EMPIRE INDUSTRIES LTD

3Q20

Management's Discussion & Analysis
For the 3 and 9-month periods ending September 30, 2020

Consolidated Financial Statements
For the 3 and 9-month periods ending September 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 September 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 nine-month periods ended September 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 November 17, 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 September 30	Nine months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
Operating Results:						
Revenues	**50,414**	95,464	(45,050)	**16,599**	26,977	(10,378)
Gross margin	**11,559**	19,986	(8,427)	**2,599**	7,222	(4,623)
Gross margin %	**22.93%**	20.94%	1.99%	**15.7%**	26.8%	(11.1%)
EBITDA	**1,396**	6,037	(4,641)	**391**	2,137	(1,746)
EBITDA %	**2.8%**	6.3%	(3.6%)	**2.4%**	7.9%	(5.6%)
EBIT	**(2,643)**	1,073	(3,716)	**(948)**	483	(1,431)
EBIT %	**(5.2%)**	1.12%	(0)	**(5.7%)**	1.8%	(7.5%)
Net loss from continuing operations	**(8,247)**	70	(8,317)	**(2,732)**	(2,549)	(183)
Net loss from discontinued operations	**(1,190)**	(1,906)	716	**(80)**	(879)	799
Net loss	**(9,437)**	(1,836)	(7,601)	**(2,812)**	(3,428)	616
Loss per share continuing operations - basic & diluted	**(0.05)**	0.00	(0.05)	**(0.02)**	(0.02)	0.00
Loss per share discontinued operations - basic & diluted	**(0.01)**	(0.02)	0.01	**(0.00)**	(0.01)	0.01
Loss per share - basic & diluted	**(0.06)**	(0.02)	(0.04)	**(0.02)**	(0.03)	0.01

Selected Quarterly Financial Information

Quarterly Financial Information For the years ended	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
Sales	16,599	16,290	17,525	14,666	26,977	39,157	29,330	18,888
Profit (loss) from continuing operations	(2,732)	(1,785)	(3,730)	(20,520)	(2,549)	2,278	341	(47,732)
Loss from discontinued operations	(80)	(568)	(542)	(4,802)	(879)	(635)	(392)	(718)
Profit (loss) per share (basic & diluted) - continuing operations	(0.02)	(0.01)	(0.02)	(0.20)	(0.02)	0.02	0.00	(0.51)
Loss per share (basic & diluted) - discontinued operations	(0.00)	(0.00)	(0.01)	(0.04)	(0.01)	(0.01)	(0.00)	0.00
Loss per share (basic & diluted) - all operations	**(0.02)**	**(0.01)**	**(0.03)**	**(0.24)**	**(0.03)**	**0.01**	**(0.00)**	**(0.51)**

Outlook

As reported in Q2 2020, the COVID-19 pandemic has had significant adverse effects on the global theme park industry. Every theme park in the world has been forced to change their operational protocols, reduce their staffing levels and reduce or defer their attraction capital spending plans. This has adversely impacted the theme parks' supply chain in general, and Empire's ride manufacturing division in particular.

The Company is cautiously optimistic that the COVID-19 issues will be addressed in time, guests will return to the theme parks and the parks will resume their pre-pandemic investments in capital expenditures in general and ride systems in particular. This cautious optimism is supported by increasing attendance in the Chinese theme parks post pandemic and the foreshadowing of three, pure play, publicly traded theme parks that have seen their stock prices reduced to a low approximating 20% of the previous 12 month highs and recovering to a current price level approximating 60% of the previous 12 month highs.

The company's 3Q 2020 revenue was down 38% to $16.6 million as compared to $27.0 million in Q3 2019. The Company has been executing a three-pronged plan;

- accelerate our development plans for the co-venture business;
- restructure and reduce the ride manufacturing business to withstand this industry slowdown; and
- establish an R&D company to continue to innovate and use our world class diversify

We are actively Implementing a financing plan to support all three of these drivers, the first phase of which was to successfully restructure our US$31 million of long-term debt and successfully raise $5.0 million to help fund our R&D subsidiary which was completed in October, 2020.

Co-venture opportunities

The Company continues to be very 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, being pursued by wholly owned subsidiary, Dynamic Entertainment, is well suited to capitalize on a post-pandemic world. Guest satisfaction and value and will be the key success factors for popular tourist locations that choose to complement their experience 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 is well advanced in the creation of this exciting attraction in one of the most popular tourist destinations in America. The flying theater attraction is on schedule to open to the public on Memorial Day weekend in 2021.

The Company's pipeline of co-venture prospects is geographically broad and advancing, in-spite of travel restrictions. Our co-venture offices in Shanghai and Singapore have allowed us to continue to develop our prospects in Asia and South Asia and our offices in Toronto and Orlando have been able to cover North America and Europe/UK effectively.

Improved cost structure

The pandemic has focused our attention on ensuring we reduce and align our cost structure with the much 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. We have implemented operational processes that have dramatically improved our productivity. The Company has reduced its workforce by approximately 51% from pre-pandemic levels. We are fortunate to have a backlog of unfinished contracts to reduce the amount of pain caused by capital expenditure restraint of our main customers.

