

EMPIRE INDUSTRIES LTD.

(TSX-V: EIL)

Recommendation

Speculative Buy

Risk

High

Price (August 13, 2014)

\$0.15

52-Week Range

\$0.21-\$0.05

Target Price

First: \$0.22

Second: \$0.27

Shares O/S

254.54 million

Market Cap

\$38.18 million

Average Daily Volume

50-day: 160,900

200-day: 275,000

Year-End

December 31

Book Value Per Share

2012: \$0.04

2013: \$0.06

2014: \$0.08E

Price (Dec 31) to Book

2012: 1.0x

2013: 1.5x

2014: 1.9E (current)

eResearch Analysts:

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Bill Campbell, B.Comm



Source: www.bigcharts.com

UPFRONT

Empire Industries is much-overlooked by investors, but excitement abounds in the Company's transformation to a global-leading designer and manufacturer of amusement park rides. These are state-of-the-art virtual-reality media-based attractions. We set out in this report graphic depictions of some of these rides as well as links to corporate brochures so that you can grasp the size, scale, and excitement of the Company's primary business.

Empire Industries also operates two other businesses: the manufacture and sale of hydrovac trucks for use in the excavation services industry; and steel fabrication, including conventional structural steel, pipe, pressure vessels, and tanks, including the tanks for the hydrovac trucks.

Although the Company operates primarily in western Canada, it has forged important ties with entities in China where there is a big push on to expand its businesses. This is a key growth driver for the Company in the years ahead.

A concerted management effort has been made over the last 2-3 years to clean up the balance sheet, and focus the Company on its strategic initiatives. This is now starting to pay dividends, with improving profitability and a rising share price.

The shares are rated as a Speculative Buy. Target Prices are \$0.22 and \$0.27.

THE COMPANY

Empire Industries Ltd. is a manufacturer of specialized engineered products, which it sells in domestic and selected international markets.

The Company's operations are conducted in three business sectors:

1. Media-Based Attractions,
2. Manufactured Products, and
3. Steel Fabrication Services.

	Year		Year		Q1		Q1	
SALES (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	72,493	62%	32,967	39%	20,593	61%	8,917	37%
Manufactured Products	24,578	21%	19,821	24%	8,441	25%	6,139	26%
Steel Fabrication	20,584	17%	30,816	37%	4,532	13%	8,684	37%
Corporate	<u>140</u>	<u>n/m</u>	<u>86</u>	<u>n/m</u>	<u>32</u>	<u>n/m</u>	<u>40</u>	<u>n/m</u>
TOTAL	117,795	100%	83,690	100%	33,598	100%	23,780	100%

	Year		Year		Q1		Q1	
EBITDA (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	7,199	114%	173	9%	2,270	96%	567	37%
Manufactured Products	2,726	43%	1,008	52%	1,094	46%	710	46%
Steel Fabrication	-847	-13%	2,567	132%	-432	-18%	793	52%
Corporate	<u>-2,760</u>	<u>-44%</u>	<u>-1,796</u>	<u>-92%</u>	<u>-562</u>	<u>-24%</u>	<u>-540</u>	<u>-35%</u>
TOTAL	6,318	100%	1,952	100%	2,370	100%	1,530	100%

	Year		Year		Q1		Q1	
EBITDA MARGIN (%)	<u>2013</u>		<u>2012</u>		<u>2014</u>		<u>2013</u>	
Media-Based Attractions	9.9%		0.5%		11.0%		6.4%	
Manufactured Products	11.1%		5.1%		13.0%		11.6%	
Steel Fabrication	-4.1%		8.3%		-9.5%		9.1%	
Corporate	<u>n/m</u>		<u>n/m</u>		<u>n/m</u>		<u>n/m</u>	
TOTAL	5.4%		2.3%		7.1%		6.4%	

Empire Industries also has two key equity partnerships, and a third is being set up:

1. 49% interest in ACE Industrial Services; and
2. 45% interest in a Chinese steel fabrication joint venture, Dongguan Qiguang Dynamic Steel Structures, Ltd., in the Asian steel fabrication market. See page 15.
3. Empire Industries and Zhejiang Zhoufa Investment Co., Ltd. ("Zhejiang") announced their intention to enter into a joint venture agreement and incorporate a new company in China that is expected to be owned 51% by Empire Industries and 49% by Zhejiang, and being capitalized with \$2.0 million from Empire Industries and \$1.9 million from Zhejiang. As yet, there has been no public confirmation of this joint venture, and it is possible that the ownership interests may differ on conclusion. See page 15 and pages 25-26.

Strategic Initiatives

1. Media-Based Attractions

Dynamic Attractions (6): The sale of new proprietary attractions has already started to take place, and Company results are starting to reflect the first sales of these new rides being designed, built, shipped, installed and commissioned, with a number of them being opened to the public over the next year in various locations around the world. The Company expects to gather momentum as more products are sold to additional clients.

Dynamic Structures (telescopes): The Company currently is not engaged in building new telescopes and, instead, is actively pursuing funding for the Thirty-Meter-Telescope project (for detailed information on this project, see pages 8-9). In the meantime, the Company is spending significant R&D monies on telescope mirror production and polishing. This division continues to serve its traditional “build to print” clients in the entertainment industry.

2. Manufactured Products

Empire Industries is a manufacturer and seller of Tornado hydrovac trucks for use by excavation service providers in western Canada. (Possible new markets for the Company’s hydrovac trucks are eastern Canada and the United States.) In contrast, competitor Badger Daylighting Ltd. operates with a totally different strategy: it is a manufacturer and service provider of daylighting services, which requires considerably more total capital to finance its operations.

Since Empire is already active in China, it could produce hydrovac trucks for the Chinese market. In this respect, the Company could build its own plant to manufacture the trucks, or it could buy a Chinese company that already manufactures trucks, or it could joint venture with an existing Chinese company that builds back-ends for trucks.

3. Steel Fabrication

This division manufactures the steel tanks for the hydrovac trucks. Although 2013 and Q1/2014 suffered lower volumes, the remainder of 2014 should show sharp improvement as the order backlog is processed.

4. Empire Industries as a Mini-Conglomerate

Investors may be over-looking Empire Industries because, with its three distinct business operating units, it could be perceived as a conglomerate, and conglomerates can be difficult to understand and to value. Since Empire’s primary, but not exclusive, focus is on its Media-Based Attractions, which has by far the largest contribution to both Sales and EBITDA, some investors may like to see the Company hive off its Manufactured Products and Steel Fabrication businesses to crystallize their intrinsic values and simplify the firm’s business operations.

There is some synergy with those two smaller divisions, since the Steel Fab division supplies the Manufactured Products division with the fabricated steel needed to manufacture the hydrovac trucks. With China’s large steel industry, a similar set-up in China for these two divisions also makes sense. The common thread in the Company’s operations is Steel + Engineering, together providing a design and build capability in niche markets.

COMMENT: *As with any savvy company, if Empire Industries’ management deems it prudent to dispose of any segment of its operations to increase the enterprise value, we believe it would take advantage of that opportunity.*

5. Next 3-5 Years Growth Drivers

We believe the Company will concentrate its efforts over the next few years on the following initiatives:

- (a) Expanding its Media-Based Attractions internationally;
- (b) Building up its hydrovac truck business in Canada and China;
- (c) Implementing its steel fabrication supply chain from Canada to China and from China to Canada;
- (d) Increasing its business opportunities in Canada’s oil sands industry; and
- (e) Building the spherical enclosure for the giant telescope to be erected in Hawaii, provided the Canadian Government decides to participate in the Thirty-Meter-Telescope project.

