EMPIRE INDUSTRIES LTD

2Q20

Management's Discussion & Analysis

For the 3 and 6-month periods ending June 30, 2020

Consolidated Financial Statements

For the 3 and 6-month periods ending June 30, 2020

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of Empire Industries Ltd. ("EIL" or the "Group") is supplemental to and should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2019. Reference should also be made to the annual MD&A for the year ended December 31, 2019.

The interim condensed consolidated financial statements and accompanying notes of the Group for the periods ended June 30, 2020 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a period relates to the Group's three-month and six month periods ended June 30, 2020 and 2019. All amounts are reported in Canadian dollars unless specifically stated to the contrary.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on August 24, 2020. Disclosure contained in this document is current to this date, unless otherwise stated.

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

Business Description

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

Business Unit	Description
Dynamic Attractions – 100%	Turn-key supplier of a proprietary line of premium entertainment attractions for theme parks and stand-alone tourist venues. 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. .
Dynamic Structures – 100%	Primarily designs complex ride systems for global theme park customers. Also designs and assembles s sophisticated custom machinery and equipment, such as astronomical telescopes and enclosures. Leased production facilities in Port Coquitlam, BC.
Zhejiang Dynamic Structures Engineering Technology Limited 100%	Incorporated in January 2017, the purpose of this entity will be to expand and improve the Group's manufacturing capacity in China.
Dynamic Entertainment Group Ltd. – 100%	Incorporated in July 2017, the purpose of this entity will be to operate the Group's co-venture business in North America, and to hold its investments in the Group's co-venture business in China. Leased Attractions Development Center in Orlando FL and leased business development office in Toronto ON and Singapore.

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

Consolidated Financial Results

Periods ended June 30	Six months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
Operating Results:						
Revenues	**33,815**	68,484	(34,669)	**16,290**	39,155	(22,865)
Gross margin	**8,960**	12,862	(3,902)	**4,895**	8,407	(3,512)
Gross margin %	**26.50%**	18.78%	7.72%	**30.0%**	21.5%	8.6%
EBITDA	**1,005**	4,004	(2,999)	**1,028**	3,533	(2,505)
EBITDA %	**2.97%**	5.85%	(2.9%)	**6.3%**	9.0%	(2.7%)
EBIT	**(1,695)**	694	(2,389)	**9**	1,857	(1,848)
EBIT %	**(5.0%)**	1.01%	(0)	**0.1%**	4.7%	(4.7%)
Net loss from continuing operations	**(5,515)**	2,723	(8,238)	**(3,730)**	345	(4,075)
Net loss from discontinued operations	**(1,110)**	(1,127)	17	**(568)**	(685)	117
Net loss	**(6,625)**	1,596	(8,221)	**(4,298)**	(340)	(3,958)
Loss per share continuing operations - basic & diluted	**(0.034)**	0.026	(0.060)	**(0.011)**	0.023	(0.034)
Loss per share discontinued operations - basic & diluted	**(0.007)**	(0.011)	0.004	**(0.003)**	(0.01)	0.004
Loss per share - basic & diluted	**(0.041)**	0.015	(0.014)	**(0.014)**	0.02	(0.030)

Selected Quarterly Financial Information

Quarterly Financial Information For the years ended	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Sales	16,290	17,525	14,666	26,977	39,155	29,329	18,888	51,754
Profit (loss) from continuing operations	(1,785)	(3,730)	(20,520)	(2,546)	2,378	345	(47,732)	624
Loss from discontinued operations	(568)	(542)	(4,802)	(882)	(685)	(442)	(718)	(458)
Profit (loss) per share (basic & diluted) - continuing operations	(0.011)	(0.023)	(0.200)	(0.020)	0.023	0.003	(0.510)	0.010
Loss per share (basic & diluted) - discontinued operations	(0.003)	(0.004)	(0.040)	(0.010)	(0.007)	(0.004)	0.000	(0.010)
Loss per share (basic & diluted) - all operations	**(0.014)**	**(0.027)**	**(0.240)**	**(0.030)**	**0.016**	**(0.001)**	**(0.510)**	**0.000**

Outlook

The COVID-19 pandemic has had some significant adverse effects on the theme park industry. For example, the industry association (IAAPA) estimated that the 360 U.S. theme parks suffered $18 billion in COVID-19 related economic losses in 2020 compared to a profit of $44 billion in 2019. Theme parks in the U.S. cut an estimated 125,000 jobs as a result of COVID-19 closures in 2020, according to IAAPA compared to the US theme park's 312,000 jobs in 2019. Amusement parks have reopened in more than 20 states across the U.S., including the South (Florida, Texas, Georgia, Tennessee), Midwest (Ohio, Indiana, Missouri) and the Northeast (New Jersey, Pennsylvania, Maryland and Connecticut), according to the Screamscape, a theme park news website. However, Southern California which is home to 6 of the top 20 theme parks, attracting more than 50 million visitors annually, have been completely closed for five months. Shanghai Disney reopened to the public on May 11, 2020 at 30% of capacity and increased this to 50% of capacity on August 24, 2020. All the theme parks in China have been reopened. Every theme park, depending on their location, is re-assessing its operational protocols and their attraction capital spending plans, both for timing and amounts. This has adversely impacted the theme parks' supply chain in general, and Empire's ride manufacturing division in particular.

The Company is confident that the COVID-19 issues will be addressed, guests will return to the theme parks and the parks will resume their aggressive, pre-pandemic investments in capital expenditures in general and ride systems in particular. The Company has positioned its ride manufacturing business to withstand the industry slowdown. Our discussions with our customers has resulted in us reducing our workforce by approximately 40%. Our expected sales in 2020 and 2021 have been negatively impacted by some of the contracts being deferred, or put on hold and one contract being cancelled.

The Company introduced rigorous best practices inside our two manufacturing facilities at the start of the pandemic which allowed us to continue manufacturing throughout the pandemic, albeit at a slower rate of production. Our goal is to emerge on the other side of this pandemic as one of the strongest attraction suppliers in the industry.

Co-venture opportunities

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

We hold an option to acquire a 50% share of the flying theatre attraction currently being built in The Island theme park in the Smoky Mountains of Tennessee. The Island is the sixth most popular theme park in the US according to TripAdvisor. The Company has completed the design of the flying theater attraction facility and it is well advanced in the creation of the attraction. The flying theater attraction is on schedule to open to the public in Spring of 2021.