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 September 30, 2020 was $135 million, down from $218 million at March 31, 2020. Approximately 51% 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 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's installation teams have recently remobilized and are at various stages of commissioning award winning ride systems in Abu Dhabi, Beijing, Japan, Malaysia, Qatar and California. This massive commissioning effort has been negatively affected by pandemic delays that have delayed our Company's ability to enter these countries to finish these jobs. The Company has incurred incremental costs because of the delays and the required quarantines on both entry and return to their home country.

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 a lower level of sales and production for some time.

The Company's rigorous best practices have been effectively implemented at our three manufacturing facilities and this has allowed us to continue to produce throughout the pandemic, albeit at a slower rate of production. Our goal remains to emerge on the other side of this pandemic with our unique design, manufacture and commissioning competency intact and continue to be one of the strongest attraction suppliers in the industry.

Improved liquidity

Our cash used in Q3 2020 from continuing operations was $0.2 million and our ending cash balance at September 30, 2020 reduced to $2.4 million compared to $12.8 million at December 31, 2019. Payables and accrued liabilities were reduced $10.0 million and long-term debt was reduced by $2.4 million in the first nine months of 2020, more than accounting for this usage of cash year to date.

The Company closed a financing of $5.0 million just after Q3 2020 ended. The company also successfully restructured US$31 million of its debt financing October 7, 2020, extending the principal repayments to better match the receipt of contract holdbacks that totaled $15.9 million at September 30, 2020. The Company also pushed out half of the principal repayments to between June 30, 2022 and April 16, 2023. The covenants were also reset to reflect the impact that the pandemic has had on our business. The company believes that delaying the principal repayments in this way, should allow it to strengthen its balance sheet and operational cashflow over the next two-year period.

Summary

We strongly believe that the anticipated completion of six, award winning and truly amazing ride systems before the summer of 2021, ongoing and prudent processing of our outstanding backlog, the execution of our option prior to the opening of our first co-venture in late spring of 2021, and continued development of our co-venture pipeline, combine to put us in the position to emerge in the post-pandemic world as a more resilient and much more valuable company, with an increased focus on recurring profit from co-ventures and much improved profit outlook on a much lower level of sales.

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:

Ride Systems Manufacturing

Periods ended September 30	Nine months ended			Quarter ended		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Operating Results:						
Revenues	**41,506**	84,950	(43,444)	**13,650**	22,782	(9,132)
Gross margin	**8,438**	16,867	(8,429)	**1,857**	5,798	(3,941)
Gross margin %	**20.33%**	19.86%	0.5%	**13.6%**	25.4%	(11.8%)
EBITDA	**2,561**	7,315	(4,754)	**803**	2,042	(1,239)
EBITDA %	**6.2%**	8.6%	(2.4%)	**5.9%**	9.0%	(3.1%)
EBIT	**(1,293)**	2,612	(3,905)	**(468)**	475	(943)
EBIT %	**(3.1%)**	3.1%	(6.2%)	**(3.4%)**	2.1%	(5.5%)

Parts & Service

Periods ended September 30	Nine months ended			Quarter ended		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Operating Results:						
Revenues	**5,997**	7,878	(1,881)	**1,860**	3,089	(1,229)
Gross margin	**2,268**	2,640	(372)	**334**	1,162	(828)
Gross margin %	**37.8%**	33.5%	4.3%	**18.0%**	37.6%	-19.7%
EBITDA	**1,569**	1,678	(109)	**360**	869	(509)
EBITDA %	**26.2%**	21.3%	4.9%	**19.4%**	28.1%	(8.8%)
EBIT	**1,559**	1,678	(119)	**355**	869	(514)
EBIT %	**26.0%**	21.3%	4.7%	**19.1%**	28.1%	(9.0%)

Corporate & Other

Periods ended September 30	Nine months ended			Quarter ended		
	2020	2019	Variance	2020	2019	Variance
Operating Results:						
Revenues	**2,911**	2,636	275	**1,089**	1,106	(17)
Gross margin	**853**	479	374	**408**	262	146
Gross margin %	**29.3%**	18.2%	11.1%	**37.5%**	23.7%	13.8%
EBITDA	**(2,734)**	(2,956)	222	**(772)**	(774)	2
EBITDA %	**(93.9%)**	(112.1%)	18.2%	**(70.9%)**	(70.0%)	(0.9%)
EBIT	**(2,909)**	(3,217)	308	**(835)**	(861)	26
EBIT %	**(99.9%)**	(122.0%)	22.1%	**(76.7%)**	(77.8%)	1.2%

3Q20 Results Review

Revenues and Gross Margins

During the three-month period, the Company's revenues decreased by 38% to $16.6 million compared to $27.0 million in the same period in 2019. Of the Company's total revenue decline of $10.4 million, $9.1 million was from the Company's Ride Systems Manufacturing segment. The decline in revenues is attributable to several factors, including:

- The COVID-19 outbreak did cause several project sites the Company was working on to abruptly close in March of 2020 and inhibiting the ability to achieve production plans through 3Q20.
- Projects that have been awarded to the Company have been delayed by the customers due in part by COVID-19 as well some general business decision and in one case a contract was cancelled.