INVESTMENT CONSIDERATIONS

A. Strengths

- **Significantly improved operating and financial results:** Empire Industries' restructuring and cost-cutting measures, implemented over the past several years, have led to a sales gain from a low of \$50 million in 2010 to approximately \$118 million in 2013, and an earnings turnaround from a loss of \$0.11 per share in 2009 to positive earnings of \$0.02 per share in 2013. The Company has also significantly strengthened the balance sheet, reducing total debt from approximately \$48 million in 2008 to \$9.5 million at the end of March 2014.
- **Pioneer and leader in developing state-of-the-art media-based attractions:** The Company has successfully marketed, to international customers, its large media-based products for theme-park rides and other complex entertainment locations. Since 2011, the Company has generated over \$60 million in orders from these markets.
- **Significant order backlog:** The Company's order book at the end of 2013 totalled \$116 million, and this was augmented by a further almost \$50 million in Q1/2014. Approximately 65% of the backlog is in the Media-Based Attractions division, with the balance of 35% almost equally split between Manufacturing Products and Steel Fabrication.
- **Quality hydrovac trucks:** The Company manufactures and sells premium hydrovac trucks in the burgeoning business of "daylighting" excavation, and is considering various ways to continue expanding this business. Setting up operations in China is one such possible initiative.
- **Strategic relationships:** Empire Industries has forged close affiliations with entities that can materially assist the Company in expanding its operations and augmenting the sale of its products and services and improving its profitability. These suppliers include electrical, instrumentation and controls, robot manufacturer, audio visual, its steel fabrication partnership in Dongguan, China, and its aboriginal-controlled partnership in Alberta's oil-sands.

B. Challenges

- **Country risk:** With a significant portion (approximately 61% in 2013) of revenues generated in international markets, Empire Industries' results can be affected by economic conditions in the countries to which it exports.
- **Management risk:** As a relatively small company, Empire's results could be adversely impacted by the loss of any of the key members of its management team.
- **Execution Risk:** Since the Company has expanded quickly, its capacity to deliver will be challenged to provide the specified quality on time and on budget, and to manage payment terms on large contracts.
- **Corporate size risk:** The Company's market capitalization is less than \$50 million; the shares trade at a price considerably less than \$1.00; the stock is thinly traded, averaging only about 300,000 shares per day; and, accordingly, the stock would be of interest primarily to retail investors and much less so to institutional investors.
- **Currency risk:** The Company buys and sells its goods in both Canadian and U.S. dollars and, therefore, is subject to changes in foreign exchange rates.
- **Interest rate risk:** The Company is subject to changes in variable interest rates on its bank operating lines.

OPERATIONS

In the discussion which follows, for each of the three operating divisions, we first set out some information on the industry, and then follow up with specific information on the Company's activities.

A. Media-Based Attractions

1. Industry Trends

The *Asian Attractions Expo 2014* took place in June in Beijing, China. The International Association of Amusement Parks and Attractions (IAAPA) stated that the attractions industry within China is growing at a rapid pace, with several attractions recently completed and a number of other major amusement parks in development. The IAAPA designates this trade show as the "premier international trade show conference for the multi-billion-dollar leisure and attractions industry."

Report Linker (www.reportlinker.com) notes that, according to a Global Industry Analysts report, the global amusement and theme park market is expected to generate revenue of almost \$32 billion by 2017. The market is expected to be "fuelled by rising consumer spending on leisure and entertainment, increasing levels of disposable income, and higher mass entertainment popularity." Urbanization in developing countries and an expanding base of middle-class households are also expected to drive demand.

IBIS World, an Australian-based global business intelligence leader specializing in industry market research reports, forecasts that amusement parks will "attract more consumers by adding new attractions." Growth will also be driven by improving consumer confidence due to economic recovery, giving rise to growing demand for entertainment. Leading outfits will concentrate on international expansion.

Disney is planning to open its Shanghai Disney Resort at the end of 2015. It will be the company's second-largest theme park and will also include two hotels.

Six Flags Entertainment Corp., another major U.S. operator of theme parks, announced in June 2014 that it was planning to build several theme parks in China over the next decade. Industry sources state that 59 theme parks are being planned throughout China by various companies; however, not all of them will be built.

2. Corporate Activities

Empire Industries' *Media-Based Attractions* activities are conducted through two wholly-owned divisions:

- Dynamic Attractions; and
- Dynamic Structures.

(a) Dynamic Attractions

Dynamic Attractions, which was formed in 2011, has created a proprietary product line of six media-based attractions, with another in development. To date, it has sold more than \$60 million of media-based attractions. Since August 2013, the company has received orders for \$27.5 million of equipment for theme parks in China, and \$25 million for two customers in United Arab Emirates.

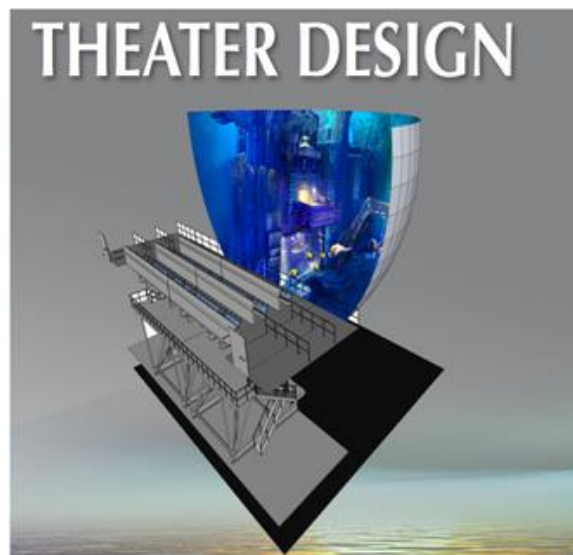
COMMENT: *Empire Industries is actively marketing its Media-Based Attractions through its own direct sales force. The Company's Dynamic Attractions unit attends the three most important annual international trade shows, being Asia in the spring, Europe in the fall, and USA (Orlando) in November.*

Set out on the following pages are Empire Industries' Media-Based Attractions. Included with a brief description of these attractions are depictions for five of them, and a LINK to a marketing Brochure for four of them.

The Company's six main media-based attractions are:

- **Flying Theatre:** A theatre ride which gives the riders the sensation of being suspended in the air (Figure 1, and Link to Brochure below).
- **Immersive Transporter:** A ride in which the riders become immersed in realistic audio visual effects and various sensations of motion (Figure 2, and Link to Brochure below).
- **Tracked Robotic Ride Vehicle:** This unique, flexible, and highly productive ride platform is sought out by large entertainment companies as an iconic draw to their amusement parks (Figure 3 below).
- **Circumotion™:** This is a 360-degree theatre that provides customers with a variety of sensations as it lifts, leans and spins through various apparent environments such as space or underwater. This product is co-marketed in agreement with the owner of the patent who also produces the creative movie content used by the Circumotion™ theatre (Figure 4, and Link to Brochure below).
- **SFX Indoor Coaster:** A high-speed coaster in which the participants are immersed in many sounds and sights as well as four new elements of motion (Figure 5, and Link to Brochure below).
- **Trackless Ride Vehicle:** These are vehicles which can be combined with a multi-axis motion platform or robot arms to provide smooth exciting rides.

Figure 1: Flying Theatre



A new Media-Based Dynamic Attractions design:

Source: Empire Industries Ltd.

Flying Theatre Brochure: Click [HERE](#).

Figure 2: Immersive Transporter



A new Media-Based Dynamic Attractions design:
Source: Empire Industries Ltd.

Immersive Transporter Brochure: click [HERE](#).

Figure 3: Tracked Robotic Ride Vehicle



A new Media-Based Dynamic Attractions design:
Source: Empire Industries Ltd.

Figure 4: Circumotion™



A new Media-Based Attractions design:
Source: Empire Industries Ltd.

Circumotion™ Brochure: Click [HERE](#).

Figure 5: SFX Indoor Coaster



A new Media-Based Attractions design:
Source: Empire Industries Ltd.

SFX Indoor Coaster Brochure: Click [HERE](#).