Contract Backlog

Management uses Contract Backlog as a forward-looking financial indicator of future revenues for the Company. Contract Backlog represents the dollar value of customer contracts where the associated work has not yet been completed by the Company and the associated revenue has not yet been recognized. As work is executed on the projects in the Contract Backlog, the Contract Backlog is depleted. As new projects come under contract, the Contract Backlog is replenished. The projects currently in Contract Backlog are expected to be executed over the next 24 to 36 months. The Company's Contract Backlog at June 30, 2020 was $166 million, down from $218 million at March 31, 2020, largely because one of its ride contracts was cancelled because the customer decided to pause development of its planned theme park until the future becomes more certain. As forward-looking financial information, Contract Backlog is subject to material risks and uncertainties such as those described above.

Approximately 58% of the Contract Backlog is on hold because of client caused delays. The Company is not anticipating working on these contracts in 2020 but expects that it can resolve the contractual issues so that work can resume later in 2021. The company has worked on these contracts and has received approximately 1/3 of the contract amounts so it is expected that the clients will be interested in working through the contract issues than have arisen. The remainder of the Contract Backlog is being worked on in 2020, albeit at a reduced pace because the theme parks these rides are going into are all facing delays caused by the global pandemic.

The Company still has three first generation projects left to complete. The first is on track for completion in 2020, as Company personnel have been permitted to travel to the country where the site is located to complete the commissioning phase. The second is ready for completion of installation and commissioning as soon the country where the site is located re-opens its borders for work-related travel. The third project is currently subject to a technical and commercial review by the Company. The purpose of the review is to determine the best approach to completing the project. The COVID-19 pandemic has restricted the Company's ability to complete this assessment. As such, the cost to complete this project is currently subject to significant uncertainty. When the Company has determined the costs with reasonable certainty, the cost to complete and revenue recognition may need to be adjusted.

In addition to its existing backlog, the Company continues its business development efforts to identify and establish future projects but given the uncertainties of future capital spending in the rides business, we expect that our ride manufacturing business will remain at this new lower level of production level for some time. Having said that, we have an enviable Contract Backlog to ride out this pandemic with a significantly smaller workforce.

Improved cost structure

The pandemic has focused our attention on ensuring we reduce and align our cost structure with the more cautious approach to capital spending of our customers. The Company has undertaken an organization-wide cost reduction initiative to reduce fixed and variable costs, as well as identifying and implementing design, procurement and production efficiencies and facility cost reductions (mentioned above) that can improve not only the Company's execution capabilities but also its key financial metrics. The effect of this initiative is to drive our overhead (indirect and SG&A) to a targeted level under 25% of sales instead of the historical level of over 30% of sales. We have implemented operational processes that have dramatically improved our productivity and are more in line with a product-based manufacturing operation than a project-based fabrication operation.

Improved liquidity

We improved our liquidity in 2019 as was detailed in our 2019 year-end financial reports. This liquidity will continue to help us as will the addition of profitable free cashflow expected to be generated in 2020. The liquidity that was raised in Q4 2019 will be available for deployment throughout 2020 to keep our revenue-generating projects progressing, even in the face of COVID-19 restrictions. Our cash at June 30, 2020 reduced to $7.7 million compared to $11.2 million at March 31, 2020, largely because of a debt repayment of $2.0 million in the quarter. We are currently in productive negotiations with our senior lender to extend the principal repayments to better match the receipt of contract holdbacks that totaled $18.3 million at June 30, 2020 and to reset the covenants to reflect the impact that the pandemic has had on our business.

Top Tier Customers

Empire is fortunate to be a preferred ride manufacturer for several of the largest and most financially solid theme park owners in the world. These customers all have diversified business strategies which has positioned them well to return to pre-pandemic performance levels and to continue on their capital spending patterns.

Industry leading and award-winning product line

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

Summary

We strongly believe that the anticipated completion of three of our truly amazing ride systems in 2020 , the opening of our first co-venture in the spring of 2021, approximately two years' of contract backlog, and a stronger balance sheet all place us in the position to emerge into the post-pandemic world as a more resilient and much more valuable company.

Segment Performance

The tables below show the comparative segmented performance for the Company from its three operating segments, Ride System Manufacturing, Parts & Services and Corporate & Other for the periods ended June 30, 2020 and June 30, 2019:

Corporate & Other

Periods ended June 30	**Six months ended**			**Quarter ended**		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Operating Results:						
Revenues	**1,822**	1,529	293	**1,101**	1,000	101
Gross margin	**445**	216	229	**405**	209	196
Gross margin %	**24.4%**	14.1%	10.3%	**36.8%**	20.9%	15.9%
EBITDA	**(1,962)**	(2,183)	221	**(865)**	(1,153)	288
EBITDA %	**-107.7%**	-142.8%	35.1%	**(78.6%)**	(115.3%)	36.7%
EBIT	**(2,074)**	(2,357)	283	**(920)**	(1,252)	332
EBIT %	**(113.8%)**	(154.2%)	40.3%	**(83.6%)**	(125.2%)	41.6%

Parts & Service

Periods ended June 30	**Six months ended**			**Quarter ended**		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Operating Results:						
Revenues	**4,137**	4,788	(651)	**2,231**	2,581	(350)
Gross margin	**1,934**	1,477	457	**1,086**	642	444
Gross margin %	**46.7%**	30.8%	15.9%	**48.7%**	24.9%	23.8%
EBITDA	**1,209**	808	401	**618**	292	326
EBITDA %	**29.2%**	16.9%	12.3%	**27.7%**	11.3%	16.4%
EBIT	**1,204**	808	396	**618**	292	326
EBIT %	**29.1%**	16.9%	12.2%	**27.7%**	11.3%	16.4%

Corporate & Other

Periods ended June 30	Six months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
Operating Results:						
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EBIT %	**(113.8%)**	(154.2%)	40.3%	**(83.6%)**	(125.2%)	41.6%

2Q20 Results Review

Revenues and Gross Margins

During the three-month period, the Company's revenues decreased by 58% to $16.3 million compared to $39.2 million in the same period in 2019. Of the Company's total revenue decline of $22.9 million, $22.6 million was from the Company's Ride Systems Manufacturing segment. The decline in revenues is attributable to a number of factors, including:

- The COVID-19 outbreak did cause a number of project sites the Company was working on to abruptly close in March of 2020 and inhibiting the ability to achieve production plans through 2Q20.
- The Company continued to experience technical challenges on three First-Generation projects in 2019. Those technical challenges have a negative impact on the production output during the period;

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

While Revenues declined by $22.9 million, Gross Margins only decreased by $3.5 million. As such, Gross Margin percentage increased by 8.5% to 30% of sales compared 21.5% of sales in same period ended June 30, 2019. The increased Gross Margin percentage is due mainly to revenues and costs of sales on the challenging first-generation projects were a relatively small portion of the volume in the current quarter compared to the same period in 2019. Even with the projected losses accrued, progress achieved on these projects in a period have a negative impact on Gross Margin percentages because as the revenues are recognized there is no associated Gross Margin realized. In addition to that, during the three-month period ended June 30, 2020 the Company recorded Canadian Emergency Wage Subsidy (CEWS) amounts of $2.6 million as a reduction/subsidy of costs of sales.

