ANNUAL REPORT 2018

EMPIRE
INDUSTRIES LTD

Empire has created over 50 rides; many are considered the world's most popular attractions.

EMPIRE'S LINE OF ADVANCED RIDES POSITIONS IT WELL TO CAPITALIZE FROM THE GROWTH PHENOMENON HITTING THE ATTRACTIONS INDUSTRY

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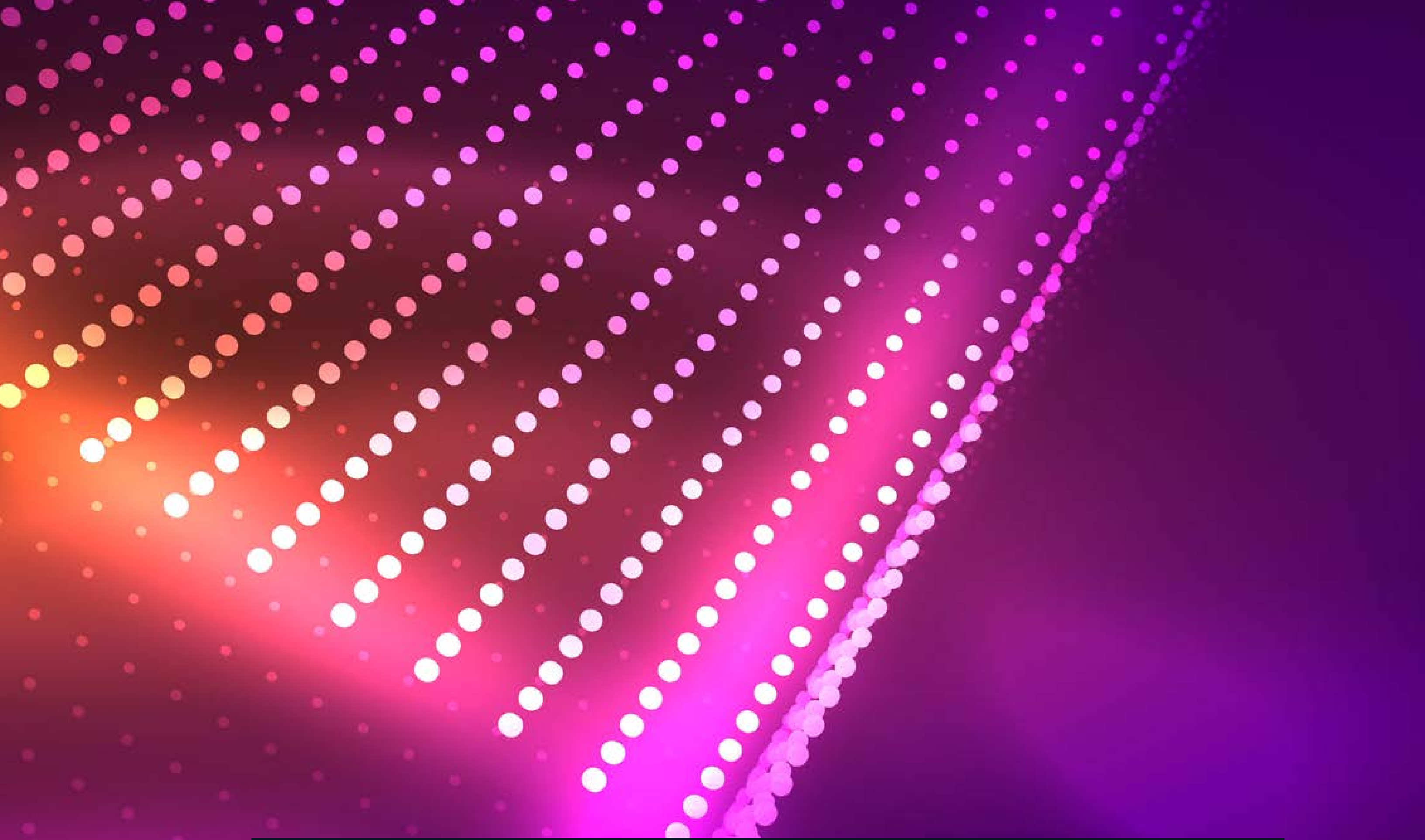
DEMAND FOR FRESH, SOPHISTICATED RIDES IS STRONG AS THE GLOBAL THEME PARK INDUSTRY IS EXPERIENCING RAPID GROWTH.

The majority of Dynamic Attractions work is to design and install unique, cutting edge ride systems for international theme park operators.







WHO WE ARE

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

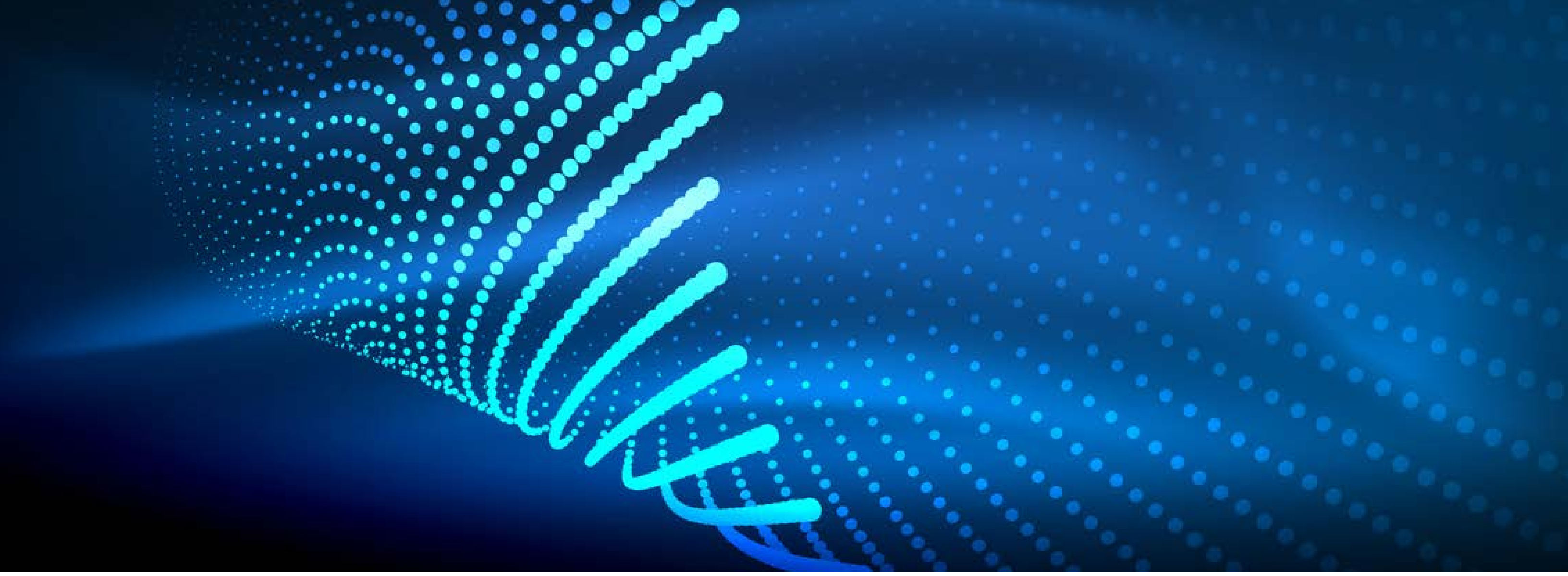
We are pre-eminent in a fast-growing market: global theme parks and destination attractions. We are known for creating cutting-edge rides that mix media and motion with unmatched precision and reliability. Our rides are counted among the most popular in the world; they are centrepiece attractions at top theme parks in the US, Asia, Europe and the Middle East.

Empire uses these same turn-key integration services for special projects such as large telescope enclosures. Our other products and services are sold domestically.

We are embarking on an initiative to co-own attractions. These co-ventures will use the company's most popular, proprietary rides and utilize our strengths in creating destination attractions.

Our businesses have solid roots, dating back as far as 1926.

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



REPORT TO SHAREHOLDERS

Guy Nelson and Hao Wang

2018 has been a year of important milestones and strategic positioning for Empire's future. That is not to downplay the disappointing financial results, but to keep things in perspective.

We have a record backlog of contract work: $252 million at year end. Less than 10% of this backlog was three, first generation projects that carries no margin with the losses realized on these three jobs being recognized in 2017 and 2018 audited results. The market is eager for what we deliver. One of our highly anticipated new rides opened in a major theme park; it was immediately hailed as the park's top attraction. Furthermore, our co-ventures initiative took a major step forward. In November 2018 we announced that our first co-venture attraction would be in the Island in Pigeon Forge, Tennessee, in the heart of the Smoky Mountain tourism region. In June 2019, the financing for the co-venture was successfully closed, and we entered into a 30-month option agreement to acquire a 50% ownership stake in the co-venture.

Approximately 70% of the loss reported in 2018 was due to writedowns of our deferred tax assets and our intangible assets. We took these provisions because at year-end there was some uncertainty around our ability to finance the execution of our record backlog of profitable contracts. Since year-end, we have closed a $38.5 million debt transaction which provided $19.5 million of net new funding. We have also raised $7.55 million through a convertible preferred share offering. When specific IFRS accounting requirements are satisfied, we will re-recognize any deferred tax assets. Our intellectual property (IP) is very valuable as evidenced by our ongoing revenue and pipeline of prospects. As a result, the IP should have a growing impact on our company's future sales and earnings. Furthermore, we are rigorously implementing our plan for increasing production efficiencies and cost reductions as we have largely moved past the design and engineering intensive phase of growing a world class product line into actually manufacturing it. We of course remain committed to bringing innovative products to market as we have become known for, but going forward, this will be done in partnership with customers we have strategic alliances with, committed to excellence in the field of ride design and supply.

Empire's future is bright in the rapidly growing, global theme park market where our ride systems are sold, and the tourist attraction market where our co-venture business is focused.

Guy Nelson
Executive Chairman and CEO
June 28, 2019

Hao Wang
President and COO, Dynamic Attractions

FINANCIAL HIGHLIGHTS

- Revenues increased to $140.9 million, up $9.2 million or 7.0%, from $131.8 million in 2017.
- Contract Backlog at the end of 2018 was $252 million, up $4 million from $248 million at the end of the Company's third quarter 2018, with 90% being non-first generation contract backlog.
- Net Loss of $50.5 million in 2018 versus a loss of $8.8 million in 2017.
- The inclusion of a going concern basis of presentation note in the financial statements required a number of non-cash accounting provisions included in the Net Loss for 2018;
  - a non-cash write down of the value of its deferred tax assets. These tax assets remain available to be used by the Company to shield up to $65 million of taxable income. The value of these assets may also be written back up when the Company determines that a going concern basis of presentation note is no longer needed.
  - a writedown of its intangible assets of $12.9 million; $6.2 million of which was non-cash impairment and $6.7 million was through an increased provision in cost of sales. Like the deferred tax assets, the $6.2 million impaired intangible assets may be written back up when the Company determines that it is appropriate to do so.
- Cash used in operating activities in 2018 was $4.4 million compared to cash generated in 2017 of $3.3 million.

OPERATIONAL HIGHLIGHTS

Ride Systems Manufacturing

Empire is currently working on high-profile ride systems for major theme parks around the world, including the United States, China, Japan, Qatar, Malaysia, and Indonesia. These contracts include the Company's proprietary ride systems such as its SFX Coaster, Dual Powered Coaster, and Dynamic Flying Theatre. The Company is also building custom ride systems for the largest theme parks under commercial conditions to manage the unique scopes of work for such custom systems.

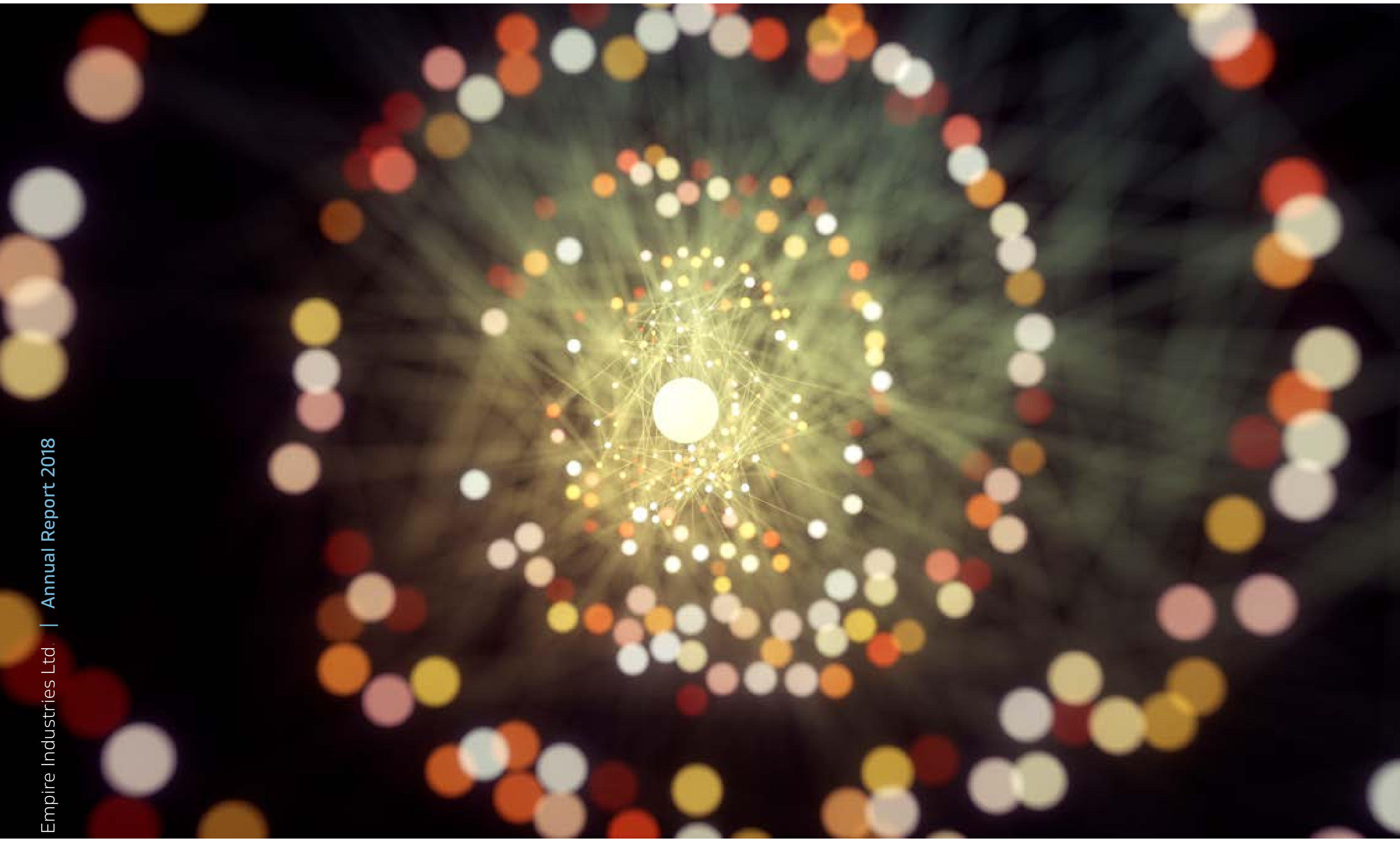
The company is implementing a facility cost reduction plan that is expected to reduce facility overhead costs by over $2 million annually, starting in 2020. We have also undertaken an organization-wide cost reduction initiative to better match our resources to our workload , as well as identifying and implementing design, procurement and production efficiencies and facility cost reductions (mentioned above) that can improve not only the Group's execution capabilities but also its key financial metrics. The effect of this program is expected to drive its overhead to a targeted level approaching 20% of sales instead of the historical level of 25% of sales.

Thirty Meter Telescope

Empire is completing its $10 million design contract for the enclosure of the Thirty Meter Telescope. The contract for manufacturing of the enclosure and supervision of its installation, is expected to be negotiated after the design contract has been completed. The Company's Dynamic Structures business unit has participated in the construction of more than half of the world's large observatory telescopes, and if an acceptable contract can be negotiated with the Government of Canada, fabrication of the enclosure will commence afterwards.

TMT is the flagship project of Canadian astronomy and will be one of the world's largest and most powerful ground-based telescopes.

The Notice to Proceed has now been issued to the University of Hawaii by the Department of Land and Natural Resources of the State of Hawaii, authorizing the commencement of construction on Mauna Kea, Hawaii. This is the top site in the world for this type of telescope, and home to 11 other existing telescopes. The State Government in Hawaii has made it clear that now that all the legal obligations have been met, construction of TMT should proceed. However, not all Hawaiians support the project, and there remains a risk that this minority of people will protest and seek to disrupt construction. If Dynamic Structures is awarded the fabrication contract, these possible disruptions should not affect the fabrication, that would be executed entirely in Canada.



Co-ventures

Empire's 74% owned subsidiary, Dynamic Entertainment Group Ltd., has arranged a 30 month option to purchase a 50% interest in a co-venture project to be located at The Island theme park in Pigeon Forge, Tennessee in the heart of the Smoky Mountains. The Island is ranked the sixth most popular theme park in America by Trip Advisor. A long term operating agreement was executed by the current co-venture partners in June 2019 for the development and operation of the Dynamic flying theater attraction, including an equity investment totaling USD $4 million and an USD $11 million debt financing with a Tennessee bank. The co-venture will be known as Smoky Mountain Flyers, LLC. Smoky Mountain Flyers has entered into a contract to purchase the patented flying theater attraction from Dynamic Attractions Ltd., a wholly owned subsidiary of Empire. The opening date is scheduled for March 2021.

Negotiations are also proceeding with several other co-venture opportunities, with negotiations underway at various stages of completion. The co-venture business model would see Empire's 74% owned subsidiary, Dynamic Entertainment, co-owning attractions in high traffic, tourist areas, thereby generating steady, recurring revenue streams that are predominantly self-financed.

Co-ventures may be our most exciting initiative ever. It leverages Empire's strengths as a supplier of iconic attractions, expands the Company's reach in a new part of the market, and positions the Company for a stream of long term, recurring revenue and profit.

OUTLOOK

The company's outlook is strong. We expect 2019's results to improve significantly, particularly in the second half of the year.