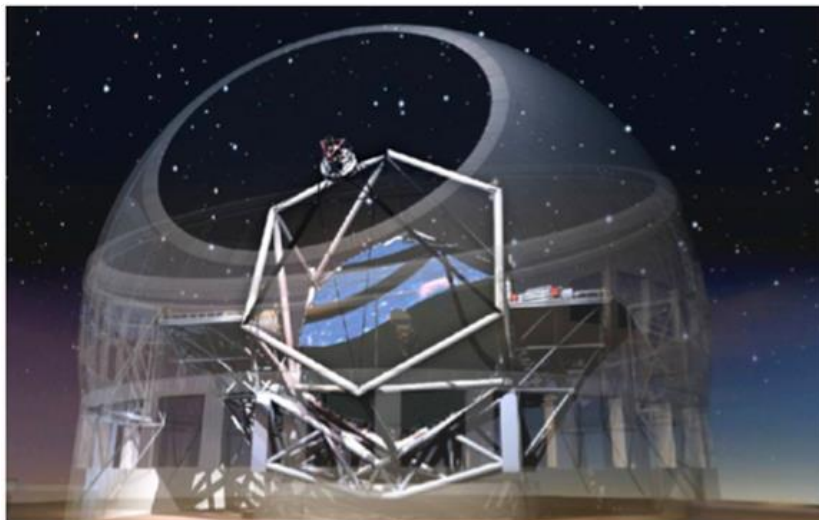
(b) Dynamic Structures

Dynamic Structures designs and manufactures complex structures, such as the world's largest telescope enclosures, and some of the world's most complex ride systems. This Empire Industries' division is considered to be the world leader in detailed design, manufacturing, and on-site construction of complex telescope and observatory enclosures. Dynamic Structures' enclosures have been installed in many locations around the world, including Hawaii, Chile, and the Canary Islands.

Dynamic Structures has designed and built half of the world's largest telescopes. At Mauna Kea, the site of an inactive volcano in Hawaii, the division designed and built the twin Keck 10-Meter telescopes and the two enclosures. Keck I and II are currently the largest ground-based telescopes in the world.

In Hawaii, a consortium of countries and universities are involved in building the world's largest optical telescope, the Thirty-Meter Telescope ("TMT"). *Dynamic Structures* has designed the TMT's telescope structure and enclosure. Canada has an opportunity to participate in this project, but it must first fund US\$300 million of the US\$1.5 billion total capital cost. If Canada joins, *Dynamic Structures* will build the iconic enclosure that it designed. The TMT enclosure will be installed on top of Mauna Kea in Hawaii, and is expected to be operational by 2023. See Figure 5 below, and The Globe & Mail article on the ensuing page.

Figure 6: The Thirty-Meter Telescope (TMT)



Source: Empire Industries Ltd.

THE GLOBE & MAIL ARTICLE: Tuesday, July 29, 2014 edition with the headline:

Canada nearing crossroads on huge telescope project

The article was written by Ivan Semeniuk, the Science Reporter for the newspaper. It discusses an international project to build the world's largest telescope atop Mauna Kea, the extinct volcano on the big island of Hawaii. The project is dubbed Thirty Meter Telescope, and has just received permits and approval of a sublease to build a huge new observatory.

To date, Canada has contributed \$30 million but has not yet committed to spend a further \$300 million to obtain a 20% interest in the endeavor.

If Canada does end up going in, then one-half of its contribution would go towards building a spherical enclosure for the telescope. Building this enclosure would be granted to Empire Industries' subsidiary, Dynamic Structures. The entire article is provided on the following page.

THE GLOBE AND MAIL • TUESDAY, JULY 29, 2014

ASTRONOMY

Canada nearing crossroads on huge telescope project

Government has limited time to commit \$300-million for 20-per-cent share in \$1.5-billion instrument

IVAN SEMENIUK
SCIENCE REPORTER

An international effort to build an enormous telescope in Hawaii that would see to the limits of the known universe has taken an important step forward, a signal that the Harper government will have to decide soon if Canadian astronomers will have a share in the instrument's future discoveries.

On Monday, the Thirty Meter Telescope (TMT) project announced it had obtained permits and approval of a sublease by state authorities to build a huge new observatory atop Mauna Kea, an extinct volcano on the big island of Hawaii that boasts some of the world's leading astronomical facilities.

The telescope's primary mirror will be 30 metres across, giving it about half the surface area of an NHL hockey rink. Such an instrument would easily dwarf any telescope operating in the world today and help usher in a new era of cosmic exploration.

Canada has invested \$30-million in the telescope's design and development, but it is not yet an official partner in the project. That would require an additional \$300-million to secure a 20-per-cent share in the \$1.5-billion telescope.

With austerity ruling the federal budget process in recent years, there's been little reason to expect Ottawa to rush to commit so much money. With the project moving forward, there may be little time to lose.

"We still have the opportunity to join the TMT, but funding will need to be committed by April, 2015, if we are not to lose our current stake in the project," said Christine Wilson, a professor of astronomy at McMaster University in Hamilton and president of the Canadian Astronomical Society, which represents



An artist's rendering of the planned Thirty Meter Telescope, which is to be built on Mauna Kea, an extinct volcano on the big island of Hawaii. TMT OBSERVATORY CORPORATION

professional researchers in the field nationally. In 2010, the society identified TMT as its top-ranked scientific priority.

While the telescope is not expected to be completed before 2023, Canada's status could become urgent within months because half of its proposed contribution is slated for building a spherical enclosure — a crucial early step.

"You can't put the telescope up until there's something to protect it," said Ray Carlberg, a University of Toronto astronomer and Canadian spokesman for TMT.

If Canada joins TMT, building the enclosure will fall to Dynamic Structures of Port Coquitlam, B.C.

The remainder of Canada's contribution would go to the National Research Council to build the computer-control optical components that would

allow the telescope to preserve its image quality despite the distorting effects of Earth's turbulent atmosphere.

Japan and a consortium of California universities have already committed to TMT. India and China are moving toward full partnership.

The project reflects a trend in astronomy toward super-sized observatories supported by multinational collaborations. Earlier this year, a consortium of mainly European nations began building a 39.3-metre telescope in Chile.

The giant telescopes will be used to probe the universe at a time when the first galaxies were forming. They will also be powerful enough to reveal the properties of planets circling distant stars.

But with only two or three such instruments expected to be built in the next half century,

Canada has a limited window in which to find a partnership that works.

Scott French, a spokesman for the Ministry of State for Science and Technology, said the Canadian team working on TMT has been invited to put forward a proposal under the new Canada First Research Excellence Fund, which was announced in the 2014 federal budget. He added that assessment of proposals will begin "later this year."

Gordon Squires, a spokesperson for TMT based at the California Institute of Technology in Pasadena, said work on the telescope has been accelerated.

"We'll be looking very carefully, obviously, at what happens in the next [Canadian federal] budget, but in the interim, the project has a plan to begin construction and take it to the next step and that's the plan we'll follow," he said.

B. Manufactured Products

1. Industry Trends

According to the Pipeline & Gas Journal's *Pipeline Outlook 2013*, almost 42,000 miles of pipelines were planned or under construction in North America. Key competitor, Badger Daylighting, the largest company in its industry, uses this, among other statistics, to indicate that demand for its services should remain strong for the foreseeable future. If U.S. usage were to approach Canadian levels (where the industry is much more developed), there could be huge demand for these units.

Table 1: Private & Public Investment Intentions (Western Canada)

<i>(\$ Billions)</i>	2012	2013	2014 E
<i>Alberta</i>			
Total	102.4	111.2	113.8
Construction	79.2	87.1	88.1
Machinery & Equipm.	23.2	24.1	25.7
<i>Manitoba</i>			
Total	11.9	12.6	12.4
Construction	8.2	8.5	8.2
Machinery & Equipm.	3.7	4.1	4.2
<i>Saskatchewan</i>			
Total	21.6	21.3	20.9
Construction	16.2	15.5	15.5
Machinery & Equipm.	5.4	5.8	5.4
<i>British Columbia</i>			
Total	47.8	47.5	47.5
Construction	36.4	36.7	36.6
Machinery & Equipm.	11.4	10.8	10.9

Source: Statistics Canada

2. Corporate Activities

Empire Industries' *Manufactured Products* operation is based in Alberta and builds Tornado hydrovac trucks for excavation service providers involved in the oil & gas industry, utility and municipal markets.