Selling, General and Administrative Costs

The Company's selling, general and administrative expenses decreased by $1.0 million in the three-month period ended June 30, 2020 from the same three-month period ended June 30, 2019. For the three-month period ended June 30, 2020, the Company recorded CEWS amounts of $0.7 million as a reduction/subsidy of selling, general and administrative expenses. The balance of the reduction of selling, general and administrative costs over the comparative period is due to direct cost reduction efforts by the Company.

EBITDA

EBITDA for the three month-ended June 30, 2020 of $1.0 million is $2.5 million less than the same three-month period ended June 30, 2019. This was due to the decrease in revenues and gross margins offset by the decrease in selling, general and administrative expenses of outlined above.

Depreciation and Amortization

The Company's depreciation and amortization expense reduced by $0.7 million in the three-month period ended June 30, 2020 compared to the same period in 2019. Depreciation of property, plant and equipment reduced by $0.5 million in the current period compared to 2019 as certain items were fully amortized in 2019. Amortization of intangible assets reduced by $0.2 million in the current period compared to 2019 as the Company revised its estimates of the useful lives of certain intangible assets in 2020.

Finance Costs

Finance costs decreased by $0.3 million for the three-month period ended June 30 2020, compared to the three-month period ended June 30, 2019. Of the total decrease from the comparative period, $0.2 million was related to the reduction in prime interest rates which reduced the interest rates applicable on the Company's interest-bearing debt.

Share of profit/(loss) from an Associate

In December of 2019, the Company sold a portion of its interest in TGHL, reducing its ownership to less than 10% and as such, the Company changed the method of accounting for the investment from the equity method to a portfolio investment. The Company now accounts for this financial asset as fair value through other comprehensive income, marking the investment balance to market each period based on the closing share price of TGHL at each period end date. As such, in 2020, there is no longer any income (loss) from associate investments in the Company's statement of net income (loss). In 2019, during the three-month period ended June 30, the company record income from TGHL of $0.1 million.

Stock-based compensation

Stock-based compensation expense in the period ended June 30, 2020 was $0.1 million, which is consistent with the same period in 2019.

Fair value changes in derivative financial instruments

In the three-month period ended June 30, 2019, the Company recorded a loss on the fair value of foreign currency forward contracts of $0.5 million based on rate changes in the outstanding foreign currency forward contracts in place at that time. In 2020, the Company did not have any foreign currency forward contracts outstanding at the beginning of the year or at June 30, 2020.

Non-controlling interest

In November of 2019, the Company acquired the non-controlling ownership percentage of DEGL, therefore in 2020, there is no non-controlling interest impact in the Company's statement of net income (loss). For the three-month period ended June 30, 2019, included in the Company's statement of net income (loss) was non-controlling interest loss of $0.1 million.

Discontinued operations

The Company recorded a loss from discontinued operations of $0.6 million in the three-month period ended June 30, 2020 compared to a loss from discontinued operations of $0.7 million in the same period ended June 30, 2019.

Other components of income (loss)

Other components of income (loss) were essentially $nil in six-month period ended June 30, 2020 as opposed to income of $3.1 million during the same period ended June 30, 2019. The other income of $3.1 million recorded in 2019 is driven largely by a redemption/reduction in the rebate provision provided for a strategic customer, and other miscellaneous expense items. The Group has a strategic agreement with one of its key customers whereby they earn a rebate based the volume of business executed during any given year.

Net income (loss)

The Company's net income decreased by $4.0 million to a net loss of $2.4 million in the three-month period ended June 30, 2020. The decrease in the net income in the three-month period ended June 30, 2020 is a result of the significant decrease in revenues not sufficiently offset by improved gross margins and reduced selling, general and administrative expenses.

Other Comprehensive income (loss)

The Company recorded other comprehensive income in the three-month period ended June 30, 2020 of $0.7 million versus $0.2 million in the same period in 2019. The key driver behind the increase in the current quarter is two-fold:

1. The Company's portfolio investment in TGHL increased by $0.2 million in the current period as a result of the market price of the shares increasing to $0.14 from $0.12 per share at March 31, 2020. The Company accounted for its interest in TGHL in the comparative period as an associate investment, using the equity method of accounting.
2. The translation of the Company's foreign operations from US dollars to Canadian dollars resulted in an income pick-up of $0.5 million to other comprehensive income (loss) in the period. The US dollar weakened from $1.4187 to $1.3628 from March 31, 2020 to June 30, 2020. In the comparative period, the US dollar weakened from $1.3363 to $1.3087.

2020 Year-to-Date Results Review

Revenues and Gross Margins

During the six-month period, the Company's revenues decreased by 51% to $33.8 million compared to $68.5 million in the same period in 2019. Of the Company's total revenue decline of $34.7 million, $34.3 million was from the Company's Ride Systems Manufacturing segment. The decline in revenues is attributable to a number of factors, including:

- The COVID-19 outbreak did cause a number of project sites the Company was working on to abruptly close in March of 2020 and inhibiting the ability to achieve production plans thus far through 2Q20.
- The Company continued to experience technical challenges on three First-Generation projects in 2019. Those technical challenges have a negative impact on the production output during the period;

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

While Revenues declined by $34.7 million, Gross Margins only decreased by $3.9 million. As such, Gross Margin percentage increased by 8.5% to 26.5% of sales compared 18.8% of sales for the same period ended June 30, 2019. The increased Gross Margin percentage is due mainly to revenues and costs of sales on the challenging first-generation projects were a relatively small portion of the volume in the current quarter compared to the same period in 2019. Even with the projected losses accrued, progress achieved on these projects in a period have a negative impact on Gross Margin percentages because as the revenues are recognized there is no associated Gross Margin realized. In addition to that, during the three-month period ended June 30, 2020 the Company recorded Canadian Emergency Wage Subsidy (CEWS) amounts of $2.6 million as a reduction/subsidy of costs of sales.