- Revenue in the last two quarters of 2019 is expected to average approximately $40 million per quarter.
- The contract backlog is expected to be replenished by the opportunities currently in the sales pipeline.
- Less than 10% of our contract backlog relates to our problematic first generation jobs.
- We have implemented a facility cost reduction plan that is expected to reduce facility overhead costs by over $2 million annually, starting in 2020.
- Having come through a design intensive phase of its growth, building its world class product line, we are streamlining and improving efficiencies by reducing our cost structure in all areas. We have undertaken an organization-wide cost reduction initiative to better match our resources to our workload, as well as identifying and implementing design, procurement and production efficiencies. The effect of this program is expected to drive its overhead to a targeted level approaching 20% of sales instead of the historical level of 25% of sales.

We will continue to shelter our profits from income tax through the utilization of loss carry forwards and investment tax credits arising from the use of Scientific Research & Experimental Development (SR&ED). Although we wrote

down the value of our deferred tax assets, they remain available for us to use going forward. This represents an excellent hidden asset. Our net deferred tax assets at December 31, 2018 can shield us from cash tax expense on approximately $65 million of future taxable income at the current statutory tax rates.

One of the very valuable IPs owned by the Group is its patented flying theater. The Group's subsidiary, Dynamic Entertainment, is leveraging the use of the flying theater on several prospects in its pipeline of opportunities. The MOU announced November 29, 2018 with Island Flyers LLC., was successfully closed in June of 2019 and structured as a 30 month option for Dynamic Entertainment to acquire a 50% ownership interest upon exercising its option. The parties expect the co-venture attraction in The Island to open to guests in March of 2021. This is the first of several co-venture opportunities that Dynamic Entertainment has been negotiating in North America and China.

In addition to its existing backlog, the Group continues its business development efforts to identify and establish future projects. The Group expects its sales pipeline of opportunities to continue to be strong, as the theme park industry continues to expand, particularly throughout Asia. The Group expects manufacturing capacity to remain tight in the industry, which helps us with negotiating pricing and commercial terms.

BUSINESS UNIT UPDATE

Attractions

We began 2018 with the signing of a five year strategic cooperation agreement with a theme park conglomerate. This new client wants Empire's world class, proprietary rides for a number of the operator's theme parks in Asia.

Shortly afterwards, we received two contracts from the client worth US$60 million. The company will be supplying one of its ride system products to two different theme parks currently under construction.

We recently opened our newest robotic dark ride in Warner Brothers theme park in Abu Dhabi to critical acclaim. We are scheduled to open two additional world class rides in 2019, which each won the Best New Ride Concept in 2018 and 2015, at the annual International Association of Amusement Parks and Attractions (IAAPA) trade show in Orlando. One is the Dynamic SFX Coaster, which is slated to open later this year. The other is our newest product, the Dual Powered Coaster. It was unveiled during the amusement industry's international trade show in November of 2018. The smaller, racer-style coaster vehicles caught the industry's eye with its on-board and off-board propulsion system. It immediately received the highest accolade possible: The First Place Brass Ring Award for 'Best New Attractions', awarded by officials from the International Attractions and Amusement Parks Association. This is the company's fourth consecutive win for this highly coveted prize. The SFX Coaster, Motion Theater, and All-Terrain Dark Ride have won in previous years.

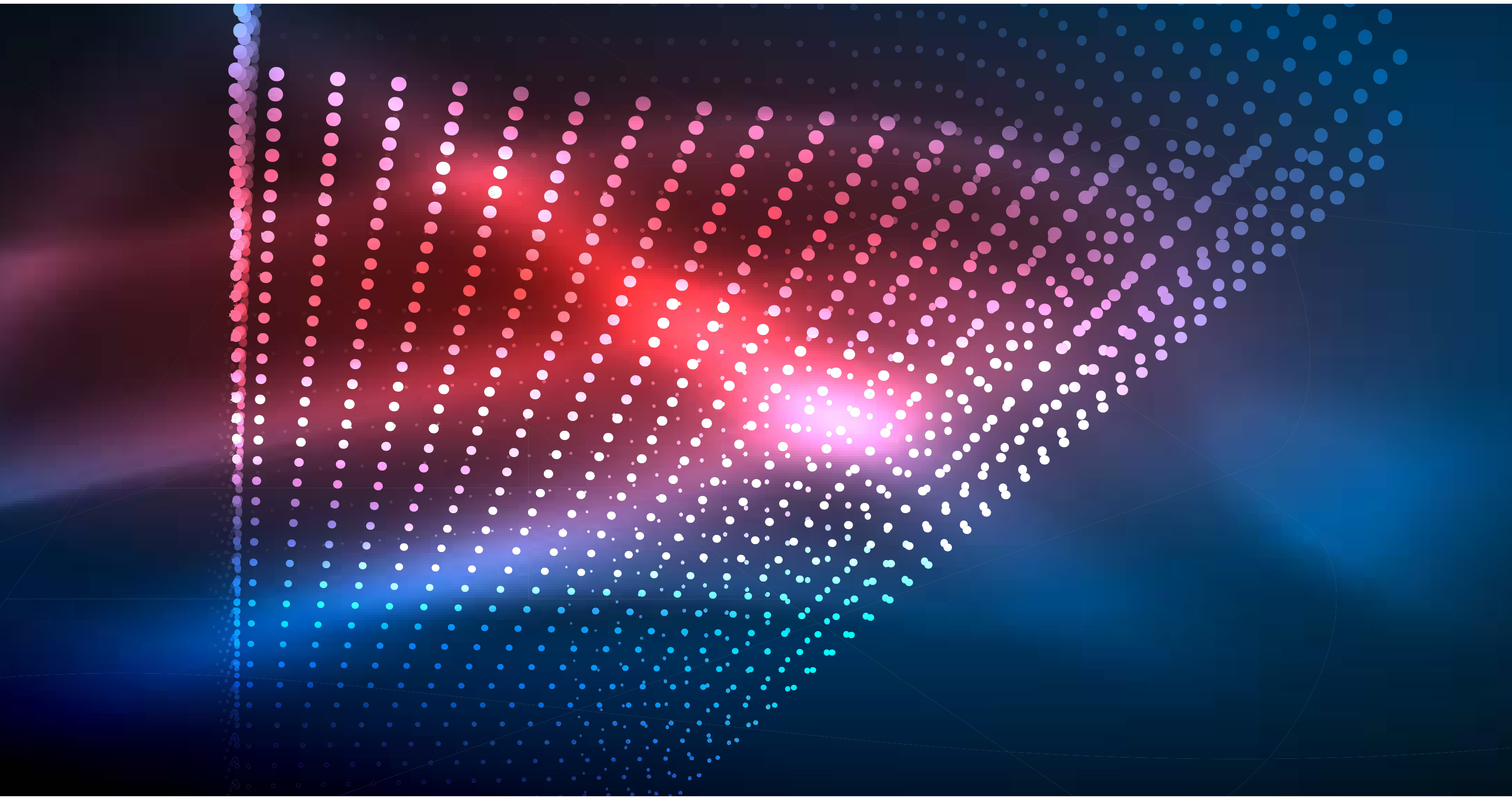
The company's approach to finding new, thrilling rides is being recognized beyond the industry. We earned the 2018 BC Export Award for 'Advancing Technology & Innovation', an honour presented by the Canadian Manufacturers and Exporters and the Government of British Columbia.

We have delivered eight Dynamic Flying Theaters on four continents since introducing the ride in 2014.

Co-Ventures

Empire's co-venture business, Dynamic Entertainment, is gathering momentum. Co-ventures are a natural extension of Empire's current business: from manufacturing ride systems for theme parks to becoming a co-owner of our own attractions in prime tourist locations. Co-ventures leverage Empire's unique, patented intellectual properties, such as the very popular Dynamic Flying Theater. This initiative's strategy is designed to generate a recurring, predictable revenue and profit stream for our business.

The first co-venture was announced on November 29, 2018 when the MOU was signed for a co-venture at The Island in Pigeon Forge, Tennessee. Empire's Dynamic Entertainment subsidiary now has an option to acquire 50% of the Tennessee co-venture. Located adjacent to the Great Smoky Mountains National Park, which draws over 11 million annual visitors, The Island is the premier tourist destination in the region.



This is the first of several co-venture opportunities that 76% owned Dynamic Entertainment has been negotiating in North America and China. The pipeline of opportunities that Dynamic Entertainment is pursuing is robust.

Telescopes

Empire's Dynamic Structures business unit has designed and built over half of the world's large observatory telescope enclosures. It is currently finishing the $10 million detailed design contract for the enclosure for the Thirty Meter Telescope (TMT), which will be the world's largest optical telescope.

The dome enclosure will be mammoth compared to all others; it will be 18 floors high and boasts a diameter of 60 metres and an aperture matching the segmented mirror, of 30 meters.

The 2,800 tonne enclosure must move with precision, extremely slow, and in sync with the telescope. The dome's unique calotte design looks like a giant eye looking into the sky, a feature that was innovatively designed by Dynamic Structure's engineering team.

The location for the telescope was just finalized in June 2019 when it received the legal and political approvals required to proceed. The site selected was Hawaii's Mauna Kea peak, which is home to 11 other telescopes.

TMT is in a new generation of extremely large telescopes that will look deeper into space and observe cosmic objects with unprecedented clarity. It will help astronomers better understand the formation of stars and planets, investigate black holes, and lead humankind closer to finding out if life exists beyond Earth.

VISION & MISSION

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

SHARED VALUES

- Innovation
- Trust
- Integrity
- Safety
- Teamwork

KEY STRATEGIC IMPERATIVES

Innovative Solutions

Industry leading products providing **best value**

Strategy

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

Engaged Team

Collaboratively achieving **common objectives** and personal growth

Strategy

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

Quality & Delivery

Drive to **zero** defects, Drive to **zero** employee harm

Strategy

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

Financial Performance

Sustained growth with acceptable economic returns

Strategy

Develop a product order backlog and long term contracts with key customers. Grow Parts & Services and execute Co-ventures.

HOW WE DO IT

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

Dynamic's first Robotic Arm Dark Ride opened as the centerpiece attraction in a new theme park in 2018.

ATTRACTIONS

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

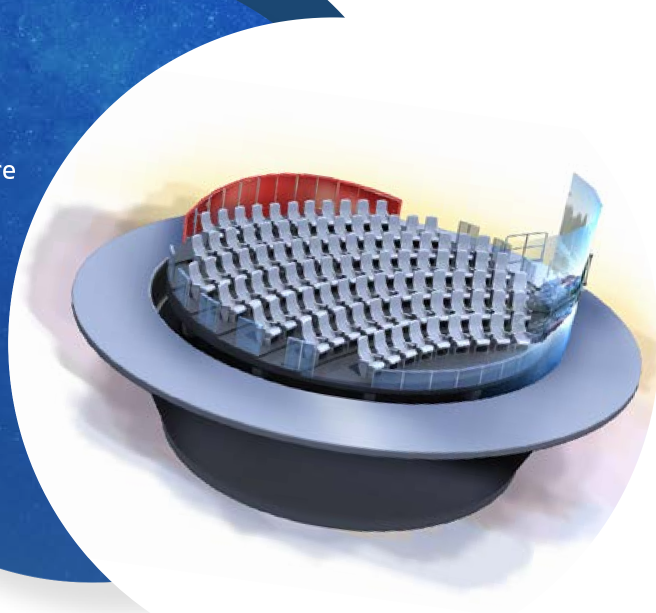
In May 2018, Dynamic announced a five year strategic cooperation agreement with a company's multiple theme parks in Asia.

PROPRIETARY PRODUCTS

Flying Theatre

Riders are in front of a massive, panoramic screen. The seating area's motion is synchronized to the movie, creating the illusion of flight. The seating area smoothly rotates from horizontal to vertical positions for loading. This ride, which is very popular in theme parks and major tourist destinations, is ideal for Co-Ventures.

Motion Theatre



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

Immersive Transporter

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

Trackless Ride Vehicles

These are fully untethered vehicles that allow riders a different experience each time. They rely on high-tech, military-grade technology.

The three models are:

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

> Motion Dark Ride — omni-directional turning

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

Robotic Arm Dark Ride

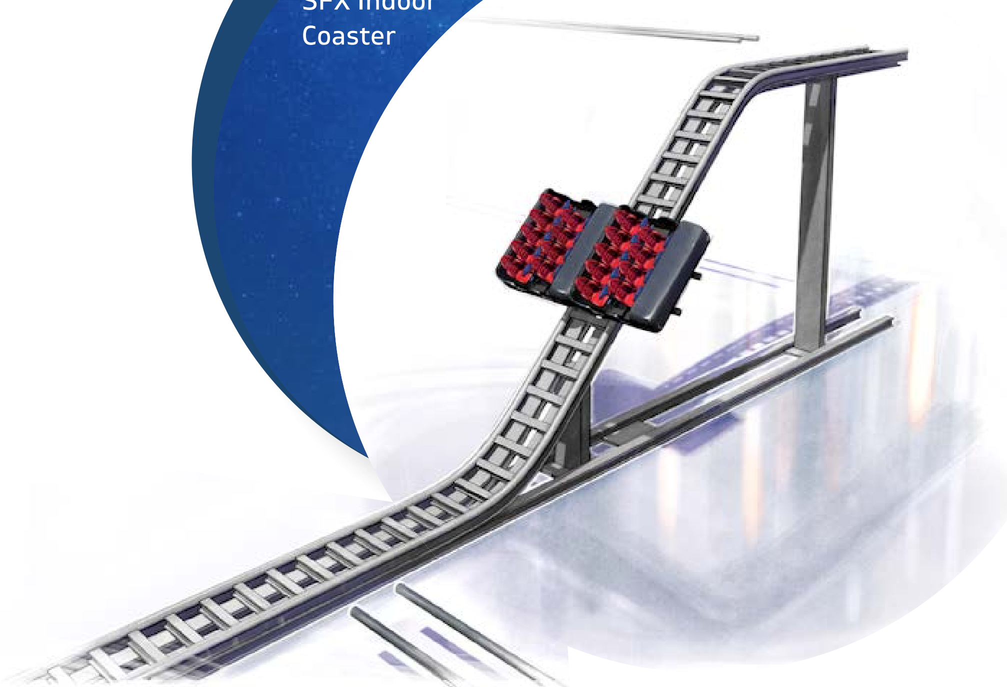
Regardless of whether the robots are in a fixed position or travel on a track, they provide an exhilarating ride by lifting, tilting, and spinning. These motions are perfectly synchronized with audio and visual media. Interactive options are available.

Dual Power Coaster

This new genre uses smaller cars instead of a ‘train’. It is powered with a combination of on-board and off-board motors to heighten the experience for guests.

The Dual Power Coaster won the 2018 Best New Product Award.

SFX Indoor Coaster



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

Unique Ride Systems

This division works in partnership with major tourist destinations to conceptualize, engineer, and build.

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

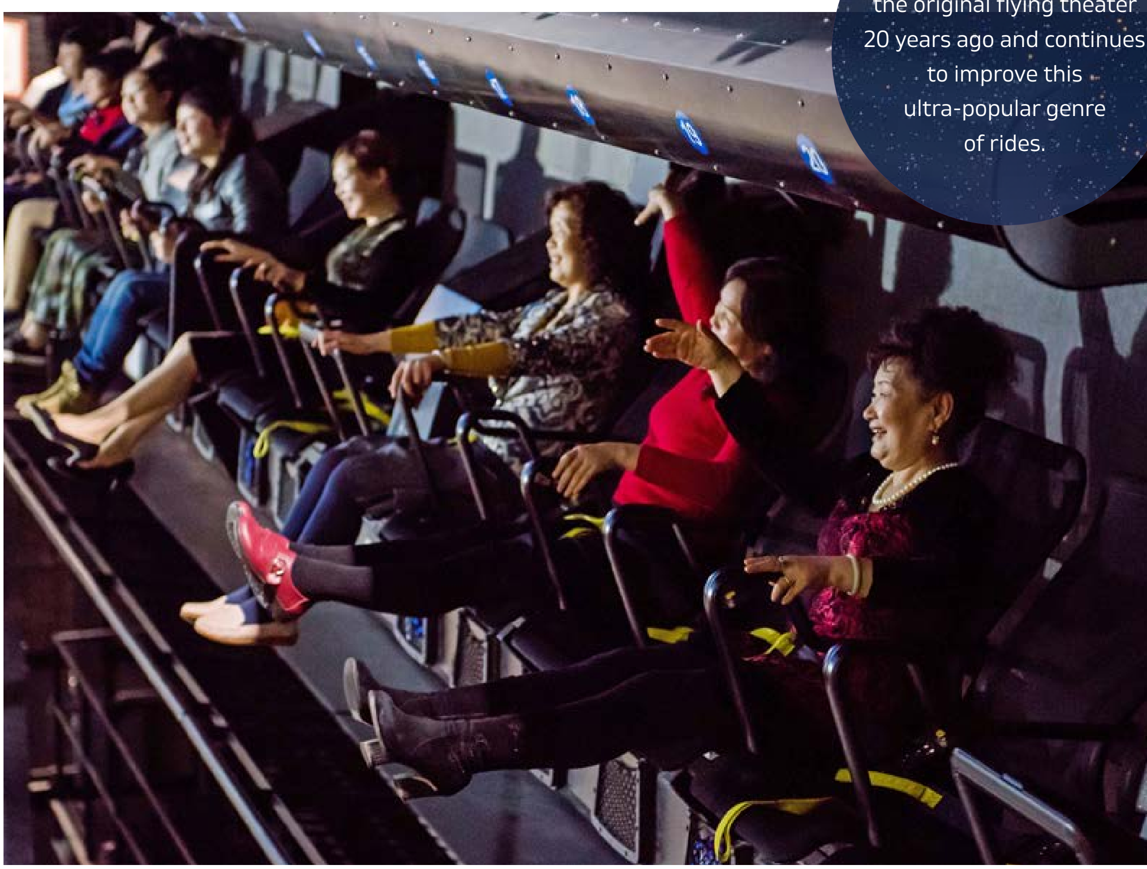
These ride systems involve emerging technologies; thus each of these marquee attractions are extraordinarily unique.

