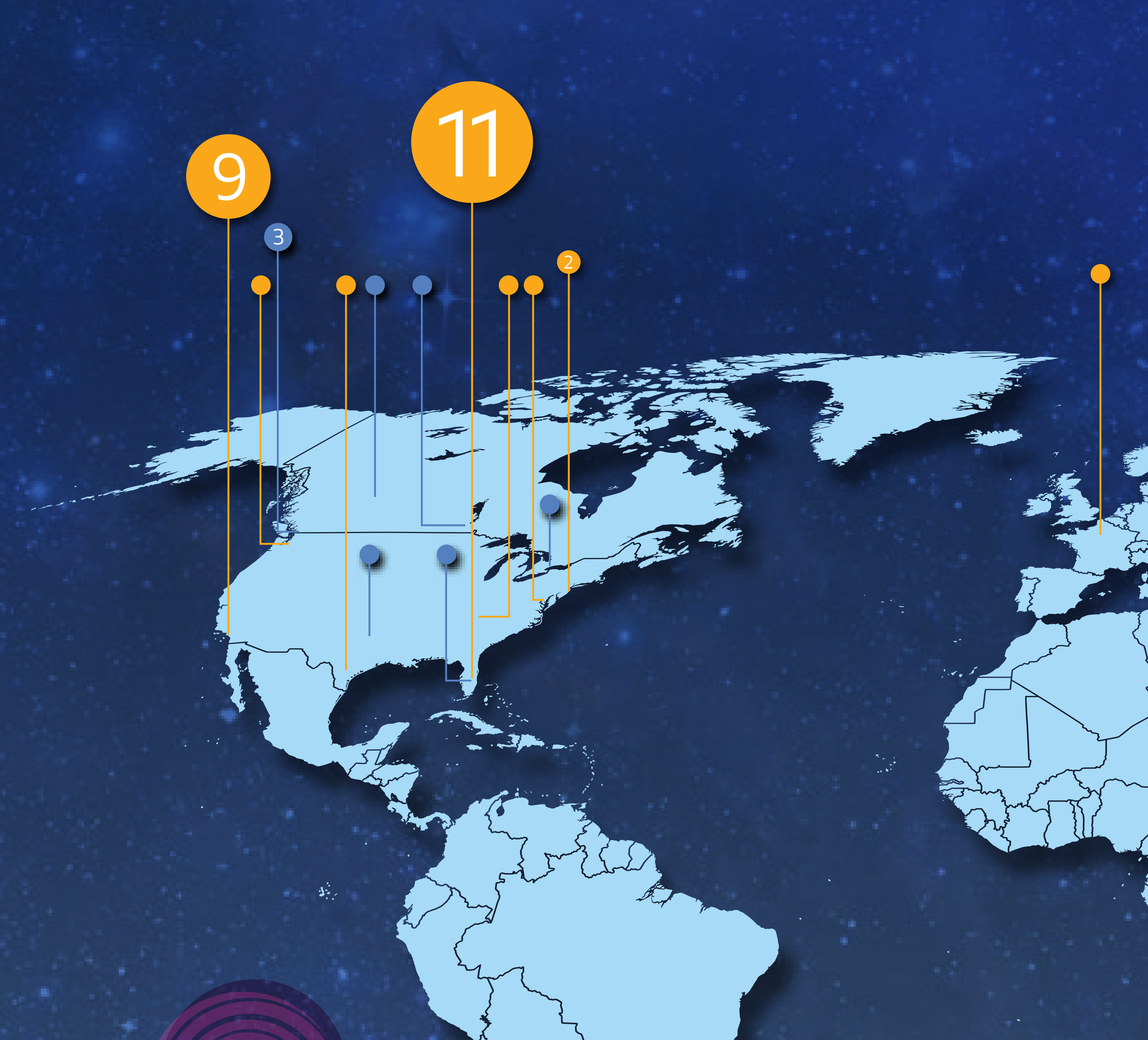
	Dec 31, 2017	Dec 31, 2016
Amortization of deferred financing charges	**62**	23
Loss on sale of property, plant and equipment	**176**	–
Loss (gain) on foreign exchange revaluation of limited recourse loan	**(63)**	29
Loss on conversion of note receivable to common shares	**131**	–
Foreign currency adjusted (net of tax)	**(99)**	57
Non-cash interest income earned	**(61)**	(76)
Gain on foreign exchange revaluation of long-term debt	**(617)**	–
Loss on foreign exchange revaluation of property, plant and equipment	**126**	–
Unrealized foreign currency translation gains recorded in revenues	**(257)**	(1,085)
Accretion of convertible debentures	**–**	19
Income taxes paid	**–**	(138)
	(602)	(1,171)

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

	Dec 31, 2017	Dec 31, 2016
Accounts receivable	**3,283**	3,663
Inventory	**(853)**	143
Prepaid expenses	**540**	(155)
Accounts payable and accrued liabilities	**3,856**	3,260
Deferred revenue from construction contracts	**8,110**	(12,321)
Other	**(1,047)**	(1,185)
	13,889	(6,595)

With the adoption of IAS 7 Statement of Cash Flows, the table below discloses the detailed changes in the Group's liabilities from financing activities including cash and non-cash changes:

	Jan 01, 2017	**Cash Flow Changes**	**Impact of FX rate changes**	**Amort'n of Def'd Finance Costs**	**Dec 31, 2017**
Long-term debt	**19,607**	**(7,525)**	**(617)**	**62**	**11,527**
Limited recourse loan	**955**	**–**	**(63)**	**–**	**892**
	20,562	**(7,525)**	**(680)**	**62**	**12,419**



EMPIRE INDUSTRIES GLOBAL FOOTPRINT

- Attractions
- Operations and Offices

A number indicates multiple sites

Empire Industries acknowledges and thanks the following for providing images in this report:

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Parc du Futuroscope — cover, 2, 20
Wings Over Washington — cover
Zaryadye Park — 2, 4, 36
Wanda Movie Park — 11, 24
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