Selling, General and Administrative Costs

The Company's selling, general and administrative expenses decreased by $0.9 million in the six-month period ended June 30, 2020 from the same six-month period ended June 30, 2019. For the six-month period ended June 30, 2020, the Company recorded CEWS amounts of $0.7 million as a reduction/subsidy of selling, general and administrative expenses. The balance of the reduction of selling, general and administrative costs over the comparative period is due to direct cost reduction efforts by the Company.

EBITDA

EBITDA for the six month-ended June 30, 2020 of $1.0 million is $3.0 million less than the same six-month period ended June 30, 2019. This was due to the decrease in revenues and gross margins offset by the decrease in selling, general and administrative expenses of outlined above.

Depreciation and Amortization

The Company's depreciation and amortization expense reduced by $0.6 million in the six-month period ended June 30, 2020 compared to the same period in 2019. Depreciation of property, plant and equipment reduced by $0.4 million in the current period compared to 2019 as certain items were fully amortized in 2019. Amortization of intangible assets reduced by $0.2 million in the current period compared to 2019 as the Company revised its estimates of the useful lives of certain intangible assets in 2020.

Finance Costs

Finance costs increased by $1.0 million for the six-month period ended June 30, 2020, compared to the six-month period ended June 30, 2019. The Company completed a refinancing on April 29, 2019 increasing its funded debt by $23.5 million. In accordance with the new and renegotiated credit facilities, the underlying interest rates increased from prime plus 2.5% to prime plus 9.5%. In 2020, the Company's finance costs are reflective of the increased debt levels and increased interest rate as compared to the same period in 2019 where the increased overall debt level and interest rates were only present for one third of the period.

Share of profit/(loss) from an Associate

In December of 2019, the Company sold a portion of its interest in TGHL, reducing its ownership to less than 10% and as such, the Company changed the method of accounting for the investment from the equity method to a portfolio investment. The Company now accounts for this financial asset as fair value through other comprehensive income, marking the investment balance to market each period based on the closing share price of TGHL at each period end date. As such, in 2020, there is no longer any income (loss) from associate investments in the Company's statement of net income (loss). In 2019, during the six-month period ended June 30, the company record income from TGHL of $0.1 million.

Stock-based compensation

Stock-based compensation expense in the six-month period ended June 30, 2020 was $0.2 million, which is slightly more than the $0.1 million recorded in the same period in 2019.

Fair value changes in derivative financial instruments

In the six-month period ended June 30, 2019, the Company recorded a gain on the fair value of foreign currency forward contracts of $1.8 million based on rate changes in the outstanding foreign currency forward contracts in place at that time. In 2020, the Company did not have any foreign currency forward contracts outstanding at the beginning of the year or at June 30, 2020.

Non-controlling interest

In November of 2019, the Company acquired the non-controlling ownership percentage of DEGL, therefore in 2020, there is no non-controlling interest impact in the Company's statement of net income (loss). For the six-month period ended June 30, 2019, included in the Company's statement of net income (loss) was non-controlling interest loss of $0.2 million.

Discontinued operations

The Company recorded a loss from discontinued operations of $1.1 million in the six-month period ended June 30, 2020 which is equivalent to the same period ended June 30, 2019.

Other components of income (loss)

Other components of income (loss) were essentially $nil in six-month period ended June 30, 2020 as opposed to income of $3.1 million during the same period ended June 30, 2019. The other income of $3.1 million recorded in 2019 is driven largely by a redemption/reduction in the rebate provision provided for a strategic customer, and other miscellaneous expense items. The Group has a strategic agreement with one of its key customers whereby they earn a rebate based the volume of business executed during any given year.

Net income (loss)

The Company's net income decreased by $8.2 million to a net loss of $6.6 million in the six-month period ended June 30, 2020. The decrease in the net income in the six-month period ended June 30, 2020 is a result of the significant decrease in revenues not sufficiently offset by improved gross margins and reduced selling, general and administrative expenses.

Other Comprehensive income (loss)

The Company recorded other comprehensive loss for the six-month period ended June 30, 2020 of $1.1 million versus income $0.2 million in the same period in 2019. The key driver behind the decrease in the current quarter is two-fold:

3. The Company's portfolio investment in TGHL decreased by $0.6 million in the current period as a result of the market price of the shares decreasing to $0.14 from $0.19 per share at December 31, 2019. The Company accounted for its interest in TGHL in the comparative period as an associate investment, using the equity method of accounting.
4. The translation of the Company's foreign operations from US dollars to Canadian dollars resulted in a loss of $0.5 million in the period compared to a gain of $0.2 million in same period in 2019. The US dollar strengthened from $1.2988 to $1.3628 from December 31, 2019 to June 30, 2020. In the comparative period, the US dollar weakened from $1.3642 to $1.3087.

Significant Events

Credit Facility Waivers

On May 25, 2020 the Company received additional covenant waivers for the periods ending June 30, 2020 and negotiated extensions on the maturity date on of Facility C to July 15, 2020. On May 14, 2020, the Company repaid $1,480 USD of the principal balance of Facility C prior to finalizing the extension of the balance of Facility C. On July 15, 2020, the Company announced that it would not make this principal payment, which constitutes an event of default under the senior credit facilities. However, the Company's senior lender continues to be supportive of the Company and has not made a demand for repayment of the credit facilities. The Company remains in active discussion with its senior lender to restructure the credit facilities including the extension of the maturity dates and updating all financial covenants contained in the credit facilities, which the Company expects to finalize sometime prior to September 30, 2020.

COVID-19 impact

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

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

Liquidity and Capital Resources

Working Capital and Liquidity

For the period ended June 30, 2020, the Company's continuing operations used $1.7 million of cash, compared with $1.6 million of cash generated in the same period in 2019 excluding the impact of changes in non-cash working capital amounts. The Company expects that its operations will generate sufficient cash on a go-forward basis to meet its obligations.

The Company has a USD $11.1 million revolving credit facility with its senior lender which was fully drawn as of June 30, 2020. The Company's marginable assets at June 30, 2020 were CAD $28.7 million, which is CAD $13.5 million more than the Company's total draw on the operating line.

The Company made $2.4 million of cash principal repayments during the period. Total funded debt of $27.3 million as at June 30, 2020 consisted of $15.0 million from Facility B, $6.8 million from Facility C and $5.5 million from EDC. In addition to funded debt, the Company also made $0.9 million of principal payments on lease liabilities.