Parts and Services

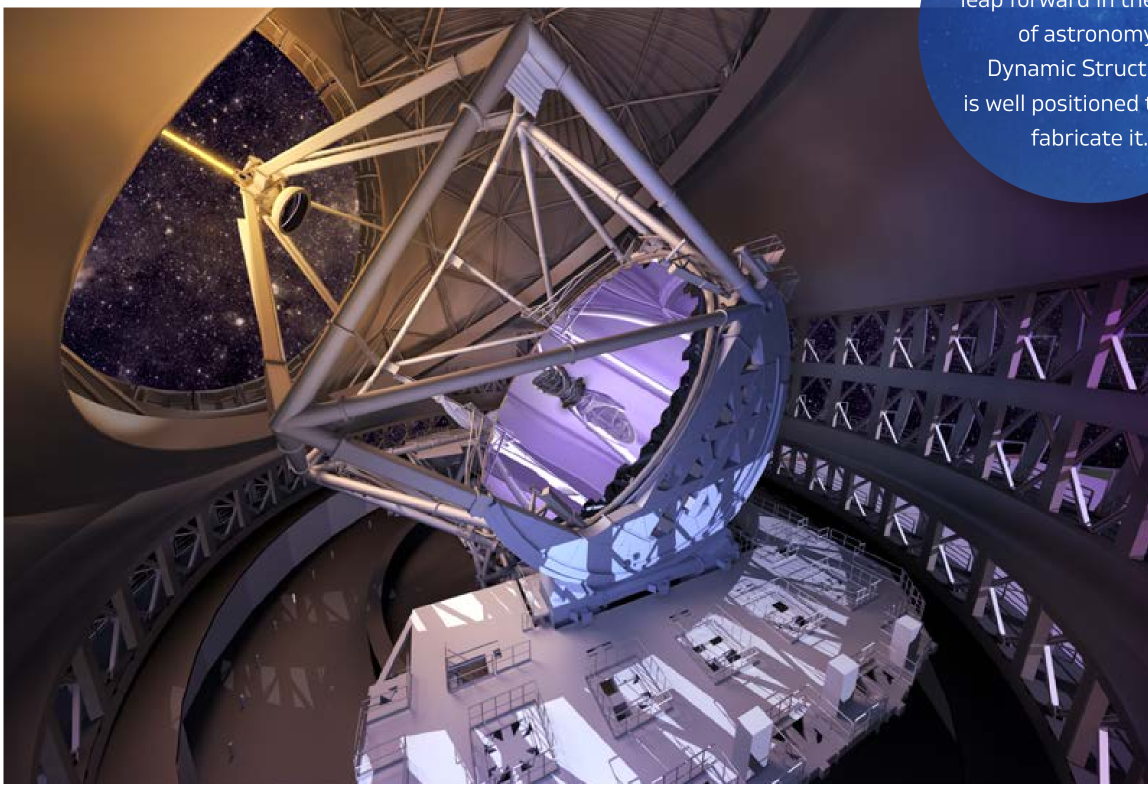
This division supplies parts for our own attractions as well as for rides manufactured by others. The company also provides warranty, inspections, audits and consulting services.

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

Empire helped design the original flying theater 20 years ago and continues to improve this ultra-popular genre of rides.



The Thirty Metre Telescope will be a major leap forward in the study of astronomy; Dynamic Structures is well positioned to help fabricate it.



TELESCOPES

Dynamic Structures has the enviable distinction of having designed and/or built over half of the world's largest telescope enclosures. These enclosures demand extremely precise mobility to ensure the position of scientific telescopes. Likewise, their remote locations require extraordinary reliability.

Another Empire business, Dynamic Optics, is pioneering research on mirrors that could disrupt the field of astrophysics by making these scientific instruments dramatically more accessible.

The company also engineers, fabricates and installs large, dynamic steel structures because of its unique skills with complex mechanical and structural projects.

CORPORATE STRUCTURE

EMPIRE INDUSTRIES LTD

ATTRACTIONS

- 73.5% owned — DYNAMIC ENTERTAINMENT — Dynamic Entertainment Group Ltd.
- 100% owned — DYNAMIC ATTRACTIONS — Dynamic Attractions Ltd.
  - Dynamic Attractions Inc.
  - Dynamic Attractions (HK) Ltd.
    - Zhejiang Dynamic Engineering Technology Ltd.

TELESCOPES

- 100% owned — DYNAMIC STRUCTURES — Dynamic Structures

OTHER INVESTMENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

We earned the 2018 BC Export Award for 'Advancing Technology & Innovation', an honour presented by the Canadian Manufacturers and Exporters and the Government of British Columbia.

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, 2018.

The audited consolidated financial statements and accompanying notes of the Group for the year ended December 31, 2018 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a year relates to the Group's fiscal year ended December 31. All amounts are reported in Canadian dollars unless specifically stated to the contrary. Financial information disclosed in this MD&A is presented in thousands (000's) with the exception of percentages and per share data.

The Board of Directors, on the recommendation of the Audit Committee, approved the contents of this MD&A on April 30, 2018. Disclosure contained in this document is current to this date, unless otherwise stated.

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

BUSINESS DESCRIPTION

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

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

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

Enterprise	Business
Tornado Global Hydrovacs Ltd. ("Tornado") – 23.8%	TGHL designs, manufactures and sells hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. It operates through a leased production facility in Stettler, AB and a sales office located in Calgary, Alberta. TGHL is also in the early stages of commencing similar operations in China and has established an office in Beijing, China.

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

CONSOLIDATED FINANCIAL RESULTS

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2018	2017	Variance	2018	2017	Variance
Operating Results:						
Revenues	**140,939**	131,763	9,176	**20,049**	27,074	(7,025)
Adjusted gross margin	**8,017**	26,579	(18,562)	**(10,135)**	5,899	(16,034)
Adjusted gross margin %	**5.69%**	20.17%	(14.5%)	**(50.6%)**	21.79%	(72.3%)
Adjusted EBITDA	**(12,654)**	6,415	(19,069)	**(15,239)**	(914)	(14,325)
Adjusted EBITDA %	**(9.0%)**	4.87%	(13.8%)	**(76.0%)**	–3.38%	(72.6%)
Adjusted EBIT	**(18,882)**	1,460	(20,342)	**(20,017)**	(4,238)	(15,779)
Adjusted EBIT %	**(13.4%)**	1.11%	(14.5%)	**(99.8%)**	(15.7%)	(84.2%)
Net Income	**(50,463)**	(8,844)	(41,619)	**(48,450)**	(10,377)	(38,073)
Loss per share (based and diluted):	**(0.53)**	(0.13)	(0.40)	**(0.50)**	(0.14)	(0.36)

SIGNIFICANT EVENTS

- On May 1, 2018, the Group announced that its wholly owned subsidiary, Dynamic Attractions Ltd., has agreed to the terms of a five-year strategic cooperation agreement with a theme park conglomerate in Asia. The strategic cooperation agreement grants Dynamic Attractions preferred vendor status and is expected to be launched with Dynamic Attractions supplying one of the Group's proprietary ride systems to three different theme parks currently under construction, with a combined value of USD $93 million. The first two theme park awards are in the process of being finalized and the third such award is expected before year-end. The delivery schedule will be 24 months from when each specific supply agreement is executed, at which time, the contracts will be added to backlog.
- On May 29, 2018, the Group announced the first two ride contracts under the five-year strategic partnership agreement announced on May 1, 2018. The two contracts awarded are for a combined value of $73 million. Under the contracts, Dynamic Attractions will be supplying one of its proprietary ride systems to two different theme parks currently under construction. The Group has completed the design and manufacturing requirements in two prior contracts. The supply portion of the contracts will be executed over the course of 24 months.
- On June 12, 2018 the Group announced that Canada Zhoufa Agricultural Holding Company Limited exercised all of their outstanding warrants, resulting in 6,300,000 common shares being issued by the Group. The exercise price of the warrants was $0.272 per share, yielding gross proceeds of approximately $1.7 million.
- On June 22, 2018 the Group announced the closing of a non-brokered private placement financing of 11,111,110 units at a price of $0.45 per unit for gross proceeds of $5,000. Each unit is comprised of one common share and one common share purchase warrant. An aggregate of 11,111,110 common shares and 11,111,110 warrants were issued. The warrants expire three years from the closing date and have an exercise price of $0.50 per common share until December 22, 2019 and $0.75 per common share thereafter until June 22, 2021. The warrants are transferrable with the consent of the Group.

SUBSEQUENT SIGNIFICANT EVENTS

- On April 25, 2019, the Group announced that it intends to complete a non-brokered private placement financing of up to 850,000 convertible preferred shares at an issue price of $10.00 per share for gross proceeds to the Company of up to $8,500,000. Dividends accrue at 8% per annum. The shares are convertible into common shares at $0.45 per share for thirty-six months, and at $0.75 per share before sixty months from the date of issue. The preferred shares may be redeemed by the Group in certain circumstances, and may be retracted by the holder any time after thirty-six months The Group intends to use the proceeds for the repayment of unsecured bridge financing and for general working capital purposes.
- On April 29, 2019, the Group successfully closed its previously announced debt financing of $38.5 million, replacing its bank with a subsidiary of a Fortune 500 company as its new senior lender. The transaction results in approximately $19.5 million of incremental new cash facilities for the Group. The new debt facility has an 18 month term, and bears interest at prime plus 9.5%. As part of the financing arrangement, Export Development Canada has agreed to extend its $5.5 million term loan to correspond with the term of the new senior debt.

OUTLOOK

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

The Group just closed a $38.5 million debt financing with a wholly owned subsidiary of a Fortune 500 company. After paying out the Group's previous senior lender in full, this financing provides $19.5 million of additional available cash to strengthen its liquidity and be in a better position to finance its healthy backlog of contracts. As part of this new financing, $5.5 million of term debt due within one year was rescheduled to be paid in 18 to 24 months from closing. In addition, the Group announced it was undertaking an $8.5 million convertible preferred issue, due to close in Q2 2019. Strengthening the Group's liquidity will allow it to effectively and efficiently execute its existing backlog of $252 million.

There are four reasons why financial results are expected to improve commencing in Q2 2019 and subsequent quarters:

- Revenue in the last three quarters of 2019 is expected to exceed $40 million per quarter versus less than $30 million per quarter in Q4 2018 and Q1 2019 due to working capital constraints. The contract backlog is expected to be replenished by the opportunities currently in the Group's sales pipeline.
- Job margins have been reduced in the past four years because of the losses incurred on the three, first generation jobs, the losses of which have been provided for in the historical

results. Excluding these first generation jobs, our job margins have averaged approximately 34% in the past four years. Going forward, there is $25 million of revenue left on these first generation jobs for which no job margin is being recognized. These contracts will continue to suppress the overall job margin percentage until these three jobs are finished. Two of the three jobs are scheduled to be substantially complete later this year and the third one in 2020. IFRS requires the losses on these three jobs to be recognized immediately when known so the $18 million cumulative loss on these projects has already been recognized in our results from 2016 to 2018.

- The Group is implementing a facility cost reduction plan that is expected to reduce facility overhead costs by over $2 million annually, starting in 2020.
- Having come through a design intensive phase of its growth, building its world class product line, the Group is streamlining and improving its efficiencies by reducing its cost structure in all areas. The Group has undertaken an organization-wide cost reduction initiative to reduce headcount, as well as identifying and implementing design, procurement and production efficiencies and facility cost reductions (mentioned above) that can improve not only the Group's execution capabilities but also its key financial metrics. The effect of this program is expected to drive its overhead to a targeted level approaching 20% of sales instead of the historical level of 25% of sales.

The Group's free cash flow is expected to increase in future quarters because it is scaling back on its R&D and product development expenditures. In the past five years, the Group has invested heavily in R&D and product development.

We will continue to shelter our profits from income tax through the utilization of loss carry forwards and investment tax credits arising from the use of Scientific Research & Experimental Development (SR&ED). The Group wrote down the value of its deferred tax assets. Notwithstanding this, these tax losses continue to represent excellent hidden value that can be used going forward. Our net deferred tax assets at December 31, 2018 can shield us from cash tax expense on approximately $65 million of future taxable income at the current statutory tax rates.

One of the very valuable IPs owned by the Group is its patented flying theater. The Group's subsidiary, Dynamic Entertainment Group Ltd., is leveraging the use of the flying theater on several prospects in its pipeline of opportunities. The MOU announced November 29, 2018 with

Tennessee Flyers LLC., has made good progress on some fronts but our ride manufacturing financing has slowed down the project's original schedule. The parties now expect to have the lease signed soon, with the co-venture attraction opening to guests in late 2020 or early 2021. This is the first of several co-venture opportunities that Dynamic Entertainment Group Ltd. has been negotiating in the US, Canada, and China.

The Group recently opened its newest robotic dark ride in Warner Brothers theme park in Abu Dhabi to critical acclaim. The Group is scheduled to open two additional world class rides in 2019, which each won the Best New Ride Concept in 2018 and 2015, at the annual International Association of Amusement Parks and Attractions (IAAPA) trade show in Orlando. Opening these three proprietary ride systems will set the groundwork for adding to an already robust pipeline of prospects going forward.

In addition to its existing backlog, the Group continues its business development efforts to identify and establish future projects. The Group expects its sales pipeline of opportunities to continue to be strong, as the theme park industry continues to expand, particularly throughout Asia. The Group expects manufacturing capacity to remain tight in the industry, which helps us with negotiating pricing and commercial terms.

The new financing just arranged is expensive, but not in the context of what it is allowing the Group to generate in operating income.

The Group has a current market capitalization of $40.2 million, which the Group believes does not reflect its current intrinsic value based upon the existing backlog of profitable contracts, the unrecognized asset value of its award winning product portfolio, its tax loss carryforwards and its co-venture initiatives. The officers, directors and insiders own approximately 40% of the Group so the Group's goals are completely aligned with the goal of the shareholders to maximize market value.

2018 RESULTS REVIEW

Revenues and Adjusted Gross Margins

Revenues of $140.9 million in 2018 increased by $9.2 million or 7.0% compared to 2017. The increase in revenues was attributable to the Group executing on its increased backlog of contracted work.

Adjusted Gross Margin of $8.0 million decreased by $18.6 million or 69.8% compared to 2017. This decrease was primarily due to significant cost overruns incurred and realized by the Group in the period. Adjusted Gross Margin percentages decreased to 5.7% in 2018 compared to 20.2% in 2017. This decrease was primarily due to cost overruns on first generation projects of $9.1 million.

Revenues in 4Q18 decreased by 25.9% compared to the same period in 2017, due to slower progress on contracts arising from tight liquidity in the period. Gross Margins in 4Q18 decreased by $16.0 million compared to the same period in 2017. This was primarily due to the additional realization and incurrence of significant cost overruns on our first generation projects.

Selling, General and Administrative Costs

Selling, general and administrative costs remained relatively consistent, in spite of the increase in revenue that was executed in the year. SG&A was $20.7 million in 2018 compared to $20.2 million in 2017. Given the increase in 2018 revenue, this represents an increase in sales and administration efficiency in the period to 14.7% of revenue in 2018 from 15.3% of revenue in 2017.

Selling, general and administrative expenses in 4Q18 were consistent with the same period in 2017. This is driven by same factors discussed in the full year analysis.

Adjusted EBITDA

Adjusted EBITDA Loss of ($12.7) million in 2018 decreased by $19.1 million compared to 2017. This was primarily due to the decrease in Adjusted Gross Margin percentage described above.

Adjusted EBITDA Loss for 4Q18 of ($15.2) million decreased by $14.3 million compared to the same quarter in 2017. This is driven by the same factors discussed in the full year analysis.

Cashflow Generated (used) by Operations

The Group's cash flow generated (used) by operations decreased to ($15.1) million used in 2018 compared to ($6.8) million used in 2017, largely as a consequence of the decrease in Adjusted Gross Margin percentage described above, offset to some extent by reduced finance costs.

The Group's cash from (used in) operating activities decreased to ($4.1) million used in 2018 compared to $3.2 from in 2017, because of the factors described in cash from (used in) operations above, offset by positive net change on non-cash working capital of $10.1 million in 2018.

Depreciation and Amortization

Depreciation of property, plant and equipment increased by $0.6 million in 2018 compared to 2017. This increase was due to a full year of depreciation of the $6.3 million of additions recorded in 2017 and the commencement of depreciation of the $0.7 million of additions recorded by the Group in 2018.

Amortization of intangible assets increased by $0.7 million in 2018 compared to 2017. Consistent with property, plant and equipment, the amortization of intangible assets has increased due to full year amortization expense arising from $3.9 million in additions from 2017 and the commencement of amortization of $4.1 million of additions in 2018.

The Group's Media-based attractions operating segment has designated certain proprietary product designs and other items under development that will be patented as internally generated intangible assets. As at December 31, 2018 the Group recorded an impairment charge of $6.3 million due to uncertainty over future cash flows to be generated from the underlying intangible assets. The value of the intangible assets that have been impaired will be reviewed periodically to determine if a reversal of all or some portion of the impairment charge is warranted.

Finance Costs

Finance costs decreased by $0.3 million in 2018 over 2017 which is driven by lower debt levels in 2018 compared to 2017 as $5.2 million of debt was paid down over the course of the year.

Share of profit (loss) from associate

On September 15, 2017, the Group converted its note receivable from Tornado Global Hydrovacs ("TGHL") into common shares of TGHL representing 23.8% ownership. The Group recorded a loss from TGHL of $0.3 million in 2018 representing is share of TGHL's operating losses in 2018, compared to a loss of $0.8 for the period from September 15, 2017 through the end of 2017.

Stock-based compensation

The Group recorded stock based compensation expense in 2018 of $0.3 million which is a decrease $0.6 million over the same period in 2017. The decrease in stock based compensation is due to the fact that 1.2 million incentive shares that were issued to 3 executives in August 2017, but no similar award took place in 2018.

Stock-based compensation expense in 4Q18 was minimal and consistent with the 4Q17 with moderate charges relating to ongoing amortization of unvested options in the quarter.

Fair value changes in derivative financial instruments

The Group recorded a loss of $2.5 million in 2018 on changes to the fair value of its outstanding foreign currency forward contracts. In 2017 the Group recorded a loss of $1.1 million. At December 31, 2018, the Group had a fair value liability recorded relating to its foreign currency forward contracts of $2.9 million compared to a liability of $0.5 million recorded as at December 31, 2017. The reason for large change in fair value is because the outstanding forward contracts $53.9 million at December 31, 2018 had a average forward rate of 1.3065 versus the year-end exchange rate of 1.3642 at December 31, 2018. As December 31, 2017, the Group had $20 million of outstanding forward contracts outstanding with a weighted average forward rate of $1.2315 versus a year-end exchange rate of 1.2545.

The fair value changes are driven primarily by the rate differential between the forward rates and the actual rates on the valuation dates which for this MD&A was December 31, 2018 and 2017.

In 4Q18, the Group recorded a fair value loss on derivative financial instruments of $4.0 million compared to loss of $2.8 million recorded in same period in 2017. The loss in 4Q18 was driven by the USD exchange rate increasing from !.2945 at September 30, 2018 to $1.3642 at December 31, 2018.

Other Component of Income (loss)

The loss of $11.5 million recorded in 2018 is primarily driven by $9.8 valuation allowance on investment tax credits. he valuation allowance on investment tax credits is related to the impairment of deferred tax assets which is discussed elsewhere in this MD&A. The customer rebate provision in 2017 for rebates granted to customers on current projects which can be exercised by the customer as a credit against newly awarded projects from that customer.