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. Of the remaining decrease in revenues, $1.2 million was from the Company's Parts & Service division which is also a direct impact from COVID-19 as theme parks and theme park sites were either closed or operating at significantly reduced capacity.

In addition to revenues declining by 38%, Gross Margins for the three-month period declined by 11.1% to 15.7% in 3Q20 by factors including:

- Lower revenues in the current period we not sufficient to absorb the fixed cost component of cost of sales. Certain fixed costs can't be easily curtailed and re-established to address short term production shortfalls, which results in lower margins; and
- The mix of projects driving the revenues in the current period inherently carried a lower Gross Margin than other projects in the Company's portfolio.

Selling, General and Administrative Costs

The Company's selling, general and administrative expenses decreased by $2.9 million in the three-month period ended September 30, 2020 from the same three-month period ended September 30, 2019. For the three-month period ended September 30, 2020, the Company recorded CEWS and Payroll Protection Program (PPP) amounts of $1.3 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 September 30, 2020 of $0.4 million is $1.7 million less than the same three-month period ended September 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 $0.3 million in the three-month period ended September 30, 2020 compared to the same period in 2019. Depreciation of property, plant and equipment reduced by $0.2 million in the current period compared to 2019 as certain items were fully amortized in 2019. Amortization of leased assets reduced by $0.1 million in the current period compared to 2019 as the Company exited certain leases that were in place in the same period of 2019.

Finance Costs

Finance costs decreased by $0.8 million for the three-month period ended September 30 2020, compared to the three-month period ended September 30, 2019. The decrease is a combinations of debt principal payments, lower variable interest rates and less leases in place when compared to the same period in 2019.

Stock-based compensation

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

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 September 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 $0.1 million in the three-month period ended September 30, 2020 compared to a loss from discontinued operations of $0.9 million in the same period ended September 30, 2019.

Other components of income (loss)

Other components of income (loss) was $nil in three-month period ended September 30, 2020 which is an improvement of $0.4 million over the same period ended September 30, 2019.

Net income (loss)

The Company's net loss decreased by $0.6 million to a net loss of $2.8 million in the three-month period ended September 30, 2020. The decrease in the net loss in the three-month period ended September 30, 2020 is a result of the loss from discontinued operations decreased by $0.8 as well as all other factors discussed above in the results review section.

Other Comprehensive income (loss)

The Company recorded other comprehensive income in the three-month period ended September 30, 2020 of $0.2 million versus a loss of $0.2 million in the same period in 2019. The key driver behind the increase in the current quarter is the translation of the Company's foreign operations from US dollars to Canadian dollars resulted in an income pick-up of $0.2 million to other comprehensive income (loss) in the period. The US dollar weakened from $1.3628 to $1.3339 from June 30, 2020 to September 30, 2020. In the comparative period, the US dollar strengthened from $1.3087 to $1.3243.

2020 Year-to-Date Results Review

Revenues and Gross Margins

During the nine-month period, the Company's revenues decreased by 47% to $50.4 million compared to $95.5 million in the same period in 2019. Of the Company's total revenue decline of $45.1 million, $43.4 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 the nine months ended September 30, 2020.
- Projects that have been awarded to the Company have been delayed by the customers due in part by COVID-19 as well some general business decisions and in one case a contract was cancelled.

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. The remaining decrease in revenues was from the Company's Parts & Service division which is also a direct impact from COVID-19 as theme parks and theme park sites were either closed or operating at significantly reduced capacity.

While Revenues declined by $45.1 million, Gross Margin percentages increased by 2% through the nine-months ended September 30, 2020 to 22.9% from 20.9% for the nine-months ended September 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 year compared to the same period in 2019. In addition to that, during the nine-month period ended September 30, 2020 the Company recorded Canadian Emergency Wage Subsidy (CEWS) amounts of $4.2 million as a reduction/subsidy of costs of sales components.

Selling, General and Administrative Costs

The Company's selling, general and administrative expenses decreased by $3.8 million in the nine-month period ended September 30, 2020 from the same nine-month period ended September 30, 2019. For the nine-month period ended September 30, 2020, the Company recorded CEWS amounts of $2.0 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 nine-months ended September 30, 2020 of $1.4 million is $4.6 million less than the same nine-month period ended September 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 $0.9 million in the nine-month period ended September 30, 2020 compared to the same period in 2019. Depreciation of property, plant and equipment reduced by $0.6 million in the current period compared to 2019 as certain items were fully amortized in 2019. Amortization of intangible assets reduced by $0.1 million in the current period compared to 2019 as the Company revised its estimates of the useful lives of certain intangible assets in 2020. Amortization of leased assets through the nine-month period ended September 30, 2020 was $0.2 million less than the same period in 2019 as the group has fewer overall leases in place in the current year.

Finance Costs

Finance costs increased by $0.2 million for the nine-month period ended September 30, 2020, compared to the nine-month period ended September 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 half of the overall time period. The year-to-date 2020 numbers are more in line with 2019 then they are on the three-month period comparison because the current nine-month period includes, lower variable interest rates on the new debt and some reduction from principal repayments and some leases no longer in place that were in place during the comparative 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 nine-month period ended September 30, the company record income from TGHL of $0.1 million.