COMMENT: *The demand for the Company's Hydrovac Trucks product continues to grow. The Company is targeting growth markets internationally and domestically in Proprietary Engineered Products, and is identifying ways to broaden geographic coverage and expand the product line.*

Figure 7: A Tornado Hydrovac Truck



Empire's Steel Fabrication operation produces tanks for the Tornado hydrovac trucks. The trucks are built by the Company in the Manufactured Products operation in Settler, Alberta, for excavation service providers for the oil & gas industry, utility and municipal markets.

Source: Empire Industries Ltd.

C. Steel Fabrication Services

1. Industry Trends

The Royal Bank of Canada recently published an economic forecast for 2014 and 2015 for provincial growth in the provinces of Manitoba, Saskatchewan, Alberta, and British Columbia (which are Empire Industries' primary structural steel markets). The statistics in the table below indicate that economic activity in these western Canadian markets should remain relatively strong over the next two years.

Table 2: Western Canadian Provinces Real GDP Growth 2014-2015 (%)

(%)	Canada	Alberta	Sask.	Manitoba	B.C.
2014	2.5	3.7	2.0	2.0	2.1
2015	2.7	3.5	2.7	2.7	2.8

Source: Royal Bank of Canada

The Government of Alberta's *Budget Investment Intentions for the Oil and Gas Industry* in 2014 are \$55.2 billion, of which \$33.4 billion is related to the oil sands. The \$55.2 billion comprises \$49.3 billion of capital construction and \$5.9 billion in machinery and equipment. This compares with \$47.3 billion and \$5.7 billion, respectively, in 2013.

2. Corporate Activities

Empire Industries' *Steel Fabrication Services* operation is conducted through two facilities:

- Empire Iron in Edmonton, which carries out conventional structural steel fabrication; and
- Parr Metal in Winnipeg, which fabricates tanks, pressure vessels, and pipe. This operation produces the steel tanks for the Tornado hydrovac trucks.

These operations received approximately \$22 million in new contracts during the first quarter of 2014, and thus should achieve improved results over the balance of the year.

The Company also conducts steel fabrication services through its two minority equity ownership interests in companies in Fort McMurray, Alberta and China. Further information is provided below in Section E on page 14.

COMMENT: *In steel fabrication markets, Empire Industries competes with local, regional, national, and international companies. Its competitors include companies based in western Canada (most privately-owned or family-owned) as well as companies in Ontario and Quebec, and in the USA and Asia.*

COMMENT: *Empire Industries is involved in steel-intensive surface facilities for the Fort McMurray area, one of the major growth markets in North America, and one where the Company looks to benefit from the cost-competitive aspect of this work.*

Empire Industries' projects in this division include the Art Gallery of Alberta in Edmonton (see photo next page).

Figure 8: The Art Gallery of Alberta, Edmonton



Empire Iron Works contributed steel detailing for the Edmonton-located Art Gallery of Alberta.

Source: Empire Industries Ltd.

D. Operational Challenges

Key corporate operational challenges facing Empire Industries include the following:

- Detailed designing and building of complex ride systems;
- Controlling quality, costs, and scheduling for a significant increase in volume of work;
- Encouraging and convincing the Conservative government to fund Canada's share of TMT;
- Building up quality at Qiguang Dynamic Steel Structures in Dongguan, China quickly enough to replace increasingly expensive fabrication and manufacturing facilities in Western Canada; and
- Building enterprise value in the hydrovac truck business.

E. Equity Partnerships

Empire Industries also has two key equity partnerships, and a further one pending.

- A 49% interest in *ACE Industrial Services*, an aboriginal partnership with Athabaska Chipewyan First Nation in Fort McMurray, Alberta. ACE Industrial Services operates the largest machine shop in Fort McMurray and provides steel fabrication and installation, machining, and maintenance services for serving the oil sands market. Empire Industries has in place a steel supply chain from China to Fort McMurray.
- A 45% interest in *Qiguang Dynamic Steel Structures*, which operates a steel fabricating operation in Dongguan, Guangdong, China. This provides the Company with a source of lower cost steel for use in its Chinese projects.

Figure 9: One Bay of Qiguang Dynamic Structures Facility in Dongguan, China



- A third equity joint venture was announced in a press release dated May 15, 2013, but it has not, as yet, been consummated. This J.V. is with Zhejiang Zhoufa Investment Co., Ltd. ("Zhejiang"). The private placement of \$3.0 million that successfully closed in July 2013 included \$2.5 million from Zhoufa. More detailed information on this J.V. is provided on pages 23-24.

FINANCIAL STATEMENTS

Note: eResearch has made some minor income adjustments to the Company's reported financial statements in its following presentation of the Financial Statements.

(C\$000)	Actual Year End Dec 31/2011	Actual Year End Dec 31/2012	Actual Year End Dec 31/2013	Actual 12 Months Mar 31/2014	Estimate Year End Dec 31/2014
Statement of Income (Loss)					
Net Revenues	53,851	83,543	117,201	126,357	140,000
Cost of Sales	(49,440)	(72,481)	(98,099)	(106,258)	(117,040)
Gross Operating Profit	4,411	11,062	19,102	20,099	22,960
Gross Operating Profit Margin	8.2%	13.2%	16.3%	15.9%	16.4%
Selling & Administrative ("SA")	(8,486)	(9,257)	(13,378)	(14,197)	(15,400)
SA / Net Revenues	<u>15.8%</u>	<u>11.1%</u>	<u>11.4%</u>	<u>11.2%</u>	<u>11.0%</u>
EBITDA	(4,075)	1,805	5,724	5,902	7,560
EBITDA Margin	-7.6%	2.2%	4.9%	4.7%	5.4%
Depreciation & Amortization	(1,819)	(1,070)	(1,096)	(1,210)	(1,300)
Interest Expense	(1,391)	(849)	(1,064)	(1,111)	(850)
Other Income/(Expenses)	258	105	(815)	(143)	50
Other Non-Cash Income/(Expenses)	<u>1,060</u>	<u>779</u>	<u>252</u>	<u>(241)</u>	<u>(300)</u>
Pre-Tax Profit/(Loss)	(5,967)	770	3,001	3,197	5,160
Current + Deferred Taxes	(256)	178	1,418	1,359	0
Net Profit, Continuing Operations	(6,223)	948	4,419	4,556	5,160
Non-Recurring Items	<u>(1,073)</u>	<u>(1,573)</u>	<u>0</u>	<u>(4)</u>	<u>0</u>
Reported Net Profit/(Loss)	(7,296)	(625)	4,419	4,552	5,160
Total Shares Outstanding (000s)	193,240	193,240	253,240	254,540	254,540
Weighted Average Shares O/S (000s)	152,363	193,240	222,007	282,657	253,890
Net Profit/(Loss) Per Share, Cont. Ops.	(\$0.04)	\$0.00	\$0.020	\$0.016	\$0.020
Reported Net Profit/(Loss) Per Share	(\$0.05)	(\$0.00)	\$0.020	\$0.016	\$0.020
Cash Flow Statement					
Net Profit, Continuing Operations	(6,223)	948	4,419	4,556	5,160
All Non-Cash Items	<u>759</u>	<u>291</u>	<u>844</u>	<u>1,451</u>	<u>1,600</u>
Cash Flow from Operations	(5,464)	1,239	5,263	6,007	6,760
Capital Expenditures (Properties)	(1,056)	(131)	(1,439)	(1,501)	(500)
Other Investing Items	<u>(2,052)</u>	<u>(1,078)</u>	<u>(1,240)</u>	<u>(1,449)</u>	<u>(900)</u>
Free Cash Flow	(8,572)	30	2,584	3,057	5,360
Working Capital Changes	<u>3,144</u>	<u>11,173</u>	<u>(11,274)</u>	<u>(6,215)</u>	<u>2,278</u>
Cash Flow before Financing	(5,428)	11,203	(8,690)	(3,158)	6,738
Equity Financing/(Share Repurchase)	4,818	-	2,683	2,748	100
Debt Financing	<u>(157)</u>	<u>(5,238)</u>	<u>1,722</u>	<u>1,570</u>	<u>(400)</u>
Change in Cash	(767)	5,965	(4,285)	1,160	6,438
Cash, Beginning of the Period	(8,056)	(8,823)	(2,858)	(5,403)	(7,143)
Cash, End of the Period	(8,823)	(2,858)	(7,143)	(4,243)	(705)