The quarterly variance in this category compared to 2017 is solely based on timing, as the Group recorded the valuation allowance and provisions described above in the fourth quarter.

Income tax expense

The Group's cash tax expense was $0.1 in 2018 compared to $nil in 2017. Deferred tax expense decreased by $11.3 million in 2018 as compared 2017 due to the valuation allowance recorded by the Group of its deferred tax asset balance.

In 4Q18, the Group's cash tax expense was $nil which is consistent with the same period in 2017. In 4Q18, the Group recorded the valuation allowance of all deferred tax assets recognized up to that point.

As at December 31, 2018 the Group has the Group has unrecorded non-capital loss carry-forwards and investments tax credits that will shield the Group from tax on $65 million of future taxable income.

Net income (loss)

The Group's net loss of ($50.5) million in 2018 compared to net loss of ($8.8) million in 2017. Of this loss, $18.3 million is directly attributable to the writedown in value of the Company's deferred tax assets. $6.3 million is due to the impairment of intangible assets. $9.1 million of the loss is attributable to construction cost overruns. The balance of the loss is attributable to the other factors discussed above throughout the 2018 Results Review section.

In 4Q18, the Group's net loss was ($48.5) million compared to a net loss of ($10.4) million in same period in 4Q17. These changes were driven largely by the factors discussed above throughout the 2018 Results Review section, which were booked in the fourth quarter.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Annual Financial Information For the years ended	2018	2017	2016
Sales	**140,939**	131,763	117,987
Profit (loss) from continuing operations	**(50,463)**	(8,844)	1,414
Profit (loss) from discontinued operations	**–**	–	2,564
Profit (loss) from all operations	**(50,463)**	(8,844)	3,978
Profit (loss) per share, basic & diluted	**(0.53)**	(0.13)	0.06
Total Assets	**72,996**	83,724	71,824
Total long-term financial liabilities	**8,630**	8,342	1,152
Cash dividends declared per common share	**–**	–	–

Quarterly Financial Information For the years ended	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Sales	**20,049**	**53,804**	**33,555**	**33,531**	27,074	43,140	32,223	29,326
Profit (loss) from continuing operations	**(48,450)**	**166**	**(1,212)**	**(967)**	(10,377)	2,087	1,554	(2,108)
Loss per share (basic & diluted)	**(0.50)**	**–**	**(0.02)**	**(0.01)**	(0.14)	0.03	0.02	(0.03)

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Liquidity

For the year ended December 31, 2017, the Group's continuing operations used $15.1 million of cash, compared with $6.8 million of cash used in 2017 excluding the impact of changes in non-cash working capital amounts. The Group expects that its operations will generate sufficient cash on a go-forward basis to meet the Group's obligations.

The Group has a $15.0 million revolving credit facility with CIBC, of which $8.7 million was drawn as of December 31, 2018. The Group's marginable assets at December 31, 2017 were $16.5 million, which is $7.8 million more than the Group's total draw on the operating line.

The Group made $5.2 million of cash principal repayments during the year. Total term debt of $8.2 million as at December 31, 2018 consisted of $1.5 million of term debt with CIBC, $5.5 million of term debt with EDC, $0.6 million under finance leases, and $0.9 million of a limited recourse loan.

The Group was in violation of its financial covenants at December 31, 2018 for which a waiver was obtained. Accodingly the long-term debt associated with the covenants that are in violation has been reclassified as current for December 31, 2018. As discussed in the significant event section, the Group renegotiated its credit facilities and obtained a new third party lender on April 29th, 2019.

Shareholders' Equity (Deficit)

Shareholders' deficit of ($31.0) million at December 31, 2018 is $43.6 million lower than the shareholders' equity at December 31, 2017 due largely to the write-down in the value of deferred tax assets and intangible assets as well as the net loss in the period, offset by increases in share capital through private placements. No dividends were declared or paid in the year. The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. The Group had 4,482,917 outstanding options at December 31, 2018. The average exercise price of the outstanding options was $0.45 per share. Of these options, 3,466,252 were currently exercisable at an average exercise price of $0.43 per share.

Market Capitalization

The market capitalization of the Group's 103,142,678 issued and outstanding common shares at April 30, 2019 was $40.2 million or $0.39 per share. The issued and outstanding common shares at April 30, 2019, together with securities convertible into common shares are summarized in the table below.

Fully Diluted Shares As at April 30, 2019		
Issued and outstanding common shares		**103,142,678**
Securities convertible into common shares		
Warrants	11,111,110	
Stock Options	4,482,917	
Total Securities convertible into common shares		15,594,027
Fully Diluted Shares		**118,736,705**

Segment Performance

The Group's operations consist of three separately identifiable segments, Media-based Attraction, Steel Fabrication Services and Corporate. The performance of the Group's operating segments is listed below:

In November 2018, the company reached an unmatched milestone for its sector; 2 million work hours without a lost time incident.

Media-Based Attractions

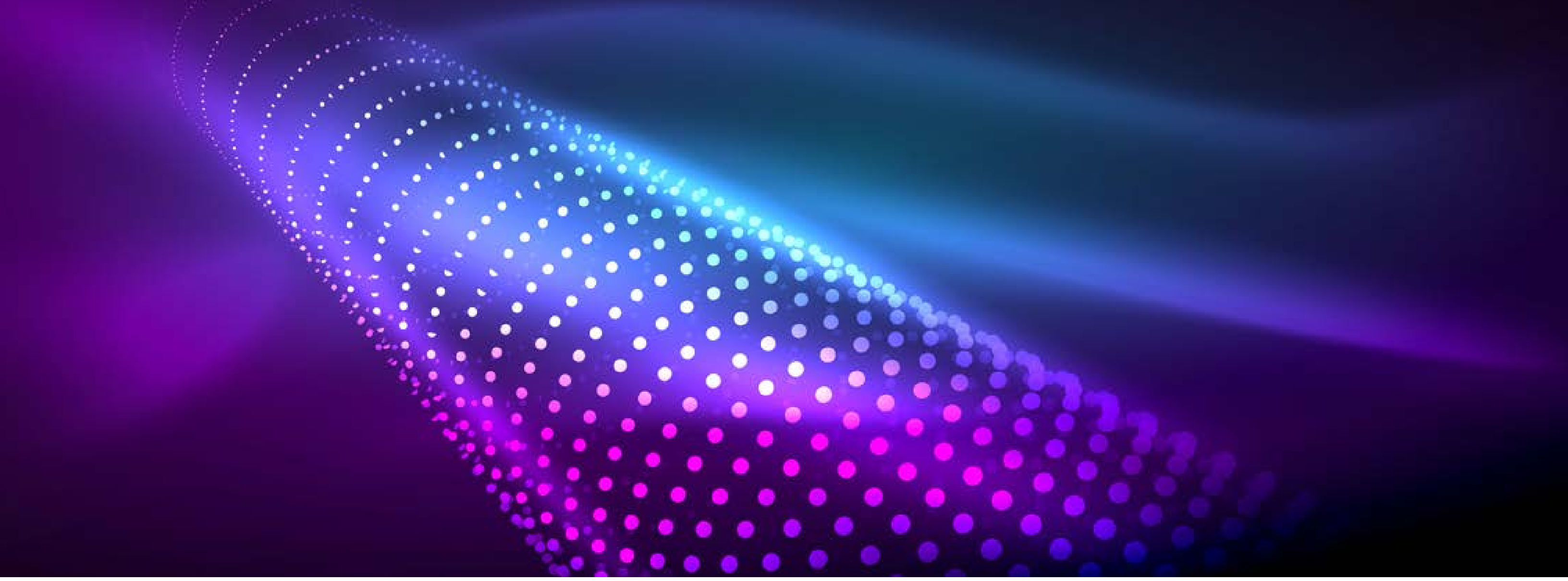
Periods ended Dec 31	Twelve months ended			Quarter ended		
	2018	2017	Variance	2018	2017	Variance
Operating Results:						
Revenues	**132,188**	124,373	7,815	**18,077**	25,414	(7,337)
Adjusted gross margin	**8,144**	27,314	(19,170)	**(9,967)**	6,457	(16,424)
Adjusted gross margin %	**6.2%**	22.0%	(15.8%)	**(55.1%)**	33.0%	(88.2%)
Adjusted EBITDA	**(7,678)**	12,660	(20,338)	**(14,379)**	1,212	(15,591)
Adjusted EBITDA %	**–5.8%**	10.2%	(16.0%)	**(79.5%)**	16.4%	(95.9%)
Adjusted EBIT	**(13,304)**	8,222	(21,526)	**(16,112)**	(580)	(15,532)
Adjusted EBIT %	**(10.1%)**	6.6%	(16.7%)	**(89.1%)**	9.8%	(98.9%)

Steel Fabrication

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2018	2017	Variance	2018	2017	Variance
Operating Results:						
Revenues	**8,751**	7,215	1,536	**1,972**	1,645	327
Adjusted gross margin	**(127)**	(910)	783	**(168)**	(573)	405
Adjusted gross margin %	**(1.5%)**	(12.6%)	11.2%	**(8.5%)**	(34.8%)	26.3%
Adjusted EBITDA	**(1,612)**	(2,452)	840	**(590)**	(1,038)	448
Adjusted EBITDA %	**(18.4%)**	(34.0%)	15.6%	**(29.9%)**	(49.8%)	19.8%
Adjusted EBIT	**(2,123)**	(2,964)	841	**(718)**	(1,187)	469
Adjusted EBIT %	**(24.3%)**	(41.1%)	16.8%	**(36.4%)**	(56.0%)	19.6%

Corporate (non-operating)

Periods ended Dec 31	Twelve months ended			Quarter ended		
	2018	2017	Variance	2018	2017	Variance
Operating Results:						
Revenues	**–**	175	(175)	**–**	15	–
Adjusted gross margin	**–**	175	(175)	**–**	15	–
Adjusted EBITDA	**(3,364)**	(3,793)	429	**(802)**	(928)	126
Adjusted EBIT	**(3,402)**	(3,806)	404	**(840)**	(913)	73



OTHER MATTERS

Critical Accounting Estimates

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

Revenue recognition

The Group recognizes revenue using the IFRS 15 standard. The core principal of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This involves identifying the performance obligations in each contract, allocating the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfied a performance obligation. In the situation where there is an inability to reliably estimate progress on performance obligations, the revenue recognition is limited only to the extent that is offsets the costs incurred, resulting an any projected profit to be realized on the contract performance obligations being deferred until better information that can estimate a reasonable measure of performance is obtained. The Group has concluded that three "first generation" contracts and one other customer should be accounted for in this manner.

Cash generating units

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

Allowance for doubtful accounts

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

Valuation of inventory

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

Share-based payments

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

Valuation of Long-lived Assets and Asset Impairment

The Group periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying value of the asset, an impairment loss would be recognized based on the excess of the carrying value of the asset over the fair market value calculated using discounted future cash flows.

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

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

Deferred Income Taxes

The Group accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using

substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse. If the estimates and assumptions are modified in the future, the Group may be required to reduce or increase the value of deferred tax assets or liabilities resulting in, where applicable, an income tax expense or recovery. The Group regularly evaluates deferred tax assets and liabilities.

Investment tax credits

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

RISKS AND UNCERTAINTIES

Operating Results

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

Design Risk

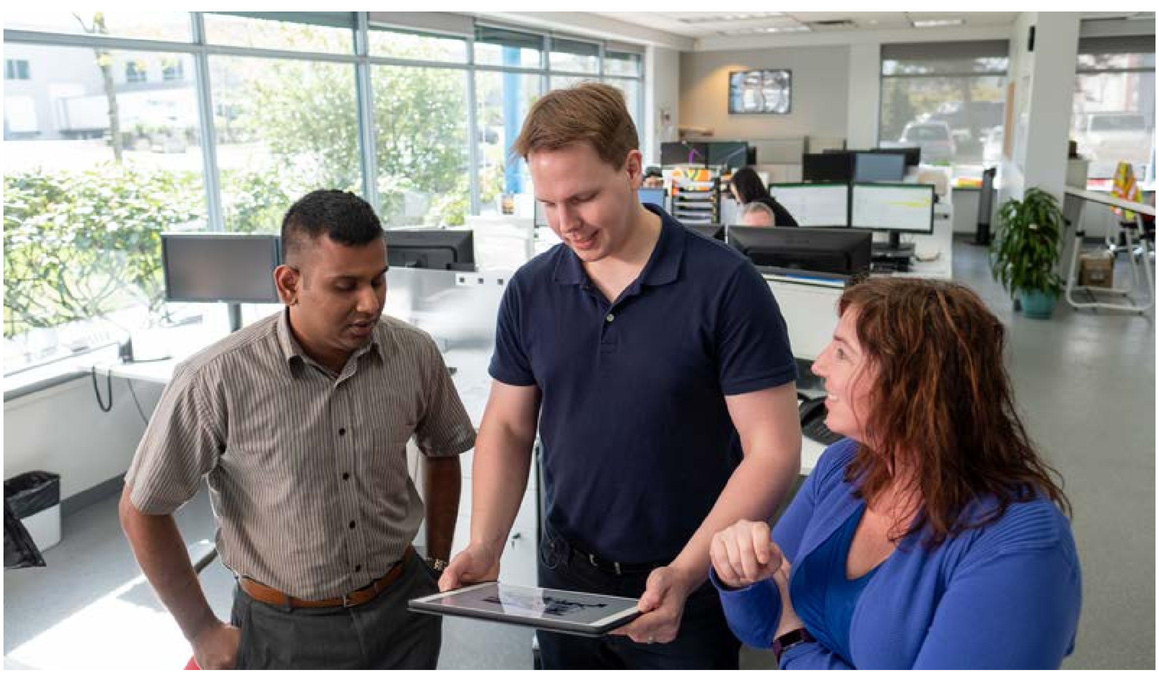
As the Group's projects are on the cutting edge of attraction design, there is the risk that new attractions will not perform as designed. This may result in significant costs to re-design and modify attractions after they have been manufactured and installed to bring them into conformity with contractual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

Project Performance

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

Despite these estimates, actual costs could vary from the estimated amounts. These variations could adversely affect the Group's business. Any inability of the Group's subsidiaries to execute customer projects in accordance with requirements, including adherence to completion timetables, may have a material adverse effect on the Group's business, operations and prospects.

The Group recognizes revenue using the IFRS 15 standard. The core principal of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This involves identifying the performance obligations in each contract, allocating the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfied a performance obligation. In the situation where there is an inability to reliably estimate progress on performance obligations, the revenue recognition is limited only to the extent that is offsets the costs incurred, resulting an any projected profit to be realized on the contract performance obligations being deferred until better information that can estimate a reasonable measure of performance is obtained. The Group has concluded that three "first generation" contracts should be accounted for in this manner.



Cost of Components and Raw Materials

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

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

Liquidity Requirements

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

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

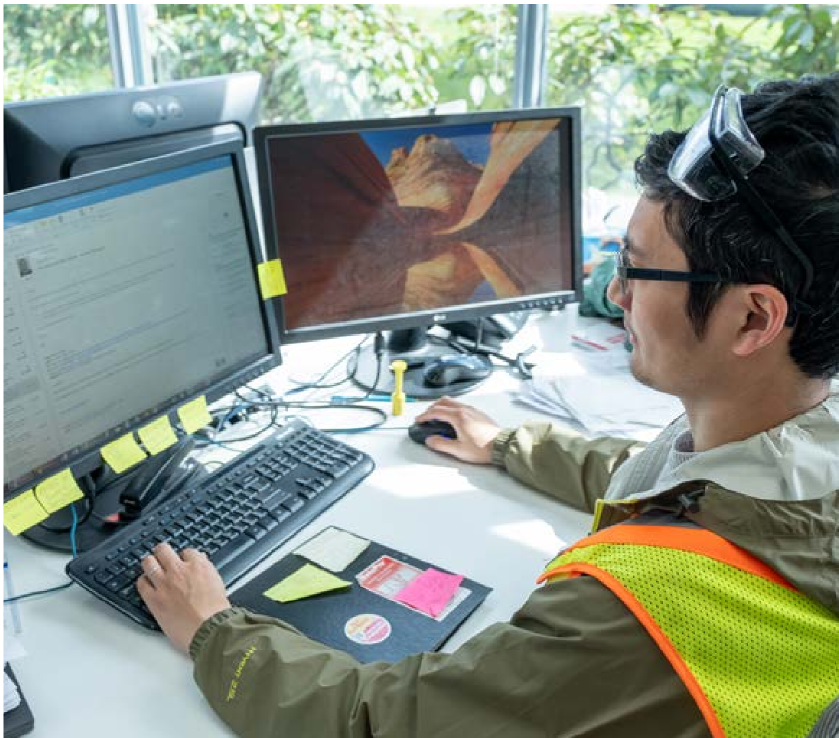
The Group requires sufficient financing to fund its operations. Failure to obtain financing on a timely basis could cause missed acquisition opportunities, delays in expansion and may also impact ongoing operations.

Foreign Exchange Risk

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

Global Economic and Trade Environment

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



the Group. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Group's business, operating results, and financial condition.

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

Credit Risk

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

Bonding Capacity

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

Reliance on Key Personnel

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

Competitive Market

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

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

Interest Rate Risk

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

Labour Relations

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

collective agreements and several different collective agreements relating to field erection. The Group is at risk if there are labour disruptions relating to any of these collective agreements.