Stock-based compensation

Stock-based compensation expense in the nine-month period ended September 30, 2020 was $0.2 million, which is consistent with the same period in 2019.

Fair value changes in derivative financial instruments

In the nine-month period ended September 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 September 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 nine-month period ended September 30, 2019, included in the Company's statement of net income (loss) was non-controlling interest loss of $0.4 million.

Discontinued operations

The Company recorded a loss from discontinued operations of $1.2 million in the nine-month period ended September 30, 2020 which is $0.7 million less than the same period ended September 30, 2019.

Other components of income (loss)

Other components of income (loss) were essentially $nil in nine-month period ended September 30, 2020 as opposed to income of $2.7 million during the same period ended September 30, 2019. The other income of $2.7 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 Company 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 loss increased by $7.6 million to a net loss of $9.4 million in the nine-month period ended September 30, 2020. The decrease in the net income in the nine-month period ended September 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 nine-month period ended June 30, 2020 of $0.9 million versus income $0.1 million in the same period in 2019. The key drivers behind the decrease in the current quarter is two-fold:

1. 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.
2. The translation of the Company's foreign operations from US dollars to Canadian dollars resulted in a loss of $0.3 million in the period compared to a gain of $0.1 million in same period in 2019. The US dollar strengthened from $1.2988 to $1.3339 from December 31, 2019 to September 30, 2020. In the comparative period, the US dollar weakened from $1.3642 to $1.3243.

Significant Events

Credit Facility Renegotiation

On October 7, 2020 the Company, completed a renegotiation of its credit facilities. The material amendments to the Credit Agreement include: (i) extending the repayment dates for each of the facilities to align with the Company's forecasted cash availability; (ii) reducing the annual interest from a variable prime plus 9.5% to a fixed rate of 10%; (iii) accruing and deferring 3% of the interest until the maturity of each facility and paying the remaining 7% on a monthly basis; and (iv) removing certain financial covenants altogether and revising the remaining financial covenants to allow the Company to remain in compliance to the end of the term of the loan.

To date, USD $1.5M of the loan has been repaid and another USD$16.5 million (including additional interest) is scheduled to be repaid throughout 2021 by way of payments directly to the lender from accounts receivables that have been assigned by the Company to the lender, which will leave an operating loan balance of USD $11.1 million outstanding as at December 31, 2021. The expected payments to be made are in the following amounts (USD): $1.5 million, $0.4 million, $4.3 million, $1.5 million, $0.2 million, $3.5 million, $0.7 million, $4.3 million and $0.1 million. The repayment of the operating loan has been extended to June 30, 2022.

In addition, the Company also amended the terms of its USD $4.0 million term loan with another lender to push out the repayment of the loan in four equal, quarterly payments starting July 16, 2022 and ending on April 16, 2023.

New Equity and R&D Subsidiary

On October 13, 2020, the Company announced that it has completed an internal reorganization and private placement by its subsidiary. The Reorganization has created a new research and development subsidiary named Dynamic Structures Ltd. ("DSL"). Pursuant to the Reorganization, Dynamic Attractions Ltd ("DAL"), Empire's wholly owned ride manufacturing subsidiary transferred: (i) the employment of a sub-set of highly skilled development engineers (the "R&D Employees") to DSL; and (ii) certain intangible property consisting of all the knowledge and experience of the R&D Employees used in the engineering design business including all trade secrets, technical, scientific and other knowledge, skills and ideas (the "Know-How"), the Dynamic Structures website (the "Other Intangible Property") and goodwill associated with the Know-How and Other Intangible Property valued at CDN$5 million.

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 September 30, 2020, the Company's continuing operations used $1.9 million of cash, compared with $8.2 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 September 30, 2020. The Company's marginable assets at September 30, 2020 were CAD $25.1 million, which is CAD $10.3 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 $26.7 million as at September 30, 2020 consisted of $14.7 million from Facility B, $6.7 million from Facility C and $5.3 million from EDC. In addition to funded debt, the Company also made $1.3 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 September 30, 2020. For the period ended September 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 September 30, 2020 achieving compliance with these financial ratios was not possible. Because the Company was in ongoing discussions with the its senior lenders leading up September 30, 2020 it was not able to secure a waiver in advance of that date. However, as noted in the subsequent significant event section, On October 7, 2020 the Company announced that it had renegotiated its credit facilities, including the maturity dates as well as the underlying financial covenants.

Contract Assets

The Company's contract asset balance decreased by $13.3 million or over 46% to $15.4 million at September 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 $43.7 million at September 30, 2020 is $10.0 million more than the shareholders' deficit at December 31, 2019 due to the net loss and other comprehensive loss recorded for the period. No dividends were declared or paid in the period. The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. The Company had 5,956,667 outstanding options at September 30, 2020. The average exercise price of the outstanding options was $0.48 per share. Of these options, 3,090,001 are currently exercisable at an average exercise price of $0.46 per share.