<continued>

Balance Sheet		Actual	Actual	Actual	Actual	Estimate
(C\$)	As at:	<u>Dec 31/2011</u>	<u>Dec 31/2012</u>	<u>Dec 31/2013</u>	<u>Mar 31/2014</u>	<u>Dec 31/2014</u>
Cash and Equivalents		642	25	311	0	0
Accounts Receivable		15,262	19,310	31,740	28,036	27,000
Other Current Assets		10,448	6,783	6,394	7,356	7,500
Fixed Assets		9,914	7,960	8,818	8,693	8,500
Other Assets		<u>2,642</u>	<u>2,222</u>	<u>5,058</u>	<u>5,208</u>	<u>5,500</u>
Total Assets		<u>38,908</u>	<u>36,300</u>	<u>52,321</u>	<u>49,293</u>	<u>48,500</u>
Bank Debt		2,279	2,883	7,454	4,302	705
Accounts Payable		11,071	10,611	17,489	15,821	14,500
Other Current Liabilities		15,586	12,889	7,449	8,165	8,500
Long-Term Debt (incl. Conv. Debs)		2,310	2,337	4,594	4,386	4,200
Other Liabilities		0	380	0	0	0
Shareholders' Equity		<u>7,662</u>	<u>7,200</u>	<u>15,335</u>	<u>16,619</u>	<u>20,595</u>
Total Liabilities & Equity		<u>38,908</u>	<u>36,300</u>	<u>52,321</u>	<u>49,293</u>	<u>48,500</u>

Balance Sheet Statistics		Actual	Actual	Actual	Actual	Estimate
(C\$000)	As at:	<u>Dec 31/2011</u>	<u>Dec 31/2012</u>	<u>Dec 31/2013</u>	<u>Mar 31/2014</u>	<u>Dec 31/2014</u>
Book Value (S.E.) Per Share		\$0.04	\$0.04	\$0.06	\$0.07	\$0.08
Working Capital		(\$2,584)	(\$265)	\$6,053	\$7,104	\$10,795
Working Capital Ratio (times)		0.91	0.99	1.19	1.25	1.46
Working Capital Per Share		(\$0.01)	(\$0.00)	\$0.02	\$0.03	\$0.04
Cash Flow/Total Debt (times)		-1.19	0.24	0.44	0.69	1.38
Total Debt/Total Capital		37.5%	42.0%	44.0%	34.3%	19.2%
Fixed Assets Per Share		\$0.05	\$0.04	\$0.03	\$0.03	\$0.03
Fixed Assets PS/Current Share Price						20.9%

COMMENT on the Income Statement: For the corporate year ending December 31, 2013 and the twelve months to March 31, 2014, Empire Industries showed a profit and, in each 12-month period, reported Net Profit of \$0.02 per share. Our estimate for 2014 is a further increase in Net Profit, but still EPS of \$0.02. (\$0.020 with three decimals, up from \$0.016).

COMMENT on the Cash Flow Statement: The Company still has net zero cash, the deficiency covered by bank debt. However, the trend is improving, with cash flow from operations steadily rising. We expect the Company will be in a positive cash position in 2015 (not shown).

COMMENT on the Balance Sheet: With cash flow increasing, the bank debt is falling. Shareholders' Equity rises each year.

COMMENT on the Balance Sheet Statistics: Our estimate for Book Value at the end of 2014 is \$0.08 per share. By the end of 2014, the Working Capital Ratio is expected to be a healthy 1.46x. Cash Flow to Total Debt has a satisfactory 1.38x coverage. Total Debt to Total Capitalization should fall to less than 20% by year-end 2014.

Starting on the next page, we show segmented information for key financial statistics. We comment on each parameter.

SEGMENTED FINANCIAL INFORMATION

	Year		Year		Q1		Q1	
SALES (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	72,493	62%	32,967	39%	20,593	61%	8,917	37%
Manufactured Products	24,578	21%	19,821	24%	8,441	25%	6,139	26%
Steel Fabrication	20,584	17%	30,816	37%	4,532	13%	8,684	37%
Corporate	<u>140</u>	<u>n/m</u>	<u>86</u>	<u>n/m</u>	<u>32</u>	<u>n/m</u>	<u>40</u>	<u>n/m</u>
TOTAL	117,795	100%	83,690	100%	33,598	100%	23,780	100%

COMMENT on Sales: Media-Based Attractions have become the dominant contributor to Sales revenue. The division comprised 62% for 2013 and maintained a 61% level in Q1/2014. Manufactured Products and Steel Fabrication are almost similar in size.

	Year		Year		Q1		Q1	
GROSS PROFIT (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	12,650	64%	3,739	33%	3,694	62%	1,688	39%
Manufactured Products	4,607	23%	1,941	17%	1,718	29%	1,028	24%
Steel Fabrication	2,324	12%	5,443	49%	525	9%	1,554	36%
Corporate	<u>115</u>	<u>n/m</u>	<u>86</u>	<u>n/m</u>	<u>32</u>	<u>n/m</u>	<u>40</u>	<u>n/m</u>
TOTAL	19,696	100%	11,209	100%	5,969	100%	4,310	100%

COMMENT on Gross Profit: Media-Based Attractions provide almost 2/3rds of Gross Profit. Manufactured Products contribute another one-quarter, and Steel Fabrication about one-half of that.

	Year		Year		Q1		Q1	
GROSS MARGIN (%)	<u>2013</u>		<u>2012</u>		<u>2014</u>		<u>2013</u>	
Media-Based Attractions	17.4%		11.3%		17.9%		18.9%	
Manufactured Products	18.7%		9.8%		20.4%		16.7%	
Steel Fabrication	11.3%		17.7%		11.6%		17.9%	
Corporate	<u>n/m</u>		<u>n/m</u>		<u>n/m</u>		<u>n/m</u>	
TOTAL	16.7%		13.4%		17.8%		18.1%	

COMMENT on Gross Margin: Manufactured Products show the best return, although Media-Based Attractions are not far behind.

	Year		Year		Q1		Q1	
SGA (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	5,451	41%	3,566	39%	1,424	40%	1,121	40%
Manufactured Products	1,881	14%	933	10%	624	17%	318	11%
Steel Fabrication	3,171	24%	2,876	31%	957	27%	761	27%
Corporate	<u>2,875</u>	<u>21%</u>	<u>1,882</u>	<u>20%</u>	<u>594</u>	<u>17%</u>	<u>580</u>	<u>21%</u>
TOTAL	13,378	100%	9,257	100%	3,599	100%	2,780	100%

COMMENT on Selling, General, and Administrative (SGA) Expenses: Media-Based Attractions, at 40% are by far the biggest drag on SGA. Steel Fabrication is next around 25%. Corporate Overhead chips in with about 20% of SGA. In step with the highest margins, Manufactured Products contribute least to SGA.