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

Acquisitions

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

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

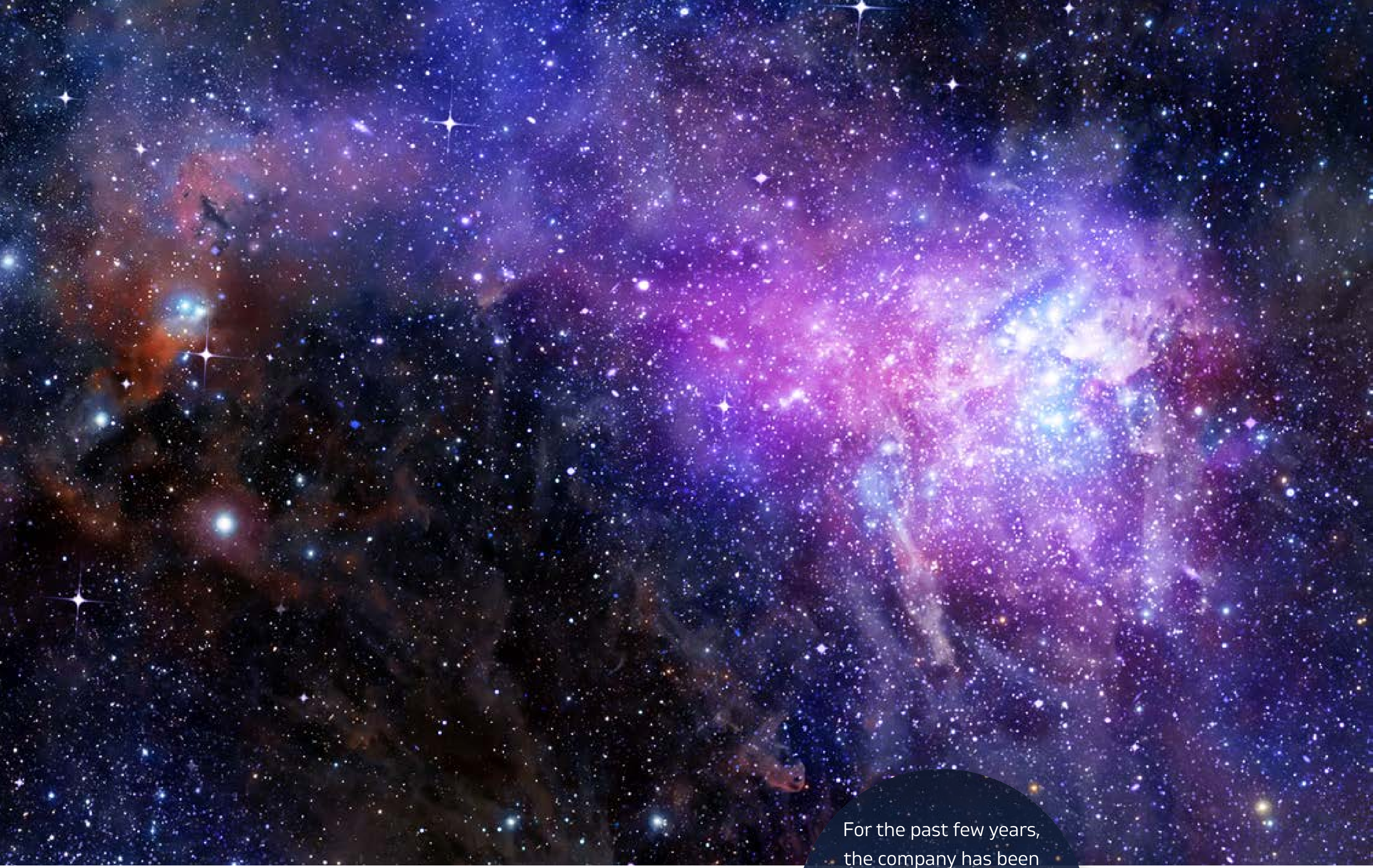
Environment/Regulatory

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

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

Forward Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Group believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "scheduled", "positions", "estimates", ''intends'', ''anticipates'', "beliefs" or variations of such words and phrases or state that certain actions, events or results ''may'', "can", ''could'', ''would'', ''might'' or ''will'', ''occur'' or ''be achieved''. Such statements include statements with respect to: (i) the expected replenishment of the contract backlog; (ii) the expected reduction to facility overhead costs; (iii) the intention to reduce overhead to the targeted level of 20% of sales; (iv) the expectation of the increase in the Group's free cash flow in the future; (v) the estimated reduction to capital expenditures going forward; (vi) the expectation to sign a lease for and open the first co-venture by early 2021; (vii) the scheduled opening of two additional rides in 2019; (viii) the Group's expectation of demand in the theme park industry; (ix) the Group's expectation that manufacturing capacity will remain tight in the industry; (x) the Group's plan to refinance 50% of its debt with a traditional senior lender at less expensive rates; and (xi) the Group's belief that its market capitalization does not reflect its current intrinsic value. These forward-looking statements reflect the current expectations or beliefs of the Group, based on information currently available to the Group. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Group to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Group. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Group's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Group disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Group believes that the assumptions inherent in the forward-looking statements are reasonable, forward looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.



For the past few years, the company has been delivering three first-generation products. The proportion of 'Build to Print' work will increase in 2019.

Non-IFRS Methods

In this MD&A, the Group uses two financial management metrics that are not in accordance with IFRS "Adjusted earnings (loss) before interest, tax, depreciation and amortization (Adjusted EBITDA)" and "Adjusted Gross Margin". Because these terms are not defined by IFRS they cannot be formally presented in the consolidated financial statements. The definition of Adjusted EBITDA does not take into account the Group's share of profit of an associate investment, gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts, non-cash components of stock based compensation, intangible asset impairment or de-recognition of tax assets. Adjusted EBIT is the result of the Group's Adjusted EBITDA less depreciation and amortization expenses. The Adjusted Gross Margin metric is the result of revenues less cost of sales, excluding depreciation of property, plant and equipment. Cashflow Generation by Operations is the result of subtracting finance costs from Adjusted EBITDA. It should be noted that the Group's definition of Cashflow Generated by Operations, Adjusted EBITDA, Adjusted EBIT and Adjusted Gross Margin may differ from those definitions used by other companies.

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

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended Dec 31	Twelve months ended 2018	2017	Variance	Quarter ended 2018	2017	Variance
Profit (loss) – before taxes	**(41,817)**	(11,634)	(30,183)	**(39,198)**	(13,737)	(25,461)
Add: Depreciation and amortization	**6,228**	4,955	1,273	**1,842**	1,946	(104)
Add/Deduct: (Gain) loss on disposal of assets and other (income) loss	**17,796**	8,182	9,614	**17,329**	7,137	10,192
Add: Finance costs	**1,793**	2,094	(301)	**343**	463	(120)
Add/Deduct: Deduct Share of loss of associate	**330**	830	(500)	**161**	508	(347)
Add/Deduct: Fair value of changes of foreign currency option contracts	**2,481**	1,097	1,384	**4,013**	2,758	1,255
Add/Deduct: Non-controlling interest	**230**	0	230	**230**	0	230
Add: non cash stock-based compensation	**305**	891	(586)	**41**	11	30
Adjusted EBITDA	**(12,654)**	6,415	(19,069)	**(15,239)**	(914)	(14,325)

Calculation of Adjusted Gross Margin

Periods ended Dec 31	Twelve months ended 2018	2017	Variance	Quarter ended 2018	2017	Variance
Revenues	**140,939**	131,763	9,176	**20,049**	27,074	(7,025)
Cost of sales excluding depreciation and amortization	**(132,922)**	(105,184)	(27,738)	**(30,184)**	(21,175)	(9,009)
Adjusted gross margin	**8,017**	26,579	(18,562)	**(10,135)**	5,899	(16,034)
% of revenue	**5.69%**	20.17%	(14.5%)	**(50.55%)**	21.79%	(72.3%)

Calculation of Adjusted EBIT

Periods ended Dec 31	Twelve months ended 2018	2017	Variance	Quarter ended 2018	2017	Variance
Adjusted EBITDA	**(12,654)**	6,415	(19,069)	**(15,239)**	(914)	(14,325)
Less: Depreciation and amortization	**(6,228)**	(4,955)	(1,273)	**(1,842)**	(1,946)	104
Adjusted EBIT	**(18,882)**	1,460	(20,342)	**(17,081)**	(2,860)	(14,221)
% of revenue	**(13.4%)**	1.1%	(14.5%)	**(85.2%)**	(10.6%)	(74.6%)

Cashflow Generated by Operations

Periods ended Dec 31	Twelve months ended 2018	2017	Variance	Quarter ended 2018	2017	Variance
Adjusted EBITDA	**(12,654)**	6,415	(19,069)	**(15,239)**	(914)	(14,325)
Less: Finance Costs	**(1,793)**	(2,094)	301	**(343)**	(463)	120
Cashflow Generated by Operations	**(14,447)**	4,321	(18,768)	**(15,582)**	(1,377)	(14,205)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AUDITED

Empire's first Co-venture is planned to be at The Island at Pigeon Forge.

The Island in Pigeon Forge is the USA's 6th largest theme park and is adjacent to the Great Smoky Mountains National Park.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS OF EMPIRE INDUSTRIES LTD.

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

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

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

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

Michael Martin, CA
Chief Financial Officer

April 30, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Empire Industries Ltd.:

Opinion

We have audited the consolidated financial statements of Empire Industries Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. The other information also comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kenneth H. Kustra.

MNP LLP

Chartered Professional Accountants
Winnipeg, Manitoba

April 30, 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (In $000's CAD, except where otherwise indicated)	Notes	2018	2017 (Restated)
Revenues [1]		**140,939**	131,763
Cost of sales, excluding depreciation and amortization [2]	17	**(132,922)**	(105,184)
Gross Profit, excluding depreciation and amortization		**8,017**	26,579
Selling, general and administration expenses	18	**(20,671)**	(20,164)
Result before depreciation, amortization, finance costs, and other items		**(12,654)**	6,415
Finance costs	19	**(1,793)**	(2,094)
Result before depreciation, amortization and other items		**(14,447)**	4,321
Depreciation of property, plant and equipment	9	**(3,488)**	(2,933)
Amortization of intangible assets	8	**(2,740)**	(2,022)
Result before other items of income (loss)		**(20,675)**	(634)
Share of loss from associate	10	**(330)**	(830)
Stock-based compensation	16	**(305)**	(891)
Fair value changes in derivative financial instruments		**(2,481)**	(1,097)
Impairment of intangible assets	8	**(6,270)**	–
Non-controlling interest	16	**(230)**	–
Other components of income (loss)	20	**(11,526)**	(8,182)
Net Income (loss) from continuing operations before tax		**(41,817)**	(11,634)
Tax (expense) recovery			
Current	22	**(101)**	(2)
Deferred	22	**(8,545)**	2,792
		(8,646)	2,790
Net income (loss)		**(50,463)**	(8,844)
Exchange differences on translating foreign operations		**(154)**	99
Share of other comprehensive income (loss) of investments in associates		**42**	–
Other comprehensive income (loss)		**(112)**	99
Comprehensive income (loss)		**(50,575)**	(8,745)
Income (loss) per share continuing operations — basic & diluted	21	**(0.53)**	(0.13)

(1) Included in revenue are foreign exchange gains of $2,362 for the year ended December 31, 2018 (2017 — $257).

(2) Cost of sales including depreciation and amortization is $135,682 for the year ended December 31, 2018 (2017 — $109,180).

(3) Included in cost of sales are investment tax credit recoveries of $nil for the year ended December 31, 2018 (2017 — $3,337).

See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (In $000's CAD, except where otherwise indicated)	Notes	Dec 31, 2018	Dec 31, 2017 (Restated)	Jan 31, 2017 (Restated)
ASSETS				
Current assets				
Cash and cash equivalents		**137**	83	102
Accounts receivable	5	**45,226**	33,237	29,974
Inventory	7	**6,085**	2,339	1,486
Prepaid expenses		**1,015**	803	1,343
Derivative financial instruments		**–**	–	647
Total current assets		**52,463**	36,462	33,552
Non-current assets				
Property, plant and equipment and investment property, net	9	**14,102**	16,849	13,983
Intangible assets, net	8	**4,000**	8,941	7,762
Deferred tax assets	22	**71**	18,335	11,203
Note receivable	11	**248**	648	2,814
Investment in associate	10	**2,078**	2,366	1,489
Advances to associate		**–**	–	929
Other non-current assets		**34**	123	92
Total non-current assets		**20,533**	47,262	38,272
Total assets		**72,996**	83,724	71,824
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness	13	**8,684**	2,165	6,856
Accounts payable and accrued liabilities	12	**51,736**	32,067	23,886
Deferred revenue from construction contracts	6	**25,025**	16,488	11,209
Current portion of long-term debt	14	**6,203**	6,319	7,535
Long-term debt classified as current	14	**789**	5,305	12,034
Derivative financial instruments	25	**2,931**	450	–
Total current liabilities		**95,368**	62,794	61,520
Non-current liabilities				
Long-term debt	14	**273**	–	197
Limited recourse loan	15	**936**	892	955
Long-term deferred revenue	6	**7,350**	7,379	–
Deferred tax liabilities	22	**71**	71	–
Total non-current liabilities		**8,630**	8,342	1,152
Total liabilities		**103,998**	71,136	62,672
SHAREHOLDERS' EQUITY				
Share capital	16	**24,981**	18,278	8,300
Contributed surplus	16	**4,398**	4,116	4,413
Retained earnings	16	**(62,568)**	(12,335)	(3,491)
Non-controlling interest	16	**2,270**	2,500	–
Accumulated other comprehensive income (loss)		**(83)**	29	(70)
Total shareholders' equity		**(31,002)**	12,588	9,152
Total liabilities and shareholders' equity		**72,996**	83,724	71,824

Guarantees and contingencies [*note 27*]
Going concern basis of presentation [*note 2*]

See accompanying notes

On behalf of the Board of Directors:

Director

Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at December 31, 2018 (In $000's CAD, except where otherwise indicated)	Share capital	Non-controlling interest	Contributed Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
As at December 31, 2017	**18,278**	**2,500**	**4,116**	**(12,335)**	**29**	**12,588**
Proceeds from issuance of common shares	5,000	–	–	–	–	5,000
Procees from the exercise of warrants	1,714	–	–	–	–	1,714
Proceeds from exercise of options	48		(23)			25
Transaction costs (net of tax)	(59)	–	–	–	–	(59)
Non-controlling interest	–	–	–	–	–	0
Net loss for the year	–	(230)	–	(50,233)	–	(50,463)
Other comprehensive income	–	–	–		(112)	(112)
Stock-based compensation	–	–	305	–	–	305
As at December 31, 2018	**24,981**	**2,270**	**4,398**	**(62,568)**	**(83)**	**(31,002)**

As at December 31, 2017 (In $000's CAD, except where otherwise indicated)	Share capital	Non-controlling interest	Contributed Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
As at January 1, 2017	**8,300**	**–**	**4,413**	**(3,491)**	**(70)**	**9,152**
Proceeds from issuance of common shares	8,969	–	–	–	–	8,969
Conversion of stock options	420	–	(420)	–	–	–
Transaction costs (net of tax)	(179)	–	–	–	–	(179)
Non-controlling interest	–	2,500	–	–	–	2,500
Net loss for the year	–	–	–	(8,844)	–	(8,844)
Other comprehensive loss	–	–	–	–	99	99
Stock-based compensation	768	–	123	–	–	891
As at December 31, 2017	**18,278**	**2,500**	**4,116**	**(12,335)**	**29**	**12,588**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In $000's CAD, except where otherwise indicated)	2018	2017
OPERATING ACTIVITIES		
Income (loss) after tax	**(50,233)**	(8,844)
Add (deduct) items not affecting cash :		
Depreciation of property, plant and equipment	**3,488**	2,933
Amortization of intangible assets	**2,740**	2,022
Impairment of intangible assets	**6,270**	–
Finance costs on short-tem borrowings	**1,234**	1,034
Share of loss from associates investments	**330**	830
Stock-based compensation	**305**	891
Fair value changes in derivative financial instruments	**2,481**	1,097
Other items affecting cash flow (*note 28*)	**(68)**	(664)
Investment tax credits derecognized (recorded)	**9,778**	(3,337)
Deferred income taxes (recovery) expense	**8,545**	(2,792)
Cash from (used in) operations	**(15,130)**	(6,830)
Net change in non-cash working capital balances (*note 28*)	**10,998**	10,068
Cash from (used in) operating activities	**(4,132)**	3,238
INVESTING ACTIVITIES		
Investment in property, plant and equipment (*note 9*)	**(744)**	(6,341)
Investment in other long term assets	**(31)**	(31)
Proceeds from repayment of note receivable from TGHL	**–**	120
Proceeds from sale of items of property, plant and equipment	**–**	75
Investment in intangible assets (*note 8*)	**(4,069)**	(3,902)
Non-controlling interest (*note 16*)	**(230)**	2,500
Cash used in investing activities	**(5,074)**	(7,579)
FINANCING ACTIVITIES		
Issue of common shares [*net of transaction costs of $59*]	**4,941**	8,041
Proceeds received from warrants and stock options exercised	**1,739**	683
Proceeds received from long-term debt and finance leases	**389**	–
Repayment of long-term debt	**(5,237)**	(7,525)
Long-term deferred revenue deposits received (*note 6*)	**–**	7,379
Repayment of convertible debentures	**–**	–
Finance costs paid on long-term borrowings	**(559)**	(987)
Cash flow from financing activities	**1,273**	7,591
Effect of translation of foreign currency cash and equivalents	**1,468**	1,422
Net (decrease) increase in cash and equivalents during the period	**(6,465)**	4,672
Cash and cash equivalents, beginning of period	**(2,082)**	(6,754)
Cash and cash equivalents, end of period	**(8,547)**	(2,082)
Cash and cash equivalents is comprised of:		
Cash	**137**	83
Bank indebtedness	**(8,684)**	(2,165)
	(8,547)	(2,082)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements are prepared for the year ended December 31, 2018 and include the restated results for the comparative years ended December 31, 2017 and the statement of financial position as at January 1, 2017 to reflect the adoption of IFRS 9 and 15. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts for Empire and all its subsidiaries (the "Group"). These consolidated financial statements have been presented in Canadian dollars which is the functional currency of the Group.

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 Group 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 Group's recent financial results have been negatively impacted by certain First-Generation projects. These projects have been a key driver behind the Group's deteriorating financial performance including negative cash flows and the violation of lending covenants under its credit facilities (note 14). Subsequent to December 31, 2018 the Group re-financed its credit facilities with a new third-party lender (note 29). The new credit facilities are subject to various covenants. Continued compliance with these new covenants is contingent upon the Group achieving its operating plan as well as raising additional equity in 2019.

The Group 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 the 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 Group's ability to continue as a going concern. Failure to maintain compliance with the covenants under the Group'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 Group be unable to continue as a going concern.

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").

Adoption of new accounting standards

Effective January 1, 2018, the Group adopted the following standards, interpretations and/or amendments thereto. The adoption of IFRS 9 — "Financial Instruments" did not have a material impact on the Group's consolidated financial statements, however, after careful consideration, the adoption of IFRS 15 — "Revenue from Contracts with Customers" did have a material impact on the Group's consolidated financial statements which is outlined below with the impact on the comparative periods outlined in note 30 to these consolidated financial statements.

IFRS 2 Share-Based Payments

Amendments to IFRS 2, Share-based Payment, ("IFRS 2") provide requirements on the accounting for: i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share based payment transactions with a net settlement feature for withholding tax obligations; and iii) a modification to the terms and conditions of a share-based payment that changes the classification of a transaction from cash-settled to equity-settled.