Market Capitalization

The market capitalization of the Group's 163,516,826 issued and outstanding common shares at November 10, 2020 was $47.4 million or $0.29 per share. The issued and outstanding common shares at November 10, 2020, together with securities convertible into common shares are summarized in the table below:

Fully Diluted Shares **As at November 10, 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 September 30	**Nine months ended**			**Quarter ended**		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Profit (loss) - before taxes from continuing operations	**(8,143)**	101	(8,244)	**(2,669)**	(2,518)	(151)
Add : Depreciation and amortization	**4,039**	4,964	(925)	**1,339**	1,654	(315)
Add/Deduct : (Gain) loss on disposal of assets and other (income) loss	**(17)**	(2,698)	2,681	**-**	431	(431)
Add : Finance costs	**5,284**	5,094	190	**1,657**	2,422	(765)
Add/Deduct : Deduct Share of loss of associate	**-**	(221)	221	**-**	(125)	125
Add/Deduct : Fair value of changes of forgeign currency option contracts	**-**	(1,794)	1,794	**-**	-	-
Add/Deduct: Non-controlling interest	**-**	382	(382)	-	183	(183)
Add : non cash stock-based compensation	**233**	209	24	**64**	**90**	(26)
EBITDA	**1,396**	6,037	(4,641)	**391**	2,137	(1,746)

Calculation of EBIT

Periods ended September 30	**Nine months ended**			**Quarter ended**		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
EBITDA	**1,396**	6,037	(4,641)	**391**	2,137	(1,746)
Less : Depreciation and amortization	***(4,039)***	*(4,964)*	*925*	***(1,339)***	*(1,654)*	315
EBIT	**(2,643)**	1,073	(3,716)	**(948)**	483	(1,431)
% of revenue	**(5.2%)**	1.1%	(6.4%)	**(5.7%)**	1.8%	(7.5%)

Calculation of Gross Margin

Periods ended September 30	**Nine months ended**			**Quarter ended**		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
Revenues	**50,414**	95,464	(45,050)	**16,599**	26,977	(10,378)
Cost of sales	**(38,855)**	(75,478)	36,623	**(14,000)**	(19,755)	5,755
Gross margin	**11,559**	19,986	(8,427)	**2,599**	7,222	(4,623)
% of revenue	**22.93%**	20.94%	1.99%	**15.66%**	26.77%	(11.1%)

3rd Quarter

Consolidated Financial Statements

For the 3 and 9-month periods ending September 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.

3Q20

For the For the periods ended September 30 (In $000's CAD, except where otherwise indicated)	Notes	Three Months 2020	Three Months 2019	Nine Months 2020	Nine Months 2019
Revenues[1]		**16,599**	26,977	**50,414**	95,464
Cost of sales	5	**(14,000)**	(19,755)	**(38,855)**	(75,478)
Depreciation and amortization	6	**(1,339)**	(1,654)	**(4,039)**	(4,964)
Operating income		**1,260**	**5,568**	**7,520**	15,022
Expenses					
Selling, general and administration expenses	7	**(2,208)**	(5,085)	**(10,163)**	(13,949)
Fair value changes in derivative financial instruments		**-**	-	**-**	1,794
Share of income (loss) from associate		**-**	125	**-**	221
Stock-based compensation		**(64)**	(90)	**(233)**	(209)
Loss before the following		**(1,012)**	518	**(2,876)**	2,879
Finance costs	8	**(1,657)**	(2,422)	**(5,284)**	(5,094)
Non-controlling interest		**-**	(183)	**-**	(382)
Other components of income (loss)		**-**	(431)	**17**	2,698
Loss before tax		**(2,669)**	(2,518)	**(8,143)**	101
Loss from discontinued operations, net of tax		**(80)**	(879)	**(1,190)**	(1,906)
Current tax expense		**(63)**	(31)	**(104)**	(31)
Deferred tax expense		**-**	-	**-**	-
Net loss		**(2,812)**	(3,428)	**(9,437)**	(1,836)
Exchange differences on translating foreign operations		**219**	(167)	**(252)**	40
Fair value changes in financial assets at FVOCI		**-**	-	**(627)**	-
Share of other comprehensive income (loss) of investments in associates		**-**	28	**-**	21
Other comprehensive income (loss)		**219**	(139)	**(879)**	61
Comprehensive loss		**(2,593)**	(3,567)	**(10,316)**	(1,775)
Loss per share continuing operations - basic & diluted	9	**(0.02)**	(0.02)	**(0.05)**	0.00
Loss per share discontinued operations - basic & diluted	9	**(0.00)**	(0.01)	**(0.01)**	(0.02)
Loss per share - basic & diluted	9	**(0.02)**	(0.03)	**(0.06)**	(0.02)

(1) Included in revenues are foreign exchange losses of $1,300 for the three months ended September 30, 2020 (2019 - $58) and gains of $10 for the nine months ended September 30, 2020 (2019 - losses of $3,269).