	Year		Year		Q1		Q1	
EBITDA (\$000s)	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Media-Based Attractions	7,199	114%	173	9%	2,270	96%	567	37%
Manufactured Products	2,726	43%	1,008	52%	1,094	46%	710	46%
Steel Fabrication	-847	-13%	2,567	132%	-432	-18%	793	52%
Corporate	<u>-2,760</u>	<u>-44%</u>	<u>-1,796</u>	<u>-92%</u>	<u>-562</u>	<u>-24%</u>	<u>-540</u>	<u>-35%</u>
TOTAL	6,318	100%	1,952	100%	2,370	100%	1,530	100%

COMMENT on EBITDA: *Media-Based Attractions is the major contributor to EBITDA. Manufactured Products chip in around 45%-50%, while Steel Fabrication and Corporate Overhead are negative contributors.*

	Year		Year		Q1		Q1	
EBITDA MARGIN (%)	<u>2013</u>		<u>2012</u>		<u>2014</u>		<u>2013</u>	
Media-Based Attractions	9.9%		0.5%		11.0%		6.4%	
Manufactured Products	11.1%		5.1%		13.0%		11.6%	
Steel Fabrication	-4.1%		8.3%		-9.5%		9.1%	
Corporate	<u>n/m</u>		<u>n/m</u>		<u>n/m</u>		<u>n/m</u>	
TOTAL	5.4%		2.3%		7.1%		6.4%	

COMMENT on EBITDA Margin: *Manufactured Products show the best EBITDA Margin, with Media-Based Attractions not far behind, and improving.*

QUARTERLY RESULTS

The table below shows the Company's quarterly results for the last eight quarters.

Table 3: Empire Industries Ltd. Quarterly Results Q2/12 to Q1/14

(\$000s except EPS)	<u>Q2/12</u>	<u>Q3/12</u>	<u>Q4/12</u>	<u>Q1/13</u>	<u>Q2/13</u>	<u>Q3/13</u>	<u>Q4/13</u>	<u>Q1/14</u>
Sales	\$22,147	\$20,155	\$24,594	\$23,780	\$28,400	\$34,120	\$31,495	\$33,598
EBITDA	\$1,134	\$559	-\$45	\$1,530	\$1,506	\$2,090	\$1,192	\$2,370
EBITDA Margin	5.1%	2.8%	-0.2%	6.4%	5.3%	6.1%	3.8%	7.1%
Net Profit from Continuing Ops.	\$881	\$396	-\$1,505	\$1,074	\$1,016	\$1,648	\$681	\$1,211
Net Profit Margin	4.0%	2.0%	-6.1%	4.5%	3.6%	4.8%	2.2%	3.6%
EPS	\$0.005	\$0.00	-\$0.01	\$0.005	\$0.005	\$0.01	\$0.005	\$0.005
Average Shares O/S (million)	193.2	193.2	193.2	193.2	193.2	247.2	250.2	253.9

Results based on IFRS.

Source: The Company and eResearch.

Banking Facility Increased

Empire Industries recently announced that its operating line with CIBC had been increased by \$5 million. This brought the operating line with the bank to \$15 million and gives the Company added liquidity to manage its increasing order backlog.

VALUATION

Valuing companies with small or negative earnings is always a difficult process. Often these companies are small because they are just getting their operating strategy up and running. Using the P/E metric usually is not applicable. That leaves book value, which also can be unsuitable.

In our search for comparables, we did not find another operating company that exactly matches Empire Industries. However, we have selected the best comparatives possible. A brief description of seven comparative companies is provided below, followed by financial statistics for them and our subject company.

Description of Comparatives

ADF Group Inc. is involved in the design and engineering of connections, fabrication, and installation of complex steel structures and heavy steel built-ups, as well as in miscellaneous and architectural metals for the non-residential construction industry. The company is capable of handling highly technically complex mega projects on fast-track schedules in the commercial, institutional, industrial, and public sectors.

Canam Group Inc. is a manufacturing company that operates 21 plants across North America specializing in the fabrication of steel joists, joist girders, and steel decks. The company also designs and manufactures prefabricated building systems, and composite floor systems. Its construction projects extend to three activity sectors: buildings, structural steel, and bridges.

DIRTT Environmental Solutions Ltd. (DIRTT = Doing It Right This Time) uses its proprietary 3D software to design, manufacture, and install fully-customized prefab interiors. DIRTT customers include the corporate, government, education and health-care sectors.

Opta Minerals Inc. is a vertically integrated provider of custom process optimization solutions and related materials for use primarily in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries. The Company currently has production and distribution facilities in Canada, the USA, and Europe.

PFB Corporation is a vertically integrated manufacturer of insulating building products that are marketed across North America under five brands. The products include insulating concrete forming systems, add-ons used to create structural walls and to replace trusses on roof systems, and products for building custom homes in the U.S., Canada and internationally.

Vicwest Inc. manufactures and distributes engineered storage and handling systems for grain, fertilizer, and liquid storage, as well as building construction products for agriculture, commercial, industrial, and residential markets. Operating through two divisions, the company serves both domestic and international markets.

Badger Daylighting Ltd. is a significant provider of non-destructive excavating services. The company traditionally works for contractors and facility owners in the utility and petroleum industries. The company's key technology is the Badger Hydrovac, which is used primarily for safe digging in congested grounds and challenging conditions. This product uses a pressurized water stream to liquefy the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. Badger manufactures its own truck-mounted hydrovac units.

Table 4: Market Capitalization

<u>Company</u>	<u>Stock Symbol</u>	<u>Stock Price</u>	<u>52-Week High</u>	<u>52-Week Low</u>	<u>Shares O/S (000s)</u>	<u>Market Cap (000s)</u>
ADF Group Inc.	DRX	\$2.75	\$3.56	\$1.55	18,148	\$49,907
Canam Group Inc.	CAM	\$11.39	\$15.48	\$8.70	42,078	\$479,268
DIRTT Environmental Solutions Ltd.	DRT	\$3.51	\$3.95	\$2.30	69,250	\$243,068
Opta Minerals Inc.	OPM	\$1.90	\$2.40	\$1.48	18,119	\$34,426
PFB Corporation	PFB	\$4.80	\$5.94	\$4.28	6,720	\$32,256
Vicwest Inc.	VIC	\$10.45	\$13.50	\$8.97	17,613	\$184,056
Badger Daylighting Ltd.	BAD	\$27.25	\$43.65	\$16.67	37,034	\$1,009,177
Empire Industries Ltd.	EIL	\$0.15	\$0.21	\$0.05	254,540	\$38,181

COMMENT: In terms of share price, Empire Industries is the only company in the group whose stock is trading for less than \$1.00 per share. It also has many more shares outstanding than the others. Its market capitalization, however, is similar to ADF, Opta, and PFB. Badger Daylighting is a significantly larger company than Empire Industries, and is included here because its hydrovac truck operations are identical to those of Empire Industries, albeit Empire's business is considerably smaller than those of Badger. Empire Industries sells its trucks, while Badger leases its trucks to its clients.