The Company was not in compliance with the senior debt to earnings before interest, taxes, depreciation and amortization "EBITDA", fixed charge coverage, total debt to total capitalization and accounts payable aging financial covenants contained in its credit facilities agreement as at March 31, 2020. For the period ended June 30, 2020 the Company's senior debt to EBTIDA covenant was 2.25:1, its fixed charge coverage ratio covenant was 1.75:1, its debt to capitalization covenant ratio was 55% and the Company's aging of accounts payable should not have balances in excess of 60 days except in cases of disputes. Because the Company has reported a trailing twelve-month EBITDA loss for the year and negative shareholder's equity balance at June 30, 2020 achieving compliance with these financial ratios was not possible. In anticipation of this, the Company secured a waiver of these covenants prior to June 30, 2020 and as a result, any funded debt subject to those covenants that was due after June 30, 2021 and beyond was classified as long-term. All existing credit facilities are subject to the same financial covenants.

As part of receiving the waiver for the covenant ratios noted above, the Company also received an extension on the repayment of the balance of Facility C to July 15, 2020. On July 15, 2020, the Company announced that the Company would not make this principal payment, which constitutes an event of default under the senior credit facilities. However, the Company's senior lender continues to be supportive of the Company and has not made a demand for repayment of the credit facilities. The Company remains in active discussion with its senior lender to restructure the credit facilities including the extension of the maturity dates and the relaxation of all financial covenants contained in the credit facilities, which the Company expects to finalize sometime prior to September 30, 2020.

Contract Assets

The Company's contract asset balance decreased by $11.2 million over 37% to $17.5 million at June 30, 2020 compared to $28.7 million at December 31, 2019. Contract assets are the aggregate amount of revenue recognized on specific customer contract in excess of the amounts billed to the customer as at the same date. Historically this was referred to as "Unbilled Accounts Receivable". A contract asset represents to consideration in exchange for goods or services that the company has transferred to a customer, however, is conditional upon further performance obligations under the contract. The Company considers contract assets when managing its credit risk and obtains contract frustration insurance, where possible or receives letters of credit in circumstances where insurance is not an option.

Shareholders' Deficit

Shareholders' deficit of $41.2 million at June 30, 2020 is $7.5 million more than the shareholders' deficit at December 31, 2019 due to the net loss and other comprehensive loss recorded for the period. No dividends were declared or paid in the period. The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 5,956,667 outstanding options at June 30, 2020. The average exercise price of the outstanding options was $0.48 per share. Of these options, 2,631,668 is currently exercisable at an average exercise price of $0.45 per share.

Market Capitalization

The market capitalization of the Group's 163,516,826 issued and outstanding common shares at August 26, 2019 was $40.9 million or $0.25 per share. The issued and outstanding common shares at August 26, 2020, together with securities convertible into common shares are summarized in the table below:

Fully Diluted Shares As at August 26, 2020		
Issued and outstanding common shares		**163,516,826**
Securities convertible into common shares		
Warrants	7,611,110	
Stock Options	5,956,667	
Total Securities convertible into common shares		13,567,777
Fully Diluted Shares		**177,084,603**

Forward Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

Non-GAAP Measures

In this MD&A, the Company uses three financial management metrics that are not in accordance with GAAP "Earnings (loss) before interest, tax, depreciation and amortization (EBITDA)", "Earnings (loss) before interest and tax (EBIT)" and "Gross Margin". Because these terms are not defined by IFRS they cannot be formally presented in the consolidated financial statements. The definition of EBITDA does not consider the Company's share of profit of an associate investment, gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts and non-cash components of stock-based compensation. EBIT is the result of the Company's EBITDA less depreciation and amortization expenses. The Gross Margin metric is the result of revenues less cost of sales, excluding depreciation and amortization expenses. It should be noted that the Company's definition of EBITDA, EBIT and Gross Margin may differ from those definitions used by other companies.

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

Reconciliation of Profit (loss) to EBITDA

Periods ended June 30	Six months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
Profit (loss) - before taxes from continuing operations	**(5,474)**	2,723	(8,197)	**(1,744)**	2,378	(4,122)
Add : Depreciation and amortization	**2,700**	3,310	(610)	**1,019**	1,676	(657)
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	**(17)**	(3,130)	3,113	**(17)**	(3,130)	3,113
Add : Finance costs	**3,627**	2,672	955	**1,694**	2,015	(321)
Add/Deduct : Deduct Share of loss of associate	**-**	(96)	96	**-**	(123)	123
Add/Deduct : Fair value of changes of forgeign currency option contracts	**-**	(1,794)	1,794	**-**	505	(505)
Add/Deduct: Non-controlling interest	**-**	199	(199)	**-**	133	(133)
Add : non cash stock-based compensation	**169**	120	49	**76**	**79**	(3)
EBITDA	**1,005**	4,004	(2,999)	**1,028**	3,533	(2,505)

Calculation of EBIT

Periods ended June 30	Six months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
EBITDA	**1,005**	4,004	(2,999)	**1,028**	3,533	(2,505)
Less : Depreciation and amortization	***(2,700)***	*(3,310)*	*610*	***(1,019)***	*(1,676)*	657
EBIT	**(1,695)**	694	(2,389)	**9**	1,857	(1,848)
% of revenue	**(5.0%)**	1.0%	(6.0%)	**0.1%**	4.7%	(4.7%)

Calculation of Gross Margin

Periods ended June 30	Six months ended			Quarter ended		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Revenues	**33,815**	68,484	(34,669)	**16,290**	39,155	(22,865)
Cost of sales	**(24,855)**	(55,622)	30,767	**(11,395)**	(30,748)	19,353
Gross margin	**8,960**	12,862	(3,902)	**4,895**	8,407	(3,512)
% of revenue	**26.50%**	18.78%	7.72%	**30.05%**	21.47%	8.6%

2nd Quarter

Consolidated Financial Statements

For the 3 and 6 month periods ending June 30, 2020

Unaudited

NOTICE TO READER

These interim consolidated financial statements have been prepared by the Management of Empire Industries Ltd. and have not been audited or reviewed by an external auditor.