EMPIRE INDUSTRIES LTD

Consolidated Statement of
Financial Position

As at		Sep 30, 2020	Dec 31, 2019
(In $000's CAD, except where otherwise indicated)			
ASSETS	**Notes**		
Current assets			
Cash and cash equivalents		**2,430**	12,848
Accounts receivable and contract assets	**3**	**39,238**	42,190
Inventory		**3,788**	2,944
Prepaid expenses and deposits		**1,167**	1,373
Total current assets		**46,623**	59,355
Non-current assets held for sale		**1,450**	1,895
Non-current assets			
Property, plant and equipment and investment property		**8,228**	7,816
Right of use assets		**8,954**	10,561
Contract assets - noncurrent	**4**	**980**	10,612
Investments and other non-current assets		**1,905**	2,532
Intangible assets		**2,943**	2,896
Total non-current assets		**23,010**	34,417
Total assets		**71,083**	95,667
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness and bank operating lines		**14,834**	14,444
Accounts payable, accrued liabilities and other contract liabilities		**26,659**	36,699
Contract liabilities	**4**	**5,339**	7,429
Current portion of funded debt		**26,733**	24,332
Current portion of lease liabilities		**1,337**	1,571
Derivative financial instruments		**-**	-
Total current liabilities		**74,902**	84,475
Non-current liabilities			
Long-term funded debt		**-**	3,896
Lease liabilities		**8,563**	9,623
Long-term contract liabilities	**4**	**31,326**	31,373
Total non-current liabilites		**39,889**	44,892
Total Liabilities		**114,791**	129,367
SHARHOLDERS' EQUITY			
Share capital		**51,210**	51,075
Contributed surplus		**2,735**	2,562
Accumulated deficit		**(98,332)**	(88,895)
Non-controlling interest		**-**	-
Accumulated other comprehensive income (loss)		**679**	1,558
Total shareholders' equity		**(43,708)**	(33,700)
Total liabilities and shareholders' equity		**71,083**	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 September 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	-	-	-	(9,437)	-	(9,437)
Other comprehensive income	-	-	-	-	(879)	(879)
Stock-based compensation	-	-	233	-	-	233
As at September 30, 2020	**51,210**	**-**	**2,735**	**(98,332)**	**679**	**(43,708)**

As at September 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	-	(382)	-	(1,454)	-	(1,836)
Equity component of preferred shares	-	-	1,371	-	-	1,371
Other comprehensive income	-	-	-	-	61	61
Stock-based compensation	-	-	209	-	-	209
As at September 30, 2019	**24,981**	**1,888**	**5,978**	**(63,663)**	**(22)**	**(30,838)**

See accompanying notes

(In $000's CAD, except where otherwise indicated)	2020	2019	2020	2019
OPERATING ACTIVITIES				
Income (loss) after tax from continuing operations	**(2,732)**	(2,549)	**(8,247)**	70
Add (deduct) items not affecting cash :				
Depreciation and amortization *(note 6)*	**1,339**	1,654	**4,039**	4,964
Finance costs on short-tem borrowings *(note 8)*	**464**	672	**1,487**	1,814
Fair value changes in derivative financial instruments	**-**	-	**-**	(1,794)
Share of loss from associate investments	**-**	(125)	**-**	(221)
Stock-based compensation	**64**	90	**233**	209
Foreign currency adjusted	**219**	-	**(252)**	-
Other items affecting cash flow	-	317	**-**	3,125
Foreign exchange revaluation of monetary assets and liabilities	**461**	-	**839**	0
Cash used in continuing operations	**(185)**	59	**(1,901)**	8,167
Cash used in discontinued operations	**(46)**	(749)	**(870)**	(1,515)
Net change in non-cash working capital balances	**(2,139)**	6,084	**720**	(29,406)
Cash from (used in) operating activities	**(2,370)**	5,394	**(2,051)**	(22,754)
INVESTING ACTIVITIES				
Investment in property, plant and equipment	**(134)**	(94)	**(1,684)**	(169)
Proceeds from sale of items of property, plant and equipment	**-**	21	**96**	21
Investment in intangible assets	**(232)**	(408)	**(956)**	(473)
Non-controlling interest	**-**	(183)	**-**	(382)
Cash used in investing activities from continuing operations	**(366)**	(664)	**(2,544)**	(1,003)
Cash used in investing activities from discontinued operations	**-**	-	**-**	(32)
Cash used in investing activities	**(366)**	**(664)**	**(2,544)**	**(1,035)**
FINANCING ACTIVITIES				
Proceeds received from warrants and stock options exercised	**-**	-	**75**	-
Proceeds received from funded debt and finance leases	**35**	-	**35**	22,762
Increase in bank indebtedness and bank operating lines	**-**	(5)	**-**	5,870
Repayment of funded debt	**-**	(31)	**(2,407)**	(1,570)
Proceeds received from convertible preferred shares issued (net)	**-**	-	**-**	7,478
Repayment of lease liabilities	**(467)**	(551)	**(1,326)**	(1,467)
Finance costs paid on long-term borrowings *(note 8)*	**(838)**	(1,167)	**(2,574)**	(1,975)
Cash from (used in) financing activities from continuing operations	**(1,270)**	(1,754)	**(6,197)**	31,098
Cash used in financing activities from discontinued operations	**-**	(54)	**-**	(108)
Cash from (used in) financing activities	**(1,270)**	**(1,808)**	**(6,197)**	**30,990**
Effect of translation of foreign currency cash and equivalents	**(1,246)**	202	**374**	(3,200)
Net increase in cash and equivalents during the period	**(5,252)**	3,124	**(10,418)**	4,001
Cash and cash equivalents, beginning of period	**7,682**	1,014	**12,848**	137
Cash and cash equivalents, end of period	**2,430**	4,138	**2,430**	4,138

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 November 17, 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 September 30, 2020 and include the operating results for the comparative periods ended September 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). Subsequent to September 30, 2020, the Company completed a renegotiation of the maturity dates of it's existing credit facilities and financial covenants (note 13).