Table 5: P/Es and Book Value

<u>Company</u>	<u>Earnings Per Share -----></u>				<u>EPS</u>	<u>P/E</u>	<u>P/E 2013</u>	<u>P/E 2013</u>	<u>Latest</u>	<u>Price to</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TIM*</u>	<u>TIM</u>	<u>High</u>	<u>Low</u>	<u>BVPS#</u>	<u>Book</u>
ADF Group Inc.	\$0.16	\$0.06	-\$0.05	\$0.24	\$0.26	10.6	14.8	6.5	\$3.12	0.88
Canam Group Inc.	\$0.02	-\$0.72	\$0.40	\$0.74	\$0.68	16.8	20.9	11.8	\$10.01	1.14
DIRTT Environmental Solutions Ltd.	IPO: Nov/2013	-\$0.21	-\$0.42	-\$0.29	n/m	n/m	n/m	n/m	\$1.00	3.51
Opta Minerals Inc.	\$0.21	\$0.20	\$0.29	-\$0.01	-\$0.06	n/m	n/m	n/m	\$2.74	0.69
PFB Corporation	\$0.21	\$0.48	\$0.02	\$1.02	-\$0.02	n/m	5.8	4.2	\$6.04	0.79
Vicwest Inc.	\$0.78	\$0.45	\$0.68	-\$0.28	-\$0.32	n/m	n/m	n/m	\$1.69	6.18
Badger Daylighting Ltd.	\$0.61	\$0.80	\$0.80	\$1.09	\$1.02	26.7	40.0	15.3	\$4.79	5.69
Empire Industries Ltd.	-\$0.02	-\$0.04	\$0.01	\$0.02	\$0.02	7.5	10.5	2.5	\$0.07	2.14

* Trailing Twelve Months

Book Value Per Share

COMMENT: This table illustrates the difficulty of comparing companies when so many have negative earnings. In addition, EPS for Empire Industries is very small, which distorts metrics. From a comparative standpoint, not much can be gleaned from this table. Price-to-book Value may be the most interesting. The average (not shown) of the seven comparatives is 2.70x. Empire Industries is 2.14x.

Table 6: Market Cap to Revenue

<u>Company</u>	<u>Total Revenue (000s)-----></u>				<u>Rev. 3 1/4-Year</u>		<u>TIM Rev.</u>	<u>Market Cap</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>TIM</u>	<u>CAGR^</u>	<u>Per Share</u>	
ADF Group Inc.	55,268	48,431	41,412	92,997	105,123	21.9%	\$5.79	0.47
Canam Group Inc.	732,674	881,028	905,400	1,028,235	1,057,786	12.0%	\$25.14	0.45
DIRTT Environmental Solutions Ltd.	IPO: Nov/2013		173,566	139,795	149,919	n/m	\$2.16	1.62
Opta Minerals Inc.	80,868	93,120	126,651	141,435	139,699	18.3%	\$7.71	0.25
PFB Corporation	69,962	89,165	82,078	84,549	83,752	5.7%	\$12.46	0.39
Vicwest Inc.	356,955	417,260	411,770	394,680	406,676	4.1%	\$23.09	0.45
Badger Daylighting Ltd.	139,611	194,178	239,228	324,594	355,462	33.3%	\$9.60	2.84
Empire Industries Ltd.	50,002	55,418	83,690	117,795	126,951	33.2%	\$0.50	0.30

^ Compound Annual Growth Rate

COMMENT: *Empire Industries ties with Badger Daylighting for the fastest compound annual rate of growth in total revenue (or sales) in the comparison. However, with so many shares outstanding, Empire's revenue per share is, by far, the lowest. Other than Opta Minerals, Empire Industries is distinguished by its having the lowest Market Cap to Revenue ratio, at 0.30x.*

TARGET PRICE

Empire Industries has spent the past two years strengthening its financial position and focussing on those activities that it expects to generate the fastest growth and greatest financial contribution.

As shown in its Balance Sheet, its Bank Debt is significantly lower and its Long-Term Debt is trending down. Financial and operating statistics are much improved.

COMMENT: *The Company's future looks bright.*

Analyzing the foregoing financial statistics and mathematical parameters leads us to choose the following metrics for valuing Empire Industries:

P/E Multiple: In our opinion, an appropriate p/e multiple for Empire Industries is 10x-13x. On our 2014 EPS estimate of \$0.02, that implies a share price range of \$0.20 - \$0.26.

Price-to-Book: Empire Industries' book value is trending higher. Our opinion is that Empire Industries deserves a price-to-book multiple of 3.0x - 3.5x. Based on our estimate of \$0.08 for the Company's book value at the end of 2014, the implied share price range is \$0.24 - \$0.28.

Market Cap-to-Revenue: We believe that Empire Industries is deserving of a Market Cap-to-Revenue multiple of 0.40x - 0.50x. Based on our 2014 revenue estimate of \$140.0 million, the implied range for the share price is \$0.22 - \$0.28.

Based on the foregoing, we are taking the average of the three price ranges as our share price objectives. This gives a range of \$0.22 - \$0.27 per share. That range represents a percentage capital gain, from the current share price of \$0.15, of 47% - 80%.

HISTORY

Empire Industries was formed in July 2006 when Empire Iron Works Ltd. and several other existing steel fabrication and engineering companies were combined to form Empire Industries Ltd.

Through 2006 and 2007, the Company grew rapidly, tripling its plant capacity and increasing its workforce from 246 to 800 employees. Sales increased from approximately \$73 million in 2006 to \$180 million in 2008; however, as industry conditions deteriorated throughout 2008, earnings declined from \$0.05 per share in 2007 to a loss of \$0.02 per share in 2008.

In 2008, management developed a reorganization plan to better structure the Company for the recession which had begun. This involved: (a) downsizing the Company to enhance its efficiency; (b) selling less profitable assets; (c) reducing its workforce; (d) implementing other cost-saving measures; (e) reducing debt significantly; and improving its working capital position.

As these measures were implemented over the ensuing years, sales declined to a low of \$50 million in 2010 before beginning a recovery to \$54 million in 2011 and approximately \$84 million in 2012. Net losses from continuing operations reached a peak of \$0.11 per share in 2009, before improving to losses of \$0.02 per share in 2010, and \$0.04 per share in 2011. The Company returned to profitability in 2012, with earnings from continuing operations that year being \$0.01 per share.

Between December 31, 2008 and March 31, 2014, total debt was reduced from approximately \$48 million to \$9.5 million.

Working capital, which had reached a low of negative \$2.5 million at the end of 2011, had increased to positive \$7.1 million at March 31, 2014.

Shareholders' equity increased from a low of \$6.3 million at December 31, 2010 to approximately \$16.6 million at March 31, 2014.

See Table 7 below.

Table 7: Empire Industries Ltd. Abbreviated Historical Financial Results

Year Ended December 31	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	12 Months <u>to 03/14</u>
(\$000s)						
Sales	\$67,907	\$50,002	\$54,058	\$83,690	\$117,795	\$127,613
EBITDA	-\$1,100	\$1,675	-\$3,868	\$1,952	\$6,318	\$7,158
EBITDA Margin	-1.6%	3.3%	-7.2%	2.3%	5.4%	5.6%
Net Profit from Continuing Ops.	-\$9,794	-\$1,976	-\$6,223	\$948	\$4,419	\$4,556
Net Profit Margin	-14.4%	-4.0%	-11.5%	1.1%	3.8%	3.6%
EPS	-\$0.11	-\$0.02	-\$0.04	\$0.01	\$0.02	\$0.02
Average Shares O/S (million)	91.2	91.2	152.5	193.2	222.0	253.9

**Results before 2010 based on GAAP; 2010 onwards based on IFRS.*

Source: The Company and eResearch.

MANAGEMENT & DIRECTORS

A. Management

Guy Nelson, Executive Chairman, CEO & President

Guy Nelson has been a Director of Empire since June 2006 when Empire Industries Ltd. was formed. Mr. Nelson had previously been Chairman of Empire Iron Works, a predecessor company, since 1997. He is a significant shareholder of Empire Industries.

Allan Francis, VP Corporate Affairs & Administration

Allan Francis joined Empire Industries in November 2006. He had previously spent 10 years in various positions with Dominion Bridge and Canon.

Michael Martin, CFO

Michael Martin joined Empire Industries in 2010 as Director of Finance and Corporate Controller, and became Chief Financial Officer in 2012.

B. Directors

Ian Macdonald,
Bruce Jackson,

Guy Nelson,
Terence Quinn,

Campbell McIntyre,
Chao Jian (Jane) Lin,

Robert Marshall,
Li-Ting (Jack) Chang.