2Q20

EMPIRE INDUSTRIES LTD

Consolidated Statement of

Loss and Comprehensive Income (Loss)

For the periods ended June 30		Three Months		Six Months	
(In $000's CAD, except where otherwise indicated)	Notes	2020	2019	2020	2019
Revenues[(1)]		**16,290**	39,155	**33,815**	68,484
Cost of sales	5	**(11,395)**	(30,748)	**(24,855)**	(55,622)
Depreciation and amortization	6	**(1,019)**	(1,676)	**(2,700)**	(3,310)
Operating income		**3,876**	**6,731**	**6,260**	9,552
Expenses					
Selling, general and administration expenses	7	**(3,867)**	(4,874)	**(7,955)**	(8,858)
Fair value changes in derivative financial instruments		**-**	(505)	**-**	1,794
Share of loss from associate		**-**	123	**-**	96
Stock-based compensation		**(76)**	(79)	**(169)**	(120)
Loss before the following		**(67)**	1,396	**(1,864)**	2,464
Finance costs	8	**(1,694)**	(2,015)	**(3,627)**	(2,672)
Non-controlling interest		**-**	(133)	**-**	(199)
Other components of income (loss)		**17**	3,130	**17**	3,130
Loss before tax		**(1,744)**	2,378	**(5,474)**	2,723
Loss from discontinued operations, net of tax		**(568)**	(685)	**(1,110)**	(1,127)
Current tax expense		**(41)**	-	**(41)**	-
Deferred tax expense		**-**	-	**-**	-
Net loss		**(2,353)**	1,693	**(6,625)**	1,596
Exchange differences on translating foreign operations		**461**	191	**(471)**	207
Fair value changes in financial assets at FVOCI		**250**	-	**(627)**	-
Share of other comprehensive income (loss) of investments in associates		**-**	(14)	**-**	(7)
Other comprehensive income (loss)		**711**	177	**(1,098)**	200
Comprehensive loss		**(1,642)**	1,870	**(7,723)**	1,796
Loss per share continuing operations - basic & diluted	9	**(0.011)**	0.023	**(0.034)**	0.026
Loss per share discontinued operations - basic & diluted	9	**(0.003)**	(0.007)	**(0.007)**	(0.011)
Loss per share - basic & diluted	9	**(0.014)**	0.016	**(0.041)**	0.015

(1) Included in revenues are foreign exchange losses of $457 for the three months ended June 30, 2020 (2019 - $1,975) and gains of $1,310 for the six months ended June 30, 2020 (2019 - losses of $3,211).

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Financial Position

As at	Notes	Jun 30, 2020	Dec 31, 2019
(In $000's CAD, except where otherwise indicated)			
ASSETS			
Current assets			
Cash and cash equivalents		**7,682**	12,848
Accounts receivable and contract assets	**3**	**37,394**	42,190
Inventory		**2,633**	2,944
Prepaid expenses and deposits		**76**	1,373
Total current assets		**47,785**	59,355
Non-current assets held for sale		**1,450**	1,895
Non-current assets			
Property, plant and equipment and investment property		**8,750**	7,816
Right of use assets		**9,380**	10,561
Contract assets - noncurrent	**4**	**6,792**	10,612
Investments and other non-current assets		**1,905**	2,532
Intangible assets		**3,031**	2,896
Total non-current assets		**29,858**	34,417
Total assets		**79,093**	95,667
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness and bank operating lines		**15,156**	14,444
Accounts payable, accrued liabilities and other contract liabilities		**28,361**	36,699
Contract liabilities	**4**	**8,894**	7,429
Current portion of funded debt		**25,895**	24,332
Current portion of lease liabilities		**1,338**	1,571
Derivative financial instruments		**-**	-
Total current liabilities		**79,644**	84,475
Non-current liabilities			
Long-term funded debt		**1,363**	3,896
Lease liabilities		**8,961**	9,623
Long-term contract liabilities	**4**	**30,304**	31,373
Total non-current liabilites		**40,628**	44,892
Total Liabilities		**120,272**	129,367
SHARHOLDERS' EQUITY			
Share capital		**51,210**	51,075
Contributed surplus		**2,671**	2,562
Accumulated deficit		**(95,520)**	(88,895)
Non-controlling interest		**-**	-
Accumulated other comprehensive income (loss)		**460**	1,558
Total shareholders' equity		**(41,179)**	(33,700)
Total liabilities and shareholders' equity		**79,093**	95,667

Guarantees and contingencies *[note 12]*

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

See accompanying notes

On behalf of the Board of Directors:

Guy Nelson, Director

Terence Quinn, Director

As at June 30, 2020

	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2019	**51,075**	**-**	**2,562**	**(88,895)**	**1,558**	**(33,700)**
Proceeds from the exercise of stock options	75	-	-	-	-	75
Reclass of fair value of stock options exercised	60	-	(60)	-	-	-
Net loss for the period	-	-	-	(6,625)	-	(6,625)
Other comprehensive income	-	-	-	-	(1,098)	(1,098)
Stock-based compensation	-	-	169	-	-	169
As at June 30, 2020	**51,210**	**-**	**2,671**	**(95,520)**	**460**	**(41,179)**

As at June 30, 2019

	Share capital	Non-controlling interest	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
(In $000's CAD, except where otherwise indicated)						
As at December 31, 2018	**24,981**	**2,270**	**4,398**	**(62,568)**	**(83)**	**(31,002)**
IFRS 16 transition adjustment	**-**	**-**	**-**	**359**	**-**	**359**
Adjusted balance @ January 1, 2019	**24,981**	**2,270**	**4,398**	**(62,209)**	**(83)**	**(30,643)**
Net loss for the period	-	(199)	-	1,795	-	1,596
Equity component of preferred shares	-	-	1,371	-	-	1,371
Other comprehensive income	-	-	-	-	200	200
Stock-based compensation	-	-	120	-	-	120
As at June 30, 2019	**24,981**	**2,071**	**5,889**	**(60,414)**	**117**	**(27,356)**