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial instruments and is a partial replacement of IAS 39, "Financial Instruments: Recognition and Measurement." The standard is effective for accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 mainly affects the classification and measurement of financial assets and financial liabilities; the recognition of expected credit losses; and hedge accounting. The Group does not employ hedge accounting for its risk management contracts currently in place.

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

Classification and measurement of financial assets

The classification of financial assets is based on the Group's assessment of its business models for holding financial assets. The standard introduces new classification categories for financial assets. The main classification categories are: financial assets measured at amortized cost (assets held to maturity to collect contractual cash flows: principal and interest), financial assets at fair value through profit or loss (assets held for trading) and financial assets at fair value through other comprehensive income (trade, manage on a fair value basis, or maximize cash through sale). The IAS 39 available-for-sale category of financial instruments has been eliminated. The IFRS 9 accounting model for financial liabilities is broadly the same as that in IAS 39, except that in relation to the fair value option, any changes in fair value of a financial liability attributable to the Group's credit risk must be recognized in other comprehensive income (provided this does not give rise to an accounting mismatch).

Impairment of financial assets

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or lifetime expected credit losses if there has been a significant increase in the credit risk on the instrument. IFRS 9 is applicable retrospectively, subject to certain exemptions and exceptions. The table below outlines the classification changes for the Group's financial assets and liabilities in adopting IFRS 9 and superseding IAS 39:

Financial Assets	IAS 39	IFRS 9
Cash and equivalents	FVTPL	FVTPL
Accounts receivable	Loans & Rec	Amortized cost
Note receivable	Loans & Rec	Amortized cost

Financial Liabilities	IAS 39	IFRS 9
Derivative financial instruments	FVTPL	FVTPL
Bank indebtedness	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other Fin Liab	Amortized cost
Long-term debt including current portion	Other Fin Liab	Amortized cost
Limited recourse loan	Other Fin Liab	Amortized cost

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18, "Revenue," and IAS 11, "Construction Contracts," and the related interpretations when it became effective on January 1, 2018. The Group adopted the standard retrospectively with the exception of contracts that were already completed.

The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

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

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

Applying the provisions of this standard, the Group concluded that certain contracts with performance obligations that have a high degree of technical risk should be accounted for in this manner. The Group currently has four contracts with performance obligations that it has concluded still have a high degree of technical risk and thus present an inability to reliably estimate progress on the performance obligations of the contracts. For those four contracts, the Group is deferring any profit and immediately recognizing any projected losses in accordance with IFRS 15 and IAS 37. In adopting IFRS 15, the Group has applied the standard retroactively, to demonstrate the effect on the consolidated financial statements as if the policy was in place for all periods presented. A reconciliation of the impact on the comparative period is provided in note 30 of these consolidated financial statements.

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

Basis of consolidation

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

	Jurisdiction / Functional Currency	Ownership (%)	Main Activity
Dynamic Attractions Ltd.	CAN/CAD	100%	Media-based attraction integrator
Dynamic Attractions Inc.	US/USD	100%	Retail Sales
Dynamic Attractions HK Ltd.	HKD/CAD	100%	Holding Company
Dynamic Entertainment Group Ltd.	CAN/CAD	73.5%	Co-venture Company
Dynamic Optics Inc.	CAN/CAD	100%	Holding Company
Zhejiang Dynamic Engineering Technology, Ltd.	PRC/CNY	100%	Holding Company
Tornado Global Hydrovacs Ltd.	CAN/CAD	23.8%	Hydrovac Sales and Manufacturing
Qiuguang Dynamic Structures Ltd.	PRC/CNY	45%	Industrial steel manufacturing — ceased operations
1868480 Alberta Ltd.	CAN/CAD	100%	Holding Company

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

Business combinations

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

Investment in associates

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

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

Foreign currency translation

The reporting currency for the consolidated financial statements is the Canadian dollar. For subsidiaries in the Group whose functional currency is not the Canadian dollar, their results are translated into Canadian dollars as follows:

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

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

Revenue recognition

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular performance obligation to the customer.

In most cases, for performance obligations satisfied over time, the Group recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Group in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. For certain contracts, notably certain cost-plus contracts or unit-rate contracts, the Group recognizes revenue based on its right to consideration when such amount corresponds directly with the value to the customer of the entity's performance completed to date. In certain other situations, the Group might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known to the extent that the contract costs are unavoidable in accordance with IAS 37.

The amount of revenue recognized by the Group is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives, performance bonuses, and penalties, and could include claims and unpriced change orders. When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as finance income or expense, as applicable.

The Group may enter into contractual arrangements with a client to deliver services on one project which span more than one performance obligation. When entering into such arrangements, the Group allocates the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone selling price and recognized according to the respective revenue recognition methods described above.

The Group accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Group recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

The Group may apply its revenue recognition policy to a portfolio of contracts or performance obligations with similar characteristics if the effect on its financial statements of applying such policy to the portfolio is not reasonably expected to differ materially from applying its policy to the individual contracts or performance obligations within that portfolio. The Group presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to consideration in exchange for goods or services that the Group has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Group that exceeds the right to consideration resulting from the Company's performance under a given contract.

Income taxes

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

Current tax

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

Deferred tax

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

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

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

Investment tax credits

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

Non-current assets held for sale and discontinued operations

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

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

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

Property, plant and equipment and investment property

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

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

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

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

Leases

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

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

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

Borrowing costs

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

Intangible assets

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

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

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

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

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

Impairment of non-financial assets

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

If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of cash flows have not been adjusted.

Cash and cash equivalents

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

Inventory

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

Financial instruments

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

Hierarchy of fair value measurements

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

Level 1

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

Level 2

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

Level 3

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

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss or amortized cost.

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

Amortized cost — Financial assets recorded at amortized cost are done so using the effective interest rate method. Interest income is included in profit or loss over the expected life of the financial asset.

Impairment of Financial Assets

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

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

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

When an available-for-sale financial asset is considered to be impaired, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income. For available-for-sale equity instruments, impairment losses previously recognized in net income were not reversed through net income. Any increase in fair value subsequent to an impairment is recognized in other comprehensive income. For available-for-sale debt securities, impairment losses are subsequently reversed through net income if an increase in fair value of the investment could be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

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

Financial liabilities

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

Amortized cost

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

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

Derecognition of financial liabilities

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

Equity instruments

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

Warrants

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

Derivative financial instruments

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

Restructuring costs

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Transaction costs

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

Earnings per share

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

Share-based compensation plans

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

Equity settled transactions

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Reportable segments

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

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

Post-retirement benefit plans

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical judgements made in applying the Group's accounting policies

Cash generating units

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

Operating segments

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

Control and significant influence over less than 100% owned affiliates

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

Performance obligation

The Group makes significant judgements on each contract relating whether the contract represents a single performance obligation or multiple performance obligation as well as whether the Group can reliably estimate the costs of the performance obligations identified. Also, whether the obligations should be recognized over time or at a single point in time and in using costs incurred over total budgeted costs as representation for performance progress.

Key sources of estimation uncertainty

Revenue recognition

The amount of revenue to be recognized is determined for a single performance obligation achieved over time of costs incurred over total budgeted costs for which the Group has implemented an internal financial budgeting and reporting system which relies on historical experience. The Group reviews the estimates of contract revenue and contract costs as of each reporting date. Contract losses are recognized as soon as they are identified.

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

The determination of anticipated revenues includes the contractually agreed revenue and may also involve estimates of future revenues from claims and unapproved change orders if such additional revenues can be reliably estimated and it is considered highly probable that they will be recovered. A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgments are required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered. Revenues associated with these construction costs will be recognized if management believes the receipt of such revenues is highly probable and the amount to be received can be measured reliably.

Allowance for doubtful accounts

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

Valuation of inventory

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

Share-based payments

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

Warranty Provision

The Group provides warranty services for its media-based attractions and related service offerings that are sold to its clients. The Group assesses the amount of warranty provision required based on number of products under warranty and uses its judgement based on previous experience to determine the value of the warranty provision required. At December 31, 2018 the Group has recorded a warranty provision of $359 (December 31, 2017 — $128 – January 1, 2017 — $nil). Warranty obligations form a standard clause on all contracts and as such do not represent a separate performance obligation.

Intangible assets

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

Impairment of non-financial assets

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

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

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

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

Taxes

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

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

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

As of January 1, 2019, or later dates, the Group will be required to adopt certain standards and amendments issued by the IASB as described below, for which the Group is currently assessing the impact. Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for these consolidated financial statements. The Group reasonably expects the following standards to be applicable to its consolidated financial statements at a future date as listed below:

IFRS 16 Leases

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

IFRIC 23, Uncertainty over Income Tax Treatments:

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Group intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Group does not expect the Interpretation to have a material impact on the financial statements.

5. ACCOUNTS RECEIVABLE

	Dec 31, 2018	Dec 31, 2017	Jan 01, 2017
Trade	**18,278**	7,292	9,339
Unbilled construction contract receivables *(note 6)*	**25,650**	23,457	19,892
Other receivables	**898**	1,308	847
Current portion of note receivable *(note 10)*	**400**	1,200	–
Allowance for doubtful accounts	**–**	(20)	(104)
	45,226	33,237	29,974

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

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
< 30 days	**599**	1,423	4,686
> 30 days	**2,712**	1,014	1,613
> 60 days	**550**	845	402
> 90 days	**1,976**	806	966
Holdbacks	**12,441**	3,204	1,672
	18,278	7,292	9,339

6. CONSTRUCTION CONTRACTS

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Construction costs incurred and estimated profits, less recognized losses to date	**289,308**	192,009	171,155
Less: Progress billings	**(296,033)**	(192,419)	(162,472)
	(6,725)	(410)	8,683
Items recognized and included in the consolidated financial statements as:			
Unbilled construction contract receivables *(note 5)*	**25,650**	23,457	19,892
Deferred revenue from construction contracts — current portion	**(25,025)**	(16,488)	(11,209)
Deferred revenue from construction contracts — long-term portion	**(7,350)**	(7,379)	–
	(6,725)	(410)	8,683

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

7. INVENTORIES

Inventories are comprised of the following:

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Raw Materials	**2,926**	2,289	1,421
Work-in-progress	**3,159**	50	65
	6,085	2,339	1,486

During the year, the Group recorded inventory write-downs of $28 (2017 — $104). The value of inventories recognized as an expense within cost of goods sold is $154 (2017 — $249).

8. INTANGIBLE ASSETS

	Product Design	Patents	Total
Opening cost balance January 1, 2017	**5,136**	**4,591**	**9,727**
Additions	2,159	1,743	3,902
Investment tax credits	(316)	(385)	(701)
Ending cost balance December 31, 2017	6,979	5,949	12,928
Opening amortization balance January 1, 2017	670	1,295	1,965
Amortization expense for the year	1,084	938	2,022
Ending amortization balance December 31, 2017	1,754	2,233	3,987
Opening net book value January 1, 2017	4,466	3,296	7,762
Ending net book value December 31, 2016	**5,225**	**3,716**	**8,941**
Opening cost balance December 31, 2017	**6,979**	**5,949**	**12,928**
Additions	4,069	–	4,069
Investment tax credits	–	–	–
Impairment	(6,232)	(5,949)	(12,181)
Ending cost balance December 31, 2018	4,816	–	4,816
Opening amortization balance December 31, 2017	1,754	2,233	3,987
Amortization expense for the year	1,621	1,119	2,740
Impairment	(2,559)	(3,352)	(5,911)
Ending amortization balance December 31, 2018	816	–	816
Opening net book value December 31, 2017	**5,225**	**3,716**	**8,941**
Ending net book value December 31, 2018	**4,000**	**–**	**4,000**

The Group's Media-based attractions operating segment has designated certain proprietary product designs and other items under development that will be patented as internally generated intangible assets. As at December 31, 2018 the Group recorded an impairment charge of $6,270 due to uncertainty over the future cash flows to generated from the underlying intangible assets. The value of the intangible assets that have been impaired will be reviewing periodically to determine if a reversal of all or some portion of the impairment charge is warranted.

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

9. PROPERTY, PLANT, AND EQUIPMENT AND INVESTMENT PROPERTY

	Land	Building	M&E	Office Equip.	Lease-holds	Vehicles	Parking Lots	Total
COST								
Balance, January 1, 2017	**850**	**4,453**	**13,231**	**4,820**	**2,931**	**241**	**48**	**26,574**
Additions	–	50	3,980	892	1,381	38	–	6,341
Investment tax credits received	–	–	(165)	–	–	–	–	(165)
Foreign exchange adjustments	–	–	(47)	(17)	(109)	(3)	–	(176)
Disposals	–	–	(301)	–	–	–	–	(301)
Balance, December 31, 2017	**850**	**4,503**	**16,698**	**5,695**	**4,203**	**276**	**48**	**32,273**
DEPRECIATION								
Balance, January 1, 2017	**–**	**1,212**	**7,054**	**3,225**	**887**	**180**	**33**	**12,591**
Depreciation charge for the year	–	214	1,354	585	748	29	3	2,933
Foreign exchange adjustments	–	–	(10)	(7)	(33)	(1)	–	(51)
Disposals	–	–	(49)	–	–	–	–	(49)
Balance, December 31, 2017	**–**	**1,426**	**8,349**	**3,803**	**1,602**	**208**	**36**	**15,424**
Net book value, January, 1, 2017	850	3,241	6,177	1,595	2,044	61	15	13,983
Net book value, December 31, 2017	**850**	**3,077**	**8,349**	**1,892**	**2,601**	**68**	**12**	**16,849**
COST								
Balance, December 31, 2017	**850**	**4,503**	**16,698**	**5,695**	**4,203**	**276**	**48**	**32,273**
Additions	–	–	171	473	100	–	–	744
Transfers	–	–	–	123	–	–	–	123
Foreign exchange adjustments	–	–	261	45	227	4	–	537
Impairment	–	–	(709)	–	–	–	–	(709)
Disposals	–	–	–	–	–	(3)	–	(3)
Balance, December 31, 2018	**850**	**4,503**	**16,421**	**6,336**	**4,530**	**277**	**48**	**32,965**
DEPRECIATION								
Balance, December 31, 2017	**–**	**1,426**	**8,349**	**3,803**	**1,602**	**208**	**36**	**15,424**
Depreciation charge for the year	–	234	1,774	705	752	20	3	3,488
Foreign exchange adjustments	–	–	24	11	60	1	–	96
Impairment	–	–	(142)	–	–	–	–	(142)
Disposals	–	–	–	–	–	(3)	–	(3)
Balance, December 31, 2018	**–**	**1,660**	**10,005**	**4,519**	**2,414**	**226**	**39**	**18,863**
Net book value, December 31, 2018	**850**	**2,843**	**6,416**	**1,817**	**2,116**	**51**	**9**	**14,102**

During the year, the Group recorded revenue of $61 from the investment property (2017 — $61) with recoverable direct operating expenses of $30 (2017 — $29). Included in depreciation expense for the year is depreciation of $20 relating to the investment property (2017 — $20). The Group estimates that the net book value of investment property consisting of land of $190 (2017 — $190) and the net book value of the building of $354 (2017 — $374) which the Group estimates approximates the fair value.

Fully amortized items of property, plant and equipment with a historical cost of $72 (2017 — $2,499) are still in use by the Group.

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10. INVESTMENT IN ASSOCIATES

On September 15, 2017, the Group converted its note receivable in Tornado Global Hydrovacs Ltd. ("TGHL") of $2,696 into 30,185,544 common shares of TGHL valued at $0.09 per common share representing 23.8% of the outstanding common shares of TGHL. The closing share price of shares of TGHL on September 15, 2017 was $0.085 per share resulting in a loss on the initial conversion of $131.

TGHL Equity Accounted for Investments	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Beginning balance	**2,366**	–	–
Conversion of note receivable in common shares of TGHL	**–**	2,696	–
Loss on conversion	**–**	(131)	–
Current period other comprehensive incom	**42**	–	–
Current period equity losses	**(330)**	(199)	–
	2,078	2,366	–

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

The tables below disclose the assets and liabilities as at December 31, 2018 and 2017, and income and expenses of TGHL for the years then ended:

TGHL Statement of Financial Position	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Current assets	**14,696**	14,871	–
Non-current assets	**10,397**	7,191	–
Current liabilities	**(7,177)**	(3,537)	–
Non-current liabilities	**(963)**	(672)	–
Equity	**16,953**	17,853	–

TGHL Revenue and Profit (Loss)	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Revenue	**38,850**	29,781	–
Profit	**(1,323)**	(1,579)	–

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

ACE Equity Accounted for Investments	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Beginning balance	**–**	1,489	1,990
Current year equity losses	**–**	(631)	(501)
Proceeds from disposal of investment *(note 11)*	**–**	(858)	–
	–	–	1,489

The tables below disclose the assets and liabilities as at January 1, 2017 and income and expenses of ACE up to December 28, 2017, the date at which the Group sold its interest:

ACE Statement of Financial Position	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Current assets	**–**	–	1,813
Non-current assets	**–**	–	2,338
Current liabilities	**–**	–	(874)
Non-current liabilities	**–**	–	(2,294)
Equity	**–**	–	983

ACE Revenue and Profit (Loss)	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Revenue	**–**	6,883	5,638
Profit	**–**	(1,262)	(1,024)

The Group has a 45% interest in Dongguan Qiguang Dynamic Steel Structures Ltd ("QDSL"), in Dongguan, Guangdong P.R. China which was involved in the steel fabrication and installation business in China which the Group has historically assessed as immaterial. In 2018, QDSL ceased operations. QDSL is a private entity and is not listed on any public exchange. The Group's share of future equity earnings will be applied to the principal of the limited recourse loan owing to Qiguang Investment (HK) Limited until such time as the principal is repaid in full (note 14). The Group assessed the current fair value of the investment at $nil (2017 — $nil, 2016 — $nil). The Group is not exposed to any additional losses beyond its initial investment amount. The Group has not disclosed any financial information for QDSL as financial information is not available at the date of release.