MAJOR SHAREHOLDERS

Third Party: Canada Zhoufa Agricultural Holding Company Limited, a subsidiary of Zhejiang Zhoufa Investment Co. Ltd. of China, and controlled by Mr. Junliang Xie (see JV below): 49,000,000 shares or 19.2%;

Directors and Management: 57,000,000 shares, or 22.3%.

Total Insiders: In total, the above shareholdings comprise 106,000,000 shares, or 41.5% of the total outstanding.

JOINT VENTURE PARTNERSHIP

Empire Industries and Zhejiang Zhoufa Investment Co., Ltd. ("Zhejiang") announced their intention, in May 2013, to enter into a joint venture agreement and incorporate a new company in China that is expected to be owned 51% by Empire Industries and 49% by Zhejiang. It is expected to be capitalized with \$2.0 million from Empire Industries and \$1.9 million from Zhejiang. This strategic partnership in China has not yet been consummated.

The joint venture's business intends to include the exclusive licensing of Empire Industries' intellectual property in China, including: (a) the designing and manufacturing of Empire's products, (b) the oversight and licensing of manufacturing operations to produce and supply its proprietary entertainment attractions; and (c) the licensing of its industrial products to selected manufacturers in the Zhoushan Archipelago New Area, just south of Shanghai.

COMMENT: *Since Empire Industries' business operations are focused on globally exploiting its considerable intellectual property in the entertainment business through the design and supply of world class amusement rides, the joint venture accelerates this activity because of the rapid growth in demand for these types of products in China and throughout Asia.*

About The Joint-Venture Partner

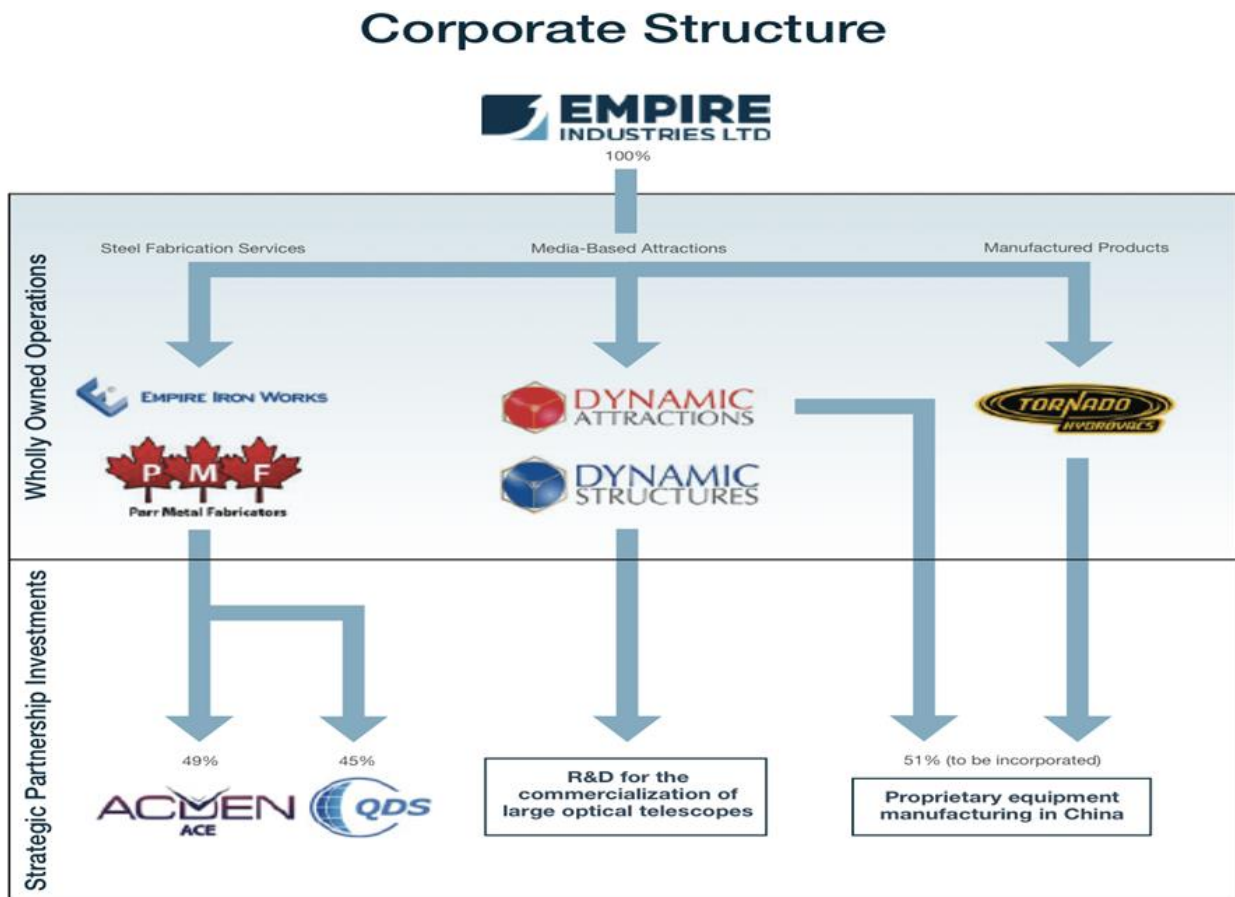
Empire Industries has partnered with Zhejiang Zhoufa Investment Co., Ltd. to conduct its business in China. Zhejiang is Empire Industries' largest shareholder (denoted above).

Mr. Junliang Xie is the founder and Chairman of Zhejiang, a personal holding company with private equity investments in over ten independently-operated industrial and service companies, predominately in China.

Mr. Xie holds an Executive MBA degree from Zhejiang University. He is a director of three private-equity funds in China: (1) Zhoushan Rongsheng Investment Co., Ltd.; (2) Zhoushan Marine Economy Venture Capital Co., Ltd.; and (3) Beijing Qianzhou Qingyuan Investment Fund Management Co., Ltd.

Mr. Xie is also the Managing Director of a recently-created, RMB ¥5 billion (USD \$800 million) private-equity fund called the Zhoushan Restructuring Private Equity Fund, whose purpose is to invest for financial returns and improve Zhoushan industries' global competitiveness.

CORPORATE STRUCTURE



Source: Empire Industries Ltd.

CORPORATE INFORMATION

Empire Industries Ltd.
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Winnipeg, Manitoba, R2W 3B4

Telephone: 204-589-9300
Website: www.empind.com



ANALYST CERTIFICATION

The Research Analysts who were involved in the preparation of this Research Report hereby certify that:

- (1) the views and opinions expressed herein accurately reflect the Research Analysts' personal views concerning any and all securities and issuers that are either discussed or are the subject matter of this Research Report; and
- (2) The compensation received for the preparation of this report was not related, in any way, to the Research Analysts' views and opinions expressed herein.

eRESEARCH ANALYSTS (on this Report)

Bill Campbell, B.Comm: Bill Campbell has over 50 years of investment experience with both institutions and leading brokerage firms, primarily producing equity research reports on companies in variety of industries such as industrial products, consumer products, transportation companies, and special situations.

Bob Weir, B.Sc., B. Comm., CFA: Bob Weir has 46 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He joined eResearch in 2004 and has been its President, CEO, and Director of Research since May 2005. Prior to joining eResearch, Mr. Weir was at Dominion Bond Rating Service (DBRS), latterly as Executive Vice-President responsible for supervising the firm's 34 analysts and conducting the day-to-day management affairs of the company.

ANALYST AFFIRMATION

I, Bill Campbell, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of Empire Industries Ltd.

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eResearch Recommendation System

Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<p><i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.</p> <p><i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.</p>
Medium Risk:	<p><i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.</p> <p><i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.</p>
Low Risk:	<p><i>Financial</i> - Strong revenue growth and earnings over several years, stronger-than-average balance sheet, strong positive free cash flows, above-average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.</p> <p><i>Operational</i> - Dominant player in its market, below-average cost structure, company may be a consolidator, company may have a leading market/technology position.</p>

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