See accompanying notes

EMPIRE INDUSTRIES LTD

Consolidated Statements of
Cash Flows

For the periods ended June 30 (In $000's CAD, except where otherwise indicated)	Three Months 2020	Three Months 2019	Six Months 2020	Six Months 2019
OPERATING ACTIVITIES				
Income (loss) after tax from continuing operations	**(1,785)**	2,511	**(5,515)**	2,922
Add (deduct) items not affecting cash :				
Depreciation and amortization *(note 6)*	**1,019**	1,676	**2,700**	3,310
Finance costs on short-tem borrowings *(note 8)*	**453**	744	**1,023**	1,142
Fair value changes in derivative financial instruments	-	505	-	(1,794)
Share of loss from associate investments	-	(123)	-	(96)
Stock-based compensation	**76**	79	**169**	120
Foreign currency adjusted	**461**	-	**(471)**	-
Other items affecting cash flow *(note XX)*	-	(4,402)		(3,996)
Foreign exchange revaluation of monetary assets and liabilities	**(923)**	-	**378**	0
Cash used in continuing operations	**(699)**	990	**(1,716)**	1,608
Cash used in discontinued operations	**(314)**	(554)	**(824)**	(865)
Net change in non-cash working capital balances	**2,057**	(23,542)	**2,859**	(35,695)
Cash from (used in) operating activities	**1,044**	(23,106)	**319**	(34,952)
INVESTING ACTIVITIES				
Investment in property, plant and equipment	**(44)**	(74)	**(1,550)**	(107)
Proceeds from sale of items of property, plant and equipment	**76**	-	**96**	-
Investment in intangible assets	**(525)**	(40)	**(724)**	(65)
Non-controlling interest	-	(133)	-	(199)
Cash used in investing activities from continuing operations	**(493)**	(247)	**(2,178)**	(371)
FINANCING ACTIVITIES				
Proceeds received from warrants and stock options exercised	-	-	**75**	-
Proceeds received from funded debt and finance leases	-	14,927	-	22,762
Increase in bank indebtedness and bank operating lines	-	(16)	-	5,875
Repayment of funded debt	**(2,013)**	(1,356)	**(2,407)**	(1,539)
Proceeds received from convertible preferred shares issued (net)	-	7,478	-	7,478
Repayment of lease liabilities	**(479)**	(283)	**(859)**	(970)
Finance costs paid on long-term borrowings *(note 8)*	**(801)**	(688)	**(1,736)**	(808)
Cash flow from financing activities	**(3,293)**	20,062	**(4,927)**	32,798
Effect of translation of foreign currency cash and equivalents	**(764)**	4,225	**1,620**	3,402
Net increase in cash and equivalents during the period	**(3,506)**	934	**(5,166)**	877
Cash and cash equivalents, beginning of period	**11,188**	80	**12,848**	137
Cash and cash equivalents, end of period	**7,682**	1,014	**7,682**	1,014

1. Corporate information

Empire Industries Ltd. ("Empire" or "the Company") designs, builds and installs premium entertainment attractions and ride systems for the global entertainment industry. The Company also uses these same turn-key integration services for special projects such as large optical telescopes and enclosures and custom steel fabrication services. Key customer sectors include theme parks, stand-alone tourist venues and the government sector.

Empire Industries Ltd. is listed on the Toronto Stock Exchange's venture exchange trading under "EIL" and is incorporated under the Business Corporations Act of Alberta, Canada. The head office is located at 717 Jarvis Avenue, Winnipeg Manitoba, R2W 3B4.

The consolidated financial statements were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on August 24, 2020.

2. Summary of significant accounting policies

The interim condensed consolidated financial statements are condensed and have been prepared in accordance with International Account Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Excepted as outlined below, the same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as disclosed in the Company's consolidated financial statements for the year ended December 31, 2019. The Company's 2019 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim consolidated financial statements.

Basis of presentation

The consolidated financial statements are prepared for the periods ended June 30, 2020 and include the operating results for the comparative periods ended June 30, 2019. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts for Empire and all its subsidiaries. These consolidated financial statements have been presented in Canadian dollars which is the functional currency of the Company.

Statement of compliance

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

Going Concern Basis of presentation

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

The Company's recent financial results have been negatively impacted by certain "First-Generation" projects which are defined as projects that were first of a kind in nature, posing significant technical and financial risks to the Company to overcome these risks and deliver the projects successfully from a commercial standpoint. These projects have been a key driver behind the Company's deteriorating financial performance including negative cash flows and the Company not achieving compliance with the financial covenants of its credit facilities (note 11). Prior to June 30, 2020, the Company received waivers relating to its financial covenants and an extension on the maturity date of one its facilities through July 15, 2020. The Company remains in active discussions and negotiations with its senior lenders to extend the maturity dates of its facilities and revised the terms of the facilities accordingly. These discussion remain ongoing.

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

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

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

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

Use of estimates

Accounting measurements at interim dates inherently involve a greater reliance on estimates than at year-end. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly, the consolidated financial position of the Company as at June 30, 2020.

3. Accounts receivable

	Jun 30, 2020	Dec 31, 2019
Trade	**6,137**	4,883
Contract assets (note 4)	**17,515**	28,668
Other receivables	**2,224**	968
Contract assets - current holdbacks (note 4)	**11,518**	7,671
	37,394	42,190

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

	Jun 30, 2020	Dec 31, 2019
< 30 days	**3,163**	3,041
> 30 days	**345**	469
> 60 days	**485**	593
> 90 days	**1,115**	780
	6,137	4,883

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

4. Construction contracts

	Jun 30, 2020	Dec 31, 2018
Construction costs incurred and estimated profits, less recognized losses to date	334,060	345,256
Less: Progress billings	(355,743)	(355,390)
	(21,683)	(10,134)
Items recognized and included in the consolidated financial statements as:		
Contract assets - unbilled revenue *(note 3)*	17,515	28,668
Contract liabilities - deferred revenue - current portion	(8,894)	(7,429)
Contract liabilities - deferred revenue - long-term portion	(30,304)	(31,373)
	(21,683)	(10,134)
Contract assets - current holdbacks *(note 3)*	11,518	7,671
Contract assets - non-current holdbacks	6,792	10,612
	18,310	18,283

5. Cost of sales

	Three Months		Six Months	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Direct construction costs	**(10,683)**	(25,233)	**(20,619)**	(46,391)
Construction cost overruns	**-**	(1,800)	**-**	(1,800)
Indirect salaries and benefits	**(1,129)**	(2,613)	**(3,311)**	(5,309)
Canadian emergency wage subsidy	**1,434**	-	**1,434**	-
Indirect production costs	**(1,017)**	(1,102)	**(2,359)**	(2,122)
	(11,395)	(30,748)	**(24,855)**	(55,622)

6. Depreciation and amortization

	Three Months		Six Months	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Depreciation of property, plant and equipment	**(327)**	(795)	**(1,043)**	(1,509)
Amortization of intangible assets	**(186)**	(336)	**(589)**	(672)
Depreciation of right-of-use assets	**(506)**	(545)	**(1,068)**	(1,129)
	(1,019)	(1,676)	**(2,700)**	(3,310)

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

7. Selling and administrative expenses

	Three Months		Six Months	
	Jun 30, 2020	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2019**
Salaries and benefits	**(3,192)**	(3,737)	**(6,234)**	(6,753)
Canadian emergency wage subsidy	**667**	-	**667**	-
General, selling and administrative expenses	**(1,342)**	(1,137)	**(2,388)**	(2,105)
	(3,867)	(4,874)	**(7,955)**	(8,858)