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

11. NOTES RECEIVABLE

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Beginning balance	**648**	2,814	–
Note receivable from the sale of TGHL	**–**	–	2,895
Accrued interest	**–**	41	39
Interest payments	**–**	(39)	–
Note principle payments	**–**	(120)	(120)
Conversion of note receivable from TGHL *(note 10)*	**–**	(2,696)	–
Note receivable from the sale of ACE	**–**	1,848	–
Reclass current portion of note receivable	**(400)**	(1,200)	–
	248	648	2,814

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

On December 28, 2017, the Group sold its 49% interest in ACE to the majority shareholder for total consideration of $1,848 representing the value of investment of $858 and the balance of the long-term shareholder advance of $990. The consideration of $1,848 is in the form of an unsecured note receivable that yields interest at 3% per annum with payments of $800 due on closing which was received on January 8, 2018, $400 received on September 30, 2018, $400 due on September 30, 2019 and $248 plus all accrued interest due on September 30, 2020. The Group has $400 recorded in accounts receivable related to the note receivable payments to be received in 2019 (note 5).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Accounts payable and accrued liabilities	**45,032**	29,629	22,830
Contract liabilities	**5,066**	508	–
Accrued wages, vacation and bonuses payable	**1,419**	1,611	986
Commodity and other taxes payable	**219**	319	70
	51,736	32,067	23,886

13. BANK INDEBTEDNESS AND BANK OPERATING LINES

The Group's cash balance of $137 (2017 — $83, 2016 — $102) represents funds on deposit. At December 31, 2018, the Group had total draws on its bank operating lines of credit of $8,684 (2017 — $2,165, 2016 — $6,856). Advances on the facility are payable on demand and bear interest at Canadian prime rate plus 1.5%. The overdraft facility with a limit of $15,000 (2017 — $15,000, 2016 — $15,000) is secured by a general security agreement providing a first security interest in all present and after-acquired property of the Group. This facility is subject to the same financial covenants as the long-term debt facilities as outlined in note 14.

14. LONG-TERM DEBT

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
CIBC term loans	**1,479**	2,728	6,084
EDC term loan	**5,457**	8,782	13,427
Other finance leases	**329**	114	255
	7,265	11,624	19,766
Less : current portion of long-term debt	**6,203**	6,319	7,535
Less : long-term debt classified as current	**789**	5,305	12,034
Long-term portion	**273**	–	197

The CIBC term loans bear interest at prime plus 1.5%. The Group made equal monthly principal payments of $62 plus accrued interest on the first term loan which matured on November 1, 2018 and continues to make equal monthly principal payments of $51 plus accrued interest on the second loan which matures on May 1, 2021. The CIBC term loans are part of the same credit facility agreement described in note 13 and is secured by general security agreements providing a first security interest in all present and after-acquired property of the Group.

The EDC term loan bears interest at the US prime rate plus 2% has an outstanding principal balance of $4,000 USD. The loan is repayable in ten quarterly installments of

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$1,000 USD commencing in April 2017, to be repaid in full by October 2019. The EDC term loan has specific security ascribed to it in co-operation with CIBC and possesses cross-default clauses with the CIBC loan agreement.

Long-term debt of $789 (December 31, 2017 — $5,305 – January 1, 2017 — $12,034) was classified as current as the Group was in violation of its senior debt to EBITDA, fixed charge coverage and total debt to total capitalization financial covenants in its credit agreement as at December 31, 2018 and the comparative periods presented. After December 31, 2018, the Group completed a refinancing as outlined in note 29 and repaid the CIBC facilities in full at that time. As part of the refinancing, the Group also revised the repayment terms for the EDC term loan facility which is also outlined in note 29.

Other finance leases are for vehicles and shop equipment that bears interest between 3 – 8% with aggregate monthly payments of $11 maturing in 2020. The leases are secured by the assets being leased with a net book value of $347 all of which is for office furniture and equipment (2017 — $321 of machinery and equipment and $31 of vehicles).

The Group's long-term debt is scheduled to be repaid without consideration of the refinancing that occurred after December 31, 2018 over the next three years as follows:

2019	**6,203**
2020	**746**
2021	**316**
	7,265

15. LIMITED RECOURSE LOAN

The limited recourse loan was issued on November 14, 2011 in the amount of $711 USD (December 31, 2017 — CAD $892 and January 1, 2017 — CAD $955) and the proceeds were used to fund the Group's 45% investment in Dongguan Qiguang Dynamic Steel Structures Limited ("QDSL") in Dongguan, Guangdong, P.R. China (note 10). The loan bears interest at 10% per annum payable quarterly. Security for the loan for Qiguang Investment (HK) Limited is restricted to the Group's shares of QDSL. There is no term on the loan and principal repayments for the loan is restricted only to the Group's share of the equity earnings of QDSL. Total interest expense in 2018 of $71 (2017 — $92) has been paid or accrued on the limited recourse loan with accrued interest of $125 (December 31, 2017 — $54 – January 1, 2017 — $70) recorded in accounts payable at the date of the consolidated statement of financial position.

16. SHARE CAPITAL

Common shares

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

	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Common Shares (issued and outstanding — no par value)	***103,142,678***	*85,661,568*	*65,937,060*
Share capital — opening balance	**18,278**	8,300	7,955
Proceeds from right's offering	**–**	3,912	–
Proceeds from subscription receipts agreement	**–**	3,000	–
Proceeds from private placements	**5,000**	1,374	–
Stock-based compensation — inducement shares issued	**–**	768	–
Proceeds from exercise of stock options and warrants	**1,739**	683	–
Non-cash component of options and warrants exercised	**23**	420	–
Conversion of convertible debentures	**–**	–	345
Transaction costs (net of tax)	**(59)**	(179)	–
	24,981	18,278	8,300

On June 22, 2018, the Group closed a private placement of 11,111,110 units at a share price of $0.45 per share for gross proceeds of the $5,000. Transaction costs associated with the private placement were $59 for net proceeds received of $4,941. Each unit issued pursuant to the offering was comprised of one common share and one common share purchase warrant. An aggregate of 11,111,110 Common Shares and 11,111,110 Warrants were issued. The Warrants expire on June 22, 2021, which is three years from closing date.

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

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

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On December 21st, 2017, the Group completed a subscription receipt private placement for gross proceeds of $3,000 in exchange for 6,000,000 common shares valued at $0.50 per common share. The total gross proceeds are also to be directed towards the Group's future planned co-venture investment initiatives. The subscription receipt private placement was conditional upon the Group raising a minimum of $3,000 in its separate rights offering which was completed on November 29th, 2017.

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

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

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

Warrants

The Group has 11,111,110 warrants outstanding from a private placement of common shares in 2018. Each warrant entitles the holder to purchase one additional common share at the following exercise price: (i) $0.50 per common share until December 22, 2019; and (ii) $0.75 per common share thereafter until expiry on June 22, 2021. The warrants are transferrable with the consent of the Group. A summary of the Group's warrants as at December 31, 2018 and December 31, 2017 and changes during the periods then ended are as follows:

	Dec 31, 2018	Weighted Average Exercise Price	Dec 31, 2017	Weighted Average Exercise Price
Balance, beginning of the year	**6,300,000**	**0.27**	6,925,000	0.27
Warrants issued	**11,111,110**	**0.50**	–	–
Warrants exercised	**(6,300,000)**	**0.27**	(625,000)	0.27
Warrants expired	**–**	**–**	–	–
Balance, end of the year	**11,111,110**	**0.50**	6,300,000	0.27
Exercisable	**11,111,110**	**0.50**	6,300,000	0.27
Weighted remaining average life (years)	**2.47**		0.52	

Stock Options

The Group maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Group. At December 31, 2018 the Group was permitted to issue up to a maximum of 10,314,268 stock options, being 10% of the outstanding common shares. A summary of the Group's options as at December 31, 2018 and December 31, 2017 and changes to the years then ended are as follows:

	Dec 31, 2018	Weighted Average Exercise Price	Dec 31, 2017	Weighted Average Exercise Price
Balance, beginning of the year	**4,691,667**	**0.40**	6,067,500	0.40
Options issued	**1,525,000**	**0.54**	–	0.00
Options expired	**(1,238,750)**	**0.36**	–	0.00
Options forfeited	**(425,000)**	**0.48**	–	0.00
Options exercised	**(70,000)**	**0.36**	(1,375,833)	0.37
Balance, end of the year	**4,482,917**	**0.45**	4,691,667	0.40
Exercisable	**3,466,252**	**0.43**	4,426,667	0.40
Weighted remaining average life (years)	**2.28**		2.42	

	Options — Outstanding			Options — Exercisable	
Exercise Price ($)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Exercise Price ($)
0.32	25,000	2.13	0.32	25,000	0.32
0.40	2,495,417	2.25	0.40	2,495,417	0.40
0.44	250,000	1.07	0.44	250,000	0.44
0.50	787,500	2.17	0.50	387,500	0.50
0.56	925,000	4.05	0.56	308,335	0.56
	4,482,917	2.54	0.45	3,466,252	0.43

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

Issuance Year	Vesting Term	Assumed Volatility	Risk-free Rate	Market Price @ Grant	Fair Value	2018 SBC	2017 SBC
2015	3 Years	138%	0.56%	0.42	85		1
2015	3 Years	134.93%	0.76%	0.50	226		17
2016	2 Years	135.94%	0.53%	0.395	640	**34**	105
2016	3 Years	127.42%	0.61%	0.32	7		
2018	4 Years	78.74%	1.91%	0.56	304	**188**	
2018	3 Years	69.59%	1.98%	0.485	134	**83**	
						305	123

Note, included in the stock-based compensation balance for 2017 of $891 is stock-based compensation of $768 which is the fair value of inducement shares issued to executives that participated in an executive private placement. Because the transaction resulted in the immediate issuance of the shares, the stock-based compensation expense associated with the shares was charged directly to share capital.

Contributed surplus

Changes in contributed surplus consisted of the following:

	Dec 31, 2018	Dec 31, 2017
Balance, beginning of the year	***4,116***	*4,413*
Stock-based compensation expense (net of forfeitures)	**305**	123
Equity portion of convertible debentures redeemed	**–**	–
Re-class of stock-based compensation expense for options exercised	**(23)**	(420)
Balance, end of the year	**4,398**	4,116

Retained earnings

	Dec 31, 2018	Dec 31, 2017
Opening retained earnings	**(12,335)**	(3,491)
Net income (loss)	**(50,233)**	(8,844)
Dividend distribution of shares of TGHL	**–**	–
Balance, end of the year	**(62,568)**	(12,335)

Non-controlling interest

On December 21, 2017 the Group incorporated a new entity, Dynamic Entertainment Group Ltd. ("DEGL"). The Group invested $6,000 for 71% ownership of DEGL and an additional $2,500 was invested by a third party for 30% ownership. The Group controls DEGL and as such has consolidated its opening statement of financial position within the Group's consolidated financial statements. In conjunction with that, the Group has separately disclosed the non-controlling interest component of DEGL within the Group's shareholder equity section. In 2018, the non-controlling interest share of the comprehensive loss of the Group was $230 (2017 — $nil).

17. COST OF SALES

	Dec 31, 2018	Dec 31, 2017
Direct construction costs	**(106,524)**	(78,870)
Construction cost overruns	**(9,089)**	(11,107)
Indirect salaries and benefits	**(11,254)**	(8,951)
Indirect production costs	**(6,055)**	(6,256)
	(132,922)	(105,184)

Included in cost of sales is $1,040 (2017 — $953) expensed during the year for defined contribution pension plans.

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

18. SELLING AND ADMINISTRATIVE EXPENSES

	Dec 31, 2018	Dec 31, 2017
Salaries and benefits	**(13,561)**	(11,519)
General, selling and administrative expenses	**(7,110)**	(8,645)
	(20,671)	(20,164)

Included in selling and administrative expenses is $242 (2017 — $285) expensed during the year for defined contribution pension plans.

19. FINANCE COSTS

	Dec 31, 2018	Dec 31, 2017
Interest on long-term borrowings	**(559)**	(987)
Interest on short-term borrowing and other	**(1,234)**	(1,034)
Accelerated payments discounts	**–**	(73)
	(1,793)	(2,094)

20. OTHER COMPONENTS OF INCOME (LOSS)

	Dec 31, 2018	Dec 31, 2017
Restructuring provision	**(691)**	(1,045)
Loss on disposal of property, plant and equipment	**(571)**	(177)
Provision for customer rebates	**–**	(7,034)
Valuation allowance of investment tax credits	**(9,778)**	–
Miscellaneous income (loss)	**(486)**	74
	(11,526)	(8,182)

The Group has recorded a restructuring charge of $691 in the period relating to its curtailment its unlimited services division which was a component of the media-based attractions operating segment, of which $117 remains in accrued liabilities at December 31, 2018. The restructuring charge and remaining provision includes severances for the affected employees.

In 2017, the Group recorded a restructuring charge of $1,045 relating to its curtailment of independent steel fabrication services and has restructured and refined its overall operations, of which $380 remains in accrued liabilities as of December 31, 2018 ($469 as of December 31, 2017). The restructuring charge and remaining provision includes severances for the affected employees, lease costs for facilities and equipment and other permitted expenditures.

In 2018, the Group recorded a valuation allowance of $9,778 for investment tax credits previously recognized.

21. INCOME PER SHARE

Income per share for the year ended December 31:

	Dec 31, 2018	Dec 31, 2017
Net loss	**(50,463)**	(8,844)
Basic weighted average number of shares	**94,997,878**	67,970,425
Effect of diluted securities		
Net incremental dilutive shares	**–**	–
Diluted weighted average number of shares	**94,997,878**	67,970,425
Net loss per share	**(0.53)**	(0.13)

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

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

22. INCOME TAX EXPENSE (RECOVERY)

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

	Dec 31, 2018	Dec 31, 2017
Current tax expense	**–**	2
Adjustments recognized for current tax of prior periods or temporary difference of a prior period used to reduce tax expense	**101**	–
Total current tax expense	**101**	2
Deferred tax expense relating to origination and reversal of temporary differences, unused tax losses, and unused tax credits	**–**	(2,792)
Deferred tax expense arising from the writedown of deferred tax assets	**8,545**	–
Total deferred tax expense (recovery)	**8,545**	(2,792)
Total income tax expense (recovery)	**8,646**	(2,790)

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

	Dec 31, 2018	Dec 31, 2017
Accounting profit	**(41,817)**	(11,634)
Combined federal and provincial statutory income tax rate	**26.92%**	27.01%
Income tax calculated using combined federal and provincial statutory income tax rate	**(11,257)**	(3,142)
Non-deductible expenses	**207**	268
Non-taxable portion of capital gains	**–**	(2)
Adjustments recognized for current tax of prior periods	**101**	–
Equity income of subsidiaries	**45**	112
Deferred tax assets not recognized	**19,550**	–
Other	**–**	(26)
Income tax recovery	**8,646**	(2,790)

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

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

	Jan 1, 2017	Recognized in income tax expense	Recognized in other expenses	Recognized in equity	Recognized in other expenses	Recognized in intangible assets	Dec 31, 2017	Recognized in income tax expense	Recognized in other income	Dec 31, 2018
Deferred tax assets :										
Capital leases	76	(36)	–	–	–	–	40	(40)	–	**–**
Investment tax credits	5,575	–	3,232	–	3,338	865	9,778	–	(9,778)	**–**
Non-capital losses	5,694	3,063	–	–	7	–	8,757	(6,901)	–	**1,856**
Research and development expenses	1,866	2,753	–	–	–	–	4,619	(443)	–	**4,176**
Share issuance costs	18	(30)	–	66	–	–	54	(54)	–	**–**
Other	3,909	(633)	–	–	–	–	3,276	(3,276)	–	**–**
Total deferred tax assets	17,138	5,117	3,232	66	3,338	865	26,524	(10,714)	(9,778)	**6,032**
Deferred tax liabilities:										
Accounts receivable	(452)	(1,693)	–	–	–	–	(2,145)	(1,715)	–	**(3,860)**
Convertible debentures	–	–	–	–	–	–	–	–	–	**–**
Intangible assets	(1,958)	(367)	–	–	–	–	(2,325)	1,323	–	**(1,002)**
Investment in associate	(105)	106	–	–	–	–	1	(1)	–	**–**
Investment tax credits	(1,386)	(627)	–	–	–	–	(2,013)	2,013	–	**–**
Property, plant and equipment	(1,817)	327	–	–	–	–	(1,490)	537	–	**(953)**
Other	(217)	–	–	–	–	–	(217)	–	–	**(217)**
Total deferred tax liabilities	(5,935)	(2,254)	–	–	–	–	(8,189)	2,157	–	**(6,032)**
Foreign operations										
Deferred tax assets :										
Property, plant and equipment	–	–	–	–	–	–	–	451	–	**451**
Non-capital losses	–	–	–	–	–	–	–	13	–	**13**
Total deferred tax assets	–	–	–	–	–	–	–	464	–	**464**
Property, plant and equipment		(54)	–	–	–	–	(54)	(410)	–	**(464)**
Other		(17)	–	–	–	–	(17)	17	–	**–**
Total deferred tax liabilities	–	(71)	–	–	–	–	(71)	(393)	–	**(464)**
Net deferred tax assets	**11,203**	**2,792**	**3,232**	**66**	**3,338**	**865**	**18,264**	**(8,486)**	**(9,778)**	**–**

The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized are as follows:

Inventory	211,917
Derivative financial instruments	2,930,869
Property, plant and equipment	20,990
Investment in associate	309,449
Accounts payable and accrued liabilities	359,128
Deferred revenue from construction contracts	10,925,926
Long-term debt	487,556
Financing costs	214,787
Investment tax credits (expiring in 2022 and later years)	10,908,103
Non-capital losses — Canada (expiring in 2031 and later years)	47,528,150
Non-capital losses — USA	5,372,228
Other	471,794

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

23. OPERATING SEGMENTS

A description of the Group's business segments, Media-based Attractions, Steel Fabrication Services and Corporate are included in note 2. Revenue recognition is not consistent between the segments as all revenues are recognized to reflect contractual performance obligations and their timing.

The tables below show the segmented performance for the Group from its three operating segments, Media-based Attractions, Steel Fabrication Services and Corporate for the years ended December 31, 2018 and 2017 respectively:

2018	Media-based Attractions	Steel Fabrication Services	Corporate	**Total**
Sales	132,188	8,751	–	**140,939**
Cost of goods sold excluding depreciation and amortization	(124,044)	(8,878)	–	**(132,922)**
Gross profit, excluding depreciation and amortization	8,144	(127)	–	**8,017**
Selling, general and administrative expenses	(15,822)	(1,485)	(3,364)	**(20,671)**
Result before depreciation, amortization, finance costs and other items	(7,678)	(1,612)	(3,364)	**(12,654)**

2017	Media-based Attractions	Steel Fabrication Services	Corporate	**Total**
Sales	124,373	7,215	175	**131,763**
Cost of goods sold excluding depreciation and amortization	(97,059)	(8,125)	–	**(105,184)**
Gross profit, excluding depreciation and amortization	27,314	(910)	175	**26,579**
Selling, general and administrative expenses	(14,654)	(1,542)	(3,968)	**(20,164)**
Result before depreciation, amortization, finance costs and other items	12,660	(2,452)	(3,793)	**6,415**

The following table breaks down the sales by geographical region:

	Dec 31, 2018	Dec 31, 2017
Canada	**12,665**	10,315
United States	**46,864**	38,758
Asia	**72,092**	73,769
Middle East/Europe	**9,318**	8,921
	140,939	131,763

All the Group non-current assets are in Canada except for \$4,517 (2017 — \$5,006) of property, plant and equipment located in the United States.