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

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

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 September 30, 2020.

3. Accounts receivable

	Sep 30, 2020	Dec 31, 2019
Trade	**5,936**	4,883
Contract assets (note 4)	**15,384**	28,668
Other receivables	**2,829**	968
Contract assets - current holdbacks (note 4)	**15,089**	7,671
	39,238	42,190

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

	Sep 30, 2020	Dec 31, 2019
< 30 days	**2,304**	3,041
> 30 days	**1,289**	469
> 60 days	**457**	593
> 90 days	**1,886**	780
	5,936	4,883

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

4. Construction contracts

	Sep 30, 2020	Dec 31, 2019
Construction costs incurred and estimated profits, less recognized losses to date	275,597	345,256
Less: Progress billings	(296,878)	(355,390)
	(21,281)	(10,134)
Items recognized and included in the consolidated financial statements as:		
Contract assets - unbilled revenue *(note 3)*	15,384	28,668
Contract liabilities - deferred revenue - current portion	(5,339)	(7,429)
Contract liabilities - deferred revenue - long-term portion	(31,326)	(31,373)
	(21,281)	(10,134)
Contract assets - current holdbacks *(note 3)*	15,089	7,671
Contract assets - non-current holdbacks	980	10,612
	16,069	18,283

5. Cost of sales

	Three Months		Nine Months	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Direct construction costs	**(11,601)**	(13,795)	**(32,220)**	(60,294)
Construction cost overruns	**(887)**	(2,250)	**(887)**	(4,050)
Indirect salaries and benefits	**(3,358)**	(2,550)	**(6,669)**	(7,852)
Canadian emergency wage subsidy	**2,765**	-	**4,199**	-
Indirect production costs	**(919)**	(1,160)	**(3,278)**	(3,282)
	(14,000)	(19,755)	**(38,855)**	(75,478)

6. Depreciation and amortization

	Three Months		Nine Months	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Depreciation of property, plant and equipment	**(580)**	(749)	**(1,623)**	(2,258)
Amortization of intangible assets	**(320)**	(336)	**(909)**	(1,008)
Depreciation of right-of-use assets	**(439)**	(569)	**(1,507)**	(1,698)
	(1,339)	(1,654)	**(4,039)**	(4,964)

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

7. Selling and administrative expenses

	Three Months		Nine Months	
	Sep 30, 2020	**Sep 30, 2019**	**Sep 30, 2020**	**Sep 30, 2019**
Salaries and benefits	**(1,828)**	(3,806)	**(8,062)**	(10,560)
Canadian emergency wage subsidy	**1,322**	-	**1,989**	-
General, selling and administrative expenses	**(1,702)**	(1,279)	**(4,090)**	(3,389)
	(2,208)	(5,085)	**(10,163)**	(13,949)

8. Finance costs

	Three Months		Nine Months	
	Sep 30, 2020	**Sep 30, 2019**	**Sep 30, 2020**	**Sep 30, 2019**
Interest on long-term borrowings	**(838)**	(1,167)	**(2,574)**	(1,975)
Interest on short-term borrowing and other	**(464)**	(673)	**(1,487)**	(1,814)
Interest on right of use lease liabilities	**(185)**	(395)	**(632)**	(1,015)
Finance charges	**(170)**	(187)	**(591)**	(290)
	(1,657)	**(2,422)**	**(5,284)**	(5,094)

9. Income per share

Income per share for the three-month and nine-month periods ended September 30:

	Three Months		Nine Months	
	Sep 30, 2020	**Sep 30, 2019**	**Sep 30, 2020**	**Sep 30, 2019**
Net income (loss) from continuing operations	**(2,732)**	(2,549)	**(8,247)**	70
Net loss from discontinued operations	**(80)**	(879)	**(1,190)**	(1,906)
Basic weighted average number of shares	**163,516,826**	**103,142,678**	**163,516,826**	103,142,678
Net incremental dilutive shares	-	-	-	151,695
Diluted weighted average number of shares	**163,516,826**	**103,142,678**	**163,516,826**	**103,294,373**
Net income (loss) per share - continuing operations - basic & diluted	**(0.02)**	(0.02)	**(0.05)**	0.00
Net loss per share - discontinued operations - basic & diluted	**(0.00)**	(0.01)	**(0.01)**	(0.02)
Net income (loss) per share - basic & diluted	**(0.02)**	(0.03)	**(0.06)**	(0.02)

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 September 30, 2020 and 2019 respectively:

2020	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-segment**	**Total**
Sales	13,650	1,860	1,089	-	**16,599**
Cost of goods sold	(11,793)	(1,526)	(681)	-	**(14,000)**
Depreciation & amortization	(1,271)	(5)	(63)	-	**(1,339)**
Operating income	**586**	**329**	**345**	**-**	**1,260**
Selling, general and administrative expenses	(1,054)	26	(1,180)	-	**(2,208)**
Finance costs	(1,266)	(1)	(390)	-	**(1,657)**
Other non-operating items	-	-	(64)	-	**(64)**
Net loss before tax from continuing operations	**(1,734)**	**354**	**(1,289)**	**-**	**(2,669)**