8. Finance costs

	Three Months		Six Months	
	Jun 30, 2020	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2019**
Interest on long-term borrowings	**(801)**	(688)	**(1,736)**	(808)
Interest on short-term borrowing and other	**(453)**	(743)	**(1,023)**	(1,141)
Interest on right of use lease liabilities	**(211)**	(481)	**(447)**	(620)
Finance charges	**(229)**	(103)	**(421)**	(103)
	(1,694)	**(2,015)**	**(3,627)**	(2,672)

9. Income per share

Income per share for the three-month and six-month periods ended June 30:

	Three Months		Six Months	
	Jun 30, 2020	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2019**
Net income (loss) from continuing operations	**(1,785)**	2,378	**(5,515)**	2,723
Net loss from discontinued operations	**(568)**	(685)	**(1,110)**	**(1,127)**
Basic weighted average number of shares	**163,516,826**	**103,142,678**	**163,516,826**	103,142,678
Net incremental dilutives shares	-	250,936	-	42,626
Diluted weighted average number of shares	**163,516,826**	**103,393,614**	**163,516,826**	**103,185,304**
Net income (loss) per share - continuing operations - basic & diluted	**(0.011)**	0.023	**(0.034)**	0.026
Net loss per share - discontinued operations - basic & diluted	**(0.003)**	(0.007)	**(0.007)**	(0.011)
Net income (loss) per share - basic & diluted	**(0.014)**	0.016	**(0.041)**	0.015

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

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

10. Reportable segments

The tables below show the segmented performance for the Company from its three operating segments, Ride System Manufacturing, Parts & Services and Corporate & Other for the three-month periods ended June 30, 2020 and 2019 respectively:

2020	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-segment**	**Total**
Sales	12,958	2,231	1,101	-	**16,290**
Cost of goods sold	(9,554)	(1,145)	(696)	-	**(11,395)**
Depreciation & amortization	(964)	0	(55)	-	**(1,019)**
Operating income	**2,440**	**1,086**	**350**	**-**	**3,876**
Selling, general and administrative expenses	(2,129)	(468)	(1,270)	-	**(3,867)**
Finance costs	(1,343)	(1)	(350)	-	**(1,694)**
Other non-operating items	17	-	(76)	-	**(59)**
Net loss before tax from continuing operations	**(1,015)**	**617**	**(1,346)**	**-**	**(1,744)**

2019	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-Segment**	**Total**
Sales	35,574	2,581	1,000	-	39,155
Cost of goods sold	(28,018)	(1,939)	(791)	-	(30,748)
Depreciation & amortization	(1,577)	-	(99)	-	(1,676)
Operating income	5,979	642	110	-	6,731
Selling, general and administrative expenses	(3,162)	(350)	(1,362)	-	(4,874)
Finance costs	(1,421)	(1)	(593)	-	(2,015)
Other non-operating items	3,500	-	(964)	-	2,536
Net loss before tax from continuing operations	4,896	291	(2,809)	-	2,378

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

The tables below show the segmented performance for the Company from its three operating segments, Ride System Manufacturing, Parts & Services and Corporate & Other for the six-month periods ended June 30, 2020 and 2019 respectively:

2020	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-segment**	**Total**
Sales	27,856	4,137	1,822	-	**33,815**
Cost of goods sold	(21,275)	(2,203)	(1,377)	-	**(24,855)**
Depreciation & amortization	(2,583)	(5)	(112)	-	**(2,700)**
Operating income	**3,998**	**1,929**	**333**	**-**	**6,260**
Selling, general and administrative expenses	(4,823)	(725)	(2,407)	-	**(7,955)**
Finance costs	(2,845)	(3)	(779)	-	**(3,627)**
Other non-operating items	17	-	(169)	-	**(152)**
Net loss before tax from continuing operations	**(3,653)**	**1,201**	**(3,022)**	**-**	**(5,474)**

2019	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-Segment**	**Total**
Sales	62,167	4,788	1,529	-	68,484
Cost of goods sold	(50,998)	(3,311)	(1,313)	-	(55,622)
Depreciation & amortization	(3,136)	-	(174)	-	(3,310)
Operating income	8,033	1,477	42	-	9,552
Selling, general and administrative expenses	(5,790)	(669)	(2,399)	-	(8,858)
Finance costs	(1,653)	(2)	(1,017)	-	(2,672)
Other non-operating items	3,500	-	1,201	-	4,701
Net loss before tax from continuing operations	4,090	806	(2,173)	-	2,723

11. Capital Disclosure and Management

The Company's capital base is comprised of share capital, contributed surplus, accumulated deficit and accumulated other comprehensive (AOCI). At June 30, 2020 the Company's capital base was a deficit of $41,179 (December 31 2019 - $33,700). The Company's focus is on increasing earnings and improving its statement of financial position. The Company has historically retained all earnings for reinvestment into the operations of the Company. Of the three financial covenants that are part of the credit agreements with the senior lenders that provide the Company's credit facilities, one covenant involves shareholders equity in the calculation.

The Company was not in compliance with the senior debt to earnings before interest, taxes, depreciation and amortization "EBITDA", fixed charge coverage, total debt to total capitalization and accounts payable aging financial covenants contained in its credit facilities agreement as at June 30, 2020. In anticipation of this, the Company secured a waiver of those covenants prior to June 30, 2020 and as a result, any funded debt subject to those covenants that was due after June 30, 2021 and beyond was classified as long-term. All existing credit facilities are subject to the same financial covenants.

12. Guarantees and contingencies

Letters of Credit

In the normal course of business, the Company contracted letters of credit for an amount of $3,894 USD as at June 30, 2020 (December 31, 2019 - $3,894, June 30, 2019 $5,111). The Company has a guarantee facility with Export Development Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Company on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility and is secured by a general security agreement providing second security interests in all of the Company's present and after-acquired property.

Other indemnification provisions

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

Other contingencies

The Group is subject to various product liability or general claims and legal proceedings covering matters that arise in the ordinary course of business. All such matters are adequately covered by insurance or by accruals, or are determined by management to be without merit, or of such kinds or amounts as would not have a material adverse effect on the financial results of the Group.

13. Subsequent events

Credit Facility Waivers

On July 15, 2020, the Company announced that it would not make the principal payment on Facility C per the terms of the previous extension and waiver. In addition, the Company announced that no new extensions or waivers for the facilities were issued at the time. The Company remains in active and collaborative discussions with its senior lenders to restructure the credit facilities including the extension of the maturity dates, the principal repayment schedule and the financial covenants contained therein. The Company's senior lenders remain supportive of the Company and have not made a demand of repayment of the credit facilities, and the Company expects to finalize the renegotiations sometime prior to September 30, 2020.

Covid 19 impact

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

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