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

24. CAPITAL DISCLOSURE AND MANAGEMENT

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

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

For the years ended	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Current portion of long-term debt including finance leases	**6,203**	6,319	7,535
Long-term debt classified as current and finance leases	**1,062**	5,305	12,231
Funded debt	**7,265**	11,624	19,766
Shareholders' equity	**(31,002)**	12,588	9,152
Limited recourse loan	**936**	892	955
Less: deferred tax assets (net)	**0**	(18,335)	(11,203)
Less: intangible assets (net)	**(4,000)**	(8,941)	(7,762)
Less: non-controlling interest	**(2,270)**	(2,500)	–
Tangible net worth	**(36,336)**	(16,296)	(8,858)
Capitalization	**(29,071)**	(4,672)	10,908
Funded debt/Capitalization	**-25.0%**	-248.8%	181.2%

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following table presents information on the Group's assets and liabilities measured at fair value and discloses the fair value hierarchy of the valuation techniques used to determine this fair value at December 31, 2018:

	Carrying Value	Fair Value	Classification	Level
Cash and equivalents	137	137	FVTPL	1
Accounts receivable	45,226	45,226	Amortized cost	1
Note receivable	248	248	Amortized cost	1
Derivative financial instruments	(2,931)	(2,931)	FVTPL	2
Bank indebtedness	(8,684)	(8,684)	FVTPL	1
Accounts payable and accrued liabilities	(51,736)	(51,736)	Amortized cost	1
Long-term debt including current portion	(7,265)	(7,230)	Amortized cost	1
Limited recourse loan	(936)	(936)	Amortized cost	2

As at December 31, 2017:

	Carrying Value	Fair Value	Classification	Level
Cash and equivalents	83	83	FVTPL	1
Accounts receivable	33,237	33,237	Amortized cost	1
Note receivable	648	648	Amortized cost	1
Derivative financial instruments	(450)	(450)	FVTPL	2
Bank indebtedness	(2,165)	(2,165)	FVTPL	1
Accounts payable and accrued liabilities	(32,067)	(32,067)	Amortized cost	1
Long-term debt including current portion	(11,624)	(11,624)	Amortized cost	1
Limited recourse loan	(892)	(892)	Amortized cost	2

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

As at January 1, 2017

	Carrying Value	Fair Value	Classification	Level
Cash and equivalents	102	102	FVTPL	1
Accounts receivable	29,974	29,974	Amortized cost	1
Advances to associate	929	929	Amortized cost	2
Note receivable	2,814	2,814	Amortized cost	1
Derivative financial instruments	647	647	FVTPL	2
Bank indebtedness	(6,856)	(6,856)	FVTPL	1
Accounts payable and accrued liabilities	(23,886)	(23,886)	Amortized cost	1
Long-term debt including current portion	(19,766)	(19,766)	Amortized cost	1
Limited recourse loan	(955)	(955)	Amortized cost	2

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

Risk management

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

Liquidity risk

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

The following table summarizes the Group's financial liabilities with corresponding maturity dates as at December 31, 2018:

	Total	2019	2020	2021	2022	2023+
Accounts payable and accrued liabilities	51,736	51,736	–	–	–	–
Deferred revenue from construction contracts	32,375	23,768	7,350	–	–	–
Bank indebtedness	8,684	8,684	–	–	–	–
Long-term debt	7,265	6,168	746	317	–	–
Limited recourse loan	936	–	–	–	–	936
Total	**100,996**	**90,356**	**8,096**	**317**	**–**	**936**

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

Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Group. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Group has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Group also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. The Group may require letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information. At December 31, 2018, the Group had one individual customer accounting for approximately 23% of total accounts receivable (2017 — 20%) for which the Group has insured to effectively eliminate the credit risk.

Market risk

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

Currency risk

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

(In $000's USD)	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Cash (bank indebtedness) (bank balance less outstanding cheques)	**4,032**	5,587	5,879
Accounts receivable (including unbilled construction receivables)	**29,218**	18,991	18,117
Accounts payable & accrued liabilities	**(18,676)**	(11,479)	(7,072)
Long-term debt	**(6,427)**	(7,711)	(10,000)
Derivative Financial Instruments	**(53,923)**	(20,000)	(34,120)
Net foreign currency exposure	**(45,776)**	(14,612)	(27,196)

For the year ended December 31, 2018, if the Canadian dollar had strengthened 10% percent against the US dollar with all other variables held constant, net income for the year would have been $4,578 higher (2017 — $1,461). Conversely, if the Canadian dollar had weakened 10% percent against the US dollar with all other variables held constant, net income would have been $4,578 lower (2017 — $1,461).

Included in revenue are gains on translation of foreign currency monetary assets and liabilities and gains on foreign currency transactions of $2,362 for the year ended December 31, 2018 (2017 — $257).

The outstanding notional amounts of forward contracts outstanding for the Group as well as the forward rates and maturity dates are disclosed in the tables below for all of the periods of the statement of financial position presented in these consolidated financial statements are outlined in the tables below.

As at December 31, 2018, the Group has the following forward foreign currency contracts outstanding:

	Nominal Amount	Forward Rate	Fair Value
Forward contracts expiring March 29, 2019	13,923	1.2864	(1,071)
Forward contracts expiring March 29, 2019	10,000	1.3180	(441)
Forward contracts expiring June 28, 2019	10,000	1.3180	(414)
Forward contracts expiring September 30, 2019	10,000	1.3051	(513)
Forward contracts expiring December 31, 2019	10,000	1.3051	(492)
	53,923		**(2,931)**

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

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

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

As at January 1, 2017, Group had the following forward foreign currency contracts outstanding:

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

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

Interest rate risk

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

For the year ended December 31, 2018, if interest rates had been 50 basis points lower with all other variables held constant, after-tax net income for the period would have been $121 (2017 - $135) higher, arising mainly as a result of lower interest expenses on variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, after-tax net income would have been $121 (2017 - $135) lower, arising mainly as a result of higher interest expenses on variable borrowings.

Commodity price risk

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

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

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

26. RELATED PARTIES

The Group had sales to related parties and associates in the amount $nil (2017 — $413 which included management fees of $60), and purchases from an Associate of $957 (2017 — $3,902). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Compensation awarded to key management included:

	Dec 31, 2018	Dec 31, 2017
Salary and short-term employee benefits	**3,775**	2,935
Post-employment benefits	**75**	40
Share-based payments	**201**	507
	4,051	3,482

27. GUARANTEES AND CONTINGENCIES

Letters of Credit

In the normal course of business, the Group contracted letters of credit for an amount of $5,111 USD as at December 31, 2018 (December 31, 2017 — $6,273 – January 1, 2017 — $6,273). The Group has a guarantee facility with Export Development Canada to guarantee letters of credit for performance security and advance payment guarantees issued by the Group on international construction contracts. The total value of letters of credit disclosed above are guaranteed by this facility. As at December 31, 2017, the limit on the facility was $10,000 USD and is secured by a general security agreement providing second security interests in all of the Group's present and after-acquired property.

Director and officer indemnification

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

Other indemnification provisions

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

Operating lease commitments

The Group has the operating lease commitments as at December 31, 2018 in the amount of $5,830 for 2019 and subsequent years broken down as follows:

Less than 1 year	2,794
1 year to 3 years	1,921
3 years to 5 years	1,115
	5,830

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.

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

28. SUPPLEMENTAL CASHFLOW INFORMATION

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

	Dec 31, 2018	Dec 31, 2017
Amortization of deferred financing charges	**–**	0
Loss on sale of property, plant and equipment	**567**	176
Loss (gain) on foreign exchange revaluation of limited recourse loan	**44**	(63)
Loss on conversion of note receivable to common shares	**–**	131
Foreign currency adjusted (net of tax)	**(154)**	(99)
Non-cash interest income earned	**–**	(61)
Gain on foreign exchange revaluation of long-term debt	**490**	(617)
Loss on foreign exchange revaluation of property, plant and equipment	**(441)**	126
Unrealized foreign currency translation gains recorded in revenues	**(574)**	(257)
Accretion of convertible debentures	**–**	–
Income taxes paid	**–**	–
	(68)	(664)

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

	Dec 31, 2018	Dec 31, 2017
Accounts receivable	**(11,589)**	(3,263)
Inventory	**(3,746)**	(853)
Prepaid expenses	**(212)**	540
Accounts payable and accrued liabilities	**19,669**	8,151
Deferred revenue from construction contracts	**8,508**	5,279
Other	**(1,632)**	214
	10,998	10,068

The table below discloses the detailed changes in the Group's liabilities from financing activities including cash and non-cash changes:

	Dec 31, 2017	Cash Flow Changes	Impact of FX rate changes	Dec 31, 2018
Long-term debt	**11,624**	**(4,848)**	**489**	**7,265**
Limited recourse loan	**892**	**–**	**44**	**936**
	12,516	**(4,848)**	**533**	**8,201**

	Jan 01, 2017	Cash Flow Changes	Impact of FX rate changes	Dec 31, 2017
Long-term debt	**19,766**	**(7,525)**	**(617)**	**11,624**
Limited recourse loan	**955**	**–**	**(63)**	**892**
	20,721	**(7,525)**	**(680)**	**12,516**

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

29. SUBSEQUENT EVENT

On April 25, 2019, the Group announced that it intends to complete a non-brokered private placement financing of up to 850,000 convertible preferred shares at an issue price of $10.00 per share for gross proceeds to the Company of up to $8,500,000. Dividends accrue at 8% per annum. The shares are convertible into common shares at $0.45 per share for thirty-six months, and at $0.75 per share before sixty months from the date of issue. The preferred shares may be redeemed by the Group in certain circumstances, and may be retracted by the holder any time after thirty-six months The Group intends to use the proceeds for the repayment of unsecured bridge financing and for general working capital purposes.

On April 29, 2019, the Group closed a refinancing transaction with an arms-length third party to replace its existing senior lender and increase its available credit by $22 million to and aggregate of $38.5 million. The refinancing consists of three separate facilities:

- Facility A in the amount $15 million is to replace the Group's existing revolving credit facility with its previous senior lender. This facility is capped at $15 million and the amount available under the facility is subject to having sufficient marginable assets (i.e. receivables and inventory less priority payables) calculated on a monthly basis as defined in the terms of the loan agreement.
- Facility B in the amount of $15 million is being advanced as a term loan to the Group. The proceeds of this loan first repaid the existing loan with the Group's senior lender which at the time of closing was approximately $1.3 million. The balance of the proceeds is available as surplus liquidity. There are no principal repayments on this facility until November 2019 at which point, monthly principal payments of $125 will commence until the maturity date of the facility.
- Facility C in the amount of $8.5 million has been advance as a short-term bridge to enhance the initial liquidity upon closing.

All three facilities bare interest at prime + 9.5%. The term of the facilities A and B are for 18 months after closing which is October 29, 2020 by which point, the facilities will be repaid from new refinancing's secured by the Group. Facility C is scheduled to be repaid by December 31, 2019, a date which was mutually agreed to based on a review of the Group's operating projections during that period.

The facilities are secured by a first charge interest in the assets of the Group and are subject to certain financial covenants. Although in consideration of one of the Group's existing senior lenders remaining committed to the Group, the arm's length lender has agreed to a pro-rata share of security with them.

Simultaneous with this transaction, the Group's remaining secured creditor, Export Development Canada (EDC), has agreed to postpone the repayment of its term loan to the Group through same term of the loan agreement with the Group's new arm's length lender. In exchange for this amendment to the loan facility, the interest rate on the term loan with EDC will increase to match that of the arm's length senior lender for the duration of the agreement and will have a pro-rata first charge interests in the assets of the Group as security. If not renegotiated, the full outstanding value of this facility was due to be repaid in 2019 in the normal course of business.

30. ADOPTION OF IFRS 9 AND IFRS 15 RETROACTIVE APPLICATION RECONCILIATION

The following table represents the Group's statement of financial position as previously reported with adjusts to reflect the retrospective adoption of IFRS 9 and IFRS 15 as of January 1, 2017:

	As Reported	Adjustments	Restated
Contract assets	40,933	(10,959)	29,974
Deferred tax assets	7,138	4,065	11,203
Other assets	30,647	–	30,647
Total assets	**78,718**	**(6,894)**	**71,824**
Contract liabilities	7,269	3,940	11,209
Long-term debt including current portion	19,706	159	19,865
Other liabilities	31,598	–	31,598
Total liabilities	**58,573**	**4,099**	**62,672**
Retained earnings (deficit)	7,502	(10,993)	(3,491)
Other components of shareholder's equity	12,643	–	12,643
Total liabilities and shareholder's equity	**78,718**	**(6,894)**	**71,824**

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

In the adoption of and retrospective application of IFRS 15, the Group identified certain contracts for the provision of a single performance obligation earned over time where the Group assesses that the costs to deliver the performance obligation has uncertainty and thus a limited the revenue recognized on these performance obligations up to the costs incurred at each date reporting date. The adjustments recorded by the Group as at January 1, 2017 reduced contract assets by $10,959, increased deferred tax assets by $4,023 and increased contract liabilities by $3,940.

In the adoption of and retrospective application of IFRS 9 the Group concluded that deferred finance charges of $159 would not be eligible for capitalization and amortization and as a result the amount was expensed to retained deficit as at that date. This adjustment was offset by a deferred tax recovery of $42.

The following table reconciles the statement of financial position and statement of comprehensive income as at and for the year ended December 31, 2017.

	As Reported	Adjustments	Restated
Contract assets	38,850	(5,613)	33,237
Deferred tax assets	15,385	2,950	18,335
Other assets	32,152	–	32,152
Total assets	**86,387**	**(2,663)**	**83,724**
Contract liabilities	15,379	1,109	16,488
Accounts payable and accrued liabilities	27,742	4,325	32,067
Long-term debt including current portion	11,527	97	11,624
Other liabilities	10,957	–	10,957
Total liabilities	**65,605**	**5,531**	**71,136**
Retained earnings (deficit)	(4,141)	(8,194)	(12,335)
Other components of shareholder's equity	24,923	–	24,923
Total liabilities and shareholder's equity	**86,387**	**(2,663)**	**83,724**

	As Reported	Adjustments	Restated
Revenues	123,550	8,213	131,763
Finance costs	(2,507)	413	(2,094)
Deferred tax expense	3,907	(1,115)	2,792
Other items of income loss	(3,470)	(4,712)	(8,182)
Other items	(133,123)	–	(133,123)
Net loss	**(11,643)**	**2,799**	**(8,844)**

The adjustment required to retrospectively apply IFRS 9 and 15 on the 2017 statement of financial position as at December 31, 2017 as well as the statement of comprehensive income for the year ended December 31, 2017 are as follows.

Retrospective application of IFRS 9 required and adjustment to the 2017 year to adjust for amortization of deferred finance charges that were written off as of January 1, 2017. Finance costs were decreased by $62 which is the amount of deferred finance cost amortization during the year and there was an increase to deferred tax expense for $17 to reflect the increase in comprehensive income. Long-term debt increased by $62 to adjust the balance as the deferred finance costs are netted against the debt its associated with and the deferred tax asset is reduced accordingly.

IFRS 15 Retrospective Adjustments

Carrying forward with the adjustments made as at January 1, 2017, contracts for the provision of a single performance obligation earned over time where the Group assesses that the costs to deliver the performance obligation has uncertainty and thus has limited the revenue recognized on these performance obligations up to the costs incurred at each date reporting date. The adjustments recorded by the Group for the 2017 year increases contract assets by $6,360, reduces deferred tax assets by $2,736 and decreases contract liabilities by $3,559. Revenues for 2017 are increased by $9,919 and a deferred tax expense equal to the amount of the asset is reduced also.

In adopting and retrospectively applying IFRS 15, the Group identified one contract that had multiple performance obligations which required the Group to account for each of the performance obligations distinctly. In 2017, all but one of the performance obligations was complete and the one that was not yet complete had some uncertainty to the timing and remaining costs associated with achieving that performance obligation. As such the Group reduced revenues associated with this performance obligation in the amount of $1,896 in 2017 which triggered an offsetting deferred tax recovery of $512 for a comprehensive loss increase of $1,384. This adjustment required contract assets to be reduced by $1,365 and contract liabilities to be increased by $512 as well as the recognition of a deferred tax asset associated with the increase in the comprehensive loss.

Certain contracts that Group has with customers give rise to variable consideration issues that IFRS 15 addresses differently. The Group has certain discount provisions with certain customers that allows for a small percentage reduction in the contract price for more favorable terms. Under IFRS 15, the Group has had to estimate the potential value of this provision and treat it as separate performance obligation. In 2017, the Group reduced revenues by $197 and reduced finance costs by $351 which resulted in a $42 deferred tax expense which resulted in a $112 increase in comprehensive income in the period. Contract assets increased by $351, deferred tax assets decreased by $42 and contract liabilities increased by $197.

The Group entered in to an agreement with a customer in 2017 and that agreement includes a rebate program that provides an incentive to the customer to continue to work with the Group. An incentive is in the form a rebate calculated off of existing work which can then be applied to future work. This agreement also creates a variable consideration component which is a separate performance obligation and a value for this obligation needs to be estimated. The agreement permitted the rebate to commence from the existing contacts that the Group had with the customer as well as well anything moving forward from that point. The Group had to assign a value to the projected rebate from the initial work on hand separate from the incremental work awarded after the inception of the agreement.

The adjustment required for the historical rebate assessment was increase in rebate expense in 2017 of $4,712 as well as an increase in revenue of $475 and the recovery of $1,144 of deferred tax expense for a reduction of net income of $3,093. On the statement of financial position, accounts payable and accrued liabilities increased by $4,237 and a deferred tax asset of $1,144 was set-up.

In assessing the value of the performance obligation of the rebate that would have been generated after the agreement was established for separately in 2017. The adjustment was reduction of revenue in the amount of $88 and a deferred tax recovery of $24 for reduction to comprehensive income of $64. The Group then recorded an increase in accounts payable and accrued liabilities of $88 and an increase in deferred taxes of $24.

EMPIRE INDUSTRIES GLOBAL FOOTPRINT

- Attractions
- Operations and Offices

A number indicates multiple sites, as of Spring 2019.

Empire Industries acknowledges and thanks the following
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