2019	**Ride System Mfg**	**Parts & Service**	**Corporate & other**	**Inter-Segment**	**Total**
Sales	22,782	3,089	1,106	-	26,977
Cost of goods sold	(16,984)	(1,927)	(844)	-	(19,755)
Depreciation & amortization	(1,567)	-	(87)	-	(1,654)
Operating income	4,231	1,162	175	-	5,568
Selling, general and administrative expenses	(3,756)	(293)	(1,036)	-	(5,085)
Finance costs	(2,092)	(1)	(329)	-	(2,422)
Other non-operating items	(22)	-	(557)	-	(579)
Net loss before tax from continuing operations	(1,639)	868	(1,747)	-	(2,518)

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 nine-month periods ended September 30, 2020 and 2019 respectively:

2020	Ride System Mfg	Parts & Service	Corporate & other	Inter-segment	Total
Sales	41,506	5,997	2,911	-	**50,414**
Cost of goods sold	(33,068)	(3,729)	(2,058)	-	**(38,855)**
Depreciation & amortization	(3,854)	(10)	(175)	-	**(4,039)**
Operating income	**4,584**	**2,258**	**678**	**-**	**7,520**
Selling, general and administrative expenses	(5,877)	(699)	(3,587)	-	**(10,163)**
Finance costs	(4,111)	(4)	(1,169)	-	**(5,284)**
Other non-operating items	17	-	(233)	-	**(216)**
Net loss before tax from continuing operations	**(5,387)**	**1,555**	**(4,311)**	**-**	**(8,143)**

2019	Ride System Mfg	Parts & Service	Corporate & other	Inter-Segment	Total
Sales	84,950	7,878	2,636	-	95,464
Cost of goods sold	(68,083)	(5,238)	(2,157)	-	(75,478)
Depreciation & amortization	(4,703)	-	(261)	-	(4,964)
Operating income	12,164	2,640	218	-	15,022
Selling, general and administrative expenses	(9,552)	(962)	(3,435)	-	(13,949)
Finance costs	(3,745)	(3)	(1,346)	-	(5,094)
Other non-operating items	3,478	-	644	-	4,122
Net loss before tax from continuing operations	2,345	1,675	(3,919)	-	101

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 September 30, 2020 the Company's capital base was a deficit of $43,708 (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 September 30, 2020. In addition to not being in compliance with the above-mentioned financial covenants, the Company also did not make a scheduled principal payment due on July 15, 2020. This principal payment and financial covenants were extended and renegotiated subsequent to September 30, 2020 (note 13).

12. Guarantees and contingencies

Letters of Credit

In the normal course of business, the Company contracted letters of credit for an amount of $2,676 USD as at September 30, 2020 (December 31, 2019 - $3,894, September 30, 2019 $2,674). 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 Renegotiation

On October 7, 2020 the Company, completed a renegotiation of its credit facilities. The material amendments to the Credit Agreement include: (i) extending the repayment dates for each of the facilities to align with the Company's forecasted cash availability; (ii) reducing the annual interest from a variable prime plus 9.5% to a fixed rate of 10%; (iii) accruing and deferring 3% of the interest until the maturity of each facility and paying the remaining 7% on a monthly basis; and (iv) removing certain financial covenants altogether and revising the remaining financial covenants to allow the Company to remain in compliance to the end of the term of the loan.

To date, USD $1.5M of the loan has been repaid and another USD$16.5 million (including additional interest) is scheduled to be repaid throughout 2021 by way of payments directly to the lender from accounts receivables that have been assigned by the Company to the lender, which will leave an operating loan balance of USD $11.1 million outstanding as at December 31, 2021. The expected payments to be made are in the following amounts (USD): $1.5 million, $0.4 million, $4.3 million, $1.5 million, $0.2 million, $3.5 million, $0.7 million, $4.3 million and $0.1 million. The repayment of the operating loan has been extended to June 30, 2022.

In addition, the Company also amended the terms of its USD $4.0 million term loan with another lender to push out the repayment of the loan in four equal, quarterly payments starting July 16, 2022 and ending on April 16, 2023.

New Equity and R&D Subsidiary

On October 13, 2020, the Company announced that it has completed an internal reorganization and private placement by its subsidiary. The Reorganization has created a new research and development subsidiary named Dynamic Structures Ltd. ("DSL"). Pursuant to the Reorganization, Dynamic Attractions Ltd ("DAL"), Empire's wholly owned ride manufacturing subsidiary transferred: (i) the employment of a sub-set of highly skilled development engineers (the "R&D Employees") to

DSL; and (ii) certain intangible property consisting of all the knowledge and experience of the R&D Employees used in the engineering design business including all trade secrets, technical, scientific and other knowledge, skills and ideas (the "Know-How"), the Dynamic Structures website (the "Other Intangible Property") and goodwill associated with the Know-How and Other Intangible Property valued at CDN$5 million.

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.